GW

2006 – 2007 Financial Report

THE GEORGE WASHINGTON UNIVERSITY
WASHINGTON DC

The George Washington University

Introduction: Coming Together… On Campus, In Our Community, and Beyond

The George Washington University has reached a critical juncture in achieving its highest aspirations: to be nothing less than the intellectual center of the nation's capital. As President Steven Knapp sets his ambitious agenda in motion, GW has an opportunity to take a fresh look at its achievements, goals, and institutional culture–and continue to raise the bar.

To meet–and exceed–the rising expectations of our students, staff, faculty, and alumni, GW has launched an unprecedented drive to integrate, align, and capture the synergy of its unique resources. That means instilling values of collaboration and measuring results to show where we can achieve even more. Throughout the University, we are finding new ways to leverage our capabilities, assets, and partnerships for the greatest benefit to our entire community.

This Financial Report highlights how this alignment magnifies results in four key areas:

- cultivating the extraordinary intellectual and cultural resources of Washington, D.C.;
- unleashing the imagination, leadership, and drive of our students;
- mining the diverse knowledge, expertise, and talent within our academic and administrative departments; and
- catalyzing and advancing world-class, interdisciplinary research and curricula.

Coming together, we are amplifying GW's impact on our campus, in our city, across the country, and around the world.

Louis H. Katz

Executive Vice President and Treasurer

Capitalizing on a Community of Place

"Washington is rightly perceived as a center of power and an international crossroads, but it is not always recognized for its intellectual and cultural strengths. As the foremost university at the heart of the nation's capital, GW can play a vital role in hosting some of the most important conversations of our era."

— Steven Knapp, President

GW's strategic location affords unparalleled resources: embassies, elected officials and government agencies, international organizations, national museums, trade associations, performing arts centers–all offering students opportunities for learning experiences they will find nowhere else. And in our classrooms, faculty drawn from the wealth of surrounding institutions share not only academic expertise but also firsthand knowledge and high-level, hands-on experience. GW students can learn about a foreign country from an ambassador or government from a federal official–or study the law by watching a Supreme Court argument.

President Knapp is acutely attuned to the University's synergistic relationship with the nation's capital. In fact, he will become the University's first president to live on campus when he moves into a building that once housed the historic F Street Club. He aims to create a venue for discussions among local, national, and international leaders; GW faculty and students; and members of the local community–reinforcing the sense of the campus as a destination for discourse on important issues.

CAPTURING THE CONTENT OF A VAST NETWORK

"As higher education is increasingly challenged to demonstrate value, it's no longer enough to be geographically well placed and let the flowers bloom. Some students are self-starters who will find opportunities themselves; for the rest we need to forge connections."

— Richard Sawaya, Vice President for Government, International and Community Relations

GW's programs and faculty continuously cultivate initiatives, events, partnerships, and relationships that can benefit both our internal and external communities. In fact, one of our greatest institutional challenges is finding ways to provide ready access to information about them and quantify their impact and importance to the University, the District, the nation, and the world.

Working with the Department of Geography, GW's Office of Government, International and Community Relations is leading three convergent initiatives to develop local, federal, and international databases to pool information on our vast network of relationships. These readily available and easily monitored databases will enable GW to realize greater value by cultivating linkages among partners and resources at every level.

Beginning with the local database, the office is working with the University's deans to capture details about their partnerships, which the Geography Department will use to produce color-coded maps depicting which departments are active in which areas of the region. In the coming year, the office plans to systematically capture information on government and institutional relationships for the federal and international databases.

The process will be somewhat iterative, determining the best ways to collect, categorize, and retrieve the data based on experience. As the University's deans become accustomed to reporting the information and benefit from its results–in both opening doors and reducing duplication of effort–the office expects that participation will continuously increase.

FINDING FERTILE GROUND FOR GIVING

Just as GW taps into Washington's resources, the University has a thriving tradition of responding to community needs–many of them unique to the city. In fact, The Princeton Review counts GW among the nation's top socially aware schools in *Colleges with a Conscience: 81 Great Schools with Outstanding Community Involvement*. The University seeks out opportunities to apply specialized knowledge to local issues.

"As a physician, I believe being in service to other human beings is one of the highest callings—and it makes you really feel good. It can be at any level: spooning out food in a soup kitchen, volunteering as a candy striper in a hospital, or working in a health clinic. We as faculty and staff need to set an example and the students will follow."

— John F. Williams, Provost and Vice President for Health Affairs

For example, the Medical Center's work on cardiovascular disease concentrates not on the typical open heart surgery but on health issues that affect our community, such as congestive heart failure and hypertension. For 35 years, the Law School has provided legal assistance, from addressing domestic violence to representing the interests of D.C. consumers, through the Jacob Burns Community Legal Clinics–which last year further reinforced the link between education and practice with the establishment of the endowed Jacob Burns Foundation Professor of Clinical Law. And in 2006-07 GW students provided an estimated 55,000 hours of volunteer service in the District.

GW further showed its commitment to an ongoing partnership with the surrounding community–as well as the District and the nation–by reaching out to our neighbors in a two-year community-based planning process to create the 20-Year Foggy Bottom Campus Plan. Working with the community relations staff, the Office of Real Estate gathered input and solicited feedback from individuals and organizations throughout the community and the District. The transparent, inclusive process generated more than 300 records of support. The result: a long-term plan for development of the Foggy Bottom campus and Square 54, the former site of the GW Hospital, that provides a mix of educational, environmental, retail, and transit amenities and offers shared benefits for the University, the neighborhood, and the District.


THE GEORGE WASHIN

Activating Our Students

"Each spring I teach a course in the Graduate School of Education and Human Development. It's a great opportunity for me to hear—firsthand—student feedback about their experiences at GW and incorporate their ideas into GW's real-time decision making. That kind of input helps keep us fresh and current in meeting student needs."

— Robert Chernak, Senior Vice President for Student and Academic Support Services

Through a partnership built on mutual trust and confidence, GW has unleashed the power of our students' energy, ideas, and optimism to advance our shared goals. At the same time, GW's Student Association and other student groups drive new policies and programs to enhance student life. While traditionally universities' student activities offices take the lead in creating student programs, GW is focused on providing the resources, expertise, and space that student initiatives need to succeed.

When students open their acceptance letters from GW, they're ecstatic and satisfied. That's the feeling the University strives to sustain, from the day they arrive on campus and throughout their lives. That means anticipating and preventing situations that can interfere with achieving that level of satisfaction–or diligently addressing them immediately after they arise.

To see that its programs and services are contemporary and synergistic with the students' needs, GW's Office of Student and Academic Support Services is developing a strategic plan that will both create and eliminate programs and services–and home in on the areas in which the University wants to excel. Because GW serves so many different populations–graduate, undergraduate, and part-time students at different campuses and from various backgrounds–no single strategy will engage every population. So the University applies a set of diverse and flexible strategies that respond to their different needs.

RALLYING STUDENT AMBASSADORS

GW students have become some of our most effective ambassadors, reaching out to neighbors in the Foggy Bottom community, policymakers in the D.C. government, and members of Congress. In one of their most visible initiatives, students embraced GW's effort to gain approval for the 20-Year Foggy Bottom Campus Plan. Through "Campaign GW," the Student Association rallied student support and informed students about the plan–including escorting administrators to visit students in residence halls during evening "dorm storms" to discuss the University's development plans. As a result, hundreds of students turned out for hearings of the D.C. Zoning Commission and the National Capital Planning Commission, showing critically important support for the campus plan.

