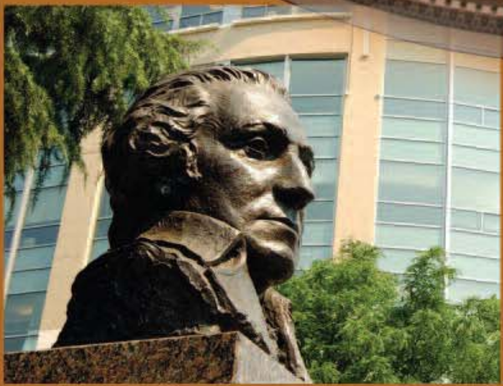
2005 - 2006 Financial Report



THE GEORGE WASHINGTON UNIVERSITY

WASHINGTON DC

● perspective (pər-ˈspek-tiv), *n.*

1 *a particular evaluation of a situation or facts, especially from one person's point of view*

2 *a measured or objective assessment of a situation, giving all elements their comparative importance*

3 *the appearance of objects to an observer, allowing for the effect of their distance from the observer*

4 *the theory or practice of allowing for artistic perspective when drawing or painting*

5 *a view or vista*

PERSPECTIVES ON GW

George Washington's grand idea for a national university in the Nation's capital is alive today and flourishing on our 38-acre Foggy Bottom campus, situated within L'Enfant's 100-square-mile diamond. Intended "as a model for American city planning, and a symbol of governmental power to be seen by other nations," the City of Washington is experiencing a renaissance, and so, too, is our institution. Together, as we cherish our shared history, we are gaining new perspective, sharpening our vision for the future, and openly articulating our commitment to the community around us.

As our institution proposes a new Campus Plan and prepares for a new president and for the next decades, we have the opportunity—and the obligation—to think strategically about our partnerships within our community, our position in the world of higher education, and our positive contribution to the world today and tomorrow.

Today more than ever, events occurring in one seemingly isolated geographic region can have a global reach. Economic instability, natural and manmade environmental changes, scientific and medical advances all have the potential to alter our world—for the better or for the worse. Our mission is to educate undergraduate and graduate students to become leading citizens of their countries, capable of making the kinds of personal choices, moral decisions, and civic and intellectual contributions that will shape their life's work and secure our planet for the future.

What draws top-flight undergraduate, graduate, and professional students from all 50 states and 120 countries to our urban and urbane institution? What compels world-class faculty—teachers, policymakers and professionals, scientists and researchers—to make GW their home base? What makes this University's character and ethos different—and distinctive? What difference does GW make—in our community, our country, and our complex and co-dependent world? These are among the questions asked in this 2005-2006 Financial Report, and answered by *students, faculty, and friends telling the GW story from their unique perspectives.*

Louis H. Katz
Executive Vice President & Treasurer

PROXIMITY GENERATES POTENTIAL...

...and shapes perspectives. The George Washington University's students grow up with remarkable neighbors– the White House, the State Department, the World Bank, and the American Red Cross, just to name a few. When our students on their way to class encounter heads of state visiting GW's campus, they are inspired by personal exposure to world leaders. When our students intern in world health organizations or neighborhood clinics, they fuse public policy lessons with practice, both contributing to health and welfare and making a difference in people's lives. When our students participate in the give-and-take of zoning hearings that determine the University's future, they experience, firsthand, civic engagement and civics education. When our students choose theme-based housing in science or the media, diplomacy or culture, they immerse themselves in out-of-classroom experiences that extend their learning and deepen their sense of belonging. It is this rich integration of living, learning, and earning in a classroom, campus, and capital city that makes the GW educational experience more like "surround sound"–it is with them 24/7, and it stays with them for a lifetime.

Students' Perspectives:

GW students Audai Shakour and Meredith Wolff personify this unique perspective. Interested in international affairs, Audai was admitted to Duke University but chose GW because it is *"in the middle of a vibrant city"* with *"bright, involved kids"*—there's always something going on.
As 2005 - 2006 president of the Student Association, Audai and his vice president of community affairs, senior Meredith Wolff, launched "Campaign GW" to help students understand, shape, and support the University's strategic directions, to help them appreciate the present and future value of the GW degree, and to begin to instill a culture of giving back to their University, sowing seeds for endowments in the future. Meredith discovered that students didn't understand the University had their best interests at heart, so she set out to change their perceptions. According to Wolff, the new Campus Plan *"has the potential to be the catalyst that will launch GW into the tier of undergraduate institutions ,which both the administrators and students think it deserves."* Thus, Meredith mobilized fellow students in support of the University's plan.

Audai also understood the University's strategic academic and development decisions as ones that would raise the value of GW degrees on their resumes, *"I had read an article in which [GW President] Stephen Joel Trachtenberg said that, when people die, the paper always mentions their alma mater in the obituary. It might sound funny, but that hit home with me. I wanted to attend a school that I could be proud of. Yes, it's only four years of my life, but these four years follow you."*

Whether addressing the Board of Trustees or preparing testimony at zoning hearings, Audai and Meredith have gained leadership lessons that last a lifetime—lessons that make them well rounded and well grounded.

potential

"INTERDISCIPLINARITY INTERACTION" IGNITES DISCOVERY...

...giving way to new perspectives. Some may wonder why the University seeks to create a state-of-the-art Science Center with modern classrooms, integrated technology, and cutting-edge, flexible laboratories. These new facilities are essential to enhance GW's unique interdisciplinary programs, and continue to attract top-tier students and world-class faculty. **We collaborate so we can compete.**

One collaborative initiative combining engineering, biology, chemistry, and medicine within the Institute for Proteomics Technology and Applications, supported by a $1.5 million grant from the W.M. Keck Foundation, is developing a protein microscope to allow scientists to view proteins interacting in living tissue. The microscope holds promise for the treatment of neurodegenerative diseases, such as ALS, commonly known as Lou Gehrig's disease.

