2003 - 2004 Financial Report

When we put our ***energy*** into creating unique academic offerings that take advantage of our surroundings and our ***context,*** we ***deliver*** for our students an educational experience that is both ***distinctive*** and rewarding. And in their ***success***, we find our own.

THE GEORGE WASHINGTON UNIVERSITY

WASHINGTON DC

"Life is like a bicycle–to keep your balance you must keep moving."

-Albert Einstein

In an ever-changing world, one important asset to an institution like The George Washington University is our sense of balance. And to maintain this balance, as Albert Einstein said, we must always move forward, keeping steady focus on the elements that advance our institution.

But what is the optimal economic model to leverage our strengths and create both educational and economic value? How do we balance our need to grow with the realities of finite space and financial resources? What equations do we use to apportion our investments for both the short- and the long-term? These are just some of the questions that shape our underlying economic model and drive our strategic decisions. It's all about balance and momentum.

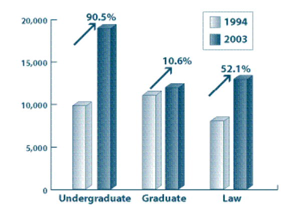
THE UNIVERSITY'S OWN MISSION-CENTRIC "THEORY OF RELATIVITY"

As Einstein demonstrated in his equation, $E=MC^2$, energy can be converted to matter and matter into energy. Our own theory of relativity demonstrates this truth: in our economic equation, our momentum is driven by–and our success measured in–the mission. While economic realities govern, our metrics are not simply financial. As Moody's affirms, "GWU's rating reflects a strong student market position as an urban comprehensive university located in the nation's capital, with increased demand resulting in growing enrollment, enhanced selectivity, and growing net tuition per student." We believe the proper balance of market position, student demand, greater selectivity, improved yield, and growing tuition revenues is the result of a calculated formula that focuses first on our mission. When we put our energy into creating unique academic offerings that take advantage of our surroundings and our context, we deliver for our students an educational experience that is both distinctive and rewarding. And in their success, we find our own.

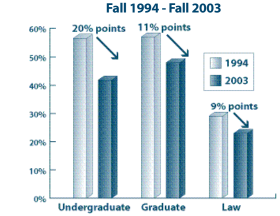
INVESTING IN OUR STRENGTHS: MANAGING RISKS AND OPTIMIZING INVESTMENTS

As important as it is to be mission-centric and customer-focused, it is also important to manage our financial assets wisely. The University's continued growth and financial stability require managing risks associated with reliance on flow of funds. Because our peer institutions' funding capacities are greater than ours, we seek to create value by building reserves, prudently using debt, and significantly increasing our fundraising efforts. And we continue making investments that allocate resources to our highest priorities: improving program quality, expanding academic and research facilities, and offering additional student housing. This balance of mission and money determines both our position and our momentum–in other words, the pace of our growth.

Increase in Applications
Fall 1994 - Fall 2003



Improved Selectivity
Fall 1994 - Fall 2003



Our Student-Centric Economic Model Creates Our Momentum

Our demand characteristics drive this institution–rising applications, improved selectivity, and improved yield. Consider the statistics: every 100 undergraduate students deliver the University an additional $3 million a year. And a $3 million cash flow is equivalent to a $60 million endowment. In short, by focusing first and foremost on our students, and remaining flexible, our financial model creates forward momentum.

IMPROVING MARKET POSITION DRIVES DEMAND

GW offers its students a unique experience, and this year, we focused on packaging that experience to attract the brightest young minds in America. GW is home to some of the leading academic programs in the country: the Elliott School of International Affairs ranks in the nation's top five international affairs programs, our graduate-level public policy and public affairs programs in the top 10, and our international business program in the top 20.

GW is also improving its marketability to minority and international students. In 2003, *Black Issues in Higher Education* ranked the University sixth among programs awarding doctoral degrees to African Americans. We attract students from around the world; while international student enrollment declined nationally last year (at some schools by as much as 10 percent) GW remained relatively stable. The number of new international students enrolled at GW this fall increased 18 percent over fall 2003. This year, international students comprise nearly 10 percent of the total student population.

As we continue to bolster these programs and initiatives, and as demand grows, we are also becoming more selective–since 1994, applications have increased by 90.5 percent, undergraduate selectivity has improved 20 percentage points, and our undergraduate yield has improved four percentage points. In the last decade, this increased interest in the University has allowed us to become more selective. With undergraduate applications for enrollment in fall 2004 exceeding 20,000, this year 2,609 students joined the GW student body. The University's total student enrollment for the Foggy Bottom Campus has remained nearly unchanged over the years; the mix and proportion of undergraduate to graduate students is what has changed, now in parity with our peer institutions around the country.

ENHANCING INTELLECTUAL CHALLENGE AND ENGAGEMENT IMPROVES RETENTION

Once students arrive on campus, we seek to keep them here. To retain these students it is crucial to keep them challenged and engaged. The University's growth and financial stability rely on ongoing investments to improve program quality and expand our academic and research capabilities. In short, our mission is about the institution's human and intellectual assets. It is about investing wisely in programs that attract the best students, faculty, and staff. It is about creating a more attractive and prestigious university.

This year, we added smaller classes and introductory seminars that engage students, encouraging them to forge lasting relationships with peers and professors. Our freshman writing sections are limited to 15 students, while our honors program courses and Dean's Seminar series are held to just 20. At the Mount Vernon Campus, we offer a women's leadership program that joins female leaders and connects them, from the beginning of their time at GW, in a very meaningful way.

While the same principles apply to our graduate programs, we also take into account that these students are spread around the region, from the Virginia Campus in Loudoun County to Arlington, Alexandria, and Hampton Roads,Va. Even more are sprinkled across the country as distance learning students. For our graduate students, excellent programs and faculty create an intellectually stimulating atmosphere–graduate student groups and resources also encourage students to stay involved and engaged on campus. In addition, the Virginia Campus is comprised entirely of graduate students, which creates a unique sense of community.

CREATING A SENSE OF PLACE CONNECTS GW TO OUR SURROUNDINGS

In a city as diverse as the nation's capital, it is also important to create for our students a distinctive sense of place. We like to say that GW not only brings students to Washington, we bring Washington to our students. We are tied to what surrounds us–the White House, the State Department, the Federal Reserve, the World Bank and IMF, and, of course, the federal government. Our setting shapes our academic offerings. The District and its key enterprises become our campus–international finance, public policy, democratic governance–and offer a city full of civics lessons, service opportunities, and public policy inspirations. We also bring the power of our students as an army of idealists who wish to serve their community, an intellectual force at a time when many cities are facing a brain drain, and an entry workforce poised to become our nation's leaders.

Recognizing that Washington, DC offers GW unique tools and resources–in other words, *matter* that increases our academic and geographic assets–we continue to invest in the community around us and in academic and economic programs that benefit the District and its residents.