"It speaks very highly of GW when the students go out and advocate for their university. It shows we want to be here; we're part of this community. And it highlights our respect and appreciation for the opportunities that GW affords us."

— Nicole Capp, President, GW Student Association

GW's Office of Government, International and Community Relations is instrumental in encouraging student activism, especially at the local level. For

"Students are tireless. They're not cynical; they really believe they can change the world. And they often do."

— Louis H. Katz, Executive Vice President and Treasurer

BRINGING SAFEWAY STORES TO THE TABLE

The Safeway supermarket chain participates in the prepaid card program of just one university in the East: GW. That's because the Student Association and the University's GWorld Card program teamed up to break what had appeared to be an impasse with Safeway Inc.

Students had long called for a full-service grocery partner for the GWorld and Colonial Cash programs, but for years the University was unable to reach agreement with Safeway. Then the Student Association stepped in. Its leaders visited the chain's regional headquarters last April to personally present their proposal and then, with the support of Student and Academic Support Services and the GWorld program, negotiated all summer to get a contract with Safeway signed. By September, GW students were using their GWorld cards at three local Safeway stores.

example, on "D.C. Government Training Day" its staff took students to tour the city's Wilson Building; meet with the mayor's staff, D.C. councilmembers, and other officials; and learn about how to effectively participate in local policy development.

CREATING LIFELONG PARTNERS

A GW education must be something that endures after the names and facts and dates learned in the classroom are long forgotten. The way we keep in touch with students, their perceptions of the value of their education, and our ability to exceed their expectations: these are the factors that engage them while they're here and build their lasting capacity to relate, reason, think, use technology, and appreciate the arts. These factors all cement a lifelong connection between GW and our alumni.

With more than 240,000 alumni worldwide–70,000 of them in the D.C. metropolitan area–GW has countless connections that can open doors for our students and graduates throughout their lives. Many alumni are eager to reconnect with faculty and support efforts to advance the frontiers of learning in their fields. And they are invaluable resources for both financial support and career development.

The GW Law School is an extraordinary model for alumni engagement. Almost 9,000 alumni in the D.C. metropolitan area provide a rich source of internships and expert advice for students. And last year Law School alumni across the nation hosted receptions in 13 cities to meet and greet the school's accepted students and help them choose GW.

> "All students—whether graduate, undergraduate, or part-time—have an expectation to get connected for employment. You can't just do that well; you need to do it better than anybody."
>
> — Robert Chernak, Senior Vice President for Student and Academic Support Services


The George Washington University
ACCESSIBLE ENTRANCE

Bridging Institutional Divides

"Universities are measured by the quality of their academics and research, but to support that we must constantly improve how we function from within—and challenge how universities traditionally operate."

— Louis H. Katz, Executive Vice President and Treasurer

Like many large institutions, GW tends to grow and evolve within organizational "silos"–vertical divisions that can inhibit the exchange of resources and ideas. The University's groundbreaking initiatives are bridging those divides to improve services, empower staff, and conserve human talent and financial assets for reinvestment in academic and research priorities.

TEAMING UP TO DELIVER STELLAR SERVICES

GW is fostering a culture that makes services accessible based on what the customer needs, not on an organizational structure. This approach goes beyond consumer orientation. It focuses on how the University's offices relate to one another, work together, and understand their respective issues and needs. Through incentives, training, and motivational tools, GW is helping employees to create innovative ways to join forces for even better results.

CREATING A SERVICE THINK TANK

Co-chaired by GW Executive Vice President and Treasurer Louis Katz and Senior Vice President for Student and Academic Support Services Robert Chernak, the Service Excellence Core Group has produced unprecedented collaboration between their offices, among a wide array of units:

- Financial Service Units – Office of Financial Aid, Payroll Services, Student Accounts, and Cashier's Office
- Student Academic Service Units – Undergraduate Advising, Gelman Library, and the Registrar's Office
- Student Support Service Units – Housing Services and Occupancy Management, Undergraduate Admissions, and the Office of Alumni Programs

Their work is improving the customer experience for students, parents, alumni, visitors, guests, and other external constituents—and enhancing the University's working environment as well.

Improving student service once meant training staff to answer the phone; today it demands harnessing the power of both employees and technology to deliver immediate information and handle a transaction—from start to finish—in one place, at one time. To see the power of GW's smart service delivery, look no further than Colonial Central—a new hub of activity at the heart of the Foggy Bottom campus where three departments converge to give students one-stop financial and administrative services. Coupled with expanded online services, Colonial Central sets the standard for university-wide collaboration and resource sharing.

Colonial Central served 8,000 customers in its first four weeks—and none of them waited in a long line. Intensive planning, clear signage, and effective publicity helped, but a key factor is the efficiency of enabling students to handle several transactions at once instead of moving from location to location across campus. By closely monitoring results, Colonial Central will keep enhancing and adding to its services by tailoring them to well-documented demand. Its frontline service staff keep statistics on each person they help and which services they provide, tracking not only what various customers need but also times of peak demand when staffing needs are greatest.

MOBILIZING FOR MOVE-IN DAY

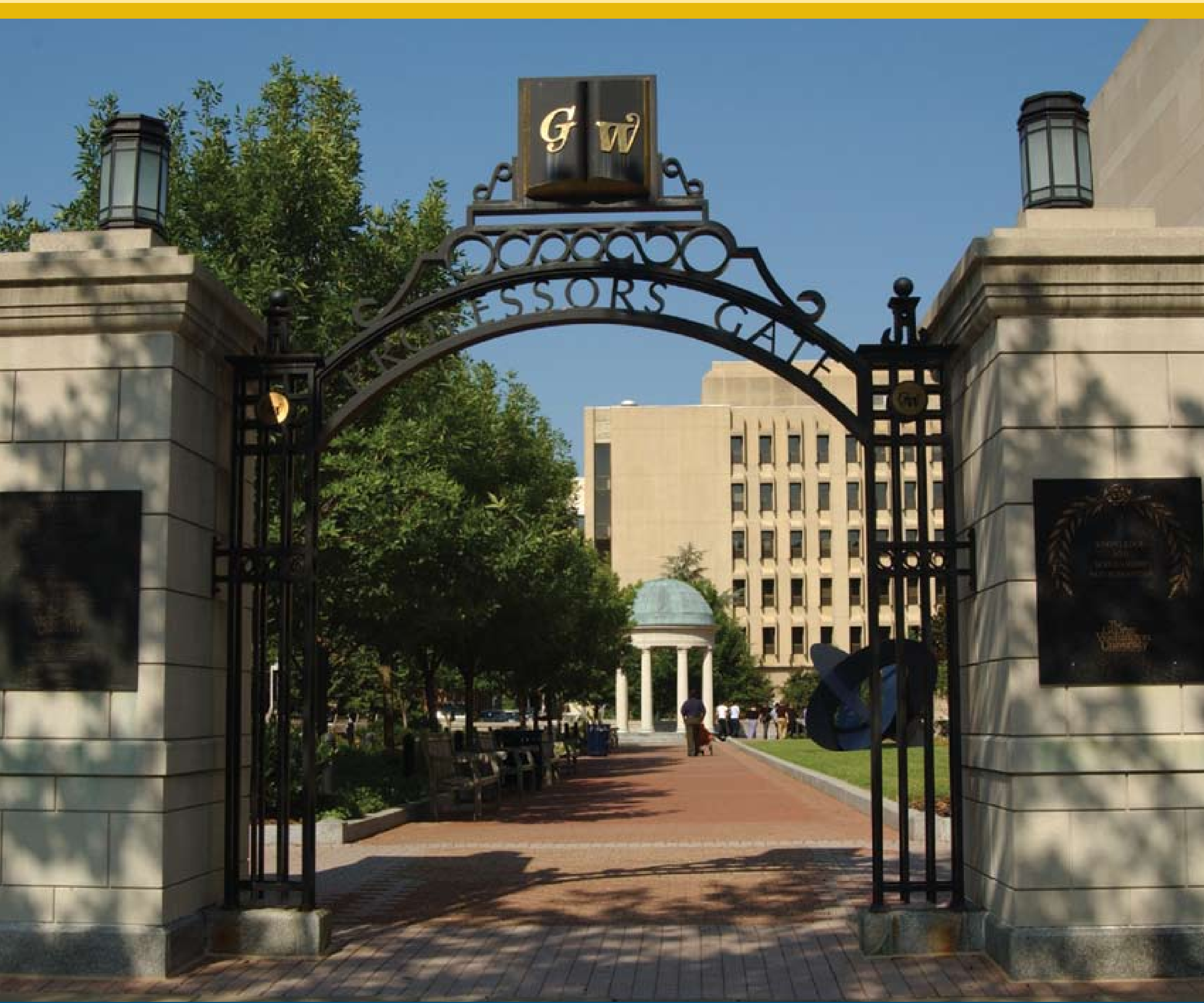
This year a formidable Transitions Committee—composed of 20 GW departments from Facilities Management to the University Police—achieved unprecedented results on Move-In Day. The committee pulled together to make sure everything from furnishings to electronics was in place for incoming first-year students. They also created customer-friendly tools including a briefing, move-in checklist, Web site, and resource map. Finally, they enlisted a record-setting 600 volunteers—up from 300 a year ago—to facilitate and troubleshoot throughout the day. As a result, Move-In Day was the best in 20 years for efficiency and customer satisfaction.

