



growth



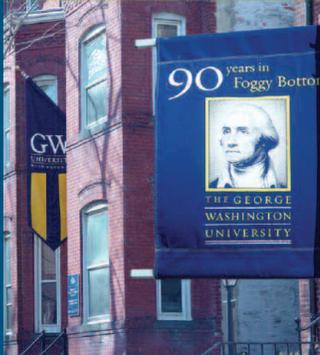
2004-2005 Financial Report



Academic Mission

Excellence

partnerships



Place



THE GEORGE
WASHINGTON
UNIVERSITY
WASHINGTON DC

WHAT IS THE TOTAL GW EXPERIENCE?

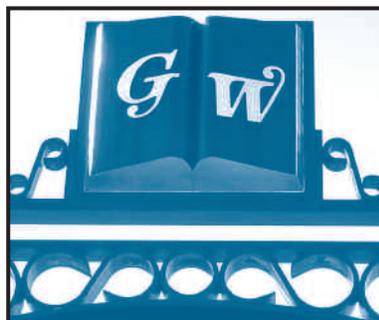
Rooted in the Latin word for “the whole,” a university is an organic learning environment composed of undergraduate schools or colleges, graduate studies, and professional schools; the grounds, buildings, and technology that support it; and the students, faculty, and staff who give it life. And great universities help their students take full advantage of the living and learning opportunities that surround them. At The George Washington University, the synergy among the unique and diverse intellectual, cultural, political, technological, social, recreational, civic, and business resources that converge in Washington, D.C., surround our students with a remarkable opportunity for education, growth, and learning. This integration of classroom, campus, and city is what sets our University apart, and binds us to the community around us.

What goes into creating a better educational institution, and what drives world-class institutions’ continuing quest for excellence? Why is it important to continually grow, change, renew, and reinvent in this competitive and fast-changing arena? What do our students and their parents look for when they seek a 21st-century institution of higher education? How has the business of education changed in the last generation, the last decade, the last few years? What investments are required to sustain and propel excellence? These are among the questions asked and answered in this 2004-2005 Financial Report.

The report also looks at what GW seeks to achieve with the resources available to us, the institutions that surround us, and the ever-changing cohorts of students who call GW home. This is about the legacy real estate we occupy—not just the 44 acres that comprise our Foggy Bottom campus, but the treasured historic neighborhood and vibrant city center where our students, faculty, researchers, and professionals engage in community service, shape public policy, rub shoulders both with our nation’s leaders and with those in need, and, in all of these pursuits, make connections that last a lifetime.



Louis H. Katz
Executive Vice President & Treasurer



WHY BUILD A BETTER INSTITUTION?

As a mission-driven institution, GW is dedicated to preparing our students to become successful in further studies and/or careers; to mature to be self-sufficient, contributing citizens; and, like the role models and mentors they encounter, to see themselves as thought leaders and world-changers. Every business decision is rooted in this goal.

To achieve our objectives, we look to our broader context: to the growth of the region around us and the resources available to our students, faculty, and staff. Twenty-five years ago, Washington, D.C., was a different town and GW a different university. Today, to take advantage of our context, as well as the changing nature of higher education, we must grow with the District into a truly international institution. We must offer D.C. human capital and intellectual renewal as well as economic strength and urban revitalization.

And so, as we identify the ingredients that distinguish GW from the thousands of other public and private institutions of higher education, we focus on this city, where public policy, best practices, and community service intersect. By leveraging all facets of our location, GW builds:

- *Unique academic offerings* that combine disciplines, stay abreast of advances in human knowledge, and prepare our students for promising careers;
- *Research* that advances scientific, medical, public health, transportation, and other arenas; and
- *Technology* that supports learning, eases administration, builds community, and enhances quality of life.

Meet The Incoming 2005 Freshman Class

Our 2,400 incoming freshmen come from 1,500 different high schools across 49 states, the District of Columbia, and 43 foreign countries. Among these freshmen:

- 65 percent were in the top 10 percent of their high school graduating class; one in four were in the top five percent.
- The average SAT score was 1290.
- 104 were high school class presidents.
- 240 were editors of their high school newspaper, literary magazine, or yearbook.
- 335 participated in drama, theater, or vocal performances in high school.
- 237 participated in band and orchestra.
- 812 participated as a varsity athlete in high school.
- 20 percent have lived outside the United States.
- 37 percent speak a second language fluently.
- One is a three-time state track cycling champion.
- One is a certified stilt walker.

WHAT DRIVES OUR QUEST FOR EXCELLENCE?

Demographics and Student Characteristics. The incoming class of 2005 is unlike any class before it—and distinguished from each class that will follow it. Each new group acquires information and assimilates knowledge in a new way. Each class has its own tastes and preferences fueled by individual ethnic and cultural backgrounds, global/regional perspectives, and decision-making processes. This drives GW to shift how we communicate with current and prospective students, including when we need to reach them and how we create and package new academic offerings.

Economics and the Marketplace. Families who send their children to GW expect high returns on their significant investment in their child's education. Many have achieved living standards that reflect freedom of choice in everything including life's conveniences and amenities, food and nutrition, health and well-being, and a balance of intellectual, cultural, recreational, social, and service pursuits. GW's position within the competitive marketplace ultimately determines who we attract. And who we attract, in turn, helps us shape our offerings to meet their 21st-century living and learning needs.

Tuitions and Investments. What we can achieve and how we grow is a function of the revenue we derive from our tuition and from yields on other strategic investments. Our acceptance rate (down to 38 percent) is a function of academic excellence, reputation, and prestige. Changes in our competitive standing bring about corresponding changes in yield. Our repositioning as we move up in rankings puts us into a different higher-education tier, attracting more and more qualified students. We are always looking to cultivate new markets through the quality of our academic offerings in our classrooms, campus, and city. Additionally, the revenue that accrues from other sources of income, including real estate, fundraising, yield on investments, and research, helps balance the need for tuition increases.

