

**THE ARCH FOUNDATION FOR
THE UNIVERSITY OF GEORGIA, INC.**

Financial Statements

**For the Years Ended
June 30, 2008 and 2007**

**THE ARCH FOUNDATION FOR
THE UNIVERSITY OF GEORGIA, INC.**

Contents

	Page
Report of Independent Auditors	1
Financial Statements for the Years Ended June 30, 2008 and 2007	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	5
Notes to Financial Statements	6



Report of Independent Auditors

Board of Trustees
The Arch Foundation for
The University of Georgia, Inc.
Athens, Georgia

We have audited the accompanying statements of financial position of The Arch Foundation for the University of Georgia, Inc. (the "Foundation") as of June 30, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2008 and 2007 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Cherry, Bekaert & Holland, L.L.P.

Augusta, Georgia
September 26, 2008

**THE ARCH FOUNDATION FOR
THE UNIVERSITY OF GEORGIA, INC.**

Statements of Financial Position

June 30, 2008 and 2007

ASSETS

	2008	2007
Cash and cash equivalents	\$ 25,694,119	\$ 19,562,384
Pledges receivable, net	23,385,965	32,323,212
Accounts receivable	1,257,816	271,278
Accrued interest	170,960	202,768
Real property	2,624,000	-
Long-term investment pool	26,974,899	19,116,597
Other investments	697,102	664,554
Total assets	\$ 80,804,861	\$ 72,140,793

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable and accrued expenses	\$ 1,420,393	\$ 445,724
Deferred revenue	345,560	172,333
Total liabilities	1,765,953	618,057
Net assets		
Unrestricted	1,401,001	744,607
Temporarily restricted	46,529,570	45,498,963
Permanently restricted	31,108,337	25,279,166
Total net assets	79,038,908	71,522,736
Total liabilities and net assets	\$ 80,804,861	\$ 72,140,793

See notes to financial statements.

**THE ARCH FOUNDATION FOR
THE UNIVERSITY OF GEORGIA, INC.**

Statements of Activities

Year Ended June 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2008 Total</u>
Revenues:				
Contributions	\$ 1,044,968	\$ 13,970,234	\$ 5,835,417	\$ 20,850,619
Change in valuation allowance to discount pledges to net present value	6,465	857,363	17,689	881,517
Provision for uncollectible pledges net of recoveries	4,468	(6,569,687)	(629,677)	(7,194,896)
Contributions, net	<u>1,055,901</u>	<u>8,257,910</u>	<u>5,223,429</u>	<u>14,537,240</u>
Net realized and unrealized gain (loss) on investments	(74,377)	(1,516,223)	-	(1,590,600)
Interest and dividends	480,535	870,373	-	1,350,908
Other income – net	792,710	1,403,007	13,249	2,208,966
Support fee from restricted funds	97,235	-	-	97,235
Transfers between restrictions	322,544	(915,037)	592,493	-
Net assets released from restrictions	<u>7,069,423</u>	<u>(7,069,423)</u>	<u>-</u>	<u>-</u>
Total revenues	9,743,971	1,030,607	5,829,171	16,603,749
Expenses:				
Donor restricted program support	6,123,556	-	-	6,123,556
Scholarships	945,867	-	-	945,867
Direct program support	284,150	-	-	284,150
General operations:				
Trustee administration	108,451	-	-	108,451
Administrative services	84,839	-	-	84,839
Special programs and events	234,820	-	-	234,820
External Affairs Division	901,682	-	-	901,682
Archway to Excellence Campaign	297,614	-	-	297,614
Other expenses	<u>106,598</u>	<u>-</u>	<u>-</u>	<u>106,598</u>
Total expenses	<u>9,087,577</u>	<u>-</u>	<u>-</u>	<u>9,087,577</u>
Change in net assets	656,394	1,030,607	5,829,171	7,516,172
Net assets, beginning of year	<u>744,607</u>	<u>45,498,963</u>	<u>25,279,166</u>	<u>71,522,736</u>
Net assets, end of year	<u>\$ 1,401,001</u>	<u>\$ 46,529,570</u>	<u>\$ 31,108,337</u>	<u>\$ 79,038,908</u>

See notes to financial statements.