In another such interdisciplinary endeavor, GW is uniting the resources and talented faculty from three schools, the Columbian College of Arts and Sciences, the School of Engineering and Applied Science, and the School of Medicine and Health Sciences, in a collaborative pursuit of a human hookworm vaccine and cures for other neglected tropical diseases. This initiative has attracted $21.8 million from the Bill & Melinda Gates Foundation. These researchers are in partnership with the Albert B. Sabin Vaccine Institute, for research on hookworm that affects 740 million people worldwide, or one in eight people in the world, primarily children. The Elliott School of International Affairs also plays a role, helping generate visibility and deepen understanding of the role of vaccines in international diplomacy and the relationships between public health reform and justice.

Faculty Perspective:

GW's faculty professor, Peter J. Hotez brings perspectives both individual and interdisciplinary. Chair of the Department of Microbiology and Tropical Medicine at GW, Hotez' research and academic interest is in vaccine development for parasitic and tropical diseases, and the role of vaccines in international diplomacy. Can his vision and dedication shift the world's focus to neglected tropical diseases? That is Hotez' long-standing mission, as he explains.

"When I was 13 years old and growing up in Connecticut, my friends were dreaming of someday pitching for the New York Yankees or the Boston Red Sox. Instead, my dreams were inspired by a copy of Manson's Tropical Diseases.*"* Clinical trials of the hookworm vaccine are currently underway in Brazil, fueled in part by the multi-million-dollar grant from the Bill & Melinda Gates Foundation.

Why did Hotez, an internationally known medical parisitologist, move from Yale University and headquarter his activities at GW if his focus is on treating diseases in emerging nations? He explains succinctly. *"All I have to do is look out my window. Foggy Bottom is the seat of power for global health. It's all here—the World Health Organization, the World Bank, the Center for Global Development, and GW's Institute for Biomedical Science. I just pick up the phone and have access to the top people."* Engaged in research with a global impact, Hotez is **breaking new ground**, pioneering the practice of **vaccine diplomacy** here at GW.

INNOVATIONS TRANSFORM EDUCATION

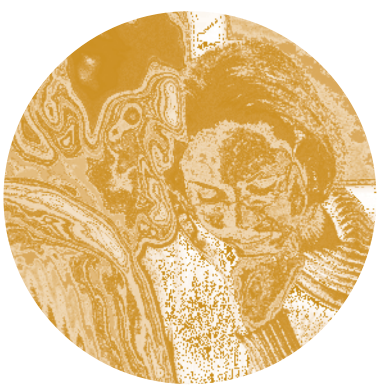
The process of continuous improvement as an academic institution, a research driver, and a thought leader involves breaking down barriers between disciplines, colleges, and occasionally colleagues. It also requires building community, as we do in our theme-based freshman housing and our house life curricular philosophies, or in our medical outreach within metropolitan D.C. and beyond. And, ultimately, it is a process of rethinking and innovating how we manage and how we teach.

Learning Communities. Theme-based freshman housing converts traditional residential halls into learning communities that focus developmentally on character building, academic readiness, and the opportunity to increase out-of-classroom learning in one of eight areas:

- Earth sciences, bioscience and medicine, mathematics and engineering, and computer science
- Politics and public policy
- Media and public affairs
- Humanities and sports studies
- International law, cultural studies, international affairs, and peace and justice studies
- Education and public service
- Culture and the arts
- Applied science and engineering

Commitment to Community. More than 520 medical and physician assistant students participated in the second annual Commitment to Community Day. Student volunteers helped several D.C. public schools prepare for the beginning of the school year. Through a partnership with D.C.'s Department of Health, the University helped improve the quality and delivery of Medicaid services and recruit an HIV/AIDS expert. This model is now being used to help the city address other public health problems, including cancer, chronic diseases, and environmental health issues. And GW's "good neighbor" policy, which provides assistance to those most in need, now extends beyond the District into Montgomery and Prince George's counties in Maryland, and Arlington, Fairfax, and Loudoun counties in Virginia.

A Good Neighbor to the World. GW's Africa Center for Health and Human Security, established to address health care, AIDS, starvation, poverty, political unrest, and other problems facing the continent, conducted its first trip to Ethiopia. Topics of discussion included addressing potential partnership opportunities in health policy, analysis support, education, and training.



innovations

WINNING INFUSES SPIRIT

2005-2006 was truly a **winning season** for our students, and the best year ever for Atlantic-10 Coach of the Year Karl Hobbs and his men's basketball, which ended the season at 26-1 and went undefeated in Atlantic-10 play. The women's team had a similar season and post season. GW was one of only four private schools to send both their men's and women's basketball teams to the NCAA Tournament, generating for our University a heightened sense of pride and school spirit, and a higher profile in the media. Athletics are only one dimension of campus life; new combined undergraduate and graduate academic options, new interest-focused residence halls, and more than 400 student organizations help make the students' experience individualized, intense, and invigorating.

Our 2,400 incoming freshmen are also breaking school records. An amazing 64 percent of the class of 2010 graduated in the top 10 percent of their high school class, 46 percent graduated in the top five percent, making them the most academically successful class in University history. In 1990, by way of comparison, 32 percent of incoming freshmen graduated in the top 10 percent of their high school class.

