



THE UNIVERSITY OF GEORGIA

Financial Report

For the Year Ended
June 30, 2007

The University of Georgia

Athens, Georgia

Michael F. Adams
President

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THE UNIVERSITY OF GEORGIA
ANNUAL FINANCIAL REPORT
FY 2007

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THE UNIVERSITY OF GEORGIA

Management's Discussion and Analysis

Introduction

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.

The student population and number of faculty have slightly increased this fiscal year.

	<u>Faculty</u>	<u>Students (Headcount)</u>	<u>Students (FTE)</u>
FY2007	1,692	33,959	31,987
FY2006	1,608	33,660	31,492
FY2005	1,703	33,405	31,285

Overview of the Financial Statements and Financial Analysis

The University of Georgia is proud to present its financial statements for fiscal year 2007. 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 2007 and FY 2006.

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

	June 30, 2007	June 30, 2006
Assets:		
Current Assets	\$244,942,760	\$213,904,717
Capital Assets, net	1,108,970,295	1,061,065,947
Other Assets	73,212,196	81,431,163
Total Assets	1,427,125,251	1,356,401,827
Liabilities:		
Current Liabilities	122,049,947	116,807,660
Noncurrent Liabilities	178,728,038	176,775,983
Total Liabilities	300,777,985	293,583,643
Net Assets:		
Invested in Capital Assets, net of debt	947,231,389	896,946,160
Restricted - nonexpendable	47,281,351	43,526,769
Restricted - expendable	63,543,343	57,846,749
Capital Projects	863,501	437,919
Unrestricted	67,427,682	64,060,587
Total Net Assets	\$1,126,347,266	\$1,062,818,184

The total assets of the institution increased by \$70,723,424. A review of the Statement of Net Assets will reveal that the increase was primarily due to a \$47,904,348 increase of capital assets, net of accumulated depreciation. The balance of the increase is due to higher balances in cash and accounts receivables between fiscal years of \$38,516,739 and \$3,649,053, respectively. These increases are a result of the maturity of significant investments at fiscal year end and increased activity with other State agencies. The total liabilities for the year increased by \$7,194,342 due to increases in general accounts payable and construction contract payables. The

combination of the increase in total assets of \$70,723,424 and the increase in total liabilities of \$7,194,342 yields an increase in total net assets of \$63,529,082. The increase in total net assets is primarily in the category of Invested in Capital Assets, net of debt, in the amount of \$50,285,229.

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, 2007</u>	<u>June 30, 2006</u>
Operating Revenues	\$571,632,022	\$550,360,420
Operating Expenses	<u>1,044,982,474</u>	<u>1,007,715,922</u>
Operating Loss	(473,350,452)	(457,355,502)
Nonoperating Revenues and Expenses	<u>494,708,957</u>	<u>455,286,735</u>
Income (Loss) Before other revenues, expenses, gains or losses	21,358,505	(2,068,767)
Other revenues, expenses, gains or losses	<u>42,170,577</u>	<u>29,076,286</u>
Increase in Net Assets	63,529,082	27,007,519
Net Assets at beginning of year, as originally reported	1,062,818,184	1,035,810,665
Prior Year Adjustments	<u>0</u>	<u>0</u>
Net Assets at beginning of year, restated	<u>1,062,818,184</u>	<u>1,035,810,665</u>
Net Assets at End of Year	<u>\$1,126,347,266</u>	<u>\$1,062,818,184</u>

The Statement of Revenues, Expenses, and Changes in Net Assets reflects a \$63,529,082 increase in the net assets at the end of the year. 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, 2007 and June 30, 2006

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Operating Revenue		
Tuition and Fees	\$188,304,864	\$183,374,227
Federal Appropriations	12,341,315	11,067,256
Grants and Contracts	201,050,423	200,702,893
Sales and Services	43,873,579	38,558,064
Auxiliary	123,636,927	114,517,413
Other	2,424,914	2,140,567
Total Operating Revenue	<u>571,632,022</u>	<u>550,360,420</u>
Nonoperating Revenue		
State Appropriations	437,026,757	418,736,051
Grants and Contracts	16,769,344	29,374,249
Gifts	35,886,836	6,202,773
Investment Income	13,286,246	6,560,953
Other	2,552,756	4,630,011
Total Nonoperating Revenue	<u>505,521,939</u>	<u>465,504,037</u>
Capital Gifts and Grants		
State	40,110,232	12,758,806
Other Capital Gifts and Grants	2,060,345	16,317,480
Total Capital Gifts and Grants	<u>42,170,577</u>	<u>29,076,286</u>
Total Revenues	<u>\$1,119,324,538</u>	<u>\$1,044,940,743</u>

Expenses (By Functional Classification)
For the Years Ended June 30, 2007 and June 30, 2006

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Operating Expenses		
Instruction	\$216,315,911	\$202,487,108
Research	275,723,066	270,323,100
Public Service	144,818,743	135,037,366
Academic Support	103,393,106	94,987,764
Student Services	30,497,714	28,344,265
Institutional Support	57,950,436	69,422,690
Plant Operations and Maintenance	91,393,260	78,216,448
Scholarships and Fellowships	11,503,764	20,679,004
Auxiliary Enterprises	113,386,474	108,218,177
Total Operating Expenses	<u>1,044,982,474</u>	<u>1,007,715,922</u>
Nonoperating Expenses		
Interest Expense (Capital Assets)	10,812,982	10,217,302
Total Expenses	<u>\$1,055,795,456</u>	<u>\$1,017,933,224</u>

Operating revenues increased by \$21,271,602 in fiscal 2007, which included increases in all operating revenue categories with the largest being growth in sales and service and auxiliary revenues. Revenue from sales and service activities increased 13.7% from \$38.5 million in fiscal year 2006 to \$43.8 million in fiscal year 2007. Auxiliary revenues increased 7.9% from \$114.5 million in fiscal year 2006 to \$123.6 million in fiscal year 2007 primarily in the residence hall and food services enterprises.

Increases in operating expenses from fiscal year 2006 to fiscal year 2007 include compensation, employee benefits, and depreciation expense. The compensation and employee benefits category increased by \$32 million; \$23.4 million of this increase represents annual faculty and staff increases and \$8.6 million represents increases in employee benefit costs. Depreciation expense also increased from fiscal year 2006 to fiscal year 2007 by \$10.6 million. This increase is a result of a full year of depreciation on facilities completed in fiscal year 2006, primarily the Paul D. Coverdell Center and the Tifton Campus Conference Center.

Nonoperating revenues and expenses increased by \$39,422,222 for the year which included an increase of \$18,290,706 in State Appropriations. The increase in State Appropriations from fiscal year 2006 to fiscal year 2007 was due to appropriations for salary increases as well as additional funding formula based state support allocated from the Board of Regents that resulted from student enrollment and credit hour growth that was realized. Capital Gifts and Grants increased from fiscal year 2006 to fiscal year 2007 as a result of capital improvements funded by GSFIC which were completed and recognized by the University in fiscal year 2007.

