

November 1, 2004

John J. DeGioia, PhD
President
Georgetown University
Washington, DC 20057

Dear Dr. DeGioia:

I am pleased to present the enclosed report of Georgetown University's fiscal operations for the year ended June 30, 2004. The University financial statements, audited by PricewaterhouseCoopers, accompany this report.

This report supplements the annual audited financial statements and provides an analysis of the year's operating results, the balance sheet position at year end, and an overall assessment of Georgetown University's financial condition.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Chris Augustini", written in a cursive style.

Christopher L. Augustini

Enclosure

GEORGETOWN UNIVERSITY
REPORT OF THE VICE PRESIDENT AND TREASURER
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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FISCAL YEAR 2004 HIGHLIGHTS

Overall, the University ended fiscal year 2004 with a \$23.9 million deficit from operations. Capital contributions of \$39.1 million, together with other non-operating gains of \$112.4 million (much of it non-cash), result in a total increase in University net assets of \$127.6 million to \$859.7 million. Total revenues ended the year slightly better than budget by \$1.7 million or 0.3% although there were significant variances, both positive and negative, in some of the revenue components. Current use gift revenues were \$13.5 million lower than budget, due primarily to a shortfall against an aggressive estimate of anticipated gift revenues for the Medical Center. The shortfall in gift revenues was offset by increased tuition and fee income in all three campuses, as well as higher than anticipated grant revenue in the Main Campus and University Services. The increased revenue was offset by expenses exceeding budget by \$2.9 million, resulting in a net operating result \$1.2 million worse than budgeted. Non-operating gains were attributable to positive investment returns, a decrease in pension liabilities, and unrealized gains associated with various interest rate swap agreements.

Highlights include:

- The Medical Center operated at a total deficit of \$23.2 million, while unallocated university-wide results amounted to a deficit of \$19.1 million. Combined results for the Main Campus, Law Center, and University Services generated an operating surplus of \$18.4 million, resulting in a net operating deficit of \$23.9 million for the University as a whole compared to a loss of \$20.2 million in FY 2003.
- The endowment's market value rose from \$610.3 million in FY 2003 to \$703.4 million in FY 2004, an increase of 15.3%. The total return on the pooled endowment was 19.7% compared to a -1.9% return in FY 2003. New endowment gifts totaled \$25.6 million, while distributions to operations totaled \$35.3 million.
- Capital project initiatives to address needed building renovations and infrastructure improvements continued with \$89.9 million of capital expenditures. They were financed by \$49.0 million of bond proceeds, \$22.5 million of gifts, \$12.7 million of reserves, and \$5.7 million from other sources. Major projects included the Southwest Quadrangle complex, the Law Center campus completion project, chiller upgrade, and New South deferred maintenance.
- Moody's had placed the University's credit rating on the watch list for possible downgrade, but after a thorough review, it affirmed Georgetown's long-term A3 debt rating, maintaining a negative outlook on the rating. Standard and Poor's also undertook a review, and decided to downgrade the University's underlying rating from A- to BBB+.

The following pages include commentaries for each of the University's campuses, which highlight and describe the drivers of their operating performance in the past year. The final section presents a set of ratios that capture the University's operating, financial strength and liquidity trends over the past five years. The University's audited financial statements are included as Appendix A.

Financial Summary
(*\$ in millions*)

