

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

**Financial Statements  
For the Years Ended  
June 30, 2007 and 2006**

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

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## Report of Independent Auditors

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

We have audited the accompanying statement of financial position of The Arch Foundation for the University of Georgia, Inc. (the "Foundation") as of June 30, 2007 and 2006, and the related statement 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, 2007 and 2006 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 13, 2007

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

**Statements of Financial Position  
June 30, 2007 and 2006**

**ASSETS**

	2007	2006
Cash and cash equivalents	\$ 19,562,384	\$ 6,014,012
Pledges receivable, net	32,323,212	29,296,429
Accounts receivable	271,278	417,989
Accrued interest	202,768	52,343
Long-term investment pool	19,116,597	4,757,391
Other investments	664,554	1,265,194
<b>Total assets</b>	<b>\$ 72,140,793</b>	<b>\$ 41,803,358</b>

**LIABILITIES AND NET ASSETS**

<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 618,057	\$ 280,396
<b>Total liabilities</b>	<b>618,057</b>	<b>280,396</b>
<b>Net assets</b>		
Unrestricted	744,607	633,161
Temporarily restricted	45,498,963	24,370,771
Permanently restricted	25,279,166	16,519,030
<b>Total net assets</b>	<b>71,522,736</b>	<b>41,522,962</b>
<b>Total liabilities and net assets</b>	<b>\$ 72,140,793</b>	<b>\$ 41,803,358</b>

See notes to financial statements.

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

**Statements of Activities**

**Year Ended June 30, 2007**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2007 Total</u>
<b>Revenues:</b>				
Contributions	\$ 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>
<b>Total revenues</b>	4,955,651	21,128,192	8,760,136	34,843,979
<b>Expenses:</b>				
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>
<b>Total expenses</b>	<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
<b>Net assets, beginning of year</b>	<u>633,161</u>	<u>24,370,771</u>	<u>16,519,030</u>	<u>41,522,962</u>
<b>Net assets, end of year</b>	<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 Activities - Continued**

**Year Ended June 30, 2006**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2006 Total</u>
<b>Revenues:</b>				
Contributions	\$ 1,001,810	\$ 24,732,854	\$ 16,515,330	\$ 42,249,994
Net realized and unrealized gain (loss) on investments	190	(174,852)	-	(174,662)
Interest and dividends	100,973	105,058	-	206,031
Other income – net	11,344	652,875	10,000	674,219
Transfers between restrictions	-	6,300	(6,300)	-
Net assets released from restrictions	951,464	(951,464)	-	-
<b>Total revenues</b>	<b>2,065,781</b>	<b>24,370,771</b>	<b>16,519,030</b>	<b>42,955,582</b>
<b>Expenses:</b>				
Donor restricted program support	848,255	-	-	848,255
Scholarships	103,209	-	-	103,209
Direct program support	65,298	-	-	65,298
General operations:				
Trustee administration	51,457	-	-	51,457
Administrative services	132,072	-	-	132,072
Special programs and events	41,858	-	-	41,858
External Affairs Division	-	-	-	-
Archway to Excellence campaign	184,823	-	-	184,823
Other expenses	5,648	-	-	5,648
<b>Total expenses</b>	<b>1,432,620</b>	<b>-</b>	<b>-</b>	<b>1,432,620</b>
Change in net assets	633,161	24,370,771	16,519,030	41,522,962
<b>Net assets, beginning of year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net assets, end of year</b>	<b>\$ 633,161</b>	<b>\$ 24,370,771</b>	<b>\$ 16,519,030</b>	<b>\$ 41,522,962</b>

See notes to financial statements.

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

**Statements of Cash Flows**

**Years Ended June 30, 2007 and 2006**

	2007	2006
<b>Cash flows from operating activities</b>		
Increase in net assets	\$ 29,999,774	\$ 41,522,962
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Contributions restricted for long-term investment, net	(10,155,818)	(6,209,792)
Net unrealized and realized (gain) loss on investments	(1,455,094)	174,662
Donated investments sold (received), net	603,226	(1,265,194)
Change in		
Pledges receivable	(3,026,783)	(29,296,429)
Accounts receivable	146,711	(417,989)
Accrued interest	(150,425)	(52,343)
Accounts payable and accrued expenses	337,661	280,396
<b>Net cash provided by operating activities</b>	<b>16,299,252</b>	<b>4,736,273</b>
<b>Cash flows from investing activities</b>		
Purchase of investments	(12,904,112)	(4,932,053)
Increase in cash value of life insurance policies	(2,586)	-
<b>Net cash used in investing activities</b>	<b>(12,906,698)</b>	<b>(4,932,053)</b>
<b>Cash flows from financing activities</b>		
Proceeds from contributions restricted for long-term investment, net	10,155,818	6,209,792
<b>Net cash provided by financing activities</b>	<b>10,155,818</b>	<b>6,209,792</b>
<b>Net increase in cash and cash equivalents</b>	13,548,372	6,014,012
<b>Cash and cash equivalents, beginning of year</b>	6,014,012	-
<b>Cash and cash equivalents, end of year</b>	\$ 19,562,384	\$ 6,014,012

See notes to financial statements.

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

## **Notes to Financial Statements Years Ended June 30, 2007 and 2006**

### **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, 2007 and 2006, cash and cash equivalents includes \$1,401,816 and \$46,960, 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, 2007 and 2006**

**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 \$5,858,000 and \$4,955,000 for the years ended June 30, 2007 and 2006, 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, 2007 and 2006**

**Note 2 – Pledges receivable**

Pledges receivable of unconditional promises to give at June 30, 2007 and 2006 consist of the following:

	2007	2006
Pledges receivable	\$ 38,279,982	\$ 35,182,513
Less allowance for uncollectible pledges	(2,975,404)	(2,286,863)
Less allowance representing interest (5.1% and 5.2% at June 30, 2007 and 2006, respectively)	(2,981,366)	(3,599,221)
Pledges receivable, net	\$ 32,323,212	\$ 29,296,429

An allowance for uncollectible contributions 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. Pledges receivable as of June 30, 2007 and 2006 are due as follows:

	2007	2006
In less than one year	\$ 21,564,693	\$ 13,314,063
In one to five years	15,596,232	20,119,810
Beyond five years	1,119,057	1,748,640
	\$ 38,279,982	\$ 35,182,513

**Note 3 - Investments**

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. As of June 30, 2006, the long-term investment pool has a market value of \$4,757,391 and consists of investments in domestic and international equities of \$3,294,510 (69%) and fixed income instruments of \$1,462,881 (31%) 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 to be funded in future fiscal years to further diversify the investment portfolio.

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 appraised value of \$630,000. As of June 30, 2006, other investments of \$1,265,194 consist of contributed equity securities with a market value of \$635,194 and an investment in a limited partnership with an appraised value of \$630,000.

**Note 4 – Related party transactions**

During the years ended June 30, 2007 and 2006, the Foundation transferred \$1,324,629 and \$308,737, respectively, to the University for scholarships and donor restricted support. As of June 30, 2007 and 2006, outstanding transfers of \$373,389 and \$173,278, respectively, were due to the University and are included in accounts payable.