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, 2007 and 2006, Condensed

	June 30, 2007	June 30, 2006
Cash Provided (used) By:		
Operating Activities	(\$396,922,373)	(\$386,667,743)
Non-capital Financing Activities	498,264,722	452,013,978
Capital and Related Financing Activities	(90,257,246)	(60,014,675)
Investing Activities	27,431,636	11,915,612
Net Change in Cash	38,516,739	17,247,172
Cash, Beginning of Year	146,675,753	129,428,581
Cash, End of Year	\$185,192,492	\$146,675,753

Capital Assets

The University had a significant capital asset addition in fiscal year 2007. The Animal Health Research Center was completed, which is the only BSL-3-Ag (biosafety lab-level 3-agriculture) research facility located on a university campus. This project was funded by many sources including the Georgia State Financing and Investment Commission (GSFIC).

In October 2006, the University celebrated the 200th birthday and most recent renovation of its most significant building, Old College. The renovation of the University's first permanent building included work that restored and preserved historic features while adding modern amenities.

For additional information concerning Capital Assets, see Notes 1, 6, 8, and 9 in the notes to the financial statements.

Long Term Debt and Liabilities

The University of Georgia had Long-Term Debt and Liabilities of \$202,054,431 of which \$26,826,393 was reflected as current liability at June 30, 2007.

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 FY2007. Details are available in Note 1, Summary of Significant Accounting Policies and Note 16, Component Units.

Economic Outlook

The University continued to monitor and use its resources wisely in fiscal year 2007 as the State of Georgia continued on a path of economic recovery. 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 provide funding for significant increases

in energy and health care costs. In an effort to fiscally prepare for such expenditure increases, the University directed each of its academic and administrative units to set aside 2% of its operating budget to manage the risk of unknown additional increases in health care and utility costs. This tactic placed the University in a strong position to not only meet those current year expenditures, but provide for increases in faculty lines and instructional support to help meet the instructional needs of a growing enrollment and to fund new initiatives that include increased access to education at the University campus in Griffin, GA and the graduate center in Gwinnett County.

Given the continued pressures of rising energy and health care costs, the University will once again take steps in fiscal year 2008 to maintain a strong financial stance and has directed each of its academic and administrative units to reserve 1% of their current operating budget. As the new fiscal year progresses, the University will monitor and assess the need for this 1% reserve and take appropriate action so to protect the University's ability to provide for existing and new operations.

Michael F. Adams
President
The University of Georgia

Statement of Net Assets

**THE UNIVERSITY OF GEORGIA
STATEMENT OF NET ASSETS
June 30, 2007**

	The University of Georgia	Component Unit University of Georgia Foundation	Component Unit University of Georgia Athletic Association, Inc.
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$173,548,442	\$11,052,551	\$65,606,584
Short-term Investments		39,897,092	
Accounts Receivable, net (note 3)			
Receivables - Federal Financial Assistance	14,652,077		
Receivables - Other	27,710,018	2,502,648	2,235,542
Due From Component Units	19,060,657		3,025,134
Contributions Receivable		6,175,994	
Due From Primary Government		17,378	
Inventories (note 4)	4,723,013		
Prepaid items	5,248,553	173,658	211,353
Other Assets		2,110,293	
Total Current Assets	244,942,760	61,929,614	71,078,613
Noncurrent Assets			
Noncurrent Cash	11,644,050	13,509,424	7,358,609
Due from Component Units	2,003,034		
Due From Primary Government			
Investments (including Real Estate)	48,620,661	599,781,509	
Notes Receivable, net	10,944,451	67,505	
Contributions Receivable		13,787,452	
Capital Assets, net (note 6)	1,108,970,295	179,778,304	187,025,258
Other Assets		6,026,467	1,340,782
Total Noncurrent Assets	1,182,182,491	812,950,661	195,724,649
TOTAL ASSETS	1,427,125,251	874,880,275	266,803,262
LIABILITIES			
Current Liabilities			
Accounts Payable	15,728,838	2,463,928	5,294,172
Salaries Payable	5,065,051		
Contracts Payable	8,101,108		
Deposits	3,093,641		
Deferred Revenue (note 7)	47,391,781	1,265,398	17,757,579
Other Liabilities	966,433		
Deposits Held for Other Organizations	14,385,163	837,591	
Due to Primary Government		905,752	1,937,917
Lease Purchase Obligations (current portion)	2,491,707		
Compensated Absences (current portion)	24,334,686	29,495	
Revenue/Mortgage Bonds Payable (current)		3,485,000	2,090,000
Liabilities under Split-Interest Agreements (current)		539,149	
Due to Component Units	491,539	3,025,134	500,000
Notes and Loans Payable (current portion)		10,628,504	87,113
Total Current Liabilities	122,049,947	23,179,951	27,666,781
Noncurrent Liabilities			
Due to Primary Government			2,003,034
Lease Purchase Obligations (noncurrent)	159,247,199		
Deferred Revenue (noncurrent)			
Compensated Absences (noncurrent)	15,980,839		
Revenue/Mortgage Bonds Payable (noncurrent)		172,182,798	95,470,000
Liabilities under Split-Interest Agreements (noncurrent)		11,147,013	
Other Long-Term Liabilities			1,340,782
Due to Component Units	3500000		913,495
Notes and Loans Payable (noncurrent)		10,063,029	
Total Noncurrent Liabilities	178,728,038	193,392,840	99,727,311
TOTAL LIABILITIES	300,777,985	216,572,791	127,394,092
NET ASSETS			
Invested in Capital Assets, net of related debt	947,231,389		94,400,327
Restricted for			
Nonexpendable	47,281,351	284,918,541	
Expendable	63,543,343	341,558,451	
Capital Projects	863,501		
Unrestricted	67,427,682	31,830,492	45,008,843
TOTAL NET ASSETS	\$1,126,347,266	\$658,307,484	\$139,409,170

Statement of Net Assets, Continued

**THE UNIVERSITY OF GEORGIA
STATEMENT OF NET ASSETS
June 30, 2007**

	Component Unit	Component Unit
	Arch Foundation for the University of Georgia, Inc.	University of Georgia Research Foundation, Inc.
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$19,562,384	\$9,800,115
Short-term Investments		
Accounts Receivable, net (note 3)		
Receivables - Federal Financial Assistance		
Receivables - Other	474,046	16,977,081
Due From Component Units	500,000	
Contributions Receivable	18,453,341	
Due From Primary Government		474,161
Inventories (note 4)		
Prepaid items		47,702
Other Assets		13,656,257
Total Current Assets	<u>38,989,771</u>	<u>40,955,316</u>
Noncurrent Assets		
Noncurrent Cash		
Due from Component Units	913,495	
Due From Primary Government		3,500,000
Investments (including Real Estate)	19,781,151	40,773,566
Notes Receivable, net		
Contributions Receivable	12,456,376	
Capital Assets, net (note 6)		514,994
Other Assets		1,001,803
Total Noncurrent Assets	<u>33,151,022</u>	<u>45,790,363</u>
TOTAL ASSETS	<u><u>72,140,793</u></u>	<u><u>86,745,679</u></u>
LIABILITIES		
Current Liabilities		
Accounts Payable	72,335	11,786,489
Salaries Payable		
Contracts Payable		
Deposits		13,656,257
Deferred Revenue (note 7)	172,333	3,787,091
Other Liabilities		
Deposits Held for Other Organizations		
Due to Primary Government	373,389	15,843,599
Lease Purchase Obligations (current portion)		
Compensated Absences (current portion)		
Revenue/Mortgage Bonds Payable (current)		
Liabilities under Split-Interest Agreements (current)		
Due to Component Units		
Notes and Loans Payable (current portion)		
Total Current Liabilities	<u>618,057</u>	<u>45,073,436</u>
Noncurrent Liabilities		
Due to Primary Government		
Lease Purchase Obligations (noncurrent)		
Deferred Revenue (noncurrent)		4,095,914
Compensated Absences (noncurrent)		
Revenue/Mortgage Bonds Payable (noncurrent)		
Liabilities under Split-Interest Agreements (noncurrent)		
Other Long-Term Liabilities		
Due to Component Units		
Notes and Loans Payable (noncurrent)		
Total Noncurrent Liabilities	<u>0</u>	<u>4,095,914</u>
TOTAL LIABILITIES	<u><u>618,057</u></u>	<u><u>49,169,350</u></u>
NET ASSETS		
Invested in Capital Assets, net of related debt		514,994
Restricted for		
Nonexpendable	25,279,166	
Expendable	45,498,963	
Capital Projects		
Unrestricted	744,607	37,061,335
TOTAL NET ASSETS	<u><u>\$71,522,736</u></u>	<u><u>\$37,576,329</u></u>