This year's freshman class hails from all 50 states, the District of Columbia, and 48 countries worldwide, and with a nearly 20 percent increase in the number of international students, the class is among the University's most diverse. In fact, the students we recruited this year came from more than 1,500 high schools. To put this in perspective, the number of high schools represented in 2006 is more than the total number of incoming freshmen in 1990. Today, 80 percent of the students who arrive here as freshmen already know they are coming to their first-choice school.

The following table shows some of the metrics that distinguish this year's student body and demonstrate our trajectory:

Office of Admissions Freshman Class Counts (9/21/06)

	1990	1995	2000	2005
Applications	6,104	10,500	14,766	19,458
Acceptance Rate	81%	55%	49%	37%
Matriculants	1,161	1,395	2,099	2,410
SAT Average	1130	1230	1234	1311
% in top 10% of high school class	32	42	42	64
# of high schools represented	not available	1,045	1,346	1,512

2005-2006 was also a banner year in the University's growing involvement in community service, with 2,100 students participating, providing more than 54,000 hours of community service, partnering with 66 community agencies throughout the eight wards of the city, providing services valued at nearly $1 million. The synergy is evident: **when we add value to our community, we also strengthen the values of our students.**

DEVELOPMENT ENABLES ACADEMIC EXCELLENCE: GROWING UP, NOT OUT

The **academic vision** is for GW to become one of the preeminent urban research universities in the nation and the world, recognized for its excellence in selected areas that are primarily derived from existing programmatic strengths in teaching, scholarship, and externally funded research across the disciplines. To respond to evolving technological and academic program needs, to enhance interdisciplinary programs unique to GW, to continue to attract top-tier students and faculty, and to further GW's status as a world-class University, growth is a given.

This vision drives an **integrated development strategy** to accommodate academic and student housing needs on campus and to redevelop Square 54, the former hospital site, as a vibrant, mixed-use retail, residential, and office "town center" that serves as a major source of non-enrollment driven revenue to fund the core academic mission, and at the same time, enhance the urban campus experience for students, faculty, staff, and neighbors who study, live, and work in Foggy Bottom.

Mindful of town/gown issues, the University launched an open and inclusive **community-based planning process** to solicit ideas and input from interested people throughout the city and within our own campus community. The University shared its desire to "grow up, not out" to accommodate its forecasted space needs within the existing campus boundaries (concentrated in the central campus "core"), to expand and modernize campus housing, to capitalize on opportunities for open spaces, pathways, and streetscapes, and to embrace historic preservation. The proposed Foggy Bottom Campus Plan: 2006-2025 provides a wide range of benefits so that everyone has something to gain–the community, the city, the University, and our students.

Scientific Advances

A 160 million-year-old fossil is the oldest tyrannosaur ever found. This discovery—a 12-foot long dinosaur fossil found in northwestern China's Junggar Basin—was unveiled in the journal *Nature* in February and received extensive media coverage. GW's Professor James Clark, an author of the paper and a paleontologist, was a leader of the team that collected and identified this dinosaur and is working to understand what it means for the evolution of tyrannosaurs.

"There's nothing as thrilling as uncovering a skeleton of a never-before-seen animal that has been buried for thousands of millennia."

– GW Professor James Clark

growth

Community Perspectives on the Campus Plan:

While there will always be a certain level of concern about noise or congestion in an urban university—concern that requires active management and expeditious resolution—community members testifying before the D.C. Zoning Commission spoke positively of the many *"amenities that show GW is considerate of their neighbors in Foggy Bottom and they have pride in their community."*

Others reasoned, *"Universities must grow to carry out their mission of educating society, and GW is no different. Just as children need new shoes and flowers need larger pots, GW needs more room to expand its academic, medical, and research infrastructure."*

The president of the D.C. Chamber of Commerce noted: *"The city benefits by increased taxes paid to the city, the community benefits by more students living on campus as well as more retail in the neighborhood, and the University benefits by having more academic space on campus. The business community benefits by having more retail and business opportunities concentrated in a smart growth area in Foggy Bottom."*

Giving Back

- 3rd in the nation on Peace Corps' list of top volunteer-producing medium-size colleges and universities (2005)
- 4th in the nation for service by *Washington Monthly (2006)*
- Recognized as a top public and community service university by Princeton Review's *Colleges with a Conscience: 81 Great Schools with Outstanding Community Involvement (Published 2005)*
- 10th among research institutions for the percentage of students who study abroad, according to the Institute for International Education's 2005 Open Doors International Report on Educational Exchange
- 11 GW students received Fulbright Awards for 2005-2006, placing the University among our nation's leading research institutions

CONCLUSION – THE GW PERSPECTIVE

The District of Columbia is a monumental treasure, the seat of power in our country, home to representatives from every state in the nation, every nation on earth, and every corporation of consequence. It is also our hometown, filled with culture, brimming with civics lessons and service opportunities, driven by destiny, and challenged by issues confronting urban centers today.

GW has the unique ability to offer our students both the macro and the micro perspective, and immerse them in intellectually challenging global and local pursuits. We engage global leaders from government, industry, research, and academia, gathering them here in the heart of our campus, maximizing the power of place. As a world-class academic institution, we generate ideas and propose solutions that affect people, societies, and scientific advancement worldwide.

We also dedicate ourselves to public service in our own hometown, offering policy expertise to elected officials, partnering with city agencies, providing executive leadership programs for public servants, volunteering in community clinics. To those in need, we lend a hand, sharing our resources, and the power of common purpose.