BUILDING RELATIONSHIPS THROUGH COMMUNITY-BASED PLANNING

Nearly every GW department had a role to play in obtaining the unanimous approval of the D.C. Zoning Commission for three landmark projects: the University's 20-Year Foggy Bottom Campus Plan; plans to redevelop Square 54 as a vibrant gathering place with retail, residential, and office space; and a public-private development partnership with D.C. Public Schools (DCPS) that allows GW to build a new undergraduate residence hall and enables DCPS to renovate the District's School Without Walls. In addition to laying the groundwork for physical campus development, the two-year process forged solid working relationships throughout the University.

GW's Office of Real Estate was at the center of a network of offices that shaped the University's campus vision, honed messages with the communications team, coordinated internally with multiple departments in cross-functional working groups, enlisted support from the Student Association and other student groups, shared insights and information with the community relations staff, and clarified regulatory issues with the Office of General Counsel. This effort not only led to the success of GW's development plan but also forged linkages that uncovered opportunities for collaboration between offices that are working on parallel efforts–or between one office seeking to pursue an idea and another that's already developing it.

These ongoing relationships and information channels continue to smooth the way as the University begins to implement and "operationalize" the campus plan over many years–making sure the right resources are in place to turn great ideas into reality, educating the entire University about the campus plan and what it means for GW's future, and keeping the neighbors informed about plans, progress, and how they will be affected so we can minimize surprises or disruptions. This year the University will work with stakeholders within GW and throughout the community and the District to finalize the details of two key elements of the 20-Year Foggy Bottom Campus Plan: a streetscape to create a sense of identity and ease movement throughout the campus, and a campus historic district that preserves buildings of historic and architectural significance.


GW
PROFESSORS GATE

Scaling New Heights in Research and Academics

"With the approval of the 20-Year Foggy Bottom Campus Plan and Square 54 development and the prospect of significantly increasing our fundraising, we have a singular opportunity to build a state-of-the-art science and engineering complex that will position us to continue building GW as an outstanding research institution."

— Donald R. Lehman, Executive Vice President for Academic Affairs

Over the past 50 years, GW has evolved from a well-respected regional university for professional and graduate education into a highly acclaimed undergraduate university as well. Now we are poised to take our place among the best research institutions in the nation and the world. Our robust research program is fully capitalizing on the expertise of faculty and University partners, strengthening and invigorating teaching, and creating a boon for the local economy by keeping more federal research dollars in Washington.

RAMPING UP RESEARCH

Across the University, key staff and resources advance a research agenda that is one of President Knapp's top priorities. The Executive Research Oversight Committee brings together the University's executive vice president for academic affairs, the executive vice president and treasurer, the provost and vice president for health affairs, the chief research officer, and the deputy general counsel to lend strategic direction to GW research topics and responses to research issues.

Building the Proposed Science and Engineering Complex

As GW embarked on planning for a proposed science and engineering complex, the University began with the inside, bringing together key faculty and key administrators to pool their knowledge and insights about which programs and research activities to collocate for maximum impact. Led by Chief Research Officer Elliot Hirshman, the committee produced a consensus report that lays a foundation for conceptualizing a building that facilitates discovery across departments and disciplines.

Increasing Federal Grants and Contracts

A key metric for ranking research institutions is federal research dollars. To attract the additional federal funds that will place GW firmly among the top 100 U.S. research institutions, the University is building a faculty at the forefront of finding new knowledge and helping them navigate the increasingly complex requirements for applying for and managing grants. Academic Affairs works across all units and in partnership with Grants and Contracts Accounting Services to facilitate the process–and see that faculty don't spend half their time administering a project after the award.

A MEDICAL MODEL FOR INTERDISCIPLINARY RESEARCH

With vast and diverse components, the GW Medical Center has collaboration down to a science. The center's School of Medicine and Health Sciences, School of Public Health and Health Services, and its affiliated GW Hospital and GW Medical Faculty Associates foster interdisciplinary programs that advance scientific research and health care policy while providing patient care. Through its work, the Medical Center continually seeks opportunities to do research from bench to bedside, enabling basic scientists to work with clinical scientists so that their findings may have an immediate benefit in the field.

As the Medical Center implements a two-year-old strategic plan that for the first time incorporates other parts of the University, it has undertaken joint academic programs with the GW Law School, Elliott School of International Affairs, School of Business, Trachtenberg School of Public Policy and Public Administration, Graduate School of Education and Human Development, and Columbian College of Arts and Sciences as well. Beyond the University, its global partnerships include the cultivation of public-private efforts to build capacity in developing countries to stop the "brain drain" and enhance medical care.

Through GW's Institute for Proteomics Technology and Applications, researchers from the School of Medicine and Health Sciences and Departments of Chemistry, Biology, Physics, and Computer Science are collaborating on one of the University's most significant research initiatives. The project is developing a new *in vivo* protein microscope that will allow researchers to study the structure and function of proteins in living tissue–a breakthrough that promises to advance the treatment of neurodegenerative diseases.