GW: IN AND OF THE COMMUNITY

This year our students, faculty, and staff are involved in Foggy Bottom and across the District as interns, volunteers, employees, leaders, and advisors.

- GW is the city's largest nongovernmental employer.[1]
- GW's payroll totals $350 million–$93 million of which goes to employees who live in Washington.
- The economic impact of GW in DC is $500 million annually.
- GW is the largest single post-secondary contributor of aid to the DC Public Schools.
- During the 2003-2004 academic year, more than 2,300 GW students engaged in over 100,000 hours of service to benefit more than 50 DC area community agencies.

[1] *District of Columbia Department of Employment Services*

RESEARCH AND PARTNERSHIPS STRENGTHEN DEMAND

In the coming years, our strategic plan will strengthen GW's position among the top national research universities–this year, research program growth was up about 8 percent. Coupled with building our research capabilities, GW looks to create a distinctive niche for the medical center: to do the traditional things, and to do things that no one else is doing. In our Cancer Institute, we choose to focus on cancer disparities among different racial, cultural, and ethnic groups. As an urban medical center, situated in the heart of DC, we believe this fulfills a special mission. As with our other educational offerings, we tie our medical school offerings to our context, providing opportunities unique to our location in the heart of DC.

We have also created several distinctive research and cross-disciplinary programs to take advantage of partnerships with neighboring institutions and to fill necessary niches. Our Homeland Security initiatives, which partner GW with the U.S. departments of Homeland Security and Health and Human Services, will in the coming years offer a national certificate program in homeland security. Next fall, we will offer a course in pharmacogenomics in partnership with Shenandoah University. Through partnerships with The Institute for Genomic Research, the Children's National Medical Center–which serves as our pediatrics department–George Mason University, and Howard Hughes Medical Institute's new campus in Loudoun County, we leverage essential resources for the benefit of our students and our community.

TECHNOLOGY ENHANCES THE STUDENT EXPERIENCE

Wrapped into our mission is also technology–as a means to enhance students' educational experience in the classroom (or anywhere in the world), enhance quality of life in the dorms and around campus, and streamline service.

As a growing institution, it is important to ease the flow of communication with our students, faculty, staff, and surrounding community. Our strategic plan includes provisions to ensure GW is as interconnected as possible. This year we spent $1 million more than last on technological improvements that will help streamline service and communications. We continue to improve the GW portal: when fully launched, it will be the official means of communication across University departments and programs. In our medical programs, we have simulated operating rooms, intensive care, surgical, and patient rooms, with state-of-the-art technologies that allow us to offer directed scenarios and close instructor monitoring. We strive to balance use of the newest technologies with real, old-fashioned human interaction that enables students to see and understand patients as people.

ECONOMIC MOMENTUM FUELS THE MISSION

Our financial strategies must also create energy–revenue–to steer our institution into the future. And again, each of these strategies relies on finding the proper balance: the balance of managing enrollments against space for academic programs and student housing; the balance between short- and long-term capital needs; the balance of our urban institution's need to grow with sensitivities to the surrounding communities' needs to co-exist comfortably.

PRICING: TAKING THE MYSTERY OUT OF TUITION PRICES AND FINANCIAL AID

This year, GW launched an innovative fixed tuition program for incoming freshmen. The initiative offers cost certainty for families and, during a student's undergraduate enrollment, guarantees a minimum level of financial aid. At the same time, we also create financial certainty for our own planning, which allows us to add to our financial aid pool, thus benefiting our students. The fixed tuition model for new undergraduate students offers parents price predictability and students financial aid surety. We expect it to help with student retention, while providing the University additional funds to invest in programs and facilities. This win-win equation appears to be both popular and practical.

PLANNING: BALANCING ENROLLMENTS AND SPACE

Based on current projections, in the next four years, overall enrollment is likely to grow 5 to 6 percent; the number of beds for student housing will increase 14 percent. In the coming years, the University must be more creative about using existing classroom and housing space efficiently, looking to optimize class size, course scheduling, and use of facilities within the academic calendar and throughout the calendar year. In recent years, we have also leveraged our real estate investments to continue growing our housing inventory. Today, the Mount Vernon Campus in Washington, DC, the Virginia Campus in Loudoun County, as well as educational centers in Virginia, including Arlington, Alexandria, and Hampton Roads, help the institution maximize use of our limited space.

To most efficiently use space at our core Foggy Bottom Campus, this year we are investing $2.5 million in relocating several administrative offices to the Virginia Campus. When implemented next year, the move will allow more space on main campus for academic programs and student life. Support functions located at the Virginia Campus will enhance customer service, simultaneously reducing occupancy costs for these operations. Physically, the University expands annually at a rate of 6 percent. It is therefore important now and for the future to think strategically, taking full advantage of our assets.

Our old hospital site offers a unique opportunity to create a vibrant, mixed-use commercial development that can serve the community, provide smart growth development for the District, and help finance critical University activities. Its location is iconic for the University, the community, and the city. To ensure this development is handled with sensitivity to all three interests, we are undertaking a collaborative urban planning initiative, instructing prospective developers to provide for appropriate community consultations, and creating a new Office of District of Columbia and Foggy Bottom/West End Affairs to work closely with surrounding community members.

Investing in Our Strengths: Seven Signature Programs

To offer our students top-flight programs, we created *Sustaining Momentum, Maximizing Strength*, our strategic plan. Our goal is to "selectively invest in academic areas with the potential to become GW's 'signature programs' through their contributions to academic excellence, intellectual distinction, competitive advantage, and University prestige." These programs include:

- Human Evolution
- History
- Political Science
- Biomedical Engineering
- Transportation Safety and Security
- Public Policy and Public Administration
- Sigur Center for Asian Studies

Conclusion: $E=MC^2$

Throughout this report, we have focused on the balance expressed in Einstein's theory of relativity. Energy can be converted into matter, and matter into energy. They are one and the same thing. Our economic model, while not as perfect as Einstein's genius, shows that with strong student demand as the fulcrum, we seek the proper balance between our mission and our financial resources. And as we fine-tune one element, so the others fall in line. Strong expense management and fundraising programs enable us to invest strategically in new and unique programs that meet our nation's evolving social and economic needs. As we make these curricular investments, demand rises, selectivity improves, and enrollments grow.

In recent years, creative investment and prudent planning have improved the quality of our programs and facilities. Demand for a GW education is on the rise. Momentum is building to convert this critical mass into sustainable energy for the future. To maintain this momentum, we will continue to balance investment and improvement with innovative, sustainable programs that link throughout the University and propel it into the ranks of the nation's top institutions. We will also continue to manage risks associated with funding flows and continue investing in our unique programs and our outstanding faculty to provide a top-flight educational experience for our students. When they thrive, we do. On balance–this is what we are about.