Proximity generates potential and shapes perspective. "Interdisciplinarity interaction" ignites discovery, giving way to new perspectives. Innovation transforms education. Scientific advances explode human knowledge. And at the heart of it all, our students' spirit–from Colonial Inauguration to Commencement on the National Mall–inspires us to excel.

Our students, faculty, and staff know that here they can make a **world of difference**. *We are who we are because of where we are.* It is this perspective that makes GW different... and helps GW make a difference. This is why people come to GW. And this is why we stay.

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 the 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, 2006 and 2005, 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.

As discussed in Note 17 to the consolidated financial statements, the University adopted Financial Accounting Standards Board (FASB) Interpretation No. 47 *Accounting for Conditional Asset Retirement Obligations,* an interpretation of FASB Statement No. 143 *Accounting for Asset Retirement Obligations* in fiscal year 2006.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
September 19, 2006

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS OF JUNE 30, 2006 AND 2005

(in thousands)	2006	2005
ASSETS		
Cash and cash equivalents	$17,076	$19,256
Deposits with trustees	17,871	19,089
Accounts receivable, net	27,151	23,410
Prepaids and other current assets	4,475	4,353
Pledges receivable, net	21,870	24,362
Collateral for securities loaned	22,473	
Investments	1,264,194	1,115,313
Loans and notes receivable, net	32,248	41,479
Physical properties, net:		
Land and buildings	776,756	751,075
Furniture and equipment	89,000	97,730
Other assets	17,206	18,051
Total assets	$2,290,320	$2,114,118
LIABILITIES		
Accounts payable and accrued expenses	$108,954	$96,887
Payable under securities loan agreements	22,473	
Deferred revenue:		
Tuition and other deposits	27,347	26,416
Grants and contract payments	9,078	15,734
Insurance reserves	16,538	19,067
Bonds and notes payable	719,213	736,403
Funds advanced for student loans	29,041	36,410
Total liabilities	932,644	930,917
NET ASSETS		
Unrestricted net assets (deficit):		
Unrestricted operating	(34,745)	(37,512)
Unrestricted capital and investing	1,097,137	953,792
Total unrestricted	1,062,392	916,280
Temporarily restricted	96,224	80,336
Permanently restricted	199,060	186,585
Total net assets	1,357,676	1,183,201
Total liabilities and net assets	$2,290,320	$2,114,118

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

CONSOLIDATED STATEMENTS OF UNRESTRICTED ACTIVITIES

YEARS ENDED JUNE 30, 2006 AND 2005

(in thousands)	2006		
	Operating	Capital & Investing	Total Unretricted
REVENUES			
Student tuition & fees	$573,961		$573,961
Less: University funded scholarships	(147,889)		(147,889)
Net student tuition and fees	426,072		426,072
Grants and contracts			
Program funds	120,269		120,269
Indirect cost recoveries	16,614		16,614
Investment income	332	$107,011	107,343
Investment real property rents & appreciation		81,383	81,383
Change in value of split interest agreements		21	21
Auxiliary enterprises	78,504		78,504
Contributions, net	9,727	923	10,650
Net assets released from restrictions	2,560	7,837	10,397
Other income	61,410	8,822	70,232
Total revenue	715,488	205,997	921,485
EXPENSES			
Salaries and wages	325,368	251	325,619
Fringe benefits	72,336		72,336
Purchased services	125,442	1,210	126,652
Supplies	11,808	6	11,814
Cost of sales	15		15
Equipment	10,618	986	11,604
Bad debt	(1,068)	1,117	49
Occupancy	45,618	58,696	104,314
Investment real property expense		34,494	34,494
Scholarships and fellowships	12,101		12,101
Communications	5,260	1	5,261
Travel and training	12,879	2	12,881
Interest	12	26,769	26,781
Other	20,420	12,387	32,807
Total expense	640,809	135,919	776,728
OTHER (DECREASES) INCREASES IN NET ASSETS			
Debt services and mandatory purposes	(43,486)	43,486	
Endowment support	33,223	(30,270)	2,953
Capital expenditures	(14,143)	14,143	
Support/investment	(47,506)	47,009	(497)
Total other changes in net assets	(71,912)	74,368	2,456
Change in net assets before effect of change in accounting principle	2,767	144,446	147,213
Effect of change in accounting principle		(1,101)	(1,101)
INCREASES (DECREASES) IN NET ASSETS	2,767	143,345	146,112
NET ASSETS AT BEGINNING OF THE YEAR	(37,512)	953,792	916,280
NET ASSETS AT THE END OF THE YEAR	($34,745)	$1,097,137	$1,062,392

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

2005		
Operating	Capital & Investing	Total Unretricted
$542,127		$542,127
(136,439)		(136,439)
405,688		405,688
109,962		109,962
16,163		16,163
280	$68,261	68,541
	73,694	73,694
	16	16
73,253		73,253
7,233	3,369	10,602
2,809	8,380	11,189
56,807	6,964	63,771
672,195	160,684	832,879
311,832	179	312,011
67,531		67,531
114,014	530	114,544
12,536	7	12,543
39		39
7,567	1,213	8,780
1,405		1,405
43,709	56,680	100,389
	31,468	31,468
11,263		11,263
5,311	4	5,315
11,333	1	11,334
119	17,340	17,459
18,780	5,479	24,259
605,439	112,901	718,340
(33,880)	33,880	
33,718	(30,993)	2,725
(14,773)	14,773	
(54,102)	52,077	(2,025)
(69,037)	69,737	700
(2,281)	117,520	115,239
(2,281)	117,520	115,239
(35,231)	836,272	801,041
($37,512)	$953,792	$916,280