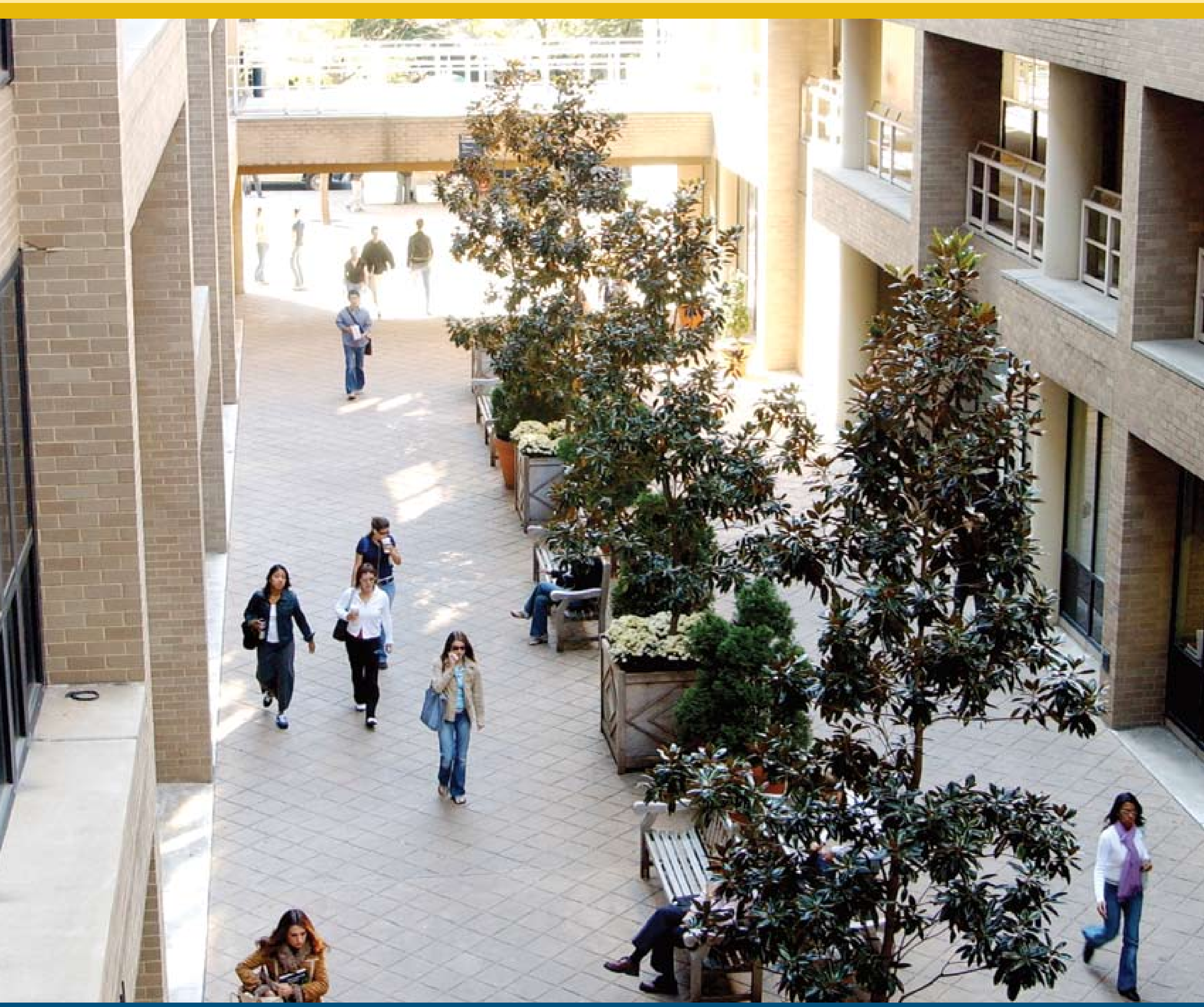
KEEPING CURRICULA ON THE CUTTING EDGE

GW's administration and faculty build academic programs that harness the best tools, technologies, and methods for achieving excellence, while leveraging the educational opportunities beyond the classroom that are fundamental to the GW experience. Through a two-year process, the GW Hewlett Project created and implemented undergraduate courses that make use of the University's Washington location and resources–and apply active-learning approaches that elicit an excitement of inquiry and research that is usually reserved for graduate-level study.

In addition, last year the Office of Academic Affairs formed two commissions of both internal and external experts to chart a course for the graduate schools of education and engineering as they adapt to enormous changes in their fields over the next 10 to 15 years. The Commission on the Graduate School of Education and Human Development is rethinking the approach to training teachers, while the Commission on the Graduate School of Engineering and Applied Science is focused on the implications of rapidly changing technologies, models for financial accountability, and the viability of a four-by-four curriculum in which students take fewer more intensive courses each semester.

Also in 2007, the University Honors Program launched a strategic plan that includes a new core curriculum. Created by interdisciplinary faculty teams, the curriculum features proseminars: four-credit general education courses that incorporate international and intercultural perspectives and inquiry-based learning. And this year GW's deans and faculties of the five undergraduate schools will thoroughly review the overall undergraduate curriculum.

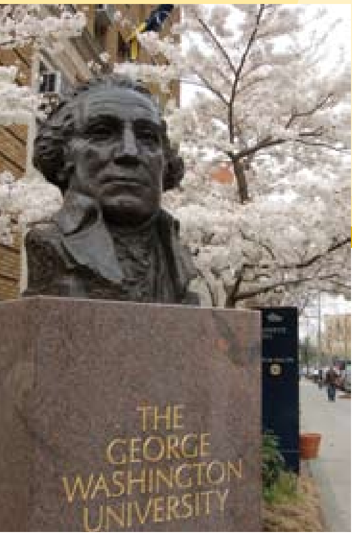
To enhance these offerings, GW Academic Technologies supports electronic tools, such as the Blackboard course management system that allows faculty to post part or all a course on the Web in a secure environment–and works 24-7 to be sure the system is in working order before students log on each day. Together with Apple Computer's iTunes U, Academic Technologies created Colonial Cast, which enables students to access lectures and related videos on their iPods, MP3 players, and personal computers. Dozens of GW classrooms are now podcast-enabled.



Res Ipsa Loquitur – The Thing Speaks For Itself

GW has achieved financial success by dedicating our institution to doing everything else right: communicating our vision, engaging our partners, instilling forward-thinking management, and delivering customer-focused services. The ultimate result: the capacity for sustained excellence in research and academics.

GW is coming together: from high-profile campaigns that enlist and serve our supporters within and beyond our campus; to collaboration with world leaders throughout government, business, philanthropy, and academia; to management innovations behind the scenes that enable us to work smarter–not just harder–to reach our goals. Because we know that if the University is going to the next level, we all have to go there together.