The Marriage of Programs and Place. We are *who* we are by virtue, substantially, of *where* we are. Our growth strategy centers on the University's Foggy Bottom campus, just a block from the World Bank, two blocks from the White House, three blocks from the Kennedy Center and the planned headquarters of the United States Institute of Peace, and adjacent to the K Street business hub, federal agencies, and District governance.

Historic architecture, some of the world's leading museums and art galleries, performing arts venues, great varieties of ethnic cuisines, social events, and internship, networking, and volunteer opportunities with national and international organizations all build the quality of our students' education and, in turn, our institution. We integrate these distinctions into our students' daily life, helping to spur their own quest for excellence and experiential learning. *There is no more distinctive classroom experience.*



HOW DO WE BUILD A WORLD-CLASS INSTITUTION OF HIGHER EDUCATION?

UNIQUE ACADEMIC OFFERINGS

An international convergence of great thinkers, the District offers renowned experts in countless fields, from politics to public health to homeland security. As the world shifts to address growing needs, so do GW academics. We take advantage of our place in the nation's capital, leveraging experts in the classroom and across the city to offer our students invaluable opportunities for learning, studying, mentoring, research, internships, and fellowships.

Combining Disciplines. At an institution like GW, students look to combine academic excellence with what is cost effective. To accommodate this important demand characteristic, the University offers accelerated programs that blend bachelor's and master's programs and also save students and their families a year's worth of tuition. Successful programs like the new six-year bachelor of arts and law degree; the seven-year BA/MD program; and our biomedical engineering programs help us differentiate our product, recruit bright, motivated students, and meet their changing needs.

Additionally, inter-college partnerships create unique academic experiences for our students, allowing them to put theory into practice via multidisciplinary collaborations and information sharing. Currently, our highest academic facilities priority is a shared science center for the Columbian College of Arts and Sciences, the School of Engineering and Applied Science, the School of Medicine and Health Sciences, and the School of Public Health and Health Services. When complete, the science center will gather some of the University's most advanced programs in one place, where students, faculty, and staff can work together with shared resources at their fingertips.

“WHEREAS, investment in science facilities and science programming is an investment in the future of students, of the Institution, and of society, because it creates the opportunity [to affect] the University community in a positive manner with respect to morale, inspiration, involvement, collegiality, cooperation, and social interaction ...”

*– GW Faculty Senate Resolution
to construct new science facilities*

Preparing for Careers and Challenges of Tomorrow.

From its home in the front yard of national and international politics and policy, GW is creating academic programs that address the evolving world. As well as applying our expertise to benefit the District, these programs give our students the tools and skills that keep them competitive in the workplace long after they leave GW.

GW's Homeland Security Policy Institute teams with academic departments and individual professors to create cutting-edge undergraduate and graduate courses, certificates, and degrees. Today, our rapidly growing programs include emergency management, forensic science, and policy analysis. In the classroom, industry experts deliver lectures that offer the latest thinking on global needs. Additionally, GW partners with public and private sector organizations to offer students internships with the Department of Homeland Security, the Federal Aviation Administration, and other federal agencies and private sector firms.



Putting Theory into Practice. GW's School of Public Health and Health Services combines academics with smart partnerships to offer students outstanding opportunities. Because of the great need for public health assistance in a metropolitan area as large as Washington, remarkable opportunities exist for students in each of the school's six fields of study. As a result, these programs are growing in both capacity and prestige. For example, School of Public Health and Health Services students, professors, and researchers work with the District to improve Medicaid, complete health assessments in some of D.C.'s most challenged communities, and work regularly with most regional public health departments.

In the vicinity of our Foggy Bottom campus, there are more than 500 public health organizations. To create a sense of place, a home for partnerships, and a palate for learning, we need to build the School of Public Health and Health Services its own facility—a home base in the epicenter of world health. In the coming years, we also will continue advancing our academic excellence, offering new programs, enhancing partnerships, and preparing for a 2007–2008 bid for accreditation from the Council on Education of Public Health (CEPH).

FIRST-CLASS TECHNOLOGY CAPABILITIES

Building a better institution relies on creating a more connected university, increasing efficiency and convenience, and the everyday extras that are the hallmarks of the GW experience. We see excellence as a function of the intelligent organization of our people, our processes, and our resources. And as we consider University-wide efficiency and effectiveness, we place technology at the epicenter. Our expenditures underscore our commitment: this year, we spent more than \$35 million on all aspects of

University technology—from classroom to dorm room to campus-wide administrative functions.

Technology at GW - Awards and Accolades

GW's technological excellence and forward thinking puts us ahead of our competition. Recent awards and recognition include:

- *2005 CIO Magazine Bold 100 Award* to recognize organizations that embrace great risk to move forward. Other winners included Marriott International, Staples, UPS, and Toyota.
- *The Chronicle of Higher Education*, which in 2005 interviewed and featured Vice President and Chief Information Officer Dave Swartz on its cover for "Rounding Up Rogue Servers," an article about universities' efforts to tighten network security.
- *2004 Computerworld "Best Practices in Enterprise Management" Honorable Mention* for our enterprise management technology. This national award recognizes enterprises that have "raised the bar" in their respective industries.
- *2004 United States Secret Service Award*, given to the GW Information Security Team in special recognition of its contributions to the field of law enforcement and to the US Secret Service Electronic Crimes Task Force.
- *2003 EDUCAUSE Award for Excellence in Administrative Information Systems* for our Online Housing Selection Program.
- *2003 Association for Communications Technology Professionals in Higher Education (ACUTA) Award for Institutional Excellence in Communications Technology* acknowledging our enterprise portal solution, myGW.

Advancing our Academics. To stay competitive, we are employing technology in new and relevant ways across all academic departments and programs. This year, we equipped more than 70 classrooms with new technologies, including upgraded Web connections and state-of-the-art presentation and instruction tools.