Louis H. Katz
Executive Vice President & Treasurer

REPORT OF INDEPENDENT AUDITORS

To the President and Board of Trustees of The George Washington University:

In our opinion, the accompanying Consolidated Statements of Financial Position, and related Consolidated Statements of Unrestricted Activities, Consolidated Statements of Activities, and Consolidated Statements of Cash Flows present fairly, in all material respects, the financial position of The George Washington University (the University) and its subsidiaries as of June 30, 2004 and 2003, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Washington, DC
September 24, 2004

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

YEARS ENDED JUNE 30, 2004 AND 2003

(in thousands)	**2004**	**2003**
ASSETS		
Cash and cash equivalents	$13,319	$14,188
Deposits with trustees	22,943	32,910
Accounts receivable, net	26,783	32,871
Prepaids and other current assets	3,156	2,930
Pledges receivable, net	29,852	32,132
Investments	984,346	844,386
Loans and notes receivable, net	33,976	33,128
Physical properties, net:		
Land and buildings	719,460	658,134
Furniture and equipment	100,748	104,774
Other assets	15,667	12,160
Total assets	$1,950,250	$1,767,613
LIABILITIES		
Accounts payable and accrued expenses	$92,520	$93,740
Deferred revenue:		
Tuition and other deposits	18,119	15,432
Grants and contract payments	10,735	10,978
Insurance reserves	20,621	23,341
Bonds and notes payable	724,635	676,597
Funds advanced for student loans	27,874	26,291
Total liabilities	894,504	846,379
NET ASSETS		
Unrestricted net assets (deficit):		
Unrestricted operating	(35,231)	(40,308)
Unrestricted capital and investing	836,272	718,018
Total unrestricted	801,041	677,710
Temporarily restricted	72,642	67,349
Permanently restricted	182,063	176,175
Total net assets	1,055,746	921,234
Total liabilities and net assets	$1,950,250	$1,767,613

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Unrestricted Activities

YEARS ENDED JUNE 30, 2004 AND 2003

(in thousands)	2004 Operating	2004 Capital & Investing	2004 Total Unrestricted	2003 Operating	2003 Capital & Investing	2003 Total Unrestricted
REVENUES						
Student tuition & fees	$477,349		$477,349	$452,769		$452,769
Less: University funded scholarships	(121,059)		(121,059)	(112,508)		(112,508)
Net student tuition and fees	356,290		356,290	340,261		340,261
Grants and contracts						
Program funds	115,749		115,749	105,608		105,608
Indirect cost recoveries	17,571		17,571	16,857		16,857
Investment income	1,116	$78,811	79,927	1,127	$20,100	21,227
Investment real property rents & appreciation		70,204	70,204	6	50,331	50,337
Change in value of split interest agreements		21	21		6	6
Auxiliary enterprises	64,901		64,901	60,675		60,675
Contributions, net	13,372	1,801	15,173	7,960	856	8,816
Net assets released from restrictions	3,260	795	4,055	2,764	11,187	13,951
Other income	57,866	5,777	63,643	47,205	3,508	50,713
Total revenue	630,125	157,409	787,534	582,463	85,988	668,451
EXPENSES						
Salaries and wages	301,975	10	301,985	296,858	9	296,867
Fringe benefits	63,267		63,267	61,859		61,859
Purchased services	96,737	135	96,872	85,246	51	85,297
Supplies	12,098	4	12,102	12,355		12,355
Cost of sales	15		15	1,012		1,012
Equipment	9,919	2,480	12,399	8,443	2,812	11,255
Bad Debt	3,974		3,974	3,933		3,933
Occupancy	40,380	48,895	89,275	40,830	45,106	85,936
Investment real property expense		26,880	26,880		19,317	19,317
Scholarships and fellowships	11,905		11,905	10,876		10,876
Communications	6,202	7	6,209	6,686		6,686
Travel and training	12,250		12,250	12,085		12,085
Interest		14,367	14,367		11,436	11,436
Other	17,093	3,221	20,314	18,552	7,351	25,903
Total expense	575,815	95,999	671,814	558,735	86,082	644,817
OTHER (DECREASES) INCREASES IN NET ASSETS						
Debt services and mandatory purposes	(24,951)	24,951		(25,842)	25,842	
Endowment support	34,116	(30,620)	3,496	38,846	(40,566)	(1,720)
Capital expenditures	(15,193)	15,193		(12,992)	13,155	163
Support/investment	(40,961)	47,320	6,359	(24,052)	20,118	(3,934)
Total other changes in net assets	(46,989)	56,844	9,855	(24,040)	18,549	(5,491)
Change in net assets before effects of discontinued operations and cumulative effect of change in accounting principles	7,321	118,254	125,575	(312)	18,455	18,143
Loss from discontinued operations	(2,244)		(2,244)			
INCREASES (DECREASES) IN NET ASSETS	5,077	118,254	123,331	(312)	18,455	18,143
NET ASSETS AT BEGINNING OF THE YEAR	(40,308)	718,018	677,710	(39,996)	699,563	659,567
NET ASSETS AT THE END OF THE YEAR	($35,231)	$836,272	$801,041	($40,308)	$718,018	$677,710