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 and its subsidiaries (the "University") at June 30, 2007 and 2006, 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 14 to the consolidated financial statements, the University adopted Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of FASB Statements No. 87, 88, 106 and 132(R), in fiscal year 2007. 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 5, 2007

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of June 30, 2007 and 2006

(in thousands)	2007	2006
ASSETS		
Cash and cash equivalents	$58,870	$17,076
Deposits with trustees	16,805	17,871
Accounts receivable, net	33,458	27,151
Prepaids and other current assets	4,128	4,475
Pledges receivable, net	27,548	21,870
Collateral for securities loaned	28,680	22,473
Investments	1,508,178	1,264,194
Loans and notes receivable, net	33,439	32,248
Physical properties, net:		
Land and buildings	809,141	776,756
Furniture and equipment	88,551	89,000
Other assets	16,419	17,206
Total assets	$2,625,217	$2,290,320
LIABILITIES		
Accounts payable and accrued expenses	$125,549	$108,954
Payable under securities loan agreements	28,680	22,473
Deferred revenue:		
Tuition and other deposits	26,366	27,347
Grants and contract payments	16,595	9,078
Insurance reserves	12,306	16,538
Bonds and notes payable	793,087	719,213
Funds advanced for student loans	29,757	29,041
Total liabilities	1,032,340	932,644
NET ASSETS		
Unrestricted net assets (deficit):		
Unrestricted operating	(25,793)	(34,745)
Unrestricted capital and investing	1,278,848	1,097,137
Total unrestricted	1,253,055	1,062,392
Temporarily restricted	128,077	96,224
Permanently restricted	211,745	199,060
Total net assets	1,592,877	1,357,676
Total liabilities and net assets	$2,625,217	$2,290,320

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

CONSOLIDATED STATEMENTS OF UNRESTRICTED ACTIVITIES

Years Ended June 30, 2007 and 2006

(in thousands)

	2007		
	Operating	Capital and Investing	Total Unrestricted
REVENUE			
Student tuition and fees	$617,544		$617,544
Less: University funded scholarships	(157,047)		(157,047)
Net student tuition and fees	460,497		460,497
Grants and contracts			
Program funds	131,771		131,771
Indirect cost recoveries	17,541		17,541
Investment income	253	$141,900	142,153
Investment real property rents and appreciation		100,130	100,130
Change in value of split interest agreements		180	180
Auxiliary enterprises	85,085		85,085
Contributions, net	14,954	1,006	15,960
Net assets released from restrictions	4,043	2,333	6,376
Other income	64,154	9,293	73,447
Total revenue	778,298	254,842	1,033,140
EXPENSES			
Salaries and wages	351,874	365	352,239
Fringe benefits	75,193		75,193
Purchased services	142,819	1,013	143,832
Supplies	12,077	1	12,078
Cost of sales	16		16
Equipment	9,968	1,140	11,108
Bad debt	1,341		1,341
Occupancy	46,481	57,259	103,740
Investment real property expense		36,761	36,761
Scholarships and fellowships	12,480		12,480
Communications	5,972		5,972
Travel and training	15,637	3	15,640
Interest	18	25,825	25,843
Other	23,537	2,036	25,573
Total expenses	697,413	124,403	821,816
OTHER (DECREASES) INCREASES IN NET ASSETS			
Extinguishment of debt		(7,020)	(7,020)
Debt service and mandatory purposes	(46,397)	46,397	
Endowment support	41,712	(39,295)	2,417
Capital expenditures	(15,343)	15,343	
Support/investment	(51,905)	49,127	(2,778)
Total other changes in net assets	(71,933)	64,552	(7,381)
Change in net assets before cumulative effect of a change in accounting principles:	8,952	194,991	203,943
FASB Statement No. 158 – postretirement benefit plans		(13,280)	(13,280)
FASB Interpretation No. 47 – asset retirement obligations			
INCREASE IN NET ASSETS	8,952	181,711	190,663
NET ASSETS (DEFICIT) AT BEGINNING OF THE YEAR	(34,745)	1,097,137	1,062,392
NET ASSETS (DEFICIT) AT THE END OF THE YEAR	($25,793)	$1,278,848	$1,253,055

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

2006		
Operating	Capital and Investing	Total Unrestricted
$573,961		$573,961
(147,889)		(147,889)
426,072		426,072
120,269		120,269
16,614		16,614
332	$107,011	107,343
	81,383	81,383
	21	21
78,504		78,504
9,727	923	10,650
2,560	7,837	10,397
61,410	8,822	70,232
715,488	205,997	921,485
325,368	251	325,619
72,336		72,336
125,442	1,210	126,652
11,808	6	11,814
15		15
10,618	986	11,604
(1,068)	1,117	49
45,618	58,696	104,314
	34,494	34,494
12,101		12,101
5,260	1	5,261
12,879	2	12,881
12	26,769	26,781
20,420	12,387	32,807
640,809	135,919	776,728
(43,486)	43,486	
33,223	(30,270)	2,953
(14,143)	14,143	
(47,506)	47,009	(497)
(71,912)	74,368	2,456
2,767	144,446	147,213
	(1,101)	(1,101)
2,767	143,345	146,112
(37,512)	953,792	916,280
($34,745)	$1,097,137	$1,062,392

CONSOLIDATED STATEMENTS OF ACTIVITIES

Years Ended June 30, 2007 and 2006

(in thousands)

	2007			
	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE				
Student tuition and fees	$617,544			$617,544
Less: University funded scholarships	(157,047)			(157,047)
Net student tuition and fees	460,497			460,497
Grants and contracts				
Program funds	131,771			131,771
Indirect cost recoveries	17,541			17,541
Investment income	142,153	$18,428	$2,764	163,345
Investment real property rents and appreciation	100,130			100,130
Change in value of split interest agreements	180	(950)	63	(707)
Auxiliary enterprises	85,085			85,085
Contributions, net	15,960	24,023	6,195	46,178
Net assets released from restrictions	6,376	(6,351)	(25)	
Other income	73,447		30	73,477
Total revenue	1,033,140	35,150	9,027	1,077,317
EXPENSES				
Salaries and wages	352,239			352,239
Fringe benefits	75,193			75,193
Purchased services	143,832			143,832
Supplies	12,078			12,078
Cost of sales	16			16
Equipment	11,108			11,108
Bad debt	1,341			1,341
Occupancy	103,740			103,740
Investment real property expense	36,761			36,761
Scholarships and fellowships	12,480			12,480
Communications	5,972			5,972
Travel and training	15,640			15,640
Interest	25,843			25,843
Other	25,573			25,573
Total expenses	821,816			821,816
OTHER (DECREASES) INCREASES IN NET ASSETS				
Extinguishment of debt	(7,020)			(7,020)
Endowment support	2,417	(3,994)	1,577	
Support/investment	(2,778)	697	2,081	
Total other changes in net assets	(7,381)	(3,297)	3,658	(7,020)
Change in net assets before cumulative effect of a change in accounting principles:	203,943	31,853	12,685	248,481
FASB Statement No. 158 – postretirement benefit plans	(13,280)			(13,280)
FASB Interpretation No. 47 – asset retirement obligations				
INCREASE IN NET ASSETS	190,663	31,853	12,685	235,201
NET ASSETS AT BEGINNING OF THE YEAR	1,062,392	96,224	199,060	1,357,676
NET ASSETS AT THE END OF THE YEAR	$1,253,055	$128,077	$211,745	$1,592,877

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

2006			
Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$573,961			$573,961
(147,889)			(147,889)
426,072			426,072
120,269			120,269
16,614			16,614
107,343	$13,051	$51	120,445
81,383	3	350	81,736
21	2,373	5,020	7,414
78,504			78,504
10,650	14,340	5,956	30,946
10,397	(10,615)	218	
70,232		72	70,304
921,485	19,152	11,667	952,304
325,619			325,619
72,336			72,336
126,652			126,652
11,814			11,814
15			15
11,604			11,604
49			49
104,314			104,314
34,494			34,494
12,101			12,101
5,261			5,261
12,881			12,881
26,781			26,781
32,807			32,807
776,728			776,728
2,953	(3,297)	344	
(497)	33	464	
2,456	(3,264)	808	
147,213	15,888	12,475	175,576
(1,101)			(1,101)
146,112	15,888	12,475	174,475
916,280	80,336	186,585	1,183,201
$1,062,392	$96,224	$199,060	$1,357,676

