

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

Financial Statements

**For the Years Ended
June 30, 2009 and 2008**

**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 statements of financial position of The Arch Foundation for the University of Georgia, Inc. (the "Foundation") as of June 30, 2009 and 2008, 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, 2009 and 2008 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 15, 2009

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

Statements of Financial Position

June 30, 2009 and 2008

ASSETS

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$ 38,511,648	\$ 25,694,119
Pledges receivable, net	26,472,295	23,385,965
Accounts receivable	381,746	1,257,816
Accrued interest	166,304	170,960
Real property	2,624,000	2,624,000
Long-term investment pool	28,022,458	26,974,899
Other investments	<u>695,389</u>	<u>697,102</u>
Total assets	\$ <u>96,873,840</u>	\$ <u>80,804,861</u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable and accrued expenses	\$ 765,906	\$ 1,420,393
Deferred revenue	<u>538,292</u>	<u>345,560</u>
Total liabilities	1,304,198	1,765,953
Net assets		
Unrestricted (deficit)	(1,107,503)	1,401,001
Temporarily restricted	58,807,022	46,529,570
Permanently restricted	<u>37,870,123</u>	<u>31,108,337</u>
Total net assets	<u>95,569,642</u>	<u>79,038,908</u>
Total liabilities and net assets	\$ <u>96,873,840</u>	\$ <u>80,804,861</u>

See notes to financial statements.

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

Statements of Activities

Year Ended June 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2009 Total</u>
Revenues:				
Contributions	\$ 1,037,236	\$ 22,039,474	\$ 5,259,347	\$ 28,336,057
Change in valuation allowance to discount pledges to net present value	(2,761)	(1,286,182)	(1,956)	(1,290,899)
Provision for uncollectible pledges net of recoveries	<u>(2,390)</u>	<u>(1,193,140)</u>	<u>133,700</u>	<u>(1,061,830)</u>
Contributions, net	<u>1,032,085</u>	<u>19,560,152</u>	<u>5,391,091</u>	<u>25,983,328</u>
Net realized and unrealized gain (loss) on investments	(210,839)	(5,604,371)	-	(5,815,210)
Allocation of deficiencies in endowments related to unrealized losses	<u>(3,812,803)</u>	<u>3,812,803</u>	<u>-</u>	<u>-</u>
Net realized and unrealized gain (loss on investments), net	<u>(4,023,642)</u>	<u>(1,791,568)</u>	<u>-</u>	<u>(5,815,210)</u>
Interest and dividends	676,289	1,207,591	-	1,883,880
Other income – net	2,209,457	1,481,528	1,369,538	5,060,523
Transfers between restrictions	75,666	(76,823)	1,157	-
Net assets released from restrictions	<u>8,103,428</u>	<u>(8,103,428)</u>	<u>-</u>	<u>-</u>
Total revenues	8,073,283	12,277,452	6,761,786	27,112,521
Expenses:				
Donor restricted program support	6,963,822	-	-	6,963,822
Scholarships	1,139,606	-	-	1,139,606
Direct program support	628,412	-	-	628,412
General operations:				
Trustee administration	90,531	-	-	90,531
Administrative services	153,245	-	-	153,245
Special programs and events	268,746	-	-	268,746
External Affairs Division	1,230,067	-	-	1,230,067
Archway to Excellence Campaign	100,670	-	-	100,670
Other expenses	<u>6,688</u>	<u>-</u>	<u>-</u>	<u>6,688</u>
Total expenses	<u>10,581,787</u>	<u>-</u>	<u>-</u>	<u>10,581,787</u>
Change in net assets	(2,508,504)	12,277,452	6,761,786	16,530,734
Net assets, beginning of year	<u>1,401,001</u>	<u>46,529,570</u>	<u>31,108,337</u>	<u>79,038,908</u>
Net assets (deficit), end of year	<u>\$ (1,107,503)</u>	<u>\$ 58,807,022</u>	<u>\$ 37,870,123</u>	<u>\$ 95,569,642</u>

See notes to financial statements.