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Activities

YEARS ENDED JUNE 30, 2004 AND 2003

(in thousands)	2004 Total Unrestricted	2004 Temporarily Restricted	2004 Permanently Restricted	2004 Total	2003 Total Unrestricted	2003 Temporarily Restricted	2003 Permanently Restricted	2003 Total
REVENUES								
Student tuition & fees	$477,349			$477,349	$452,769			$452,769
Less: University funded scholarships	(121,059)			(121,059)	(112,508)			(112,508)
Net student tuition and fees	356,290			356,290	340,261			340,261
Grants and contracts								
Program funds	115,749			115,749	105,608			105,608
Indirect cost recoveries	17,571			17,571	16,857			16,857
Investment income	79,927	$10,681	$4	90,612	21,227		$8	21,235
Investment real property rents & appreciation	70,204			70,204	50,337			50,337
Change in value of split interest agreements	21	444	2,134	2,599	6	($1,610)	85	(1,519)
Auxiliary enterprises	64,901			64,901	60,675			60,675
Contributions, net	15,173	4,315	7,513	27,001	8,816	10,722	10,475	30,013
Net assets released from restrictions	4,055	(3,936)	(119)		13,951	(13,822)	(129)	
Other income	63,643			63,643	50,713		59	50,772
Total revenue	787,534	11,504	9,532	808,570	668,451	(4,710)	10,498	674,239
EXPENSES								
Salaries and wages	301,985			301,985	296,867			296,867
Fringe benefits	63,267			63,267	61,859			61,859
Purchased services	96,872			96,872	85,297			85,297
Supplies	12,102			12,102	12,355			12,355
Cost of sales	15			15	1,012			1,012
Equipment	12,399			12,399	11,255			11,255
Bad Debt	3,974			3,974	3,933			3,933
Occupancy	89,275			89,275	85,936			85,936
Investment real property expense	26,880			26,880	19,317			19,317
Scholarships and fellowships	11,905			11,905	10,876			10,876
Communications	6,209			6,209	6,686			6,686
Travel and training	12,250			12,250	12,085			12,085
Interest	14,367			14,367	11,436			11,436
Other	20,314			20,314	25,903			25,903
Total expense	671,814			671,814	644,817			644,817
OTHER (DECREASES) INCREASES IN NET ASSETS								
Debt services and mandatory purposes								
Endowment support	3,496	(3,520)	24		(1,720)	1,049	671	
Capital expenditures					163	(163)		
Support/investment	6,359	(2,691)	(3,668)		(3,934)	(112)	4,046	
Total other changes in net assets	9,855	(6,211)	(3,644)		(5,491)	774	4,717	
Change in net assets before effects of discontinued operations and cumulative effect of change in accounting principles	125,575	5,293	5,888	136,756	18,143	(3,936)	15,215	29,422
Loss from discontinued operations	(2,244)			(2,244)				
INCREASES (DECREASES) IN NET ASSETS	123,331	5,293	5,888	134,512	18,143	(3,936)	15,215	29,422
NET ASSETS AT BEGINNING OF THE YEAR	677,710	67,349	176,175	921,234	659,567	71,285	160,960	891,812
NET ASSETS AT THE END OF THE YEAR	$801,041	$72,642	$182,063	$1,055,746	$677,710	$67,349	$176,175	$921,234

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

YEARS ENDED JUNE 30, 2004 AND 2003

(in thousands)	**2004**	**2003**
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	$134,512	$29,422
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	47,763	45,157
Decrease in accounts receivable	5,268	6,891
Decrease (increase) in inventory and prepaid expenses	(225)	356
Decrease in pledges receivable	2,280	251
Decrease in deposits with trustees	1,009	527
Increase in other assets	(3,798)	(199)
Decrease in accounts payable and accrued expenses	(894)	(2,673)
Increase in tuition and other deposits	2,687	3,690
(Decrease) increase in grants and contracts prepayments	(242)	2,259
Decrease in insurance reserve	(2,720)	(596)
Net unrealized gains on investments	(62,631)	(50,292)
Net realized (gains) losses on investments	(56,060)	24,086
Change in value of charitable trusts	2,599	(1,519)
Contributions restricted for long-term investment	(11,828)	(10,475)
Net cash provided by continuing activities	57,720	46,885
Net cash used by discontinued operations	(739)	(1,055)
Net cash provided by operating activities	56,981	45,830
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(733,593)	(407,764)
Proceeds from sales and maturity of investments	709,725	424,324
Purchases and renovations of land and buildings	(84,396)	(92,802)
Purchases of equipment	(18,692)	(27,526)
Increase in loans receivable	(832)	(1,028)
Net cash used by investing activities	(127,788)	(104,796)
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts from contributions restricted for long-term investment	11,828	10,475
Principal payments and refinancing on bonds and notes payable	(57,048)	(138,275)
Principal payments on line of credits	(110,000)	(122,201)
Proceeds from borrowings and refinancing of notes payable	127,000	200,000
Proceeds from borrowings on line of credits	89,000	84,000
Use of borrowings deposited with a trustee for future const. projects	8,344	29,714
Use of borrowings deposited with a trustee for future debt service	614	961
Payments of bond issuance costs	(1,383)	(4,008)
Increase in refundable advances from U.S. government	1,583	846
Net cash provided by financing activities	69,938	61,512
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(869)	2,546
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	14,188	11,642
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	$13,319	$14,188
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	$19,196	$21,900

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

YEARS ENDED JUNE 30, 2004 AND 2003

Note 1 - The University and Related Entities

The George Washington University (the University) is a private, not-for-profit institution of higher education based in Washington, DC. The University provides education and training services, primarily for students at the undergraduate, graduate, and postdoctoral levels, and performs research, training, and other services under grants, contracts, and similar agreements with sponsoring organizations, primarily departments and agencies of the U.S. government. The University's revenues are predominantly derived from student tuition, room, and other fees. The University is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

The consolidated financial statements include the accounts of The George Washington University and its wholly owned subsidiaries; GW Solutions, Inc. (GWS), The George Washington University Health Plan (GWUHP), and Mount Vernon College. Significant intercompany transactions and balances have been eliminated.

Note 2 - Summary of Significant Accounting Policies

CASH AND CASH EQUIVALENTS

Short-term investments with maturities at dates of purchase of three months or less are classified as cash equivalents, except that any such investments purchased with funds on deposit with bond trustees or with funds held in trust are classified as Deposits with Trustees and investments purchased by endowment fund investment managers are classified as Investments. Cash equivalents include short-term U.S. Treasury securities and other short-term, highly liquid investments that are carried at cost, which approximates fair value.

The total cash and cash equivalents maintained at these institutions exceeds the amount guaranteed by federal agencies and, therefore, bears some risk. The University has not experienced any loss due to this risk.

CONTRIBUTIONS

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Contributions received for capital projects, endowment funds, or student loans and contributions under split interest agreements or perpetual trusts are reported as capital and investing unrestricted revenues, temporarily restricted revenues, or permanently restricted revenues according to donor imposed restrictions. All other contributions are reported as operating revenues unless the donor has otherwise restricted them. Conditional promises to give are not recognized until the conditions on which they depend are substantially met.

Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Contributions to be received after one year from the date of the financial statements are discounted at the risk-free rate of return. Allowance is made for uncollectible contributions based upon management's judgement after analysis of the creditworthiness of the donors, past collection experience, and other relevant factors.

SELF-INSURANCE

The University has established an independently held, revocable trust for professional liability claims, which relate primarily to the discontinued operations of the Medical Faculty Associates (MFA) in 2000 and includes coverage for our Residents in our Graduate Medical Education training program. The fair value of the self-insurance trust assets totaled $20.1 million and $22.5 million at June 30, 2004 and 2003, respectively, and is included in the Deposits with Trustees. The related liability is included as Insurance Reserves and is based upon the estimated cost of asserted and unasserted malpractice claims. Due to the subjective nature of these claims, the amount of the ultimate settlement will vary from management's estimates, which is based on an independent actuarial review. The reserves for claims have been discounted at an average rate of 6% for both June 30, 2004 and 2003.

INVESTMENTS

Investments in equity and debt securities are stated at fair value based upon quoted market prices. Rental property is stated at estimated fair market value based on appraisals. The respective external investment managers estimate fair value for certain limited partnerships if market values are not readily ascertainable. The valuations necessarily involve assumptions and methods that are reviewed by the University.

Investments may include some cash and cash equivalents held by endowment investment managers for a specific purpose.