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2007 and 2006

(in thousands)	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	$235,201	$174,475
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Cumulative effect of a change in accounting principle – FASB 158	13,280	
Cumulative effect of a change in accounting principle – FIN 47		1,101
Extinguishment of debt	7,020	
Depreciation and amortization	56,596	57,004
Net unrealized gains on investments	(128,434)	(65,796)
Net realized gains on investments	(84,523)	(83,646)
Increase in accounts receivable	(6,307)	(3,740)
Decrease (increase) in prepaids and other current assets	347	(123)
(Increase) decrease in pledges receivable	(5,678)	2,492
Decrease in deposits with trustees	1,066	949
Increase in accounts payable and accrued expenses	1,579	10,968
(Decrease) increase in tuition and other deposits	(981)	931
Increase (decrease) in grants and contract payments	7,517	(6,656)
Decrease in insurance reserves	(4,232)	(2,529)
Change in value of split interest agreements and other assets	1,873	4,907
Contributions restricted for long-term investment	(12,412)	(20,294)
Net cash provided by operating activities	81,912	70,043
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(452,206)	(335,089)
Proceeds from sales and maturity of investments	419,337	329,726
Collateral received under securities lending agreement	6,207	22,473
Collateral invested under securities lending agreement	(6,207)	(22,473)
Purchases and renovations of land and buildings	(59,616)	(52,934)
Purchases of furniture and equipment	(25,149)	(19,160)
GW School as Lender program – new loans issued	(60,067)	(51,484)
GW School as Lender program – loan sales and cancellations	59,670	58,850
(Increase) reduction in other loans and notes receivable	(794)	1,865
Net cash used in investing activities	(118,825)	(68,226)
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts from contributions restricted for long-term investment	12,412	20,294
Principal payments, defeasance and refinancing of bonds and notes payable	(206,554)	(17,190)
Principal payments on line of credits	(67,000)	(77,000)
Proceeds from borrowings and refinancing of bonds and notes payable	289,560	
Proceeds from borrowings on line of credits	52,000	77,000
Use of borrowings deposited with a trustee for future debt service		269
Payments of debt issuance costs	(2,427)	
Increase in refundable advances from U.S. Government	439	48
Increase (decrease) in advances for GW School as Lender	277	(7,418)
Net cash provided by (used in) financing activities	78,707	(3,997)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	41,794	(2,180)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	17,076	19,256
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$58,870	$17,076
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	$37,735	$39,182
Income tax payments	$127	$113
Gross value of additions to capital leases	$4,778	$5,890

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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. GWUHP 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 at both June 30, 2007 and 2006 and is included in 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 5% and 6% for the years ended June 30, 2007 and 2006, respectively.

INVESTMENTS

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, 2007 and 2006, 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, 2007 and 2006, 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 $0.13 million and $0.20 million at June 30, 2007 and 2006, 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 $3.0 million and $2.7 million is reflected in Loans and notes receivable in the Consolidated Statements of Financial Position as of June 30, 2007 and 2006, 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 $2.8 million and $2.5 million is reflected in Bonds and notes payable in the Consolidated Statements of Financial Position as of June 30, 2007 and 2006, 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 as of June 30, 2007 and 2006, respectively. 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 restrictions 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 restrictions.

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, 2007 and 2006 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, 2007 and 2006.

LEGALLY RESTRICTED CASH BALANCES

There are legally restricted cash balances totaling $2.8 million and $4.1 million as of June 30, 2007 and 2006, respectively. The University federal loan programs have cash restricted as to their use of $2.8 million and $3.6 million as of June 30, 2007 and 2006, respectively. At June 30, 2006, the University had restricted $0.1 million for the District of Columbia to guarantee restoration of public space that may be damaged due to University construction projects. As of June 30, 2006, the remaining $0.4 million was deposits required for the Virginia and District of Columbia insurance commissions relating to GWUHP. Those restrictions were subsequently removed in July and August 2006, as part of the final dissolution steps for GWUHP. All of the deposits were returned to the University during the fiscal year ended June 30, 2007.

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 in material amounts in the near term.

TUITION, FEES, AND SCHOLARSHIPS

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 as of June 30, 2007 and 2006, respectively.

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.

Note 3 – Deposits with Trustees

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

(in thousands)	2007	2006
Debt service and rental property reserves invested	$2,333	$3,323
Self-insurance	14,472	14,548
Total	$16,805	$17,871

Note 4 – Accounts Receivable

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

(in thousands)	2007	2006
Grants and contracts	$17,533	$14,895
Student tuition and fee accounts	13,329	10,320
Due from hospital limited partnership	2,574	2,136
Due from affiliation agreements	2,176	2,570
Other	2,155	1,198
Allowance for doubtful accounts	(4,309)	(3,968)
Total	$33,458	$27,151

Note 5 – Pledges Receivable

Pledges receivable are summarized as follows as of June 30:

(in thousands)	2007	2006
Unconditional promises expected to be collected in:		
Less than one year	$15,582	$11,406
One year to five years	13,842	12,006
More than five years	817	1,439
Subtotal	30,241	24,851
Allowance for uncollectible pledges	(725)	(1,517)
Unamortized discount	(1,968)	(1,464)
Total	$27,548	$21,870

At June 30, 2007 and 2006, the University had outstanding bequest intentions and certain conditional promises to give of approximately $75 million and $56 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)	**2007**	**2006**
Alternative investments	$326,642	$221,622
Cash and cash equivalents	4,841	2,309
Equities	633,878	552,078
Fixed income	4,224	4,107
Real estate	472,105	401,157
Split interest agreements	42,616	43,582
Other	23,872	39,339
Total	$1,508,178	$1,264,194

As of June 30, 2007 and 2006, the category of alternative investments includes investments in limited partnerships, hedge funds, and other non-public investments.

Investments are stated at fair values which are based on quoted market prices where available. For those investments where a quoted market price is not available, primarily limited partnerships and similar interests as well as real estate, the estimated fair value of these investments is based upon valuations provided by the partnerships and real estate is stated at fair value based on appraisals.

The University had outstanding purchase commitments for alternative investments in partnerships amounting to approximately $76.5 million and $52.6 million as of June 30, 2007 and 2006, 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, 2007 and 2006, and therefore has not been accounted for in the financial statements.

Investment income includes net realized and unrealized gains of $154.7 million and $114.0 million for the years ended June 30, 2007 and 2006, respectively. Investment real property rents and appreciation includes net unrealized gains of $55.6 million and $39.6 million for the years ended June 30, 2007 and 2006, 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.

The market value of the securities on loan was $27.7 million and $21.7 million as of June 30, 2007 and 2006, respectively. The collateral held by the lending agent on behalf of the University was $28.7 million and $22.5 million as of June 30, 2007 and 2006, respectively.

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 GW 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, 2007 and 2006 was approximately $1.1 million and $2.5 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 of the years ended June 30, 2007 and 2006. Accumulated amortization at June 30, 2007 and 2006 was approximately $11.4 million and $10.2 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 GW Hospital. There are approximately $23.9 million and $22.9 million reported as Other income for the years ended June 30, 2007 and 2006, respectively, and approximately $0.2 million in purchased services from the GW Hospital reported under various captions for both of the years ended June 30, 2007 and 2006. The receivable from DHP for the unpaid balance of these services is $2.6 million and $2.1 million as of June 30, 2007 and 2006, respectively.