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2006 AND 2005

(in thousands)	2006			
	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES				
Student tuition & fees	$573,961			$573,961
Less: University funded scholarships	(147,889)			(147,889)
Net student tuition and fees	426,072			426,072
Grants and contracts				
Program funds	120,269			120,269
Indirect cost recoveries	16,614			16,614
Investment income	107,343	$13,051	$51	120,445
Investment real property rents & appreciation	81,383	3	350	81,736
Change in value of split interest agreements	21	2,373	5,020	7,414
Auxiliary enterprises	78,504			78,504
Contributions-net	10,650	14,340	5,956	30,946
Net assets released from restrictions	10,397	(10,615)	218	0
Other income	70,232		72	70,304
Total revenue	921,485	19,152	11,667	952,304
EXPENSES:				
Salaries and wages	325,619			325,619
Fringe benefits	72,336			72,336
Purchased services	126,652			126,652
Supplies	11,814			11,814
Cost of sales	15			15
Equipment	11,604			11,604
Bad debt	49			49
Occupancy	104,314			104,314
Investment real property expense	34,494			34,494
Scholarships and fellowships	12,101			12,101
Communications	5,261			5,261
Travel and training	12,881			12,881
Interest	26,781			26,781
Other	32,807			32,807
Total expense	776,728			776,728
OTHER (DECREASES) INCREASES IN NET ASSETS				
Debt services and mandatory purposes				
Endowment support	2,953	(3,297)	344	
Capital expenditures				
Support/investment	(497)	33	464	
Total other changes in net assets	2,456	(3,264)	808	
Change in net assets before effect of change in accounting principle	147,213	15,888	12,475	175,576
Effect of change in accounting principle	(1,101)			(1,101)
INCREASES (DECREASES) IN NET ASSETS	146,112	15,888	12,475	174,475
NET ASSETS AT BEGINNING OF THE YEAR	916,280	80,336	186,585	1,183,201
NET ASSETS AT THE END OF THE YEAR	1,062,392	$96,224	$199,060	$1,357,676

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

2005			
Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$542,127			$542,127
(136,439)			(136,439)
405,688			405,688
109,962			109,962
16,163			16,163
68,541	$8,063	$28	76,632
73,694			73,694
16	476	713	1,205
73,253			73,253
10,602	12,578	2,190	25,370
11,189	(11,371)	182	
63,771	16	41	63,828
832,879	9,762	3,154	845,795
312,011			312,011
67,531			67,531
114,544			114,544
12,543			12,543
39			39
8,780			8,780
1,405			1,405
100,389			100,389
31,468			31,468
11,263			11,263
5,315			5,315
11,334			11,334
17,459			17,459
24,259			24,259
718,340			718,340
2,725	(3,689)	964	
(2,025)	1,621	404	
700	(2,068)	1,368	
115,239	7,694	4,522	127,455
115,239	7,694	4,522	127,455
801,041	72,642	182,063	1,055,746
$916,280	$80,336	$186,585	$1,183,201

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2006 AND 2005

(in thousands)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	$174,475	$127,455
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Cumulative effect of a change in accounting principle	1,101	
Depreciation and amortization	57,004	53,231
Net unrealized gains on investments	(65,796)	(58,439)
Net realized gains on investments	(83,646)	(39,458)
(Increase) decrease in accounts receivable	(3,740)	3,373
Increase in inventory and prepaid expenses	(123)	(1,197)
Decrease in pledges receivable	2,492	5,490
Decrease in deposits with trustees	949	2,807
Increase in other assets	(2,507)	(398)
Increase in accounts payable and accrued expenses	10,968	4,367
Increase in tuition deposits and other deposits	931	8,297
(Decrease) increase in grants and contracts prepayments	(6,656)	4,999
Decrease in insurance reserve	(2,529)	(1,554)
Change in value of charitable trusts	7,414	1,206
Contributions with time restrictions	(20,294)	(12,250)
Net cash provided by operating activities	70,043	97,929
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(335,089)	(270,740)
Proceeds from sales and maturity of investments	329,726	232,704
Collateral received under securities lending agreement	22,473	
Collateral invested under securities lending agreement	(22,473)	
Purchases and renovations of land and buildings	(52,934)	(56,408)
Purchases of equipment	(19,160)	(23,567)
GW school as a lender program - new loans issued	(51,484)	(38,923)
GW school as a lender program - loan sales and cancellations	58,850	30,908
Reduction in other loans receivable	1,865	512
Net cash used by investing activities	(68,226)	(125,514)
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts from contributions with time restrictions	20,294	12,250
Principal payments and refinancing on bonds and notes payable	(17,190)	(20,482)
Principal payments on line of credits	(77,000)	(101,000)
Proceeds from borrowings and refinancing of notes payable		17,250
Proceeds from borrowings on line of credits	77,000	116,000
Use of borrowings deposited with a trustee for future const. projects		788
Use of borrowings deposited with a trustee for future debt ser vice	269	259
Payments of debt issuance costs		(79)
Increase in refundable advances from US government	48	514
Increase (decrease) in advances for School as Lender	(7,418)	8,022
Net cash provided by financing activities	(3,997)	33,522
NET INCREASE (DECREASE) IN CASH AND CASH EQ UIVALENTS	(2,180)	5,937
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	19,256	13,319
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	$17,076	$19,256
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	$39,182	$27,401
Income tax payments	$113	$489
Gross value of additions to capital leases	$5,890	$7,082

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2006 AND 2005

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: The George Washington University Health Plan (GWUHP) and Mount Vernon College. Mount Vernon College is a tax-exempt Section 501(c)(3) supporting organization of the University. The George Washington University Health Plan was dissolved on August 25, 2006. 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 coverage for Residents in the University's Graduate Medical Education training program and those of the Medical Faculty Associates (MFA) prior to their separate incorporation in 2000. The fair value of the self-insurance trust assets totaled $14.5 million and $16.8 million at June 30, 2006 and 2005, 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, 2006 and 2005.