All investment income is included in capital and investing unrestricted revenues, temporarily restricted revenues, or permanently restricted revenues depending on donor restrictions. Where revenues are restricted the amount of investment income necessary to satisfy the Board of Trustees' spending policy for the Consolidated Endowment Fund, which is invested on a pooled basis is shown in the Other (Decreases) Increases in Net Assets section of the Consolidated Statements of Unrestricted Activities as a decrease in capital and investing unrestricted net assets and as an increase in operating unrestricted net assets. Any excess of income earned over the approved amount for pooled endowment funds is retained in capital and investing unrestricted net assets.

The University's beneficial interest in perpetual trusts reflects fair value, which approximates present value as of June 30, 2004 and 2003, respectively. Charitable remainder trusts are recorded at present value. The University also manages charitable gift annuities and pooled life income funds. Gift annuities consist of non-trust assets donated to the University in exchange for a fixed payment for a specified period of time. Annuities are recorded at their present value. Pooled life income funds are donated funds received by the University in which the donor receives or assigns a life income. The funds are pooled by the University and are assigned a specific number of units in the pool. The donor is paid the amount of income earned on the donor's assigned units. Pooled life income funds are recorded at their present value. The University calculates present value based on fair value of the assets at June 30, 2004 and 2003, respectively, and various actuarial assumptions. These assets are included in investments. In instances where the University is trustee, the associated liability (Note 9) is recorded in accounts payable and accrued expenses.

LOANS RECEIVABLE

Loans receivable are primarily related to federal student financial aid programs and are carried at face value, less an allowance for doubtful accounts of $0.58 million and $0.56 million at June 30, 2004 and 2003, respectively. The interest rates on these loans range from 3% to 9%. Maturity dates range up to 10 years, but with potential cancellations and deferrals to points beyond that range, calculation of an average term to maturity is not practicable.

CAPITALIZATION OF COMPUTER SOFTWARE COSTS

The University capitalizes software development costs when incurred. The establishment of capitalized software development costs is based on considerable judgement by management with respect to certain external factors, including but not limited to the estimated economic life and changes in software and hardware technologies. Software is amortized over its economic useful life, which ranges from five to 10 years.

PHYSICAL PROPERTIES

Land is stated at cost or appraised value at date of donation; buildings and furniture and equipment are stated at cost. Buildings are depreciated on a straight-line basis over 10 to 40 years and furniture and equipment is depreciated on a straight-line basis over five to 10 years. Interest cost incurred during construction is capitalized as part of the cost of capital projects. Equipment under capital leases is reported as assets and liabilities at the value of future minimum lease payments discounted by the University's incremental borrowing rate.

REFUNDABLE ADVANCES FROM THE U.S. GOVERNMENT

Funds provided by the U.S. government under the Federal Perkins and Health Professions Student Loan programs are loaned to qualified students and may be reloaned after collection. These funds are ultimately refundable to the U.S. government.

NET ASSET CLASSES

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the University are classified and reported as follows:

Permanently restricted - Net assets subject to donor-imposed restrictions stipulating that they be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the income earned on related investments for general or specific purposes.

Temporarily restricted - Net assets subject to donor-imposed stipulations that may be or will be met either by actions of the University and/or by the passage of time.

Unrestricted - Net assets that are not subject to donor-imposed stipulations.

Revenues from sources other than contributions or investment income are reported as increases in unrestricted net assets. Contributions are reported as increases in the appropriate category of net assets, except that contributions that impose restrictions that are met in the same fiscal year they are received are included in unrestricted revenues. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Expirations of temporary restrictions recognized on net assets, i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed, are reported as releases from temporarily restricted net assets to unrestricted net assets. Temporary restrictions on gifts to acquire or construct long-lived assets are considered met in the period in which the assets are acquired or placed in service.

The University follows a practice of classifying its revenues and expenses within unrestricted net assets as capital and investing or operating. Items classified as capital and investing include accounts and transactions related to endowment funds and plant facilities, except for donor-restricted contributions to endowment principal and plant. All other accounts and transactions are classified as operating. Substantially all of the net assets classified as unrestricted in the Consolidated Statements of Financial Position as of June 30, 2004 and 2003 have been invested in property and equipment or are designated for specific uses.

OTHER (DECREASES) INCREASES IN NET ASSETS

Other (decreases) increases in net assets consist of the following:

Debt service and mandatory purposes - Transfers from operating net assets to capital and investing net assets are for principal and interest payments.

Endowment support - Transfers of University investment income to provide support for operating activities based on the spending policy of the Consolidated Endowment Fund.

Capital expenditures - Transfers from operating net assets to capital and investing net assets are for equipment purchases.

Support/Investment - Other transfers among operating net assets, capital and investing net assets, and temporarily/permanently restricted net assets.

GUARANTEES AND INDEMNIFICATIONS

The University may enter into service agreements with service providers in which it agrees to indemnify the service provider against certain losses and liabilities arising from the service provider's performance under the agreement. Generally such indemnification obligations do not apply in situations in which the service provider is grossly negligent, engages in willful misconduct, or acts in bad faith. The indemnifications serve to place the University in a liability position no different than if it had performed the services for itself. The University was not aware of any liability under such service agreements for the years ended June 30, 2004 and 2003.

LEGALLY RESTRICTED CASH BALANCES

There are legally restricted cash balances totaling $1.0 million and $1.8 million as of June 30, 2004 and 2003, respectively. The University has restricted $0.1 million and $0.5 million, as of June 30, 2004 and 2003, respectively, for the District of Columbia to guarantee restoration of public space that may be damaged due to University construction projects. The remaining $0.9 million and $1.3 million as of June 30, 2004 and 2003, respectively, are deposits required for the Virginia, Maryland, and District of Columbia insurance commissions relating to the George Washington University Health Plan (GWUHP).

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 amount 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.

TUITION, FEES, AND SCHOLARSHIP ALLOWANCES

Tuition and fee revenue consists of all tuition and fee revenue earned, net of all student financial aid, University sponsored and donor sponsored. The University recognizes unrestricted revenues from student tuition and fees totally within the fiscal year in which the academic term is predominantly conducted. Deferred tuition and fees are included in deferred revenue–tuition and deposits in the statement of financial position.

Tuition discounts in the form of scholarships and grants-in-aid, including those funded by the endowment, research funds, and gifts, have been reported as a reduction of tuition revenues. A tuition discount represents the difference between the stated charge for tuition and fees and the amount that is billed to the student and/or third parties making payments on behalf of the student.

Cash payments to students, excluding compensation, are reported as Scholarships and Fellowships expense.

RECLASSIFICATIONS

Certain amounts in the 2003 financial statements have been reclassified to conform to the current year's presentation.