Statement of Revenues, Expenses and Changes in Net Assets

**THE UNIVERSITY OF GEORGIA
STATEMENT of REVENUES, EXPENSES, and CHANGES in NET ASSETS
for the Year Ended June 30, 2007**

	<u>The University of Georgia</u>	<u>Component Unit University of Georgia Foundation</u>	<u>Component Unit University of Georgia Athletic Association, Inc.</u>
REVENUES			
Operating Revenues			
Student Tuition and Fees (net of allowance for doubtful accounts)	\$255,971,712	\$0	\$0
Less: Scholarship Allowances	(67,666,848)		
Gifts and Contributions		12,274,134	
Endowment Income (per spending plan)		17,900,723	
Federal Appropriations	12,341,315		
Grants and Contracts			
Federal	104,891,453		
State	33,206,138		
Other	62,952,832		
Sales and Services	43,873,579	5,185,587	
Rents and Royalties	315,754	17,765,154	
Auxiliary Enterprises			
Residence Halls	36,274,031		
Bookstore	3,975,092		
Food Services	32,755,222		
Parking/Transportation	14,680,993		
Health Services	15,959,926		
Intercollegiate Athletics	16,787,508		71,532,102
Other Organizations	3,204,155		
Other Operating Revenues	2,109,160		
Total Operating Revenues	<u>571,632,022</u>	<u>53,125,598</u>	<u>71,532,102</u>
EXPENSES			
Operating Expenses			
Salaries:			
Faculty	143,883,135		
Staff	408,356,463	592,823	
Employee Benefits	146,525,441	71,347	
Other Personal Services	688,884		
Travel	13,528,204	355,942	3,428,884
Scholarships and Fellowships	19,153,751		
Utilities	35,697,897	171,560	
Supplies and Other Services	204,924,825	5,816,781	19,359,289
Depreciation	72,223,874	5,753,220	5,249,889
Payments to other Component Units		799,745	83,147
Payments to or on behalf of University of Georgia		20,115,391	25,899,753
Total Operating Expenses	<u>1,044,982,474</u>	<u>33,676,809</u>	<u>54,020,962</u>
Operating Income (loss)	<u>(473,350,452)</u>	<u>19,448,789</u>	<u>17,511,140</u>

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

THE UNIVERSITY OF GEORGIA
STATEMENT of REVENUES, EXPENSES, and CHANGES in NET ASSETS
for the Year Ended June 30, 2007

	Component Unit	Component Unit
	Arch Foundation for the University of Georgia, Inc.	University of Georgia Research Foundation, Inc.
REVENUES		
Operating Revenues		
Student Tuition and Fees (net of allowance for doubtful accounts)	\$0	\$0
Less: Scholarship Allowances		
Gifts and Contributions	20,965,309	
Endowment Income (per spending plan)	952,065	
Federal Appropriations		
Grants and Contracts		
Federal		
State		
Other		118,557,298
Sales and Services	4,258,404	318,185
Rents and Royalties		16,232,119
Auxiliary Enterprises		
Residence Halls		
Bookstore		
Food Services		
Parking/Transportation		
Health Services		
Intercollegiate Athletics		
Other Organizations		
Other Operating Revenues		1,070
Total Operating Revenues	26,175,778	135,108,672
EXPENSES		
Operating Expenses		
Salaries:		
Faculty		
Staff		
Employee Benefits		
Other Personal Services		
Travel	43,215	
Scholarships and Fellowships		
Utilities		
Supplies and Other Services	1,092,449	10,857,008
Depreciation		46,082
Payments to other Component Units		
Payments to or on behalf of University of Georgia	3,708,541	119,723,520
Total Operating Expenses	4,844,205	130,626,610
Operating Income (loss)	21,331,573	4,482,062

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

THE UNIVERSITY OF GEORGIA
STATEMENT of REVENUES, EXPENSES, and CHANGES in NET ASSETS
for the Year Ended June 30, 2007

	<u>Component Unit</u>	<u>Component Unit</u>
	Arch Foundation for the University of Georgia, Inc.	University of Georgia Research Foundation, Inc.
NON OPERATING REVENUES (EXPENSES)		
State Appropriations		
Grants and Contracts		
Federal		
Other		
Gifts		
Investment Income (endowments, auxiliary and other)	1,449,725	4,611,236
Interest Expense (capital assets)		
Other Nonoperating Revenues		
Net Nonoperating Revenues	<u>1,449,725</u>	<u>4,611,236</u>
Income before other revenues, expenses, gains, or loss	<u>22,781,298</u>	<u>9,093,298</u>
Capital Grants and Gifts		
State		
Other		
Additions to permanent endowments	<u>7,218,476</u>	
Total Other Revenues	<u>7,218,476</u>	<u>0</u>
Increase in Net Assets	<u>29,999,774</u>	<u>9,093,298</u>
NET ASSETS		
Net Assets-beginning of year, as originally reported	41,522,962	28,483,031
Prior Year Adjustments	<u>0</u>	<u>0</u>
Net Assets-beginning of year, restated	<u>41,522,962</u>	<u>28,483,031</u>
Net Assets-End of Year	<u><u>\$71,522,736</u></u>	<u><u>\$37,576,329</u></u>

Statement of Cash Flows

THE UNIVERSITY OF GEORGIA STATEMENT OF CASH FLOWS For the Year Ended June 30, 2007