**THE ARCH FOUNDATION FOR
THE UNIVERSITY OF GEORGIA, INC.**

Statements of Activities - Continued

Year Ended June 30, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2007 Total</u>
Revenues:				
Contributions	\$ 967,546	\$ 20,473,020	\$ 6,813,906	\$ 28,254,472
Change in valuation allowance to discount pledges to net present value	(2,670)	232,083	388,441	617,854
Provision for uncollectible pledges net of recoveries	<u>(3,456)</u>	<u>(701,214)</u>	<u>16,129</u>	<u>(688,541)</u>
Contributions, net	961,420	20,003,889	7,218,476	28,183,785
Net realized and unrealized gain (loss) on investments	5,370	1,449,724	-	1,455,094
Interest and dividends	430,763	515,933	-	946,696
Other income – net	309,235	2,477,008	1,472,161	4,258,404
Transfers between restrictions	(220,899)	151,400	69,499	-
Net assets released from restrictions	<u>3,469,762</u>	<u>(3,469,762)</u>	<u>-</u>	<u>-</u>
Total revenues	4,955,651	21,128,192	8,760,136	34,843,979
Expenses:				
Donor restricted program support	2,969,607	-	-	2,969,607
Scholarships	500,155	-	-	500,155
Direct program support	238,779	-	-	238,779
General operations:				
Trustee administration	72,676	-	-	72,676
Administrative services	76,621	-	-	76,621
Special programs and events	113,687	-	-	113,687
External Affairs Division	686,232	-	-	686,232
Archway to Excellence campaign	170,274	-	-	170,274
Other expenses	<u>16,174</u>	<u>-</u>	<u>-</u>	<u>16,174</u>
Total expenses	<u>4,844,205</u>	<u>-</u>	<u>-</u>	<u>4,844,205</u>
Change in net assets	111,446	21,128,192	8,760,136	29,999,774
Net assets, beginning of year	<u>633,161</u>	<u>24,370,771</u>	<u>16,519,030</u>	<u>41,522,962</u>
Net assets, end of year	<u>\$ 744,607</u>	<u>\$ 45,498,963</u>	<u>\$ 25,279,166</u>	<u>\$ 71,522,736</u>

See notes to financial statements.

**THE ARCH FOUNDATION FOR
THE UNIVERSITY OF GEORGIA, INC.**

Statements of Cash Flows

Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities		
Increase in net assets	\$ 7,516,172	\$ 29,999,774
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Contributions restricted for long-term investment, net	(4,285,701)	(10,155,818)
Net unrealized and realized (gain) loss on investments	1,590,600	(1,455,094)
Donated investments sold (received), net	(2,654,974)	603,226
Change in		
Pledges receivable	8,937,247	(3,026,783)
Accounts receivable	(986,538)	146,711
Accrued interest	31,808	(150,425)
Accounts payable and accrued expenses	1,147,896	337,661
Net cash provided by operating activities	<u>11,296,510</u>	<u>16,299,252</u>
Cash flows from investing activities		
Purchase of investments	(9,448,902)	(12,904,112)
Increase in cash value of life insurance policies	(1,574)	(2,586)
Net cash used in investing activities	<u>(9,450,476)</u>	<u>(12,906,698)</u>
Cash flows from financing activities		
Proceeds from contributions restricted for long-term investment, net	<u>4,285,701</u>	<u>10,155,818</u>
Net cash provided by financing activities	<u>4,285,701</u>	<u>10,155,818</u>
Net increase in cash and cash equivalents	6,131,735	13,548,372
Cash and cash equivalents, beginning of year	<u>19,562,384</u>	<u>6,014,012</u>
Cash and cash equivalents, end of year	<u>\$ 25,694,119</u>	<u>\$ 19,562,384</u>

See notes to financial statements.

THE ARCH FOUNDATION FOR THE UNIVERSITY OF GEORGIA INC.

Notes to Financial Statements

Years Ended June 30, 2008 and 2007

Note 1 – Summary of significant accounting policies

Nature of operations

The Arch Foundation for the University of Georgia, Inc. (the “Foundation”) is a not-for-profit foundation that was chartered in 2005 to receive and administer contributions for the support of the University of Georgia (the “University”). The University is governed by the Board of Regents of the University System of Georgia (the “Board of Regents”).

The mission and purpose of the Foundation is to provide support to the teaching, research, public service and outreach programs of the University by means of volunteer leadership and assistance in development and fundraising activities; fiduciary care for the assets of the Foundation for the long-term benefit and enhancement of the University; and the provision of broad advice, consultation and support to the President of the University.

The Foundation operates as a Cooperative Organization in accordance with policies of the Board of Regents.

Basis of accounting

These financial statements have been prepared on the basis of accounting principles generally accepted in the United States of America.

Cash and cash equivalents

All highly liquid investments with an original maturity of three months or less are considered to be cash equivalents. As of June 30, 2008 and 2007, cash and cash equivalents includes \$489,016 and \$1,410,816, respectively, restricted for long-term investment.

Long-term investment pool and other investments

Investments in common trust funds and securities with an established market value are carried at market value. Investments in real estate and securities without an established market value are carried at the lower of estimated market value at the date of gift or current market value as estimated by management of the Foundation. Realized gains and losses are computed using the specific identification method.

Contributions and net assets

Unconditional promises to give are recognized as revenue when the underlying promises are received by the Foundation and are reported as unrestricted, temporarily restricted or permanently restricted revenue based on any donor stipulations that limit the use of the donated asset.

When donor restrictions on cash and other assets reported as temporarily restricted net assets expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are transferred to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. It is the Foundation’s policy to use such funds for the restricted purpose as soon as it is practical and prudent.