Students and professors alike have access to the Blackboard™ learning environment, which offers online tools to augment what happens in the classroom. Through Blackboard, instructors and professors also can access the Washington Area Libraries Consortium, which offers a pool of information from universities across the nation—books, white papers, art, videos, and more—to include in course curricula.

Our academic facilities also are seeing a significant technology upgrade. These improvements deliver student and faculty resources that are far more advanced than even five years ago. Today, marketing and commodities students practice in a simulated stock trading room, while high-tech, ergonomic classrooms allow other business students to simulate board meetings and put business principles into practice. Medical students work in computer-based labs where digitized slides have totally eliminated microscopes, and robotic surgery eliminates human hand tremors. In state-of-the-art gross anatomy labs, students participate in a simulated patient program that offers them the virtual resources of a world-class medical facility.

Easing Administration. As GW becomes more customer-centric, we look to improve customer service in all areas. Across the University, we are transitioning service delivery to a tiered model that helps streamline technology service and troubleshooting so the most difficult problems are dealt with promptly and effectively.

For students, faculty, and staff, we are constantly improving the ease and efficiency of administrative tasks. Today, students and parents can register online for classes and housing. They also can pay tuition bills and access transcripts. Faculty and staff can manage courses on the Web, recruit new University employees, and easily share information across departments, programs, and campuses.

Building Community. GW students are networked with one another from the very moment they decide to come here. They get to know their residence hall roommates, correspond with classmates, and receive mentoring from faculty—all online. As our technology assets grow, GW shares resources with our Foggy Bottom neighbors. Today, we offer online and classroom technology training forums and make GW technology consultants available for residents. On Earth Day 2004, we offered residents an easy place to dispose of old computers, collecting thousands of machines both on and off campus.

Technology At-a-Glance

- More than 5,000—number of voice and data service requests handled in 2004.
- 40,000—number of GW e-mail users.
- 725,000—e-mails processed each day.
- 55,000—viruses caught daily.
- 500,000—Spam messages filtered out each day.
- 95 percent—2004 satisfaction rate based on University customer satisfaction surveys.

Enhancing Quality of Life. Outside academic and administrative resources, technology improvements help enhance student life by making things simple and accessible. From a campus-based, lightning-fast wireless Internet connection to diversity, quality, and value in dining options, GW offers services that help students individualize and then strengthen their GW experience.

In 2003, we created the Colonial Cash Program, a declining balance, flexible spending account that eliminates the previously mandatory meal plan and dining points system. Colonial Cash gives students the freedom to purchase food and retail items and services both on and off campus through their GWorld Card. But Colonial Cash is just one component of the card. Today, students can swipe it to access everything from food and laundry services to residence halls and other campus resources.

EXPERIENTIAL LEARNING

Increasingly, the university experience is about so much more than an academic degree: At GW, it is about what happens on campus, in the surrounding Foggy Bottom neighborhood, across the city, and around the world. In each of these areas, staying in tune with student life is a catalyst for forward thinking for creating innovative partnerships, diverse education opportunities, and mutually beneficial relationships with local and regional institutions.

In our City. The District's cultural, social, and economic flavors offer a superior experience for our students—the entire city is their classroom. In and outside of University gates, the District's human capital allows GW to leverage singular opportunities—today and into the future.

In D.C., GW faculty and staff work on and off campus in many capacities: advising the World Health Organization, working with leaders on Capitol Hill, mentoring students in the classroom, and helping them put theory into practice via dynamic internships. Outside the classroom, more than 1,500 students volunteer at District nonprofit organizations like Miriam's Kitchen and Habitat for Humanity; faculty and staff from the School of Public Health and Health Services work regularly with District agencies; and University departments open their information resources to our Foggy Bottom neighbors.

Across our Nation. Increasingly, the GW community extends beyond the mid-Atlantic region. In August 2005, Hurricane Katrina roared through the Gulf of Mexico, devastating the city of New Orleans and much of the Gulf Coast. Immediately, GW mobilized on all levels, offering disaster relief, public health assistance, and a home for displaced students.

Just a few of our many outreach efforts included immediately welcoming 90 displaced undergraduate, graduate, and professional students to study at GW as non-matriculating, visiting scholars. At the same time, we sent two integrated medical teams to assist hurricane victims in New Orleans and Baton Rouge. And together, GW students, faculty, and staff contributed more than \$21,000 to Red Cross Katrina relief efforts.

Around the World. GW students, faculty, and staff partner with organizations in more than 50 countries. They bring services to those on the ground and work with policy leaders at the treetops level. As a result, they return to the District with a greater understanding of, and appreciation for, the elements that create the world in which we live.

CUTTING-EDGE RESEARCH TO ADVANCE HUMAN KNOWLEDGE

With more than \$100 million in research activity in FY 2005, GW offers faculty, research staff, and students exciting and varied opportunities to create, synthesize, apply, and share new knowledge through research:

- **Our Homeland Security Policy Institute (HSPI)** is continually growing to meet the needs of a secure nation. In 2005, GW received a \$4.6 million grant to work with and train emergency medical technicians and first responders. Additionally, GW is the only institution that is training nurses to deal with the human casualties of a weapon of mass destruction. Working jointly with more than a dozen GW research institutes, HSPI marshals its strengths in a variety of subjects ranging from terrorism to infrastructure protection to aviation safety.
- **GW's School of Public Health and Health Services** received a \$5 million line-item appropriation from the District to help its Department of Health with a number of initiatives including Medicaid improvements and health assessments in some of D.C.'s most challenged communities.
- **The GW Cancer Institute** will launch a \$3.1 million study focused on implementing a District-wide Patient Navigator program to help recently diagnosed cancer patients deal with healthcare complexities like interpreting lab results, tackling insurance issues, and understanding finite medical details. The study, funded by the National Cancer Institute, will look at whether enhanced navigation resources speed cancer diagnoses and treatment, particularly among minority populations.