	<u>June 30, 2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees	\$189,682,700
Federal Appropriations	12,472,463
Grants and Contracts (Exchange)	192,258,640
Sales and Services	43,800,714
Payments to Suppliers	(395,517,374)
Payments to Employees	(548,649,188)
Payments for Scholarships and Fellowships	(19,153,752)
Loans Issued to Students and Employees	(2,434,257)
Collection of Loans to Students and Employees	2,081,218
Auxiliary Enterprise Charges:	
Residence Halls	36,278,781
Bookstore	3,854,649
Food Services	32,744,997
Parking/Transportation	14,603,512
Health Services	15,798,513
Intercollegiate Athletics	16,695,559
Other Organizations	3,208,200
Other Receipts (payments)	5,352,252
Net Cash Provided (used) by Operating Activities	<u>(396,922,373)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
State Appropriations	437,026,757
Agency Funds Transactions	5,125,827
Gifts and Grants Received for Other Than Capital Purposes	52,654,872
Other Nonoperating Receipts	3,457,266
Net Cash Flows Provided by Non-capital Financing Activities	<u>498,264,722</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Grants and Gifts Received	16,701,245
Proceeds from Sale of Capital Assets	117,966
Purchases of Capital Assets	(93,575,387)
Principal Paid on Capital Debt and Leases	(2,688,088)
Interest Paid on Capital Debt and Leases	(10,812,982)
Net Cash used by Capital and Related Financing Activities	<u>(90,257,246)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	20,000,000
Interest on Investments	12,431,636
Purchase of Investments	(5,000,000)
Net Cash Provided (used) by Investing Activities	<u>27,431,636</u>
Net Increase/Decrease in Cash	38,516,739
Cash and Cash Equivalents - Beginning of year	146,675,753
Cash and Cash Equivalents - End of Year	<u><u>\$185,192,492</u></u>

Statement of Cash Flows, Continued

**THE UNIVERSITY OF GEORGIA
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2007**

June 30, 2007

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

Operating Income (loss)	(\$473,350,452)
Adjustments to Reconcile Net Income (loss) to Net Cash Provided (used) by Operating Activities	
Depreciation	72,223,874
Change in Assets and Liabilities:	
Receivables, net	(5,652,103)
Inventories	(58,038)
Prepaid Items	9,137,937
Notes Receivable, Net	(149,320)
Accounts Payable	2,974,437
Deferred Revenue	(838,517)
Other Liabilities	(3,142,184)
Compensated Absences	1,931,993
	<u>(\$396,922,373)</u>

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

Fixed assets acquired by incurring capital lease obligations	<u>\$307,207</u>
Change in fair value of investments recognized as a component of interest income	<u>\$854,610</u>
Gift reducing proceeds of Gifts and Grants received for other than capital purposes	<u>(\$1,309)</u>
Gift of capital assets reducing proceeds of capital grants and gifts	<u>(\$25,469,332)</u>

THE UNIVERSITY OF GEORGIA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2007

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 FY2007, 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 Board of Regents Short-Term Investment Pool.

Short-Term Investments

Short-Term Investments consist of investments of 90 days – 13 months. This would include certificates of deposits or other time restricted investments with original maturities of six months or more when purchased. Funds are not readily available and there is a penalty for early withdrawal.

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, the Board of Regents Balanced

Income Fund, the Board of Regents Total Return Fund, the Board of Regents Diversified Fund, and the Georgia Extended Asset Pool 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 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, 2007, GSFIC transferred capital additions valued at \$38,487,990 to the University of Georgia and of this amount, \$15,079,004 was funded by 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. As of July 1, 2006, the University of Georgia's accrued liability for compensated absences was \$38,383,532. For fiscal year 2007, \$27,073,123 was earned in compensated absences and employees were paid \$25,141,130, for a net increase of \$1,931,993. The June 30, 2007 balance in accrued liability for compensated absences was \$40,315,525.

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, 2007</u>
Restricted - E&G and Other Organized Activities	\$43,073,946
Federal Loans	10,344,636
Institutional Loans	10,124,761
Total Restricted Expendable	<u>\$63,543,343</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, 2007</u>
R & R Reserve	\$10,929,517
Reserve for Encumbrances	42,202,720
Reserve for Inventory	1,487,000
Other Unrestricted	12,808,445
Total Unrestricted Net Assets	<u>\$67,427,682</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 \$14,680,993 and \$15,959,926, respectively, are reported net of discounts and allowances of \$635,176 and \$1,417,152, 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, 2007, the carrying value of deposits was \$53,617,184 and the bank balance was \$62,642,703. Of the University's deposits, \$62,411,208 were uninsured. Of these uninsured deposits, \$62,411,208 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, 2007 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	
Debt Securities					
U.S. Treasuries	\$168,415	\$83,118	\$0	\$0	\$85,297
U.S. Agencies					
Explicitly Guaranteed	2,944,596	2,056,157	883,564	4,875	
Implicitly Guaranteed	69,776,177	32,345,964	37,419,692	10,521	
	\$72,889,188	\$34,485,239	\$38,303,256	\$15,396	\$85,297
Other Investments					
Bond/Equity Mutual Funds	7,382,310				
Equity Mutual Funds	18,936,903				
Equity Securities - Domestic	1,080,180				
Real Estate Held for Investment Purposes	240,469				
Investment Pools					
Board of Regents					
Legal Fund	4,616,614				
Office of Treasury and Fiscal Services					
Georgia Fund 1	70,233,602				
Total Investments	\$175,379,266				

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 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 15 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 4.1 years. Of the University's total investment of \$4,616,614 in the Legal Fund, \$4,576,911 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, 2007, \$72,698,754 of the University's applicable investments were uninsured and held by the investment's counterparty in the University's name and \$1,247,989 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 in 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:

	Fair Value	AAA	Unrated
Related Debt Investments			
U. S. Agencies	\$69,776,177	\$17,155,585	\$52,620,592

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 comprises 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, 2007, applicable investments in a single issuer where those investments exceed 5% of total investments were as follows:

Federal National Mortgage Association	20%
Federal Home Loan Mortgage Corporation	10%
Federal Home Loan Bank	10%

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 University's investments are not exposed to foreign currency risk.

Note 3. Accounts Receivable

Accounts receivable consisted of the following at June 30, 2007:

	<u>June 30, 2007</u>
Student Tuition and Fees	\$3,274,091
Auxiliary Enterprises and Other Operating Activities	2,817,477
Federal Financial Assistance	14,652,077
Georgia State Financing and Investment Commission	9,416,014
Due from Component Units	19,060,657
Other	12,604,113
	<u>61,824,429</u>
Less Allowance for Doubtful Accounts	<u>401,677</u>
Net Accounts Receivable	<u><u>\$61,422,752</u></u>

Note 4. Inventories

Inventories consisted of the following at June 30, 2007:

	<u>June 30, 2007</u>
Food Services	\$1,396,098
Physical Plant	1,232,116
Other	2,094,799
	<u>4,723,013</u>
Total	<u><u>\$4,723,013</u></u>

Note 5. Notes/Loans Receivable

The Federal Perkins Loan Program (the Program) comprises substantially all of the loans receivable at June 30, 2007. 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, 2007 the allowance for uncollectible loans was approximately \$676,538.