Financial Overview *	2000	2001	2002	2003	2004
Operating Results:					
Revenues	\$542.7	\$540.8	\$599.4	\$619.1	\$656.6
Expenses	545.1	540.7	584.3	639.3	680.5
Operating Net	(2.5)	0.1	15.1	(20.2)	(23.9)
Balance Sheet:					
Total Assets	\$1,757.6	\$1,863.2	\$1,774.7	\$1,754.5	\$1,877.0
Total Liabilities	798.3	949.6	978.7	1,022.4	1,017.3
Net Assets	959.3	913.6	796.0	732.1	859.7
Endowment					
Total Endowment	\$764.4	\$705.5	\$625.6	\$610.3	\$703.4
Total Return on Pooled Investments	10.8%	-8.0%	-12.3%	-1.9%	19.7%
Spending Rate on Pooled Endowment	3.8%	4.1%	4.9%	6.2%	6.7%
Operating Cash and Investments					
Ending Balances	\$154.5	\$71.6	\$94.5	\$74.7	\$76.4
Facilities					
Land, Buildings and Equipment, Net of Accumulated Depreciation	\$527.9	\$593.9	\$643.8	\$719.1	\$763.0
Capital Expenditures*	30.7	96.6	80.3	107.8	77.4
Debt					
Outstanding Principal**	\$494.4	\$699.0	\$687.8	\$677.0	\$667.2
Principal and Interest on Debt***	42.5	32.5	38.9	35.5	37.0

* From Statement of Cash Flows

** Excludes cost to terminate swaps if desired (\$16.0 million, as of FY 2004)

*** Includes an interest accrual for Capital Appreciation Bonds

FISCAL YEAR 2004 RESULTS OF OPERATIONS

Total University Results

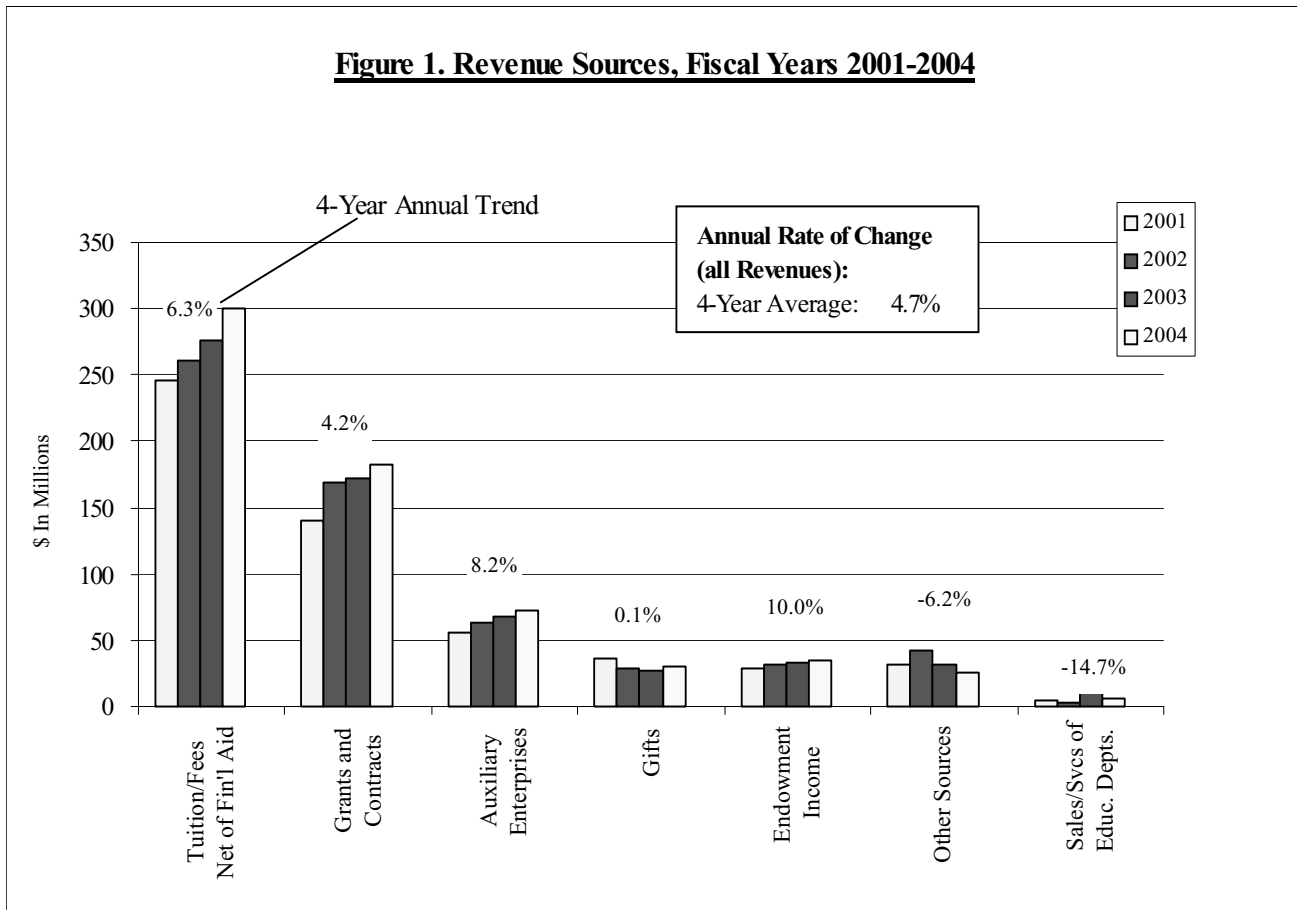
The University ended FY 2004 with a \$23.9 million deficit from operations, which was \$1.2 million worse than the budgeted deficit of \$22.7 million. All campuses, with the exception of the Medical Center and University Services, improved on their budgeted operating bottom lines (see individual campus and University Services sections for further detail). The Medical Center's projected deficit grew by \$12.7 million compared to budget due primarily to a shortfall in gift revenues and, to a lesser extent, in indirect cost recovery from sponsored research activity. The Law Center improvement was due primarily to higher than budgeted tuition and fees revenues while University Services improvement was the result of lower than budgeted salaries and related fringe benefits from attrition and unfilled positions. Capital contributions contributed \$39.1 million to the University's bottom line. Additionally, other net realized/unrealized gains from investment returns, swaps, and a minimum pension liability adjustment totaled \$112.4 million. Together, the operating deficit, capital contributions, and net realized/unrealized gains resulted in an increase in net assets of \$127.6 million. Table 1 below shows these results.