Note 8 – Physical Properties

Physical properties are summarized as follows as of June 30:

(in thousands)	**2007**	**2006**
Land	$140,586	$127,307
Buildings	983,489	935,415
Building under capital lease	6,527	6,527
Accumulated depreciation	(321,461)	(292,493)
Total	$809,141	$776,756
Furniture and equipment	$233,558	$215,001
Equipment under capital leases	24,394	24,582
Accumulated depreciation	(169,401)	(150,583)
Total	$88,551	$89,000

The value of buildings includes the addition of capitalized interest of approximately $0.5 million and $1.8 million in the years ended June 30, 2007 and 2006, respectively.

Building depreciation expense was $29.0 million and $27.3 million in the years ended June 30, 2007 and 2006, respectively. Furniture and equipment depreciation expense was $25.6 million and $27.9 million in the years ended June 30, 2007 and 2006, respectively. These amounts include depreciation of $4.9 million and $7.1 million for the years ended June 30, 2007 and 2006, respectively, related to equipment under capital leases.

The 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)	2007	2006
Accrued building construction	$6,696	$8,433
Accrued other expenses	12,721	12,980
Accrued payroll and related liabilities	44,099	39,102
Accumulated postretirement liability	20,527	6,376
Asset retirement obligation	1,605	1,434
Split interest agreements	5,807	5,801
Trade payables	22,512	24,460
Other payables	11,582	10,368
Total	$125,549	$108,954

Note 10 – Bonds and Notes Payable

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

(in thousands)	2007	2006
Bonds; 3.718% - 5.90%; maturing through 2032	$565,025	$537,805
Non-recourse notes payable; 4.955% - 5.90%; maturing through 2017; collateralized by real property	227,837	140,545
Unsecured notes payable; 3.00%; maturing at various dates through 2021	225	25,863
Unsecured note payable on demand		15,000
Total	$793,087	$719,213

On January 30, 2007, the University issued $50.0 million in taxable, fixed rate bonds. Approximately $13.8 million of the proceeds were used to retire the 1992 Loudoun County bonds. The remainder provided funding for capital projects, with approximately $7.0 million unspent at June 30, 2007.

On March 6, 2007, the University issued $200.0 million in non-recourse notes payable, collateralized by endowment real estate investments. Prior to this refinancing, the endowment real estate carried $233.1 million of total debt, including a mix of non-recourse loans and general obligations of the University. The refinancing served to increase the debt leverage on the real estate portion of the endowment investment portfolio, bringing total debt to $250.1 million, while also reducing usage of general obligation debt. Accordingly, approximately $118.8 million of the proceeds were used to defease existing non-recourse debt and approximately $65.1 million were used to retire outstanding debt on the Flexible Term Note Program (FTNP).

In conjunction with the issuance of the non-recourse loans in March 2007, $112.4 million in non-recourse notes payable were defeased by placing U.S. Agency Securities in irrevocable trusts to be used solely for satisfying scheduled payments of both principal and interest of the indebtedness. In accordance with generally accepted accounting principles, these debts along with the related trust funds do not appear on the Consolidated Statements of Financial Position of the University. For the year ended June 30, 2007, the University recognized $7.0 million of cost for the defeasance transaction, which is reflected in Extinguishment of debt in the Consolidated Statements of Activities.

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

The agreements for certain debt issuances 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, $1.8 million and $3.2 million were included in Deposits with trustees at June 30, 2007 and 2006, respectively.

Interest expense was $40.0 million and $38.6 million for the years ended June 30, 2007 and 2006, respectively. These amounts include interest expense that relates to rental properties of $12.7 million and $10.8 million for the years ended June 30, 2007 and June 30, 2006, respectively, which are reflected within the Investment real property expense category. These amounts also include interest expense of $1.4 million and $1.1 million for the years ended June 30, 2007 and 2006, respectively, from the University's line of credit to support the GW School As Lender Program, which are reflected within the Other expenses category. In addition, interest expense includes $0.5 million and $0.8 million on capital leases for the years ended June 30, 2007 and 2006, respectively.

As of June 30, 2007, principal payments are due on bonds and notes payable in accordance with the following schedule:

Fiscal Year Ending June 30 *(in thousands)*	
2008	$10,007
2009	10,580
2010	11,175
2011	11,817
2012	12,513
2013 and thereafter	736,995
Total	$793,087

The University established the FTNP for the financing of its capital needs. The FTNP currently allows for borrowings up to $200 million. There were no amounts outstanding under the program as of June 30, 2007. $25.6 million was outstanding under the program as of June 30, 2006. 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.

In conjunction with the University's FTNP, a group of banks entered into a credit agreement totaling $200 million, which expires on April 30, 2010. 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 any principal portion of the outstanding notes, the credit agreement is in an amount sufficient to pay up to 125 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 receivable 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 is summarized as follows:

(in thousands)	June 30, 2007	
	Carrying Amount	Estimated Fair Value
Cash and cash equivalents	$58,870	$58,870
Deposits with trustees	$16,805	$16,805
Pledges receivable, net	$27,548	$27,548
Investments	$1,508,178	$1,508,178
Bonds and notes payable	$793,087	$808,863

(in thousands)	June 30, 2006	
	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

The determination of the fair value of loans and notes 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)	2007		2006	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Building funds	$4,891		$3,882	
Endowment funds	90,777	$167,275	64,369	$158,536
Loan funds		4,638		4,551
Restricted pledges	27,269	2,170	21,989	2,913
Split interest agreements	3,931	32,627	4,774	33,060
Other	1,209	5,035	1,210	
Total	$128,077	$211,745	$96,224	$199,060

Note 13 – Program and Supporting Activities Expense

The Consolidated Statements of Activities include the following program and supporting activity expenses for the years ended June 30, 2007 and 2006, respectively:

(in thousands)	2007	2006
Instruction and academic support	$392,287	$368,930
Research	125,642	115,481
Auxiliary enterprises	76,319	72,873
Student services	69,697	67,772
Institutional support	62,348	60,030
Technology	40,362	40,952
Independent operations	37,959	34,559
Student aid	17,202	16,131
Total	$821,816	$776,728

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, and the operation and maintenance of the campus network and telecommunications systems.

Costs related to the maintenance and operation of physical plant of $124.2 million and $124.3 million for the years ended June 30, 2007 and 2006, 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, Postretirement Benefits, and Related Cumulative Effect of Accounting Change

Full-time and regular part-time faculty and staff are eligible for participation in the University's defined contribution 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 program. Effective April 1, 2007, participants are automatically enrolled when they become eligible.

The plan consists of both a noncontributory and a matching component. All participating employees 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 ½% 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 $21.5 million and $20.1 million for the years ended June 30, 2007 and June 30, 2006, respectively.

The University provides health care and life insurance benefits to certain retired employees. These employees become eligible for benefits after meeting age and service requirements.

On September 29, 2006, FASB No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* was issued. FASB No. 158 requires, among other things, the recognition of the funded status of a defined benefit postretirement plan on the Consolidated Statements of Financial Position. An overfunded plan is recognized as an asset and an underfunded plan is recognized as a liability. The initial impact of the standard due to unrecognized transition (asset)/obligation and net actuarial gains or losses as well as subsequent changes in the funded status is recognized as a component of unrestricted net assets. FASB No. 158 requires initial application for not-for-profits for fiscal years ending after June 15, 2007. The University adopted FASB No. 158 as of June 30, 2007. The cumulative effect of FASB No. 158 resulted in an increase in the postretirement benefit plan liability and a decrease in unrestricted net assets of $13.28 million.