ACHIEVING HIGHER GROUND ... AND TREASURING IT

Rich cultural, ethnic, economic, political, and social threads create the unique fabric of our nation's capital. World-class partners, long-time residents, mentors and professors, friends, and the youth whose futures we help create are the soul of the GW community. The ground upon which we tread is defined by our forefathers as well as the people who walk it every day, whether they are GW students, our neighbors, or D.C. visitors.

Our business is to leverage these assets to build a world-class institution, an academically rich, culturally and experientially vibrant university; to take advantage of the human, professional, and technological resources that define D.C.; and share knowledge with communities around us, building stronger neighborhoods and adding value to the institutions and organizations that make this city great. At GW, it is not only about achieving higher ground. *It is about treasuring it. It is about advancing our mission.*



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 at June 30, 2005 and 2004, 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, D.C.
September 30, 2005



CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

YEARS ENDED JUNE 30, 2005 AND 2004

<i>(in thousands)</i>	2005	2004
ASSETS		
Cash and cash equivalents	\$19,256	\$13,319
Deposits with trustees	19,089	22,943
Accounts receivable, net	23,410	26,783
Prepays and other current assets	4,353	3,156
Pledges receivable, net	24,362	29,852
Investments	1,117,938	984,346
Loans and notes receivable, net	41,479	33,976
Physical properties, net:		
Land and buildings	751,075	719,460
Furniture and equipment	97,730	100,748
Other assets	15,426	15,667
Total assets	<u>\$2,114,118</u>	<u>\$1,950,250</u>
LIABILITIES		
Accounts payable and accrued expenses	\$96,887	\$92,520
Deferred revenue:		
Tuition and other deposits	26,416	18,119
Grants and contract payments	15,734	10,735
Insurance reserves	19,067	20,621
Bonds and notes payable	736,403	724,635
Funds advanced for student loans	36,410	27,874
Total liabilities	<u>930,917</u>	<u>894,504</u>
NET ASSETS		
Unrestricted net assets (deficit):		
Unrestricted operating	(37,512)	(35,231)
Unrestricted capital and investing	953,792	836,272
Total unrestricted	916,280	801,041
Temporarily restricted	80,336	72,642
Permanently restricted	186,585	182,063
Total net assets	<u>1,183,201</u>	<u>1,055,746</u>
Total liabilities and net assets	<u>\$2,114,118</u>	<u>\$1,950,250</u>

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

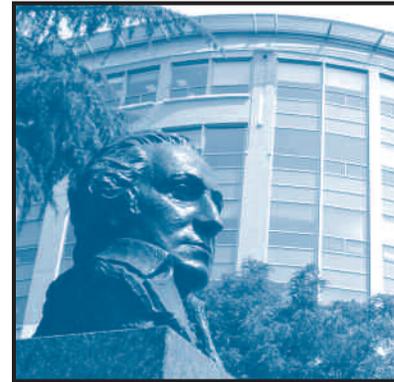
CONSOLIDATED STATEMENTS OF UNRESTRICTED ACTIVITIES

YEARS ENDED JUNE 30, 2005 AND 2004

<i>(in thousands)</i>	2005		
	Operating	Capital & Investing	Total Unrestricted
REVENUES			
Student tuition & fees	\$542,127		\$542,127
Less: University funded scholarships	(136,439)		(136,439)
Net student tuition and fees	405,688		405,688
Grants and contracts			
Program funds	109,962		109,962
Indirect cost recoveries	16,163		16,163
Investment income	280	\$68,261	68,541
Investment real property rents & appreciation		73,694	73,694
Change in value of split interest agreements		16	16
Auxiliary enterprises	73,253		73,253
Contributions, net	7,233	3,369	10,602
Net assets released from restrictions	2,809	8,380	11,189
Other income	56,807	6,964	63,771
Total revenue	<u>672,195</u>	<u>160,684</u>	<u>832,879</u>
EXPENSES			
Salaries and wages	311,832	179	312,011
Fringe benefits	67,531		67,531
Purchased services	114,014	530	114,544
Supplies	12,536	7	12,543
Cost of sales	39		39
Equipment	7,567	1,213	8,780
Bad debt	1,405		1,405
Occupancy	43,709	56,680	100,389
Investment real property expense		31,468	31,468
Scholarships and fellowships	11,263		11,263
Communications	5,311	4	5,315
Travel and training	11,333	1	11,334
Interest	119	17,340	17,459
Other	18,780	5,479	24,259
Total expense	<u>605,439</u>	<u>112,901</u>	<u>718,340</u>
OTHER (DECREASES) INCREASES IN NET ASSETS			
Debt services and mandatory purposes	(33,880)	33,880	
Endowment support	33,718	(30,993)	2,725
Capital expenditures	(14,773)	14,773	
Support/investment	(54,102)	52,077	(2,025)
Total other changes in net assets	<u>(69,037)</u>	<u>69,737</u>	<u>700</u>
Change in net assets before effects of discontinued operations and cumulative effect of change in accounting principles	<u>(2,281)</u>	<u>117,520</u>	<u>115,239</u>
Loss from discontinued operations			
INCREASES (DECREASES) IN NET ASSETS	<u>(2,281)</u>	<u>117,520</u>	<u>115,239</u>
NET ASSETS AT BEGINNING OF THE YEAR	<u>(35,231)</u>	<u>836,272</u>	<u>801,041</u>
NET ASSETS AT THE END OF THE YEAR	<u><u>(\$37,512)</u></u>	<u><u>\$953,792</u></u>	<u><u>\$916,280</u></u>