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

Statements of Activities - Continued

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	106,598	-	-	106,598
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 Cash Flows

Years Ended June 30, 2009 and 2008

	2009	2008
Cash flows from operating activities		
Increase in net assets	\$ 16,530,734	\$ 7,516,172
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Contributions restricted for long-term investment, net	(5,954,832)	(4,285,701)
Net unrealized and realized (gain) loss on investments	5,815,210	1,590,600
Donated investments sold (received), net	-	(2,654,974)
Change in		
Pledges receivable	(3,086,330)	8,937,247
Accounts receivable	876,070	(986,538)
Accrued interest	4,656	31,808
Accounts payable and accrued expenses	(461,755)	1,147,896
Net cash provided by operating activities	13,723,753	11,296,510
Cash flows from investing activities		
Purchase of investments	(6,890,736)	(9,448,902)
Proceeds from the sale of investments	66,992	-
Increase in cash value of life insurance policies	(37,312)	(1,574)
Net cash used in investing activities	(6,861,056)	(9,450,476)
Cash flows from financing activities		
Proceeds from contributions restricted for long-term investment, net	5,954,832	4,285,701
Net cash provided by financing activities	5,954,832	4,285,701
Net increase in cash and cash equivalents	12,817,529	6,131,735
Cash and cash equivalents, beginning of year	25,694,119	19,562,384
Cash and cash equivalents, end of year	\$ 38,511,648	\$ 25,694,119

See notes to financial statements.

THE ARCH FOUNDATION FOR THE UNIVERSITY OF GEORGIA, INC.

Notes to Financial Statements

Years Ended June 30, 2009 and 2008

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, 2009 and 2008, cash and cash equivalents includes \$1,386,727 and \$489,016, 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, 2009 and 2008

Note 1 – Summary of significant accounting policies (Continued)

In August 2008, the FASB issued FASB Staff Position No. 117-1, “Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds”, which provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). UPMIFA is a model act approved by the Uniform Law Commission (ULC; formerly known as the National Conference of Commissioners on Uniform State Laws) that serves as a guideline for states to use in enacting legislation. The provisions of FSP 117-1 were applied by the Foundation in the year ended June 30, 2009.

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 \$5,673,779 and \$4,834,724 for the years ended June 30, 2009 and 2008, 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. In October and November 2008 the Federal Deposit Insurance Corporation (FDIC) temporarily increased coverage to \$250,000 for substantially all depository accounts and temporarily provides unlimited coverage for certain qualifying and participating non-interest bearing transaction accounts. The increased coverage is scheduled to expire on December 31, 2013, at which time it is anticipated amounts insured by the FDIC will return to \$100,000. 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.

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

Notes to Financial Statements – Continued

Years Ended June 30, 2009 and 2008

Note 1 – Summary of significant accounting policies (Continued)

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.

Note 2 – Pledges receivable

Pledges receivable of unconditional promises to give at June 30, 2009 and 2008 consist of the following:

	2009	2008
Pledges receivable	\$ 33,950,673	\$ 28,511,614
Less allowance for uncollectible pledges	(3,390,749)	(3,025,800)
Less allowance representing interest (4.5% at June 30, 2009 and 2008)	(4,087,629)	(2,099,849)
Pledges receivable, net	\$ 26,472,295	\$ 23,385,965

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 included 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, 2009 and 2008. Pledges receivable as of June 30, 2009 and 2008 are due as follows:

	2009	2008
In less than one year	\$ 12,280,836	\$ 14,419,867
In one to five years	15,217,937	13,361,130
Beyond five years	6,451,900	730,617
	\$ 33,950,673	\$ 28,511,614

Note 3 - Investments

As of June 30, 2009, the long-term investment pool has a market value of \$28,022,458 and consists of domestic and international equities of \$20,671,212 (74%), fixed income instruments of \$6,709,839 (24%), and private equity, natural resources, and private real estate holdings of \$641,407 (2%). 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.

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

Notes to Financial Statements – Continued

Years Ended June 30, 2009 and 2008

Note 3 – Investments (Continued)

As of June 30, 2009, the Foundation had outstanding commitments of approximately \$1,200,000 for the purchase of investments in private equity and natural resources.

As of June 30, 2009, other investments of \$695,389 consist of insurance policies with a cash surrender value of \$65,389, and an investment in a limited partnership with an appraised value of \$630,000. 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.

Note 4 – Fair value measurements of assets and liabilities

The Foundation adopted SFAS 157 as of July 1, 2008, which, among other things, requires enhanced disclosures about investments that are measured and reported at fair value. SFAS 157 establishes a fair value hierarchy which prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is impacted by a number of factors, including the type of investment, the characteristics specific to the investment, and the state of the marketplace (including the existence and transparency of transactions between market participants). Investments with readily-available actively quoted prices or for which fair value can be measured from actively-quoted prices in an orderly market will generally have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Investments measured and reported at fair value are classified and disclosed in one of the following categories based on inputs:

Level I – Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments which would generally be included in Level I include listed equity securities, mutual funds, and money market funds. As required by SFAS 157, the Foundation, to the extent that it holds such investments, does not adjust the quoted price for these investments, even in situations where the Foundation holds a large position and a sale could reasonably impact the quoted price.