Note 3 - Deposits with Trustees

Deposits with trustees consist of the following balances as of June 30:

(in thousands)	2004	2003
Funds invested with a trustee for future construction projects	$788	$9,132
Debt service and Rental Property reserves invested	2,008	1,276
Self-insurance	20,147	22,502
Total	$22,943	$32,910

Funds invested with a trustee for future construction projects decreased in the year ended June 30, 2004 due to the use of $8.3 million of 1999 and 2001 series bond proceeds. The terms of several bond indentures require bond proceeds to be held by a trustee until they are to be used for their specified purposes (Note 10). The primary purposes of these funds are to acquire or construct property, plant, and equipment. In addition, the University designates funds to be held in reserve for general liability claims (Note 2).

Note 4 - Accounts Receivable

Accounts receivables, and the related allowances for uncollectible accounts, are summarized as follows at June 30:

(in thousands)	2004	2003
Grants and contracts	$16,217	$20,180
Student tuition and fee accounts	10,087	9,380
Due from affiliation agreements	1,899	3,121
Due from hospital partnership	3,666	1,894
Other	2,750	3,347
Allowance for doubtful accounts	(7,836)	(5,051)
Total	$26,783	$32,871

Note 5 - Pledges Receivable

Pledges receivable are summarized as follows at June 30:

(in thousands)	2004	2003
Unconditional promises expected to be collected in:		
Less than one year	$28,368	$21,035
One year to five years	3,785	10,398
More than five years	123	3,082
Sub Total	32,276	34,515
Allowance for uncollectible pledges	(855)	(855)
Unamortized discount	(1,569)	(1,528)
Total	$29,852	$32,132

At June 30, 2004 and 2003, the University had outstanding bequest intentions and certain conditional promises to give of approximately $38 million and $33 million, respectively. These intentions and conditional promises are not recognized as assets and, if received, will generally be restricted for specific purposes stipulated by the donors, primarily endowments for faculty support, scholarships, or general operating support of a particular department or division of the University.

Note 6 - Investments

Investments are summarized as follows at June 30:

(in thousands)	2004	2003
Mutual funds – money market funds	$11,158	$9,257
Debt securities	49,762	72,696
Common and preferred stocks	359,694	286,765
Limited partnerships and similar interests	192,656	137,261
Assets held for investment in hospital limited partnership:		
Limited partner's capital	13,458	13,993
Excess value over partner's capital	14,756	15,891
Beneficial interest in perpetual trusts	21,492	20,497
Charitable remainder trusts held by a third party	3,331	7,579
Real estate	306,600	270,205
Life income funds	11,439	10,242
Total	$984,346	$844,386

Investments are stated at fair market values. Theestimated fair value of investments is based on quoted market prices except for certain investments, principally limited partnerships and similar interests and real estate, for which quoted market prices are not available. The estimated fair value of limited partnerships and similar interests is based upon valuations provided by the partnerships. Real estate is stated at fair value based on appraisals.

The University had outstanding purchase commitments for investments in partnerships amounting to approximately $23.1 million and $16 million for the years ended June 30, 2004 and 2003, respectively.

Investments include equity and fixed income portfolios managed by a diverse group of investment managers. Managers may utilize hedging strategies or invest in financial instruments with off balance sheet risk. Management has estimated that the risk associated with derivatives is not material to the University as of June 30, 2004 and 2003.

Investment Income includes net realized and unrealized gains of $87 million and $8.7 million for the years ended June 30, 2004 and 2003, respectively. Investment Real Property Rents & Appreciation includes net realized and unrealized gains of $31.7 million and $17.2 million for the years ended June 30, 2004 and 2003, respectively.

The University is monitoring permanent endowment accounts in which historical cost was more than market value as of June 30, 2004. Historical cost and market value totals for these accounts were approximately $11.1 million and $10.3 million, respectively. Associated cumulative losses are recorded in the unrestricted net assets classification.

Note 7 – Hospital Limited Partnership

In July 1997, the University consummated an agreement to contribute the operations and certain related tangible and intangible assets of the Hospital in exchange for a 20% limited partnership interest in District Hospital Partners, L.P. (DHP). Since that date, DHP has operated the Hospital and provided support to the University's Medical Center in developing and maintaining the Medical Center's academic programs and research.

The University's investment in DHP is recorded on the equity basis of accounting. The University's share of DHP's losses was approximately $0.5 million and $0.75 million for the years ended June 30, 2004 and 2003, respectively.

On June 30, 1997 the University recognized excess value over partner's capital of approximately $22.7 million to be amortized over 20 years. Amortization of intangible costs was approximately $1.1 million for both the years ended June 30, 2004 and 2003. Accumulated amortization at June 30, 2004 and 2003 was approximately $7.9 million and $6.8 million, respectively.

The University and DHP have executed several agreements, which reimburse or compensate the University for providing services or personnel to assist in the continued operations of the Hospital. There are $23.1 million and $19.3 million reported as Other Income and $0 and $34,000 in services purchased from the Hospital reported under various captions for the years ended June 30, 2004 and 2003, respectively. The receivable from DHP for the unpaid balance of these services is $3.7 million and $1.9 million as of June 30, 2004 and 2003, respectively. There is no outstanding amount due to DHP as of June 30, 2004 and June 30, 2003 for services and goods provided under these agreements.

Note 8 - Physical Properties

Physical properties are summarized as follows at June 30:

(in thousands)	2004	2003
Land	$120,655	$113,536
Building	832,488	755,211
Building under capital leases	6,527	6,527
Accumulated depreciation	(240,210)	(217,140)
Total	$719,460	$658,134
Furniture and equipment	$193,269	$178,238
Equipment under capital leases	24,991	15,937
Accumulated depreciation	(117,512)	(89,401)
Total	$100,748	$104,774

The value of buildings includes the addition of capitalized interest of approximately $0.7 million and $6.6 million in the years ended June 30, 2004 and 2003, respectively.

Building depreciation expenses were $23.1 million and $21.1 million in the years ended June 30, 2004 and 2003, respectively. Furniture and equipment depreciation expense was $23 million and $22.4 million in the years ended June 30, 2004 and 2003, respectively. Equipment under capital leases had depreciation expense of $5 million and $5.2 million at June 30, 2004 and 2003, respectively.

The George Washington University receives financial assistance awards from external sponsors to perform educational, research and development, training, and other activities. The assistance from external sponsors can be in the form of grants, contracts, and other agreements that may fund salaries and wages, fringe benefits, supplies, facilities, and the acquisition of property. Property acquired that meets the capitalization criteria is recorded as an asset of the University and depreciated in accordance with the University's depreciation policy. For property acquired on federally funded awards, the University adheres to the requirements set forth in Subpart C, Section 34 (g) of OMB Circular A-110 concerning the disposition of property at the conclusion of the award. Per the requirements, once the property is no longer needed the University requests disposition instructions from the federal awarding agency.