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

	2004	
Operating	Capital & Investing	Total Unrestricted
\$477,349		\$477,349
<u>(121,059)</u>		<u>(121,059)</u>
356,290		356,290
115,749		115,749
17,571		17,571
1,116	\$78,811	79,927
	70,204	70,204
	21	21
64,901		64,901
13,372	1,801	15,173
3,260	795	4,055
57,866	5,777	63,643
<u>630,125</u>	<u>157,409</u>	<u>787,534</u>
301,975	10	301,985
63,267		63,267
96,737	135	96,872
12,098	4	12,102
15		15
9,919	2,480	12,399
3,974		3,974
40,380	48,895	89,275
	26,880	26,880
11,905		11,905
6,202	7	6,209
12,250		12,250
	14,367	14,367
17,093	3,221	20,314
<u>575,815</u>	<u>95,999</u>	<u>671,814</u>
(24,951)	24,951	
34,116	(30,620)	3,496
(15,193)	15,193	
(40,961)	47,320	6,359
<u>(46,989)</u>	<u>56,844</u>	<u>9,855</u>
7,321	118,254	125,575
<u>(2,244)</u>		<u>(2,244)</u>
5,077	118,254	123,331
(40,308)	718,018	677,710
<u>(\$35,231)</u>	<u>\$836,272</u>	<u>\$801,041</u>



CONSOLIDATED STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2005 AND 2004

<i>(in thousands)</i>	2005			Total
	Total Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUES				
Student tuition & fees	\$542,127			\$542,127
Less: University funded scholarships	(136,439)			(136,439)
Net student tuition and fees	405,688			405,688
Grants and contracts				
Program funds	109,962			109,962
Indirect cost recoveries	16,163			16,163
Investment income	68,541	\$8,063	\$28	76,632
Investment real property rents & appreciation	73,694			73,694
Change in value of split interest agreements	16	476	713	1,205
Auxiliary enterprises	73,253			73,253
Contributions, net	10,602	12,578	2,190	25,370
Net assets released from restrictions	11,189	(11,371)	182	
Other income	63,771	16	41	63,828
Total revenue	<u>832,879</u>	<u>9,762</u>	<u>3,154</u>	<u>845,795</u>
EXPENSES				
Salaries and wages	312,011			312,011
Fringe benefits	67,531			67,531
Purchased services	114,544			114,544
Supplies	12,543			12,543
Cost of sales	39			39
Equipment	8,780			8,780
Bad debt	1,405			1,405
Occupancy	100,389			100,389
Investment real property expense	31,468			31,468
Scholarships and fellowships	11,263			11,263
Communications	5,315			5,315
Travel and training	11,334			11,334
Interest	17,459			17,459
Other	24,259			24,259
Total expense	<u>718,340</u>			<u>718,340</u>
OTHER (DECREASES) INCREASES IN NET ASSETS				
Debt services and mandatory purposes				
Endowment support	2,725	(3,689)	964	
Capital expenditures				
Support/investment	(2,025)	1,621	404	
Total other changes in net assets	<u>700</u>	<u>(2,068)</u>	<u>1,368</u>	
Change in net assets before effects of discontinued operations and cumulative effect of change in accounting principles	<u>115,239</u>	<u>7,694</u>	<u>4,522</u>	<u>127,455</u>
Loss from discontinued operations				
INCREASES (DECREASES) IN NET ASSETS	<u>115,239</u>	<u>7,694</u>	<u>4,522</u>	<u>127,455</u>
NET ASSETS AT BEGINNING OF THE YEAR	<u>801,041</u>	<u>72,642</u>	<u>182,063</u>	<u>1,055,746</u>
NET ASSETS AT THE END OF THE YEAR	<u>\$916,280</u>	<u>\$80,336</u>	<u>\$186,585</u>	<u>\$1,183,201</u>

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

2004			
Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$477,349			\$477,349
(121,059)			(121,059)
<u>356,290</u>			<u>356,290</u>
115,749			115,749
17,571			17,571
79,927	\$10,681	\$4	90,612
70,204			70,204
21	444	2,134	2,599
64,901			64,901
15,173	4,315	7,513	27,001
4,055	(3,936)	(119)	
63,643			63,643
<u>787,534</u>	<u>11,504</u>	<u>9,532</u>	<u>808,570</u>
301,985			301,985
63,267			63,267
96,872			96,872
12,102			12,102
15			15
12,399			12,399
3,974			3,974
89,275			89,275
26,880			26,880
11,905			11,905
6,209			6,209
12,250			12,250
14,367			14,367
20,314			20,314
<u>671,814</u>			<u>671,814</u>
3,496	(3,520)	24	
6,359	(2,691)	(3,668)	
<u>9,855</u>	<u>(6,211)</u>	<u>(3,644)</u>	
125,575	5,293	5,888	136,756
(2,244)			(2,244)
123,331	5,293	5,888	134,512
677,710	67,349	176,175	921,234
<u>\$801,041</u>	<u>\$72,642</u>	<u>\$182,063</u>	<u>\$1,055,746</u>



CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2005 AND 2004

<i>(in thousands)</i>	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$127,455	\$134,512
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	53,231	47,763
Decrease in accounts receivable	3,373	5,268
Increase in inventory and prepaid expenses	(1,197)	(225)
Decrease in pledges receivable	5,490	2,280
Decrease in deposits with trustees	2,807	1,009
Increase in other assets	(398)	(3,798)
Increase (decrease) in accounts payable and accrued expenses	4,367	(894)
Increase in tuition and other deposits	8,297	2,687
Increase (decrease) in grants and contracts prepayments	4,999	(242)
Decrease in insurance reserve	(1,554)	(2,720)
Net unrealized gains on investments	(58,439)	(62,631)
Net realized gains on investments	(39,458)	(56,060)
Change in value of charitable trusts	1,206	2,599
Contributions restricted for long-term investment	(12,250)	(11,828)
Net cash provided by continuing activities	<u>97,929</u>	<u>57,720</u>
Net cash used by discontinued operations		<u>(739)</u>
Net cash provided by operating activities	<u>97,929</u>	<u>56,981</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(270,740)	(733,593)
Proceeds from sales and maturity of investments	232,704	709,725
Purchases and renovations of land and buildings	(56,408)	(84,396)
Purchases of equipment	(23,567)	(18,692)
GW school as a lender program - new loans issued	(38,923)	(21,024)
GW school as a lender program - loan sales and cancellations	30,908	19,808
Reduction in other loans receivable	512	384
Net cash used by investing activities	<u>(125,514)</u>	<u>(127,788)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts from contributions restricted for long-term investment	12,250	11,828
Principal payments and refinancing on bonds and notes payable	(20,482)	(57,048)
Principal payments on line of credits	(101,000)	(110,000)
Proceeds from borrowings and refinancing of notes payable	17,250	127,000
Proceeds from borrowings on line of credits	116,000	89,000
Use of borrowings deposited with a trustee for future const. projects	788	8,344
Use of borrowings deposited with a trustee for future debt service	259	614
Payments of debt issuance costs	(79)	(1,383)
Increase in refundable advances from U.S. government	514	489
Increase in advances for GW school as a lender program	8,022	1,094
Net cash provided by financing activities	<u>33,522</u>	<u>69,938</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,937	(869)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	<u>13,319</u>	<u>14,188</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u><u>19,256</u></u>	<u><u>\$13,319</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$27,401</u>	<u>\$19,196</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2005 AND 2004

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, D.C. 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 Mt. Vernon College. Significant inter-company 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

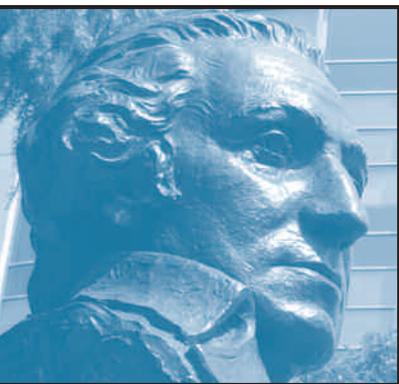
Contributions, including unconditional promises to give, are recognized as revenues in the period received. Contributions received for capital projects, endowment funds, or student loans and contributions under split interest agreements or perpetual trusts are reported as capital and investing unrestricted 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 judgment 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 includes the discontinued operations of the Medical Faculty Associates (MFA) in 2000 and coverage for Residents in the University's Graduate Medical Education training program. The fair value of the self-insurance trust assets totaled \$16.8 million and \$20.1 million at June 30, 2005 and 2004, 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 are based on an independent actuarial review. The reserves for claims have been discounted at an average rate of 6% for both June 30, 2005 and 2004.



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 unrestricted revenues, temporarily restricted revenues, or permanently restricted revenues depending on donor restrictions. 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. Any excess of income earned over the approved spending amount is retained in the Consolidated Endowment Fund.

The University's beneficial interest in perpetual trusts is shown at fair value, which approximates present value as of June 30, 2005 and 2004, 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, 2005 and 2004, 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 \$0.19 million and \$0.58 million at June 30, 2005 and 2004, 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 judgment 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 included in 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 loaned again 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 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 includes accounts and transactions related to endowment funds and plant facilities, except for donor-restricted contributions to endowment principal and plant. Substantially all of the net assets classified as unrestricted in the Consolidated Statements of Financial Position as of June 30, 2005 and 2004 have been invested in property and equipment, Consolidated Endowment Pool 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, 2005 and 2004.

LEGALLY RESTRICTED CASH BALANCES

There are legally restricted cash balances totaling \$0.9 million and \$1.0 million as of June 30, 2005 and 2004, respectively. The University has restricted \$0.1 million for the District of Columbia to guarantee restoration of public space that may be damaged due to University construction projects. The remaining \$0.8 million and \$0.9 million as of June 30, 2005 and 2004, 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

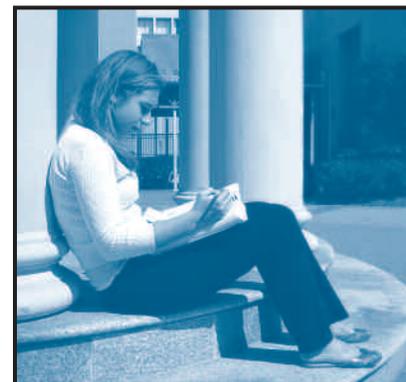
Tuition and fee revenue consists of all tuition and fee revenue earned, net of all student financial aid, University sponsored and donor sponsored. The University recognizes unrestricted revenues from student tuition and fees totally within the fiscal year in which the academic term is predominantly conducted. Deferred tuition and fees are included in deferred revenue - tuition and other deposits in the Consolidated Statements 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 2004 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:

<i>(in thousands)</i>	2005	2004
Funds invested with a trustee for future construction projects	\$0	\$788
Debt service and rental property reserves invested	2,325	2,008
Self-insurance	16,764	20,147
Total	<u>\$19,089</u>	<u>\$22,943</u>

Funds invested with a trustee for future construction projects decreased in the year ended June 30, 2005 due to the use of \$0.8 million of 1999 and 2001 series bond proceeds. The terms of the indentures for these bonds require proceeds to be held by a trustee until they are to be used to acquire or construct property, plant and equipment (Note 10). 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 as of June 30:

<i>(in thousands)</i>	2005	2004
Grants and contracts	\$13,948	\$16,217
Student tuition and fee accounts	7,102	10,087
Due from affiliation agreements	1,517	1,899
Due from hospital partnership	4,600	3,666
Other	1,420	2,750
Allowance for doubtful accounts	<u>(5,177)</u>	<u>(7,836)</u>
Total	<u>\$23,410</u>	<u>\$26,783</u>

Note 5 - Pledges Receivable

Pledges receivable are summarized as follows at June 30:

<i>(in thousands)</i>	2005	2004
Unconditional promises expected to be collected in:		
Less than one year	\$22,161	\$28,368
One year to five years	4,036	3,785
More than five years	14	123
Sub Total	26,211	32,276
Allowance for uncollectible pledges	(805)	(855)
Unamortized discount	<u>(1,044)</u>	<u>(1,569)</u>
Total	<u>\$24,362</u>	<u>\$29,852</u>