Table 1. Results of University Fiscal Year 2004 Activities Compared to Budget		
<i>(\$ In Millions)</i>		
	Budget	Actual
<i>Operating</i>		
Revenues	\$654.9	\$656.6
Expenses	677.6	680.5
Operating Subtotal	(22.7)	(23.9)
<i>Non-Operating</i>		
Capital Contributions	-	\$ 39.1
Net Gain (Loss) and Financing Activities	-	112.4
Non-operating Subtotal	-	151.5

Operating Revenues and Expenses – All University Funds

Total Revenues of \$656.6 million were \$1.7 million greater than budget due to increased tuition and fee income in the Law Center, Main Campus and Medical Center and higher than anticipated direct grant revenue in the Main Campus and University Services. These increases were partially offset by lower than budgeted gift revenues and indirect cost recovery from sponsored research in the Medical Center. Expenses were greater than budget by \$2.9 million, primarily due to higher than budgeted sponsored research activity in the Main Campus and University Services.

Figure 1. Revenue Sources, Fiscal Years 2001-2004



As shown in Figure 1, operating revenues increased by 5.5% overall in FY 2004, exceeding the four year trend increase of 4.7%. Tuition continued to be the largest source of University revenues, increasing by 8.4% in FY 2004, compared to a 5.7% increase in FY 2003.

Areas in which FY 2004 revenues increased from FY 2003 include: auxiliary services (7.5%), grants and contracts (6.9%), gifts supporting operations (9.9%) and endowment income (5.3%). Areas in which FY 2004 revenues decreased from FY 2003 were short-term investments (-6.7%) and other sources (-5.1%). Although sales and services revenue showed a decrease of almost 50%, after excluding extraordinary revenue of \$5 million in FY 2003 from the reversal in outstanding liabilities related to prior period Medicare cost reports, the decrease was only 3.8%.