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 endowment fund 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 pool.

The University's beneficial interest in perpetual trusts is shown at fair value, which approximates present value as of June 30, 2006 and 2005, 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, 2006 and 2005, 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 $0.20 million and $0.19 million at June 30, 2006 and 2005, 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.

GW SCHOOL AS LENDER

The University provides loans to qualifying students under the federal GW school as lender program. Funds under this program are borrowed from the Student Loan Corporation, and then loaned to students. Periodically, these student loans are sold back to Citibank, as trustee for the Student Loan Corporation, under a forward purchase commitment. A receivable from students of $2.7 million and $10.0 million is reflected in the Consolidated Statements of Financial Position as of June 30, 2006 and 2005, respectively. The University has a line of credit of $60 million to support the program through June 2008. A liability, reflecting the outstanding line of credit, to the Student Loan Corporation of $2.5 million and $9.9 million is reflected in the Consolidated Statements of Financial Position as of June 30, 2006 and 2005, respectively.

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. Construction in progress costs are included in land and buildings on the Consolidated Statements of Financial Position. These costs are not depreciated until the buildings or renovations are placed into service. 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 include 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, 2006 and 2005 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 Board of Trustees.

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 as of June 30, 2006 and 2005.

LEGALLY RESTRICTED CASH BALANCES

There are legally restricted cash balances totaling $4.1 million and $3.2 million as of June 30, 2006 and 2005, respectively. The University federal loan programs have cash restricted as to their use of $3.6 million and $2.3 million as of June 30, 2006 and 2005, 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 $0.4 million and $0.8 million as of June 30, 2006 and 2005, respectively, are deposits required for the Virginia and District of Columbia insurance commissions relating to the George Washington University Health Plan (GWUHP). Those restrictions were subsequently removed in July and August 2006, as part of the final dissolution steps for 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

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 2005 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)	**2006**	**2005**
Debt service and rental property reserves invested	$3,323	$2,325
Self-insurance	14,548	16,764
Total	$17,871	$19,089

In addition, the University designates funds to be held in reserve for general liability claims (Note 2).

Note 4 – Accounts Receivable

Accounts receivable, and the related allowance for uncollectible accounts, are summarized as follows as of June 30:

(in thousands)	**2006**	**2005**
Grants and contracts	$14,895	$13,948
Student tuition and fee accounts	10,320	7,102
Due from affiliation agreements	2,570	1,517
Due from hospital partnership	2,136	4,600
Other	1,198	1,420
Allowance for doubtful accounts	(3,968)	(5,177)
Total	$27,151	$23,410

Note 5 – Pledges Receivable

Pledges receivable are summarized as follows as of June 30:

(in thousands)	**2006**	**2005**
Unconditional promises expected to be collected in:		
Less than one year	$11,406	$11,029
One year to five years	12,006	14,036
More than five years	1,439	1,146
Sub Total	24,851	26,211
Allowance for uncollectible pledges	(1,517)	(805)
Unamortized discount	(1,464)	(1,044)
Total	$21,870	$24,362

At June 30, 2006 and 2005, the University had outstanding bequest intentions and certain conditional promises to give of approximately $56 million and $47 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:

(in thousands)	**2006**	**2005**
Cash and cash equivalents	$2,309	$5,637
Equities	552,078	448,167
Fixed income	4,107	28,144
Alternative investments	221,622	197,276
Real estate	401,157	363,012
Split interest agreements	43,582	36,814
Other	39,339	36,263
Total	$1,264,194	$1,115,313

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 $52.6 million and $37.9 million as of June 30, 2006 and 2005, 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, 2006 and 2005 and therefore has not been accounted for in the financial statements.

Investment income includes net realized and unrealized gains of $114.0 million and $71.6 million for the years ended June 30, 2006 and 2005, respectively. Investment real property rents and appreciation includes net unrealized gains of $39.6 million and $31.1 million for the years ended June 30, 2006 and 2005, respectively.

The University engages in a securities lending program whereby the University lends certain securities in its investment portfolios to qualified borrowers on a short-term, fully collateralized basis. Concurrently with the delivery of the University's securities to a borrower, the borrower exchanges collateral in an amount equal to a required percentage of the market value of the securities loaned, including accrued interest (established market value). This exchange is facilitated by Mellon Bank, the University's lending agent. The collateral for the securities is held by the lending agent on behalf of the University. For U.S. securities and foreign securities denominated and payable in U.S. dollars, the required collateral percentage is 102% of the securities market value. The required percentage with respect to the market value of foreign securities is 105%. Throughout the duration of the loan, the collateral is marked-to-market on a daily basis. On any given day, if the collateral currently held is less than 102% of the original market value of a loaned U.S. security or 105% of a foreign security, the borrower is required to deliver the difference at the close of trading by the next business day. On the termination date of the loan, the borrower must return to the lending agent the same, or substantially the same, securities that were borrowed. The lending agent, in its agreement with the University, guarantees the repayment of the loan in the event the borrower defaults. The University retains all the benefits of ownership including rights to dividends, interest, and other cash distributions pertaining to the loaned securities. The University also retains the right to redeem the loaned securities prior to their stipulated redemption date.