Level II – Pricing inputs are observable for the investments, either directly or indirectly, as of the reporting date, but are not the same as those used in Level I. Fair value is determined through the use of models or other valuation methodologies. The types of investments which would generally be included in this category include publicly-traded securities with restrictions on disposition, corporate obligations, and US Government and Agency Treasury Inflation Indices.

Level III – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investments. The inputs into the determination of fair value require significant judgment or estimation. The types of investments which would generally be included in this category include debt and equity securities issued by private entities and partnerships.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given investment is based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

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

Notes to Financial Statements – Continued

Years Ended June 30, 2009 and 2008

Note 4 – Fair value measurements of assets and liabilities (Continued)

The following table summarizes the levels of the SFAS 157 fair value hierarchy into which the Foundation's investments fall as of June 30, 2009:

	Fair Value Measurements at June 30, 2009			
	Level I	Level II	Level III	Total
Domestic and international equity securities	\$ -	\$ 20,671,212	\$ -	\$ 20,671,212
Fixed income securities	-	6,709,839	-	6,709,839
Investments in private equity, natural resources, and private real estate	-	-	1,271,407	1,271,407
Cash surrender value of life insurance	-	65,389	-	65,389
	-	27,446,440	1,271,407	28,717,847
Total investments	\$ -	\$ 27,446,440	\$ 1,271,407	\$ 28,717,847

All assets have been valued using a market approach. There have been no changes in valuation techniques and related inputs.

The changes in investments classified as Level III are as follows for the year ended June 30, 2009:

Balance, July 1, 2008	\$ 1,368,611
Purchases	491,875
Sales	-
Realized and unrealized gains (losses), net	(589,079)
Balance on June 30, 2009	\$ 1,271,407
Net unrealized gain (loss) on Level III holdings at June 30, 2009	\$ (540,063)

Note 5 – Endowment funds

The Foundation's endowment fund consists of individual donor restricted endowment funds and funds designated by the Board of Trustees ("Board") to function as endowments. The net assets associated with endowment funds, including those funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation has interpreted the State of Georgia's enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as imposing a duty on the Foundation to use good faith and prudent care in adopting investment and spending policies to preserve endowment assets while providing income and appreciation to meet the donors' intention in perpetuity. As a result of this interpretation, the Foundation classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

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

Notes to Financial Statements – Continued

Years Ended June 30, 2009 and 2008

Note 5 – Endowment funds (Continued)

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. The Foundation made a decision to allow spending from endowment funds based on the current spending policy and limited the spending, where applicable, to available cash balances and investment return. In accordance with UPMIFA, the Foundation considered the following factors in making their determination to appropriate or accumulate endowment funds.

- 1) The duration and preservation of the fund
- 2) The purposes of the Foundation and the donor restricted endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and appreciation of investments
- 6) Other resources of the Foundation
- 7) The investment policies of the Foundation

Where the Board designates unrestricted funds to function as endowments, they are classified as unrestricted net assets.

The following tables present the Foundation's endowment composition, changes, and net asset classifications as of and for the indicated years:

Endowment Net Asset Composition by Type of Fund as of June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (3,812,803)	\$ 6,557,095	\$ 29,068,419	\$ 31,812,711
Board-designated endowment funds	956,157	-	-	956,157
Total funds	\$ (2,856,646)	\$ 6,557,095	\$ 29,068,419	\$ 32,768,868

Endowment Net Asset Composition by Type of Fund as of June 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 81,057	\$ 6,184,929	\$ 21,888,685	\$ 28,154,671
Board-designated endowment funds	811,270	-	-	811,270
Total funds	\$ 892,327	\$ 6,184,929	\$ 21,888,685	\$ 28,965,941

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

Notes to Financial Statements – Continued

Years Ended June 30, 2009 and 2008

Note 5 – Endowment funds (Continued)