Note 9 - Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following at June 30:

(in thousands)	2004	2003
Trade payables	$25,968	$22,431
Accrued payroll and related liabilities	41,291	36,112
Accrued other expenses	10,703	12,240
Accrued building related expenses	420	945
Other payables	8,189	15,969
Annuity funds	4,718	4,362
Pooled life income funds	403	443
Charitable remainder trusts, GWU Trustee	828	1,238
Total accounts payable and accrued expenses	$92,520	$93,740

Note 10 - Bonds and Notes Payable

Bonds, trust notes, and unsecured notes payable consist of the following at June 30:

(in thousands)	2004	2003
Bonds; 1.0569% - 6.248%; maturing through 2032	$554,505	$561,995
Non-recourse notes payable; 5.653% - 5.703%; maturing 2014; secured by real property	127,000	29,379
Unsecured notes payable; 1.549%-3.00%; maturing at various dates through 2021	43,130	85,223
Total Bonds and Notes Payable	$724,635	$676,597

In, May 2004, The George Washington University issued $127 million in non-recourse notes payable, secured by real property. Approximately $52 million of the proceeds were used to repay outstanding notes payable and the related repayment penalty of $4 million. The majority of the remaining proceeds were invested in the University's endowment fund.

Trust indentures for certain bond issues require the University to deposit and maintain specified amounts in trustee-controlled accounts as repair, maintenance, and debt service reserves. In satisfaction of these requirements, $0.7 million and $1.3 million were included in Deposits with Trustees at June 30, 2004 and 2003, respectively.

Interest expense was $18.7 million and $15.3 million for the years ended June 30, 2004 and 2003, respectively. These amounts include interest expense that relates to rental properties of $4.3 million and $3.9 million for the years ended June 30, 2004 and June 30, 2003, respectively. These amounts are reflected within the Investment Real Property Expense category. In addition, interest expense includes $1 million and $1.1 million on capital leases for the years ended June 30, 2004 and 2003, respectively.

As of June 30, 2004, principal payments are due on bonds and notes payable in accordance with the following schedule.

Fiscal Year Ending June 30	*(in thousands)*
2005	$9,658
2006	10,779
2007	11,431
2008	12,099
2009	12,814
Thereafter	667,854
	$724,635

The University has established a Flexible Term Note Program (FTNP) for the financing of its capital needs. The FTNP currently allows for borrowings up to $200 million and as of June 30, 2004, $42.9 million was outstanding under the program. The notes are general unsecured obligations of the University. The FTNP, which expires in 2015, does not stipulate a schedule for the repayment of amounts borrowed. All principal payments for the program are reflected as being made after 2010 in the schedule shown above.

In conjunction with the University's FTNP, a group of banks entered into a credit agreement totaling $200 million, which expires on April 30, 2007. The credit agreement may be utilized to pay the purchase price on mandatory tender dates and principal and interest due on any mandatory redemption or acceleration dates. In addition to the principal portion of the outstanding notes, the credit agreement is in an amount sufficient to pay up to 185 days of interest. In the event that the credit is tapped, the notes will be issued at LIBOR rate plus 100 Basis Points.

Note 11 - Fair Value of Financial Instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of SFAS No. 107, "Disclosures about Fair Value of Financial Instruments." The following estimates and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

For cash and cash equivalents, restricted cash, and deposits with trustees, the carrying value of these amounts approximates fair value due to the short maturity of these instruments. The fair value of pledges receivables is estimated by discounting the future cash flows using the risk free rate at the time of the pledge, taking into account the remaining maturities. The fair value of investments is based on quoted prices except for certain investments, principally limited partnerships and similar interests and real estate, for which quoted market prices are not available. The estimated fair value of limited partnerships and similar interests is based upon valuations provided by the partnerships. For real estate properties, fair values are based on current appraised value. Fair values for debt were determined by discounting the future stream of payments using interest rates currently available to the University.

The estimated fair value of financial instruments at June 30, 2004 and June 30, 2003, is summarized as follows:

	June 30, 2004	
	Carrying Amount	Estimated Fair Value
Cash and cash equivalents	$13,319	$13,319
Deposits with trustees	22,943	22,943
Pledges receivable, net	29,852	29,852
Investments	984,346	984,346
Bonds and notes payable	724,635	741,477

	June 30, 2003	
	Carrying Amount	Estimated Fair Value
Cash and cash equivalents	$14,188	$14,188
Deposits with trustees	32,910	32,910
Pledges receivable, net	32,132	32,132
Investments	844,386	844,263
Bonds and notes payable	676,597	704,498

The determination of the fair value of loans receivable is not practicable because of provisions regarding cancellation and deferral rights and assignment opportunities to the federal government.

Note 12 - Net Assets

Temporarily and permanently restricted net assets consist of the following at June 30:

(in thousands)	2004		2003	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Building funds	$6,408		$1,403	
Endowment funds	35,973	$144,813	33,624	$134,102
Split interest agreements	2,855	27,208	2,286	31,769
Loan funds	1	4,190	1	4,329
Time restriction	27,405	5,852	30,035	5,975
	$72,642	$182,063	$67,349	$176,175

Net assets released from restrictions for University activities were for the following purposes:

(in thousands)	2004	2003
Endowment funds	$52	$276
Building funds	206	10,308
Time restriction	3,797	3,367
	$4,055	$13,951

Note 13 – Program and Supporting Activities Expense

The statements of activities include the following program and supporting activity expenses:

(in thousands)	2004	2003
Instruction and Academic Support	$319,892	$308,983
Research	105,535	96,503
Student Services	60,990	60,890
Student Aid	12,790	11,437
Institutional Support	52,106	56,940
Auxiliary Enterprises	61,230	59,579
Technology	32,391	31,168
Independent Operations	26,880	19,317
Total	$671,814	$644,817

Technology includes expenses associated with the academic and administrative computing activities of the University including the operation and maintenance of administrative systems, computing labs and related support for students and faculty, the operation and maintenance of the campus network, and telecommunications systems.

Costs related to the maintenance and operation of physical plant of $98 million and $96 million in 2004 and 2003, respectively (including depreciation of plant assets and interest on plant debt), are allocated among program and supporting activities based upon periodic inventories of facility square foot usage and interest on plant debt is based on percentage of actual interest expense attributable to properties.

Note 14 - Retirement Plans

Full-time and regular part-time faculty and staff are eligible for participation in the University's retirement annuity program. The program is administered by independent fiduciaries to which all funds are transferred for investment purposes and annuity payments. Any present or future employee who reaches age 21 and completes two years of service becomes eligible to participate in the plan.