As of June 30, 2006, the market value of the securities on loan was $21.7 million and the collateral held by the lending agent on behalf of the University was $22.5 million. There was no security lending activity for the year ended June 30, 2005.

Note 7 – Hospital Limited Partnership

The University has a 20% limited partnership interest in District Hospital Partners, L.P. (DHP), which owns and operates the GWU Hospital and provides 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 years ended June 30, 2006 and 2005 was approximately $2.5 million and $1.1 million, respectively.

On June 30, 1997 the University recognized an intangible asset 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, 2006 and 2005. Accumulated amortization at June 30, 2006 and 2005 was approximately $10.2 million and $9.0 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 $22.9 million and $22.6 million reported as other income and $0.2 million and $0.4 million in services purchased from the Hospital reported under various captions for the years ended June 30, 2006 and 2005, respectively. The receivable from DHP for the unpaid balance of these services is $2.1 million and $4.6 million as of June 30, 2006 and 2005, respectively.

Note 8 – Physical Properties

Physical properties are summarized as follows as of June 30:

(in thousands)	**2006**	**2005**
Land	$127,307	$127,307
Buildings	935,415	882,245
Building under capital lease	6,528	6,527
Accumulated depreciation	(292,494)	(265,004)
Total	$776,756	$751,075
Furniture and equipment	$215,001	$198,357
Equipment under capital leases	24,582	28,203
Accumulated depreciation	(150,583)	(128,830)
Total	$89,000	$97,730

The value of buildings includes the addition of capitalized interest of approximately $1.8 million and $0.5 million in the years ended June 30, 2006 and 2005, respectively.

Building depreciation expense was $27.3 million and $24.8 million in the years ended June 30, 2006 and 2005, respectively. Furniture and equipment depreciation expense was $27.9 million and $26.6 million in the years ended June 30, 2006 and 2005, respectively. These amounts include depreciation of $7.1 million and $7.2 million for the years ended June 30, 2006 and 2005, respectively, related to equipment under capital leases.

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, relevant federal requirements regulate 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:

(in thousands)	**2006**	**2005**
Trade payables	$24,460	$25,849
Accrued payroll and related liabilities	45,478	45,073
Accrued other expenses	12,980	9,272
Asset retirement obligation	1,434	
Accrued building construction	8,433	3,735
Accrued building maintenance and repairs	82	21
Other payables	10,286	7,282
Annuity funds	4,523	4,364
Pooled life income funds	396	393
Charitable remainder trusts, GW Trustee	882	898
Total accounts payable and accrued expenses	$108,954	$96,887

Note 10 – Bonds and Notes Payable

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

(in thousands)	**2006**	**2005**
Bonds; 3.722% - 6.25%; maturing through 2032	$537,805	$546,735
Non-recourse notes payable; 4.955% - 5.703%; maturing through 2015; collateralized by real property	140,545	142,497
Unsecured notes payable; 3.00% - 5.538%; maturing at various dates through 2021	25,863	32,171
Unsecured note payable on demand; 5.434%	15,000	15,000
Total bonds and notes payable	$719,213	$736,403

There was no new debt issued by the University during the year ended June 30, 2006. In June 2005, the 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.

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, $0.1 million and $0.4 million were included in Deposits with trustees at June 30, 2006 and 2005, respectively.

Interest expense was $36.7 million and $26.5 million for the years ended June 30, 2006 and 2005, respectively. These amounts include interest expense that relates to rental properties of $10.8 million and $9.1 million for the years ended June 30, 2006 and June 30, 2005, respectively, which are reflected within the Investment real property expense category. In addition, interest expense includes $0.8 million on capital leases for both of the years ended June 30, 2006 and 2005, and $0.1 million for other interest for the year ended June 30, 2005.

As of June 30, 2006, principal payments are due on bonds and notes payable in accordance with the following schedule.

Fiscal Year Ending June 30	*(in thousands)*
2007	$26,120
2008	12,218
2009	12,962
2010	13,703
2011	14,917
Thereafter	639,293
Total	$719,213

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. $25.6 million and $31.9 million were outstanding under the program as of June 30, 2006 and 2005, respectively. 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 FTNP are reflected as being made after 2011 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, 2006 and June 30, 2005, is summarized as follows:

June 30, 2006		*(in thousands)*
	Carrying Amount	Estimated Fair Value
Cash and cash equivalents	$17,076	$17,076
Deposits with trustees	$17,871	$17,871
Pledges receivable, net	$21,870	$21,870
Investments	$1,264,194	$1,264,194
Bonds and notes payable	$719,213	$733,161

June 30, 2005		*(in thousands)*
	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	$1,115,313	$1,115,313
Bonds and notes payable	$736,403	$755,438

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)	2006		2005	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Building funds	$3,882		$6,561	
Endowment funds	64,369	$158,536	47,931	$149,663
Split interest agreements	4,774	33,060	2,658	28,205
Loan funds		4,551	1	4,240
Restricted pledges	21,989	2,913	21,975	4,477
Other restrictions	1,210		1,210	
Total	$96,224	$199,060	$80,336	$186,585

Note 13 – Program and Supporting Activities Expense

The consolidated statements of activities include the following program and supporting activity expenses for the years ending June 30, 2006 and 2005, respectively:

(in thousands)	2006	2005
Instruction and academic support	$368,930	$349,015
Research	115,481	101,491
Student services	67,772	63,493
Student aid	16,131	15,095
Institutional support	60,030	55,051
Auxiliary enterprises	72,873	67,623
Technology	40,952	35,665
Independent operations	34,559	30,907
Total	$776,728	$718,340

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 $124 million and $111 million in 2006 and 2005, 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 whom 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 $20.1 million and $18.9 million in fiscal year 2006 and fiscal year 2005, respectively.