Note 6. Capital Assets

Following are the changes in capital assets for the year ended June 30, 2007:

	Beginning Balances 7/1/2006	Additions	Reductions	Ending Balance 6/30/2007
Capital Assets, Not Being Depreciated:				
Land	\$25,186,886	\$554,554	\$0	\$25,741,440
Capitalized Collections	10,992,015	664,000	31,500	11,624,515
Construction Work-in-Progress	20,930,895	31,703,459	11,015,331	41,619,023
Total Capital Assets Not Being Depreciated	57,109,796	32,922,013	11,046,831	78,984,978
Capital Assets, Being Depreciated:				
Infrastructure	40,864,113	2,080,399		42,944,512
Building and Building Improvements	1,054,037,586	54,834,924	5,170,472	1,103,702,038
Facilities and Other Improvements	145,458,683	3,694,585		149,153,268
Equipment	300,544,563	29,777,836	16,965,060	313,357,339
Capital Leases	1,395,538	307,207	735,813	966,932
Library Collections	202,698,683	12,366,232	106,061	214,958,854
Total Assets Being Depreciated	1,744,999,166	103,061,183	22,977,406	1,825,082,943
Less: Accumulated Depreciation				
Infrastructure	14,219,100	1,315,936		15,535,036
Buildings	319,897,273	25,840,868	2,401,296	343,336,845
Facilities and Other improvements	31,193,704	3,632,947		34,826,651
Equipment	232,785,063	26,007,136	15,542,358	243,249,841
Capital Leases	454,854	127,241	119,548	462,547
Library Collections	142,493,021	15,299,746	106,061	157,686,706
Total Accumulated Depreciation	741,043,015	72,223,874	18,169,263	795,097,626
Total Capital Assets, Being Depreciated, Net	1,003,956,151	30,837,309	4,808,143	1,029,985,317
Capital Assets, net	\$1,061,065,947	\$63,759,322	\$15,854,974	\$1,108,970,295

Buildings include \$168,017,834 of property held under capital leases with the University of Georgia Foundation. Accumulated depreciation for these properties is \$11,604,082 and \$3,509,336 in depreciation expense was recognized for these properties in FY2007. The University of Georgia Foundation considers these leases to be operating leases, and therefore also reports these properties as capital assets.

Note 7. Deferred Revenue

Deferred revenue consisted of the following at June 30, 2007:

	<u>June 30, 2007</u>
Prepaid Tuition and Fees	\$20,759,939
Research	12,389,110
Other Deferred Revenue	14,242,732
	<hr/>
Totals	<u>\$47,391,781</u>

Note 8. Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2007 was as follows:

	Beginning Balance July 1, 2006	Additions	Reductions	Ending Balance June 30, 2007	Current Portion
Leases					
Lease Obligations	\$164,119,787	\$307,207	\$2,688,088	\$161,738,906	\$2,491,707
Other Liabilities					
Compensated Absences	38,383,532	27,073,123	25,141,130	40,315,525	24,334,686
Total	38,383,532	27,073,123	25,141,130	40,315,525	24,334,686
Total Long Term Obligations	<u>\$202,503,319</u>	<u>\$27,380,330</u>	<u>\$27,829,218</u>	<u>\$202,054,431</u>	<u>\$26,826,393</u>

Note 9. Significant Commitments

The University had significant unearned, outstanding, construction or renovation contracts executed in the amount of \$16,950,500 as of June 30, 2007. 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 2008 and 2011. Expenditures for fiscal year 2007 were \$13,501,070, of which \$10,812,982 represented interest and \$2,688,088 represented principal paid on capital leases. Interest rates range from 0.65 percent to 8.48 percent. The carrying values of assets held under capital lease at June 30, 2007 were as follows:

Buildings	\$ 156,413,752
Equipment	504,385
Total Assets Held Under Capital Lease	<u>\$ 156,918,137</u>

All six of the University of Georgia's current real property capital leases are with the University of Georgia Real Estate Foundation (UGAREF), an entity that is wholly owned by the University of Georgia Foundation, 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, 2007 on these capital leases is \$161,497,319. The University of Georgia Foundation considers these leases to be operating leases and includes the value of the related properties in their capital assets.

The University also has various capital leases for equipment with an outstanding balance of \$241,587 at June 30, 2007.

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, 2007, were as follows:

		Real Property and Equipment	
		Capital Leases	Operating Leases
Year Ending June 30:	Year		
2008	1	\$13,647,369	\$4,346,366
2009	2	13,477,080	
2010	3	13,474,246	
2011	4	13,456,265	
2012	5	13,450,271	
2013 through 2017	6-10	67,126,355	
2018 through 2022	11-15	67,126,355	
2023 through 2027	16-20	67,126,355	
2028 through 2032	21-25	66,443,022	
2033 through 2037	26-30	23,885,422	
Total minimum lease payments		<u>359,212,740</u>	<u>\$4,346,366</u>
Less: Interest		183,864,834	
Less: Executory costs (if paid)		<u>13,609,000</u>	
Principal Outstanding		<u>\$161,738,906</u>	

Noncancellable operating lease expenditures in 2007 were \$6,332,318 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 2007, 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>
2007	100%	\$30,182,072
2006	100%	\$29,007,246
2005	100%	\$28,398,641

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, 2007, for employees covered by ERS was \$929,110. The University's total payroll for all employees was \$552,239,598.

For the year ended June 30, 2007 under the old plan, member contributions consist of 7.41% of annual compensation. 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, 2007, 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.

Total contributions to the plan made during fiscal year 2007 amounted to \$111,843, of which \$98,268 was made by the University and \$13,575 was made by employees. These contributions met the requirements of the plan.

Actuarial and Trend Information

Actuarial and historical trend information is presented in the ERS June 30, 2007 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 2007, the employer contribution was 9.66% for the first six months and 8.13% 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 \$11,149,132 (9.66% or 8.13%) and \$6,294,889 (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 2007 amounted to \$1,817,944 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, 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, 2007.

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.

As of June 30, 2007, there were 3,844 employees who had retired or were disabled that were receiving these post-employment health and life insurance benefits. For the year ended June 30, 2007, The University of Georgia recognized as incurred \$19,283,736 of expenditures, which was net of \$6,745,842 of participant contributions.

Note 15. Natural Classifications with Functional Classifications

The University's operating expenses by functional classification for FY2007 are shown below:

Natural Classification	Functional Classification FY2007					
	Instruction	Research	Public Service	Academic Support	Student Services	Institutional Support
Faculty	\$ 84,490,948	\$ 55,800,114	\$ 2,508,210	\$ 496,383	\$ 488,978	\$ 36,956
Staff	60,640,788	10,466,301	77,004,525	46,950,766	13,536,161	33,520,586
Benefits	32,578,142	35,636,798	25,581,059	13,770,926	4,129,594	12,949,898
Personal Services	75,729	25,560	1,800	32,451	6,260	545,324
Travel	2,657,770	5,442,158	3,577,319	816,605	250,277	536,634
Scholarships and Fellowships	4,209,926	993,456	105,504	3,700	1,848,186	
Utilities	1,444,087	1,176,250	1,108,673	681,664	212,521	571,617
Supplies and Others Services	17,476,513	58,511,249	31,050,482	17,325,723	9,342,315	8,738,224
Depreciation	12,742,008	16,671,180	3,881,171	23,314,888	683,422	105,1197
Total Expenses	\$ 216,315,911	\$ 275,723,066	\$ 144,818,743	\$ 103,393,106	\$ 30,497,714	\$ 57,950,436

Natural Classification	Functional Classification FY2007			
	Plant Operations & Maintenance	Scholarships & Fellowships	Auxiliary Enterprises	Total Expenses
Faculty	\$ 0	\$ 0	\$ 61,546	\$ 143,883,135
Staff	27,452,680		47,784,656	408,356,463
Benefits	10,602,362		11,276,662	146,525,441
Personal Services			1,760	688,884
Travel	67,759		179,682	13,528,204
Scholarships and Fellowships		11,503,764	489,215	19,153,751
Utilities	24,179,670		6,323,415	35,697,897
Supplies and Others Services	26,411,154		36,069,165	204,924,825
Depreciation	2,679,635		11,200,373	72,223,874
Total Expenses	\$ 91,393,260	\$ 11,503,764	\$ 113,386,474	\$ 1,044,982,474

Note 16. Component Units

The University of Georgia Foundation

The University of Georgia Foundation (the "Foundation") is a legally separate, tax-exempt component unit of The University of Georgia (the "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, 2007, the Foundation distributed \$20,115,391 to and on behalf of 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.