The plan consists of both a noncontributory and a matching component. All eligible employees electing to participate in the plan receive a contribution equal to 4% of their base salary. In addition, for those employees electing to participate in the matching portion of the plan, the University contributes an additional amount equal to 1 and 1/2% for each 1% of salary contributed by the employee up to a total of 6%. Individual contracts issued under the plan provide for full and immediate vesting of both the University's and the employee's contributions. In addition, certain retirees whose employment predated establishment of the retirement annuity program receive supplemental past service benefits, which are funded on a current basis. University contributions including direct payments to retirees amounted to $18.1 million and $16.8 million in fiscal year 2004 and fiscal year 2003, respectively.

Note 15 - Commitments and Contingencies

The University is a defendant in certain pending civil suits. In the opinion of management, the University has a good defense to the claims not covered by insurance. However, due to the subjective nature of these estimates, the ultimate outcome cannot be determined.

Amounts received and expended by the University under various federal and state programs are subject to audit by government agencies. Management believes that adjustments, if any, which might result from such audits would not have a significant impact upon the financial position of the University.

The University leases certain office, academic, residential, and administrative facilities under noncancelable operating leases expiring at various dates through 2016. The aggregate minimum lease payments under these operating leases are as follows:

Fiscal Year Ending June 30	*(in thousands)*
2005	$14,226
2006	12,948
2007	10,587
2008	8,305
2009	7,631
Thereafter	31,925
Total	$85,622

The University has entered into capital leases on equipment for academic and administrative purposes. Minimum lease payments under capital leases and the present value of the net minimum lease payments are as follows:

Fiscal Year Ending June 30	*(in thousands)*
2005	$6,132
2006	5,363
2007	3,669
2008	943
Minimum lease payments	16,107
Less amount representing interest	(1,445)
Capital leases payable	$14,662

Capital leases payable are recorded as trade payables in accounts payable and accrued expenses (Note 9).

Note 16 – Discontinued Operations

GW SOLUTIONS, INC.

In December 2003, the University adopted a plan to discontinue operating its wholly owned subsidiary, GW Solutions, Inc (GWS). As of May 2004, GWS was no longer offering certificate programs. All significant inter-organizational transactions between GWS and the University have been eliminated in consolidation. Approximately $1.9 million and $2.9 million in GWS transactions were eliminated from University expenses and $1 million and $1.1 million were eliminated from University revenues for the years ended June 30, 2004 and 2003, respectively.

At June 30, 2004, the loss on discontinued operations reflected in the accompanying consolidated statements of activities was $2.2 million. Of this, approximately $0.3 million related to costs associated with terminating contract obligations.

Note 17 – Related Parties

MEDICAL FACULTY ASSOCIATES, INC.

Effective July 1, 2000, the University entered into an Academic Affiliation Agreement with the MFA. Under the agreement the MFA provides clinical teaching, research, and administrative services to the University. In addition, the MFA leases certain office space, uses operational services, and provides for academic support.

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Jack H. Friedenthal
Linda L. Gallo
Charles A. Garris, Jr.
William B. Griffith
Murli M. Gupta
Hermann J. Helgert
Peter F. Klarén
Cynthia Lee
Sylvia A. Marotta
Ralph O. Mueller
Randall K. Packer
Donald C. Paup
Richard M. Robin
Lilien F. Robinson
David L. Shambaugh
Yin-Lin Shen
Gary L. Simon
Paul M. Swiercz
Isabel R. Vergara
Harry Watson
Arthur E. Wilmarth, Jr.
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Provost and Vice President for Health Affairs

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Executive Dean and Distinguished Professor of Global Health

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Dean, School of Public Health and Health Services

James Scott, M.D.
Dean, School of Medicine and Health Sciences

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Pamela Clapp Larmee
Associate Vice President for Advancement, Medical Center

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Executive Director for Advancement, Communications and Events

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Linda Donnels
Associate Vice President for Student and Academic Support Services and Dean of Students

Johnnie T. Osborne
Associate Vice President and Chief Financial Officer for Student and Academic Support Services

Frederic A. Siegel
Associate Vice President and Dean of Freshmen

Helen Cannaday Saulny
Assistant Vice President for Student and Academic Support Services

Deborah Snelgrove
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Rodney Johnson
Director, Parent Services

John (Jack) E. Kvancz
Director, Athletics

Kathryn M. Napper
Director, Admissions

Daniel Small
Director, Student Financial Assistance

Dolores Stafford
Director, University Police Department

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Vice President for Communications

Gretchen King
Special Assistant for Media and Public Affairs

Chris Kormis
Executive Director, University Relations

Jim Hess
Executive Director, University Special Events

Rosanna Ruscetti
Director, Lisner Auditorium

Kelly Livezey
Director, Graphics and Printing

(Vacant)
Director, Advertising

Tracy Schario
Director, Media Relations

Summary of Financial Results and Enrollment

FINANCIAL RESULTS

(in thousands)	Years End 2004	2003
Assets	$1,950,250	$1,767,613
Net Assets	$1,055,746	$921,234
Increase (decrease) in net assets	$134,512	$29,422
Market value of investments	$984,346	$844,386
Bonds and notes payable	$724,635	$676,597
Revenues	$808,570	$674,239
Expenses	$671,814	$644,817
Capital expenditures	$103,088	$120,328

ENROLLMENT

	Academic Years End 2004	2003	2002	2001	2000
STUDENTS–FTE					
Undergraduate	9,576	9,357	9,148	7,939	7,781
Graduate	6,449	6,275	5,884	5,495	5,558
Law	1,711	1,618	1,630	1,637	1,573
Medical	659	650	630	621	625
Non-degree	463	570	650	727	640
Total fall enrollment	18,858	18,470	17,942	16,419	16,177
UNDERGRADUATE ADMISSIONS					
Applications	18,442	16,910	15,960	14,767	14,326
Selectivity ratio	39%	40%	49%	49%	49%
Matriculation ratio	32%	34%	33%	29%	30%
DEGREES CONFERRED					
Baccalaureate	1,993	2,007	1,731	1,590	1,504
Master's	3,196	2,768	2,877	2,734	2,729
First professional	623	587	632	602	582
Doctoral	252	228	223	192	236
GRADUATE ADMISSIONS					
Applications	11,717	10,799	9,875	9,669	9,921
Selectivity ratio	47%	49%	50%	52%	52%
Matriculation ratio	49%	50%	51%	49%	42%
LAW					
Applications	12,433	11,537	9,272	8,355	7,801
Selectivity ratio	20%	21%	26%	29%	31%
Matriculation ratio	30%	27%	27%	27%	27%
GRADUATE-MEDICAL CENTER					
Applications	1,490	1,585	1,262	1,312	1,205
Selectivity ratio	61%	59%	67%	62%	56%
Matriculation ratio	46%	50%	42%	38%	51%
MEDICINE (M.D.)					
Applications	9,226	8,126	8,727	9,562	9,672
Selectivity ratio	4%	5%	5%	5%	4%
Matriculation ratio	43%	40%	37%	34%	38%

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