Note 15 – Commitments and Contingencies

The University is a defendant in certain pending civil suits. Based upon information currently available, management believes that any liability resulting therefrom will not materially affect the financial position or operations of the University.

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 non-cancelable 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)*
2007	$16,852
2008	14,377
2009	12,353
2010	9,617
2011	8,470
Thereafter	35,941
Total	$97,610

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)*	
2007	$6,773
2008	3,083
2009	1,354
2010	167
2011	29
Minimum lease payments	11,406
Less amount representing interest	(951)
Capital leases payable	$10,455

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

Note 16 – Related Parties

MEDICAL FACULTY ASSOCIATES, INC.

The University has 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. The University had an outstanding receivable balance due from the MFA of $0.6 million and $0.5 million as of June 30, 2006 and 2005, respectively. The University had an outstanding payable balance due to the MFA of $0.8 million and $0.7 million as of June 30, 2006 and 2005, respectively.

Note 17 – Cumulative Effect of Accounting Change

The University adopted Financial Accounting Standards Board (FASB) Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" (FIN 47), an interpretation of FASB Statement No. 143, "Accounting for Asset Retirement Obligations" (SFAS 143) on June 30, 2006. FIN 47 requires that the fair value of the liability for the asset retirement obligations (ARO) be recognized in the period in which it is incurred and the settlement date is estimable, even if the exact timing or method of settlement is unknown. The ARO is capitalized as part of the carrying amount of the long-lived asset retroactively to the time at which legal or contractual regulations created the obligation. The ARO for the University is primarily associated with the cost of removal and disposal of asbestos and lead paint.

As a result of implementing FIN 47, the University recorded a cumulative effect of change in accounting principle of approximately $1.1 million. In addition, the University capitalized $0.5 million of asset retirement costs with an accumulated depreciation balance of $0.3 million. The ARO liability as of June 30, 2006 is $1.4 million and is included under accounts payable and accrued expenses on the Consolidated Statements of Financial Position. The fiscal year 2006 accretion and depreciation expense for the ARO are $0.07 million and $0.02 million, respectively.

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SUMMARY OF FINANCIAL RESULTS AND ENROLLMENT

FINANCIAL RESULTS

(in thousands)	Year End 2006	Year End 2005
Assets	$2,290,320	$2,114,118
Net Assets	$1,357,676	$1,183,201
Increase in net assets	$174,475	$127,455
Market value of investments	$1,264,194	$1,115,313
Bonds and notes payable	$719,213	$736,403
Revenues	$952,304	$845,795
Expenses	$776,728	$718,340
Capital expenditures	$72,094	$79,975

ENROLLMENT

	Academic Year End				
	2006	2005	2004	2003	2002
STUDENTS–FTE					
Undergraduate	9,991	10,173	9,576	9,357	9,148
Graduate	5,804	6,575	6,449	6,275	5,884
Law	1,772	1,729	1,711	1,618	1,630
Medical	1,547	668	659	650	630
Non-degree	395	411	463	570	650
Total fall enrollment	19,509	19,556	18,858	18,470	17,942
UNDERGRADUATE ADMISSIONS					
Applications	19,406	20,159	18,442	16,910	15,960
Selectivity ratio	37%	38%	39%	40%	49%
Matriculation ratio	33%	35%	32%	34%	33%
DEGREES CONFERRED					
Baccalaureate	2,335	2,421	1,993	2,007	1,731
Master's	3,241	3,151	3,196	2,768	2,877
First professional	659	634	623	587	632
Doctoral	278	245	252	228	223
GRADUATE ADMISSIONS					
Applications	11,423	11,520	11,717	10,799	9,875
Selectivity ratio	51%	49%	47%	49%	50%
Matriculation ratio	47%	47%	49%	50%	51%
LAW					
Applications	11,938	12,673	12,433	11,537	9,272
Selectivity ratio	21%	19%	20%	21%	26%
Matriculation ratio	30%	29%	30%	27%	27%
GRADUATE-MEDICAL CENTER					
Applications	1,675	1,523	1,490	1,585	1,262
Selectivity ratio	51%	58%	61%	59%	67%
Matriculation ratio	51%	50%	46%	50%	42%
MEDICINE (M.D.)					
Applications	10,195	9,534	9,226	8,126	8,727
Selectivity ratio	4%	4%	4%	5%	5%
Matriculation ratio	50%	43%	43%	40%	37%

   

THE GEORGE
WASHINGTON
UNIVERSITY
WASHINGTON DC

Errata Sheet
For
2005 -2006 Financial Report
The George Washington University

Last Updated: February 12, 2007

This errata sheet corrects the enrollment information on page 31. It replaces the 2006 Graduate FTE of 5,804 with 6,682. It replaces the 2006 Medical FTE of 1,547 with 669. The correction includes students in the School of Public Health and Health Services in the Graduate total, rather than the Medical total. This is consistent with the classifications reported for 2002 through 2005.

ENROLLMENT-CORRECTED

	Academic Year End				
	2006	**2005**	**2004**	**2003**	**2002**
STUDENTS-FTE					
Undergraduate	9,991	10,173	9,576	9,357	9,148
Graduate	6,682	6,575	6,449	6,275	5,884
Law	1,772	1,729	1,711	1,618	1,630
Medical	669	668	659	650	630
Non-degree	395	411	463	570	650
Total fall enrollment	19,509	19,556	18,858	18,470	17,942