The net periodic postretirement benefit costs for the years ended June 30, 2007 and 2006 consist of the following:

(in thousands)	**2007**	**2006**
Service cost – benefits earned during the year	$464	$442
Interest cost on accumulated benefit obligation	591	562
Recognized net actuarial (gain)/loss	93	118
Amortization of transition (asset)/ obligation	231	231
Net periodic benefit cost	$1,379	$1,353

The following table sets forth the postretirement benefit plan's funded status and the amount of accumulated postretirement benefit plan costs for the years ended June 30, 2007 and 2006 (using a measurement date of June 30):

(in thousands)	**2007**	**2006**
Change in Accumulated Postretirement Benefit Obligation:		
Accumulated postretirement benefit obligation at beginning of year	$10,116	$7,821
Service cost	464	442
Interest cost	591	562
Net actuarial (gain)/loss	9,864	1,784
Plan participants' contributions	1,002	994
Benefits paid	(1,510)	(1,487)
Accumulated postretirement benefit obligation at end of year	20,527	10,116
Change in Fair Value of Plan Assets:		
Fair value of plan assets at beginning of year		
Plan participants' contributions	1,002	994
Employer contributions	508	493
Benefits paid	(1,510)	(1,487)
Fair value of plan assets at end of year		
Reconciliation of Funded Status:		
Funded status	(20,527)	(10,116)
Unamortized transition obligation	N/A	2,075
Unrecognized net actuarial (gain)/loss	N/A	1,665
Funded Status at End of Year – Accumulated postretirement liability reflected in the Consolidated Statements of Financial Position in Accounts payable and accrued expenses	$(20,527)	$(6,376)

The University's policy is to fund postretirement benefits as payments are made.

(in thousands)	**2007**	**2006**
Amounts not recognized in Net Periodic Benefit Cost:		
Net actuarial (gain)/loss	$11,436	$1,665
Transition (asset)/obligation	1,844	2,075
Total	$13,280	$3,740

A discount rate of 6% was used in calculating the above benefit obligations and net periodic benefit costs at June 30, 2007 and 2006. For June 30, 2006, per capita claims costs were estimated based on premium equivalent rates used to determine the retiree contributions. For June 30, 2007, data on actual claims experience was used, resulting in a significant change in the actuarial calculation of the benefit obligation.

The amounts expected to be amortized from unrestricted net assets into net periodic benefit cost for the year ended June 30, 2008, are as follows:

(in thousands)	
Net actuarial (gain)/loss	$1,340
Transition (asset)/obligation	231
Total	$1,571

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. The calculation above assumes a 9.0% increase in health care costs for the year ended June 30, 2008, with the rate of increase decreasing by 1.0% annually for the next four years to an ultimate trend rate of 5.0% thereafter.

The following benefit payments, which reflect expected future service, are expected to be paid over the next 10 fiscal years ending June 30:

Fiscal Year Ending June 30	*(in thousands)*
2008	$987
2009	$995
2010	$1,092
2011	$1,247
2012	$1,374
2013 - 2017 (total)	$7,893

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 there from will not materially affect the financial position or changes in net assets 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 or changes in net assets of the University.

The University leases certain office, academic, residential, and administrative facilities under non-cancelable operating leases expiring at various dates through 2017. The aggregate minimum lease payments under these operating leases are as follows:

Fiscal Year Ending June 30	*(in thousands)*
2008	$16,467
2009	13,799
2010	10,918
2011	9,276
2012	7,672
2013 and thereafter	33,645
Total	$91,777

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)*
2008	$4,232
2009	2,868
2010	1,567
2011	84
2012	2
Minimum lease payments	8,753
Less amount representing interest	(839)
Total	$7,914

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 MFA. Under the agreement, MFA provides clinical teaching, research and administrative services to the University. In addition, MFA leases certain office space, uses operational services and provides academic support. The University had an outstanding receivable balance due from MFA of $0.7 million and $0.6 million as of June 30, 2007 and 2006, respectively. The University had an outstanding payable balance due to MFA of $0.8 million as of both June 30, 2007 and 2006.

Note 17 – Asset Retirement Obligations and Related Cumulative Effect of Accounting Change

On June 30, 2006, 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). 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 in fiscal year 2006, the University recorded a cumulative effect of change in accounting principle of approximately $1.1 million. The University capitalized asset retirement costs of $0.1 million and $0.5 million for the years ended June 30, 2007 and 2006, respectively. Accumulated depreciation for both June 30, 2007 and 2006 is $0.3 million. The ARO liability is $1.6 million and $1.4 million as of June 30, 2007 and 2006, respectively, and is included under Accounts payable and accrued expenses on the Consolidated Statements of Financial Position.

Accretion expense for the ARO was $0.08 million and $0.07 million for the years ended June 30, 2007 and 2006, respectively. Depreciation expense for the ARO was $0.02 million for both of the years ended June 30, 2007 and 2006.

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SUMMARY OF FINANCIAL RESULTS AND ENROLLMENT

FINANCIAL RESULTS

(in thousands)

	Year End	
	2007	**2006**
Assets	$2,625,217	$2,290,320
Net Assets	$1,592,877	$1,357,676
Increase in net assets	$235,201	$174,475
Fair value of investments	$1,508,178	$1,264,194
Bonds and notes payable	$793,087	$719,213
Revenues	$1,077,317	$952,304
Expenses	$821,816	$776,728
Capital expenditures	$84,765	$72,094

ENROLLMENT

	Academic Year End				
	2007	**2006**	**2005**	**2004**	**2003**
STUDENTS–FTE					
Undergraduate	10,102	9,991	10,173	9,576	9,357
Graduate	6,955	6,682	6,575	6,449	6,275
Law	1,833	1,772	1,729	1,711	1,618
Medical	683	669	668	659	650
Non-degree	381	395	411	463	570
Total fall enrollment	19,954	19,509	19,556	18,858	18,470
UNDERGRADUATE ADMISSIONS					
Applications	19,426	19,406	20,159	18,442	16,910
Selectivity ratio	38%	37%	38%	39%	40%
Matriculation ratio	33%	33%	35%	32%	34%
DEGREES CONFERRED					
Baccalaureate	2,209	2,335	2,421	1,993	2,007
Master's	3,108	3,241	3,151	3,196	2,768
First professional	685	659	634	623	587
Doctoral	264	278	245	252	228
GRADUATE ADMISSIONS					
Applications	11,741	11,423	11,520	11,717	10,799
Selectivity ratio	51%	51%	49%	47%	49%
Matriculation ratio	48%	47%	47%	49%	50%
LAW					
Applications	10,986	11,938	12,673	12,433	11,537
Selectivity ratio	25%	21%	19%	20%	21%
Matriculation ratio	26%	30%	29%	30%	27%
GRADUATE-MEDICAL CENTER					
Applications	1,883	1,675	1,523	1,490	1,585
Selectivity ratio	53%	51%	58%	61%	59%
Matriculation ratio	49%	51%	50%	46%	50%
MEDICINE (M.D.)					
Applications	11,159	10,195	9,534	9,226	8,126
Selectivity ratio	3%	4%	4%	4%	5%
Matriculation ratio	59%	50%	43%	43%	40%

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