At June 30, 2005 and 2004, the University had outstanding bequest intentions and certain conditional promises to give of approximately \$47 million and \$38 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 as of June 30:

<i>(in thousands)</i>	2005	2004
Cash and cash equivalents	\$5,637	\$10,194
Equities	448,167	338,787
Fixed income	28,144	49,795
Alternative investments	197,276	182,190
Real estate	365,637	333,159
Split interest agreements	36,814	36,158
Other	<u>36,263</u>	<u>34,063</u>
Total	<u>\$1,117,938</u>	<u>\$984,346</u>

Investments are stated at fair market values. The estimated fair value of investments is based on quoted market prices except for certain alternative 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 alternative investments in partnerships amounting to approximately \$37.9 million and \$23.1 million for the years ended June 30, 2005 and 2004, respectively.

Investments are 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, 2005 and 2004.

Investment income includes net realized and unrealized gains of \$71.6 million and \$87.0 million for the years ended June 30, 2005 and 2004, respectively. Investment real property rents and appreciation includes net unrealized gains of \$31.1 million and \$31.7 million for the years ended June 30, 2005 and 2004, respectively.

The University is monitoring permanent endowment accounts in which historical cost was more than market value as of June 30, 2005. Historical cost and market value totals for these accounts were approximately \$7.4 million and \$7.0 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 the partnership's profits for the year ended June 30, 2005 was approximately \$1.1 million. The University's share of the partnership's loss for the year ended June 30, 2004 was approximately \$0.5 million.

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, 2005 and 2004. Accumulated amortization at June 30, 2005 and 2004 was approximately \$9.0 million and \$7.9 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 \$22.7 million and \$21.8 million reported as other income and \$0.4 million and \$0.3 million in services purchased from the Hospital reported under various captions for the years ended June 30, 2005 and 2004, respectively. The receivable from DHP for the unpaid balance of these services is \$4.6 million and \$3.7 million as of June 30, 2005 and 2004, respectively. There is no outstanding amount due to DHP as of June 30, 2005 and June 30, 2004 for services and goods provided under these agreements.

Note 8 - Physical Properties

Physical properties are summarized as follows as of June 30:

<i>(in thousands)</i>	2005	2004
Land	\$127,307	\$120,655
Building	882,245	832,488
Building under capital leases	6,527	6,527
Accumulated depreciation	<u>(265,004)</u>	<u>(240,210)</u>
Total	<u>\$751,075</u>	<u>\$719,460</u>
Furniture and equipment	\$198,357	\$193,269
Equipment under capital leases	28,203	24,991
Accumulated depreciation	<u>(128,830)</u>	<u>(117,512)</u>
Total	<u>\$97,730</u>	<u>\$100,748</u>

The value of buildings includes the addition of capitalized interest of approximately \$0.5 million and \$0.7 million in the years ended June 30, 2005 and 2004, respectively.

Building depreciation expense was \$24.8 million and \$23.1 million in the years ended June 30, 2005 and 2004, respectively. Furniture and equipment depreciation expense was \$26.6 million and \$23.0 million in the years ended June 30, 2005 and 2004, respectively. These amounts include depreciation related to equipment under capital leases of \$7.2 million and \$5.0 million for the years ended June 30, 2005 and 2004, 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 relevant federal requirements concerning the disposition of property at the conclusion of the award.

Note 9 - Accounts Payable and Accrued Expenses

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

<i>(in thousands)</i>	2005	2004
Trade payables	\$25,849	\$25,968
Accrued payroll and related liabilities	45,073	41,291
Accrued other expenses	9,272	10,703
Accrued building construction	3,735	349
Accrued building maintenance and repairs	21	71
Other payables	7,282	8,189
Annuity funds	4,364	4,718
Pooled life income funds	393	403
Charitable remainder trusts, GWU Trustee	<u>898</u>	<u>828</u>
Total accounts payable and accrued expenses	<u>\$96,887</u>	<u>\$92,520</u>

Note 10 - Bonds and Notes Payable

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

<i>(in thousands)</i>	2005	2004
Bonds; 2.395% - 6.25%; maturing through 2032	\$546,735	\$554,505
Non-recourse notes payable; 4.955% - 5.703%; maturing 2015; collateralized by real property	142,497	127,000
Unsecured notes payable; 3.00%-3.479%; maturing at various dates through 2021	32,171	43,130
Unsecured note payable on demand; 3.436%	<u>15,000</u>	<u> </u>
Total bonds and notes payable	<u>\$736,403</u>	<u>\$724,635</u>

In June 2005, The George Washington University issued \$17.25 million in a non-recourse mortgage payable, collateralized by real property. Approximately \$11 million of the proceeds were used to repay existing notes payable. In May 2004, the University issued \$127 million in non-recourse notes payable, collateralized by real property. Approximately \$52 million of the proceeds were used to repay outstanding notes payable and the related prepayment penalty of \$4 million. The majority of the remaining proceeds were invested in the Consolidated 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, \$0.4 million and \$0.7 million were included in Deposits with Trustees at June 30, 2005 and 2004, respectively.

Interest expense was \$26.5 million and \$18.7 million for the years ended June 30, 2005 and 2004, respectively. These amounts include interest expense that relates to rental properties of \$9.1 million and \$4.3 million for the years ended June 30, 2005 and June 30, 2004, respectively, which are reflected within the Investment real property expense category. In addition, interest expense includes \$0.8 million and \$1.0 million on capital leases for the years ended June 30, 2005 and 2004, respectively, and \$0.1 million for other interest for the year ended June 30, 2005.

As of June 30, 2005, principal payments are due on bonds and notes payable in accordance with the following schedule.