Investments for Component Units:

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

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

As of June 30, 2007, the long-term investment pool consists of investments in domestic and international equities (72.6%), fixed income instruments (9.8%), private equity investments

(4.9%), real estate funds (4.6%), hedge funds (7.2%), timber, gas & oil (0.5%), and deposits (0.4%) that are held by outside investment managers.

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

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

Investments are comprised of the following amounts at June 30, 2007:

	<u>Cost</u>	<u>Fair Value</u>
Cash held by investment organization	\$38,875,694	\$38,875,694
Government and Agency Securities	2,245,109	2,224,690
Corporate Bonds	1,003,145	979,788
Equity Securities	3,963,772	4,666,421
Mutual Funds	1,174,007	1,359,535
Split-Interest Investments	14,678,914	17,149,724
Real Estate	19,092,161	19,092,161
Investment Pools	<u>359,604,977</u>	<u>555,330,588</u>
 Total Investments	 <u><u>\$440,637,779</u></u>	 <u><u>\$639,678,601</u></u>

Capital Assets for Component Units:

The University of Georgia Foundation holds the following Capital Assets as of June 30, 2007:

	<u>June 30, 2007</u>
Capital Assets not being Depreciated:	
Land and other Assets	\$21,492,929
Construction in Progress	<u>307,415</u>
Total Capital Assets not being Depreciated	21,800,344
Capital Assets being Depreciated:	
Buildings and Improvements	176,180,268
Machinery and Equipment	<u>1,023,245</u>
Total Capital Assets being Depreciated	177,203,513
Less Total Accumulated Depreciation	<u>19,225,553</u>
Total Capital Assets being Depreciated, Net	<u>157,977,960</u>
Capital Assets, Net	<u><u>\$179,778,304</u></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, 2007 are shown below:

	Beginning Balance July 1, 2006	Additions	Reductions	Ending Balance June 30, 2007	Amounts due within One Year
Compensated Absences	\$26,883	\$2,612	\$0	\$29,495	\$29,495
Liabilities under split-interest agreement	11,291,219	1,838,582	1,443,639	11,686,162	539,149
Capital Lease Obligations	0			0	
Notes and Loans Payable	14,350,346	8,598,269	2,257,082	20,691,533	10,628,504
Revenue/Mortgage Bonds Payable	<u>190,515,024</u>		<u>14,847,226</u>	<u>175,667,798</u>	<u>3,485,000</u>
Total Long Term Liabilities	<u><u>\$216,183,472</u></u>	<u><u>\$10,439,463</u></u>	<u><u>\$18,547,947</u></u>	<u><u>\$208,074,988</u></u>	<u><u>\$14,682,148</u></u>

Notes and Loans Payable

\$50,000,000 Revolving Credit Agreement

During 2002, the Real Estate Foundation established a \$50 million revolving credit agreement with a bank. The agreement expires on November 30, 2007. The revolving credit agreement provides for borrowings or letters of credit at the Real Estate Foundation's option. Credit available under the revolving credit agreement is reduced by outstanding borrowings and outstanding letters of credit. At June 30, 2007, amounts outstanding or issued under this agreement included borrowings of \$10,499,210 and letters of credit and bank reserves of \$8,373,507, resulting in \$31,127,283 available as borrowing capacity under this line. Borrowings under the revolving credit agreement bear interest at the bank's 30-day London InterBank

Offered Rate (“LIBOR”) plus 32.5 basis points (or 0.325%). At June 30, 2007, the rates applicable to the borrowings were 5.645%.

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

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

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

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

\$9,800,000 Credit Agreement

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

\$1,800,000 Note Payable

During 2000, the Foundation signed a \$1.8 million promissory note agreement with a bank, which expires on December 31, 2019. At June 30, 2007, \$1,090,250 was outstanding under this

agreement. Interest is charged at a fixed rate of 7.13%. Principal payments in the amount of \$22,250 are payable quarterly.

\$1,117,865 Note Payable

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

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

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
2008	1	\$10,628,504	\$831,755	\$11,460,259
2009	2	8,219,361	200,149	8,419,510
2010	3	138,185	114,938	253,123
2011	4	141,088	105,688	246,776
2012	5	919,145	92,531	1,011,676
2013 through 2017	6-10	445,000	154,677	599,677
2018 through 2022	11-15	200,250	17,847	218,097
		<u>\$20,691,533</u>	<u>\$1,517,585</u>	<u>\$22,209,118</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 (3.74% at June 30, 2007). The loan matures in 2031, subject to certain early repayment provisions. During the year ended June 30, 2007, principal payments of \$11,395,000 were made. At June 30, 2007, the balance of this obligation was \$8,425,000.

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

\$39,155,000 Bond Issue

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

Borrowings under the CCRC Loan Agreement bear interest payable semiannually on December 15 and June 15 at fixed rates ranging from 2.5% to 5% depending on the schedule of bond maturities. Principal payments are due on December 15 starting in 2004 and continuing through 2032. During the year ended June 30, 2007, principal payments of \$780,000 were made. At June 30, 2007, the balance of this obligation was \$36,989,507.

\$99,860,000 Bond Issue

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

Borrowings under the Housing Loan Agreement bear interest payable semiannually on December 1 and June 1 at fixed rates ranging from 3% to 5.25% depending on the schedule of bond maturities. Principal payments are due on December 1 starting in 2005 and continuing through 2033. During the year ended June 30, 2007 principal payments of \$1,875,000 were made. At June 30, 2007, the balance of this obligation was \$97,558,764.

\$8,215,000 Bond Issue

In 2003, the Oconee County Industrial Development Authority issued Revenue Bonds (UGAREF Gainesville Campus, LLC Project), Series 2003 (the “Gainesville Campus Bonds”) and entered into an agreement (the “Gainesville Campus Loan Agreement”) to loan \$8,215,000

to UGAREF Gainesville Campus, LLC (a single-member limited liability company owned by the Real Estate Foundation) (the “Gainesville Campus Entity”). Payment of principal and interest under the Gainesville Campus Bonds is insured by a financial guaranty insurance policy and secured by certain real property constituting the land and educational facility and by the Gainesville Campus Entity’s interest in certain rents and leases derived from the land and educational facility. During 2003, the Gainesville Campus Entity used the proceeds of this loan to fund the acquisition of the land and educational facility.

Borrowings under the Gainesville Campus Loan Agreement bear interest payable semiannually on December 15 and June 15 at fixed rates ranging from 2.2% to 4.375% depending on the schedule of bond maturities. Principal payments are due on December 15 starting in 2003 and continuing through 2027. During the year ended June 30, 2007, principal payments of \$250,000 were made. At June 30, 2007, the balance of this obligation was \$7,325,511.