The permanently restricted classification is used if the donor stipulations are restricted for a specified purpose, whereby gifts of cash and other assets must be invested in perpetuity to provide a permanent source of income for the Foundation.

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

**THE ARCH FOUNDATION FOR
THE UNIVERSITY OF GEORGIA, INC.**

Notes to Financial Statements – Continued

Years Ended June 30, 2008 and 2007

Note 1 – Summary of significant accounting policies (Continued)

Contributed services

The costs of services rendered by the External Affairs Division of the University of Georgia for fund-raising activities are borne by both the Foundation and the University. The costs borne by the Foundation are included in special programs and events and Archway to Excellence campaign on the statement of activities. The portion of the costs borne by the University is not included in the Foundation's financial statements. The contributed services provided by the University approximated \$4,834,724 and \$4,433,246 for the years ended June 30, 2008 and 2007, respectively. Essentially all of these costs would have been incurred by the University even if the Foundation did not exist. In addition, due to the insignificance of certain contributed services rendered to the Foundation by the accounting and certain other departments of the University, such amounts are not charged or included in the Foundation's financial statements.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations of credit risk

Financial instruments that potentially expose the Foundation to concentrations of credit risk consist primarily of cash and cash equivalents. Cash balances may at times exceed federally insured limits.

From time to time, the Foundation receives large pledges and contributions from a small number of donors that represent a significant portion of recorded pledges and contributions.

Reclassifications

Certain prior year amounts have been reclassified in the financial statements to conform with the current year presentation. Amounts reclassified had no effect on the change in net assets.

Income taxes

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation is not a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. Contributions made to the Foundation are deductible by the donors. The Foundation is subject to federal income tax on unrelated business income.

**THE ARCH FOUNDATION FOR
THE UNIVERSITY OF GEORGIA INC.**

Notes to Financial Statements – Continued

Years Ended June 30, 2008 and 2007

Note 2 – Pledges receivable

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

	2008	2007
Pledges receivable	\$ 28,511,614	\$ 38,279,982
Less allowance for uncollectible pledges	(3,025,800)	(2,975,404)
Less allowance representing interest (4.5% and 5.1% at June 30, 2008 and 2007, respectively)	(2,099,849)	(2,981,366)
Pledges receivable, net	\$ 23,385,965	\$ 32,323,212

An allowance for uncollectible pledges receivable is necessary as, from time to time, the Foundation may be unable to collect an outstanding pledge recorded as pledges receivable. The allowance is management's estimate of the potential future write-offs of uncollectible pledges and is based on historical write-offs and overdue contributions. The provision for uncollectible pledges receivable for the year ended June 30, 2008 includes a cancellation of a pledge from a single donor in the amount of \$7,000,000. The contributions related to this pledge were recorded in the amounts of \$3,000,000 during the year ended June 30, 2007 and \$4,000,000 during the year ended June 30, 2006. During the year ended June 30, 2008, the Foundation determined the pledge to be uncollectible based on information available to the Foundation at that time. There were no other individually significant write-offs of pledges during the years ended June 30, 2008 and 2007. Pledges receivable as of June 30, 2008 and 2007 are due as follows:

	2008	2007
In less than one year	\$ 14,419,867	\$ 21,564,693
In one to five years	13,361,130	15,596,232
Beyond five years	730,617	1,119,057
	\$ 28,511,614	\$ 38,279,982

Note 3 - Investments

As of June 30, 2008, the long-term investment pool has a market value of \$26,974,899 and consists of investments in domestic and international equities of \$19,024,332 (71%), fixed income instruments of \$7,211,956 (27 %), and private equity and real estate holdings of \$738,611 (2%) that are held by an outside investment manager. As of June 30, 2007, the long-term investment pool has a market value of \$19,116,597 and consists of investments in domestic and international equities of \$13,792,582 (72%) and fixed income instruments of \$5,324,015 (28%) that are held by an outside investment manager. During the year ended June 30, 2007, the Foundation committed \$1,000,000 to a real estate investment which was partially funded during the current fiscal year to further diversify the investment portfolio.

**THE ARCH FOUNDATION FOR
THE UNIVERSITY OF GEORGIA INC.**

Notes to Financial Statements – Continued

Years Ended June 30, 2008 and 2007

Note 3 – Investments (continued)

As of June 30, 2008, other investments of \$697,102 consist of contributed equity securities with a market value of \$39,024, insurance policies with a cash surrender value of \$28,078, and an investment in a limited partnership with an appraised value of \$630,000. As of June 30, 2007, other investments of \$664,554 consist of contributed equity securities with a market value of \$31,968, insurance policies with a cash surrender value of \$2,586, and an investment in a limited partnership with an appraisal value of \$630,000.

Note 4 – Related party transactions

During the years ended June 30, 2008 and 2007, the Foundation transferred \$3,341,472 and \$1,324,629, respectively, to the University for scholarships and donor restricted support. As of June 30, 2008 and 2007, outstanding transfers of \$333,666 and \$373,389, respectively, were due to the University and are included in accounts payable.