Fiscal Year Ending June 30	<i>(in thousands)</i>
2006	\$25,438
2007	11,564
2008	12,219
2009	12,962
2010	13,703
Thereafter	<u>660,517</u>
Total	<u>\$736,403</u>

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, 2005, \$31.9 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.

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:

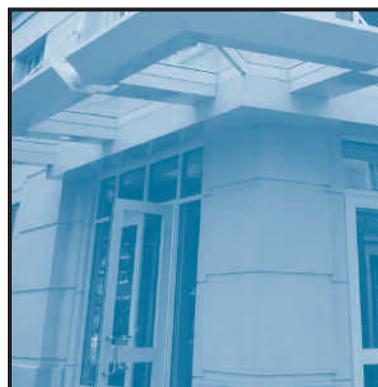
For cash and cash equivalents, restricted cash, and deposits with trustees, the carrying value of these amounts approximates fair value due to the short maturity of these instruments. The fair value of pledges receivables is estimated by discounting the future cash flows using the risk free rate at the 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, 2005 and June 30, 2004, is summarized as follows:

<i>(in thousands)</i>	June 30, 2005	
	Carrying Amount	Estimated Fair Value
Cash and cash equivalents	\$19,256	\$19,256
Deposits with trustees	19,089	19,089
Pledges receivable, net	24,362	24,362
Investments	1,117,938	1,117,938
Bonds and notes payable	736,403	755,438

<i>(in thousands)</i>	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

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 as of June 30:

<i>(in thousands)</i>	2005		2004	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Building funds	\$6,561		\$6,408	
Endowment funds	47,931	\$149,663	35,973	\$144,813
Split interest agreements	2,658	28,205	2,855	27,208
Loan funds	1	4,240	1	4,190
Time restriction	23,185	4,477	27,405	5,852
Total	<u>\$80,336</u>	<u>\$186,585</u>	<u>\$72,642</u>	<u>\$182,063</u>

Note 13 - Program and Supporting Activities Expense

The statements of activities include the following program and supporting activity expenses for the years ended June 30, 2005 and 2004, respectively:

<i>(in thousands)</i>	2005	2004
Instruction and academic support	\$349,015	\$319,892
Research	101,491	105,535
Student services	63,493	60,990
Student aid	15,095	12,790
Institutional support	55,051	52,106
Auxiliary enterprises	67,623	61,230
Technology	35,665	32,391
Independent operations	<u>30,907</u>	<u>26,880</u>
Total	<u>\$718,340</u>	<u>\$671,814</u>

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 \$111 million and \$98 million in 2005 and 2004, 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 \$18.9 million and \$18.1 million in fiscal year 2005 and fiscal year 2004, 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 consolidated 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	<i>(in thousands)</i>
2006	\$14,407
2007	12,410
2008	9,616
2009	9,101
2010	6,898
Thereafter	<u>27,704</u>
Total	<u>\$80,136</u>



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	<i>(in thousands)</i>
2006	\$7,522
2007	5,835
2008	2,017
2009	<u>83</u>
Minimum lease payments	15,457
Less amount representing interest	<u>(1,216)</u>
Capital leases payable	<u>\$14,241</u>

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 in GWS transactions were eliminated from University expenses and \$1.0 million were eliminated from University revenues for the year ended June 30, 2004. There were no revenue and expense transactions related to GW Solutions, Inc. for the year ending June 30, 2005.

At June 30, 2004, the loss on discontinued operations reflected in the accompanying consolidated statements of activities was \$2.2 million. Of this amount, 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 Medical Faculty Associates, Inc. (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 academic support.



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SUMMARY OF FINANCIAL RESULTS AND ENROLLMENT

FINANCIAL RESULTS

<i>(in thousands)</i>	Year End	
	2005	2004
Assets	\$2,114,118	\$1,950,250
Net Assets	\$1,183,201	\$1,055,746
Increase (decrease) in net assets	\$127,455	\$134,512
Market value of investments	\$1,117,938	\$984,346
Bonds and notes payable	\$736,403	\$724,635
Revenues	\$845,795	\$808,570
Expenses	\$718,340	\$671,814
Capital expenditures	\$79,975	\$103,088

ENROLLMENT

	Academic Year End				
	2005	2004	2003	2002	2001
STUDENTS—FTE					
Undergraduate	10,173	9,576	9,357	9,148	7,939
Graduate	6,575	6,449	6,275	5,884	5,495
Law	1,729	1,711	1,618	1,630	1,637
Medical	668	659	650	630	621
Non-degree	411	463	570	650	727
Total fall enrollment	19,556	18,858	18,470	17,942	16,419
UNDERGRADUATE ADMISSIONS					
Applications	20,159	18,442	16,910	15,960	14,767
Selectivity ratio	38%	39%	40%	49%	49%
Matriculation ratio	35%	32%	34%	33%	29%
DEGREES CONFERRED					
Baccalaureate	2,421	1,993	2,007	1,731	1,590
Master's	3,151	3,196	2,768	2,877	2,734
First professional	634	623	587	632	602
Doctoral	245	252	228	223	192
GRADUATE ADMISSIONS					
Applications	11,520	11,717	10,799	9,875	9,669
Selectivity ratio	49%	47%	49%	50%	52%
Matriculation ratio	47%	49%	50%	51%	49%
LAW					
Applications	12,673	12,433	11,537	9,272	8,355
Selectivity ratio	19%	20%	21%	26%	29%
Matriculation ratio	29%	30%	27%	27%	27%
GRADUATE-MEDICAL CENTER					
Applications	1,523	1,490	1,585	1,262	1,312
Selectivity ratio	58%	61%	59%	67%	62%
Matriculation ratio	50%	46%	50%	42%	38%
MEDICINE (M.D.)					
Applications	9,534	9,226	8,126	8,727	9,562
Selectivity ratio	4%	4%	5%	5%	5%
Matriculation ratio	43%	43%	40%	37%	34%