\$25,970,000 Bond Issue

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

Borrowings under the Coverdell Loan Agreement bear interest payable semiannually on December 15 and June 15 at fixed rates ranging from 2.5% to 5% depending on the schedule of bond maturities. Principal payments are due on December 15 starting in 2006 and continuing through 2034. During the year ended June 30, 2007, a principal payment of \$460,000 was made to pay off the \$425,000 Series 2004B bonds and reduce the outstanding Series 2004A bonds by \$35,000. At June 30, 2007, the balance of this obligation was \$25,369,016.

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

Year ending June 30:		Bonds Payable		
		Principal	Interest	Total
2008	1	\$3,485,000	\$8,051,316	\$11,536,316
2009	2	3,595,000	7,990,243	11,585,243
2010	3	3,695,000	7,870,527	11,565,527
2011	4	3,825,000	7,735,415	11,560,415
2012	5	3,970,000	7,591,118	11,561,118
2013 through 2017	6-10	22,160,000	35,373,004	57,533,004
2018 through 2022	11-15	27,970,000	29,405,582	57,375,582
2023 through 2027	16-20	35,985,000	21,503,293	57,488,293
2028 through 2032	21-25	51,735,000	11,416,115	63,151,115
2033 through 2037	26-30	17,830,000	964,951	18,794,951
		<u>174,250,000</u>	<u>137,901,564</u>	<u>312,151,564</u>
Bond Premium/(Discount)		<u>1,417,798</u>		<u>1,417,798</u>
		<u>\$175,667,798</u>	<u>\$137,901,564</u>	<u>\$313,569,362</u>

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

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

The University of Georgia Athletic Association, Inc.

The University of Georgia Athletic Association, Inc. (the Athletic 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 Athletic 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 Athletic Association is considered a component unit of the University and is discretely presented in the University's financial statements.

For financial reporting purposes, the Athletic 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, 2007, the Athletic 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 \$25,899,753 and were recognized as expenses of the Athletic Association.

Capital assets net of accumulated depreciation of \$187 million are included in the financial statements of the Athletic 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, 2007, the book-carrying amount of the Athletic Association's deposits, including noncurrent cash and cash equivalents, was \$72,965,193 and the bank balance was \$73,819,887. The Athletic Association's bank balance is classified as follows at June 30, 2007:

Amount insured by the FDIC and FSLIC	\$ 333,000
Collateralized with securities held in the Athletic Association's name	64,624,866
Uncollateralized	<u>8,862,021</u>
	<u>\$73,819,887</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, 2007:

	Beginning Balances 7/1/2006	Additions	Reductions	Ending Balance 6/30/2007
Capital Assets, Not Being Depreciated:				
Land (and other assets)	\$0	\$0	\$0	\$0
Construction Work-in-Progress	8,955,870	20,537,490		29,493,360
Total Capital Assets Not Being Depreciated	8,955,870	20,537,490	0	29,493,360
Capital Assets, Being Depreciated:				
Building and Building Improvements	176,253,763	581,000		176,834,763
Facilities and Other Improvements	19,283,369	192,692		19,476,061
Equipment	7,303,241	618,714	1,042,668	6,879,287
Total Assets Being Depreciated	202,840,373	1,392,406	1,042,668	203,190,111
Less: Accumulated Depreciation				
Buildings	31,840,446	3,178,443		35,018,889
Facilities and Other improvements	5,538,900	835,670		6,374,570
Equipment	3,938,540	1,235,776	909,562	4,264,754
Total Accumulated Depreciation	41,317,886	5,249,889	909,562	45,658,213
Total Capital Assets, Being Depreciated, Net	161,522,487	(3,857,483)	133,106	157,531,898
Capital Assets, net	<u>\$170,478,357</u>	<u>\$16,680,007</u>	<u>\$133,106</u>	<u>\$187,025,258</u>

Long-term Liabilities for Component Units:

Changes in long-term liabilities for the Athletic Association for the fiscal year ended June 30, 2007 are shown below:

	Beginning Balance July 1, 2006	Additions	Reductions	Ending Balance June 30, 2007	Amounts due within One Year
Notes and Loans Payable-Primary Government	\$2,650,400	\$0	\$313,972	\$2,336,428	\$333,394
Notes and Loans Payable	167,401		80,288	87,113	87,113
Revenue/Mortgage Bonds Payable	99,515,000		1,955,000	97,560,000	2,090,000
Other Long Term Liabilities	3,250,438		496,161	2,754,277	500,000
Total Long Term Liabilities	\$105,583,239	\$0	\$2,845,421	\$102,737,818	\$3,010,507

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. This balance is reported as the note payable to the University of Georgia above and has an outstanding principal balance at June 30, 2007 of \$2,336,428. The principal balance due within one year, \$333,394, is reflected in Due to Primary Government - Current Liabilities. The Association made payments of principal and interest of \$477,917 during the year June 30, 2007, and will make an equal payment in each succeeding year through 2013. The interest rate associated with this liability is 6.19%.

Notes Payable

At June 30, 2007, the Athletic Association had an \$87,113 remaining liability for a vendor note payable. The 1998 note was payable over 10 years in annual payments of \$94,518 through 2008. The implicit interest rate is 8.5% and the note is secured by a first priority purchase money security interest on equipment with a net book value of \$1,011,626.

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:				
2008	1	\$420,507	\$151,928	\$572,435
2009	2	354,016	123,901	477,917
2010	3	375,915	102,002	477,917
2011	4	399,167	78,750	477,917
2012	5	423,858	54,059	477,917
2013 through 2017	6-10	450,078	27,839	477,917
		\$2,423,541	\$538,479	\$2,962,020

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 Athletic Association. The Bonds are secured by a letter of credit issued by SunTrust Bank in favor of the Authority. The letter of credit expires on January 15, 2008, and must be renewed annually. Under the Loan Agreement, the Athletic 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 (3.89% on June 30, 2007). The loan matures in 2031, subject to certain early repayment provisions. At June 30, 2007, 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 Athletic Association. The Bonds are secured by a letter of credit issued by Bank of America, NA in favor of the Authority that expires on August 28, 2007, and must be renewed annually. Under the Loan Agreement, the Athletic 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 (3.90% on June 30, 2007). 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, 2007 was \$18,765,000.

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 Athletic Association. The Bonds are secured by a letter of credit issued by Bank of America, NA in favor of the Authority that expires on January 27, 2008 and must be renewed annually. Under the Loan Agreement, the Athletic 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 (5.32% on June 30, 2007). The loan matures in 2021 and requires yearly principal reductions. At June 30, 2007, the balance of this obligation was \$16,195,000.

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 Athletic Association. The Bonds are secured by a letter of credit issued by Bank of America, NA in favor of the Authority. The letter of credit expires August 24, 2007, and must be renewed annually. Under the Loan Agreement, the Athletic 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 (3.90% on June 30, 2007). The loan matures in 2035, subject to certain early repayment provisions. The June 30, 2007 remaining obligation for these revenue bonds was \$29,500,000.

Interest Rate Swap Agreements

The Athletic 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 Athletic 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 Athletic Association and the Counterparty and three Confirmations, the Athletic 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 Athletic 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 Athletic 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 Athletic Association's making or receiving a termination payment

As of June 30, 2007, the fair value of the interest rate swap agreement on the 2001 Series Bonds was \$848,751, indicating the amount that the counterparty would be required to pay the Athletic Association to terminate the swap agreement.