Changes in Endowment Net Assets for the Year Ended June 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2008	\$ 892,327	\$ 6,184,929	\$ 21,888,685	\$ 28,965,941
Contributions	11,100	1,302,044	5,927,231	7,240,375
Investment return:				
Investment income	20,808	694,505	-	715,313
Market value adjustment	<u>(210,734)</u>	<u>(5,564,079)</u>	<u>-</u>	<u>(5,774,813)</u>
Total investment return	(189,926)	(4,869,574)	-	(5,059,500)
Other income and expenditures	242,656	126,893	1,252,503	1,622,052
Allocation of fund deficiencies in endowments related to unrealized losses	<u>(3,812,803)</u>	<u>3,812,803</u>	<u>-</u>	<u>-</u>
Endowment net assets, June 30, 2009	\$ <u>(2,856,646)</u>	\$ <u>6,557,095</u>	\$ <u>29,068,419</u>	\$ <u>32,768,868</u>

Changes in Endowment Net Assets for the Year Ended June 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2007	\$ 62,541	\$ 5,171,013	\$ 17,904,684	\$ 23,138,238
Contributions	21,204	3,330,467	4,252,553	7,604,224
Investment return:				
Investment income	18,164	640,316	-	658,480
Market value adjustment	<u>(74,455)</u>	<u>(1,512,265)</u>	<u>-</u>	<u>(1,586,720)</u>
Total investment return	(56,291)	(871,949)	-	(928,240)
Other income and expenditures	<u>864,873</u>	<u>(1,444,602)</u>	<u>(268,552)</u>	<u>(848,281)</u>
Endowment net assets, June 30, 2008	\$ <u>892,327</u>	\$ <u>6,184,929</u>	\$ <u>21,888,685</u>	\$ <u>28,965,941</u>

Description of Amounts Classified as Permanently Restricted Net Assets and
Temporarily Restricted Net Assets (Endowment Only)

	<u>2009</u>	<u>2008</u>
Permanently restricted net assets		
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or UPMIFA	\$ <u>29,068,419</u>	\$ <u>21,888,685</u>
Temporarily restricted net assets		
The portion of perpetual endowments subject to a time restriction under UPMIFA	\$ <u>6,557,095</u>	\$ <u>6,184,929</u>

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

Notes to Financial Statements – Continued

Years Ended June 30, 2009 and 2008

Note 5 – Endowment funds (Continued)

Endowment funds with deficiencies

From time to time, the fair value of assets associated with individual donor endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor endowment deficits exist, they are classified as a reduction of unrestricted net assets. Deficits of this nature reported in unrestricted net assets were \$3,812,803 as of June 30, 2009 and \$0 as of June 30, 2008. These deficits resulted from unfavorable market conditions which resulted in negative investment returns.

Return objectives and risk parameters

The Foundation has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Under this policy, endowment assets are invested in a manner that is intended to yield a long-term rate of return of approximately 8.5% annually, while assuming a moderate level of investment risk. Actual returns in any given year may vary from this amount. Due to the market declines experienced during fiscal year 2009, the long-term goal of 8.5% has not been achieved.

Strategies employed for achieving investment objectives

To achieve its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

Relationship of spending policy to investment objectives

The Foundation's Investment Committee (the "Committee") determines the method to be used to appropriate endowment funds for expenditure. The appropriation amount is determined as of the calendar year, six months prior to when it becomes available for expenditure. For fiscal year 2009, the spending rate is equal to 4% of the preceding twelve calendar quarters' average ending fair value ending on December 31, 2007. In February 2009, the Committee established a 4% spending rate for fiscal year 2010 based on the preceding twelve calendar quarters ending December 31, 2008. In establishing this method, the Committee considered the expected long-term rate of return on the investment of the Foundation's endowment funds. Accordingly, over the long-term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 4%, consistent with its intention to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts. Depending upon market conditions and the needs and available resources of the Foundation, appropriations for expenditure from individual endowments may be temporarily suspended to facilitate preservation of the endowment.

Note 6 – Related party transactions

During the years ended June 30, 2009 and 2008, the Foundation transferred \$4,603,517 and \$3,341,472, respectively, to the University for scholarships and donor restricted support. As of June 30, 2009 and 2008, outstanding transfers of \$441,617 and \$333,666, respectively, were due to the University and are included in accounts payable.

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

Notes to Financial Statements – Continued

Years Ended June 30, 2009 and 2008

Note 7 – Subsequent events

Subsequent to June 30, 2009, the Foundation established a line of credit with a financial institution with an available amount of \$500,000. The line bears interest at a rate of 1 month LIBOR + 1.75 basis points and is due in full upon maturity on July 31, 2010.