As of June 30, 2007, the fair value of the interest rate swap agreement on the 2003 Series Bonds was \$620,162, indicating the amount that the counterparty would be required to pay the Athletic Association to terminate the swap agreement.

As of June 30, 2007, the fair value of the interest rate swap agreement on the 2005A Series Bonds was \$418,172, indicating the amount that the counterparty would be required to pay the Athletic Association to terminate the swap agreement.

As of June 30, 2007, the fair value of the interest rate swap agreement on the 2005B series Bonds was \$817,093, indicating the amount that the counterparty would be required to pay the Athletic Association to terminate the swap agreement.

Swap Payments and Associated Debt – As of June 30, 2007, 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	
2008	\$ 2,090,000	\$ 3,936,996	\$ (389,629)	\$ 5,637,367
2009	2,140,000	3,840,259	(381,464)	5,598,795
2010	2,195,000	3,741,022	(373,099)	5,562,923
2011	2,245,000	3,639,551	(364,545)	5,520,006
2012	2,295,000	3,535,775	(355,814)	5,474,961
2013-2017	12,380,000	16,028,390	(1,640,024)	26,768,366
2018-2022	13,990,000	13,020,594	(1,386,855)	25,623,739
2023-2027	9,080,000	10,683,880	(1,154,744)	18,609,136
2028-2032	43,480,000	7,690,918	(818,470)	50,352,448
2033-2037	7,665,000	396,614	(43,617)	8,017,997
Total	\$ 97,560,000	\$ 66,513,999	\$ (6,908,261)	\$ 157,165,738

Credit Risk – As of June 30, 2007, the fair value of the swaps represents the Athletic Association's credit exposure to the Counterparty. Should the Counterparty fail to perform in accordance with the terms of the swap agreements, the Athletic Association faces a possible loss equivalent to \$6.9 million less the cumulative fair value of \$2.7 million. As of June 30, 2007, the Counterparty was rated AAA by Moody's and AA+ by S&P.

Basis Risk – The swaps expose the Athletic 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 Athletic 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 Athletic 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 Athletic 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 Athletic 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. (Arch Foundation) is a legally separate, tax-exempt component unit of The University of Georgia (University). The Arch 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-one member board of the Arch 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 Arch Foundation, the majority of resources or income thereon that the Arch Foundation holds and invests is restricted to the activities of the University by the donors. Because these restricted resources held by the Arch Foundation can only be used by, or for the benefit of the University, the Arch Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

The Arch 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 Arch Foundation's fiscal year is July 1 through June 30.

During the year ended June 30, 2007, the Arch Foundation distributed \$3,708,541 to or on behalf of 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.

Investments for Component Units:

Investments are comprised of the following amounts at June 30, 2007:

	<u>Cost</u>	<u>Fair Value</u>
Equity Securities	\$34,554	\$34,554
Joint Ventures/Partnerships	630,000	630,000
Investment Pools	<u>17,864,126</u>	<u>19,116,597</u>
Total Investments	<u><u>\$18,528,680</u></u>	<u><u>\$19,781,151</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 (the 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 eighteen-member board of directors 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.

During fiscal year 2007, the Research Foundation transferred approximately \$120 million in sponsored research 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.

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, 2007, the book value of the Research Foundation's deposits was \$9,800,115. The bank and investment account balances at June 30, 2007 were \$10,317,911 of which \$10,217,911 was uninsured. Of these uninsured deposits, \$10,217,000 were collateralized with securities held by the financial institution, by its trust department or agency, but not in the University's name and \$911 were uncollateralized.

Investments

University of Georgia Research Foundation 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, 2007 are presented below. All investments are presented by investment type and debt securities are presented by maturity.

Investment type	Fair Value	Investment Maturity			
		Less Than 1 Year	1-5 Years	6-10 Years	More Than 10 Years
Debt Securities					
U.S. Treasuries	\$1,155,456	\$0	\$337,846	\$659,875	\$157,735
U.S. Agencies					
Explicitly Guaranteed	1,846,778				1,846,778
Implicitly Guaranteed	5,071,194	347,659	2,472,179	1,935,062	316,294
Certificates of Deposit	1,180,167	1,180,167			
Corporate Debt	15,769,776	14,024,284	1,526,778	218,714	
Mortgage Backed Securities (Commercial)	1,980,065	1,945,652			34,413
	\$27,003,436	\$17,497,762	\$4,336,803	\$2,813,651	\$2,355,220
Other Investments					
Bond/Fixed Income Mutual Funds					
Equity Mutual Funds	4,357,875				
Equity Securities - Domestic	5,861,132				
Equity Securities - International	1,581,459				
Managed Futures/Hedge Funds	1,969,664				
	\$40,773,566				

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.

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, 2007, \$34,446,027 of the Research Foundation's applicable investments were uninsured and held by the investment's counterparty 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, 2007 are presented below. All investments are presented by investment type and fixed income securities are presented by credit quality ratings.

	<u>Fair Value</u>	<u>U.S. Agencies - Implicitly Guaranteed</u>	<u>Certificates of Deposit</u>	<u>Corporate Debt</u>
Related Debt Investments				
Standard & Poor's Quality Ratings				
A+	350,563			350,563
A	657,095			657,095
A-	306,442			306,442
BBB+	7,732,839			7,732,839
BBB	2,138,510			2,138,510
BBB-	1,945,927			1,945,927
BB-	1,392,146			1,392,146
Moody's Quality Ratings				
Aaa	790,292	674,732		115,560
Aa1	70,033			70,033
Aa2	65,686			65,686
Aa3	215,983			215,983
A1	321,460			321,460
A2	1,562,498		1,180,167	382,331
A3	1,981,044			1,981,044
Baaa3	20,288			20,288
Ba3	53,934			53,934
UNRATED	<u>4,396,462</u>	<u>4,396,462</u>		
	<u>\$24,001,202</u>	<u>\$5,071,194</u>	<u>\$1,180,167</u>	<u>\$17,749,841</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, 2007, investments in a single issuer where those investments exceed 5% of total investments were as follows:

Federal National Mortgage Association	7%
Core Investment Grade Bond Trust	5%
Government National Mortgage Association	5%

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.

Capital Assets for Component Units:

University of Georgia Research Foundation, Inc. had Capital Assets activity as follows for the year ended June 30, 2007:

	Beginning Balances 7/1/2006	Additions	Reductions	Ending Balance 6/30/2007
Capital Assets, Not Being Depreciated:				
Land (and other assets)	\$110,000	\$0	\$0	\$110,000
Total Capital Assets Not Being Depreciated	110,000	0	0	110,000
Capital Assets, Being Depreciated:				
Building and Building Improvements	1,142,307			1,142,307
Total Assets Being Depreciated	1,142,307	0	0	1,142,307
Less: Accumulated Depreciation				
Buildings	691,231	46,082		737,313
Total Accumulated Depreciation	691,231	46,082	0	737,313
Total Capital Assets, Being Depreciated, Net	451,076	(46,082)	0	404,994
Capital Assets, net	\$561,076	(\$46,082)	\$0	\$514,994