Figure 2. Expenses by Category, Fiscal Years 2001-2004

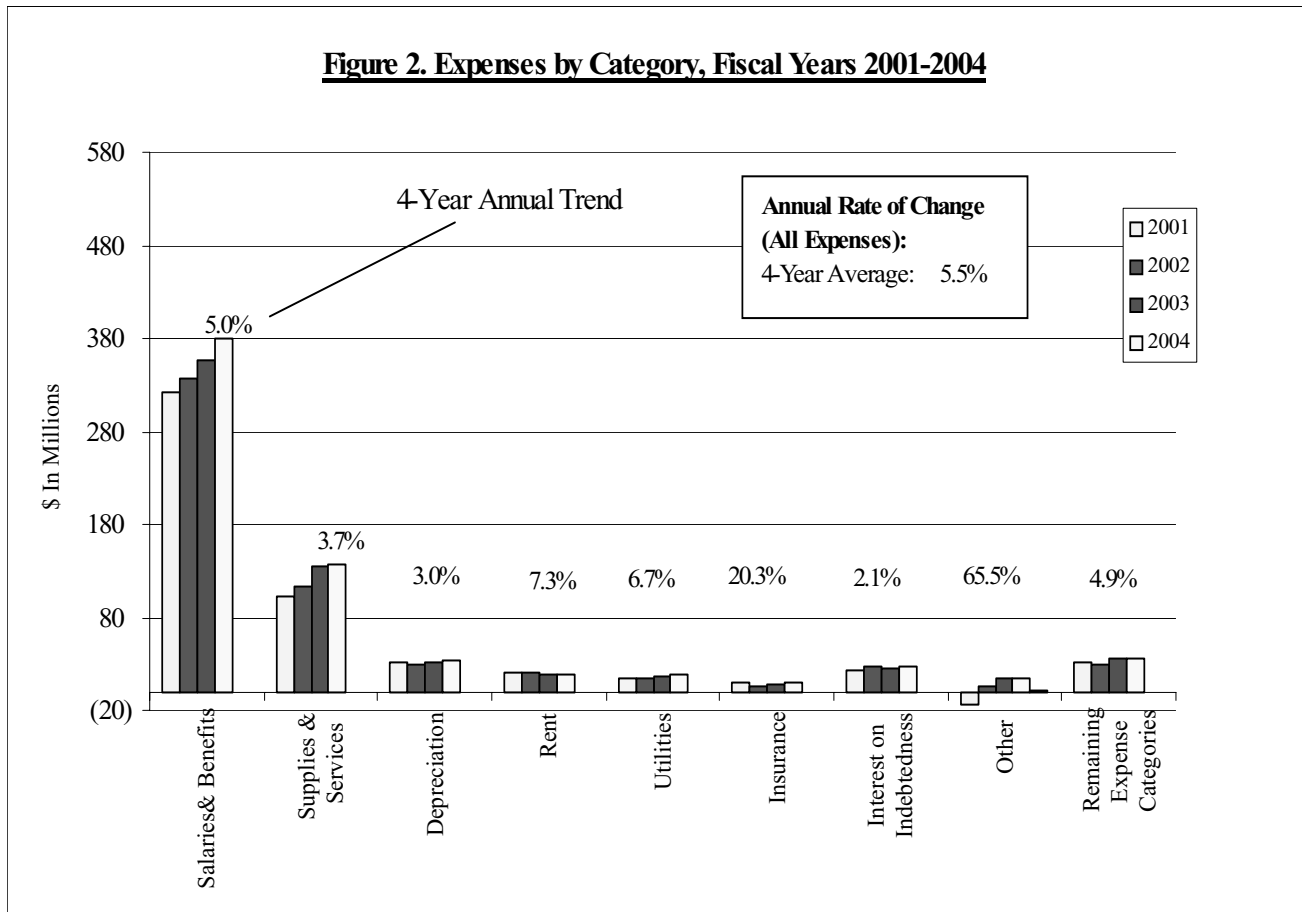


Figure 2 compares FY 2004 operating expenses to four prior fiscal years. Overall, operating expenses increased over FY 2003 by 5.6%. This compares to a 9.4% increase in FY 2003. Salaries and benefits, which comprised 56.2% of total expenses, increased by 6.6% over FY 2003. Other significant expense increases occurred in utilities (16.5%), insurance (30.9%), and interest expense (8.0%). Explanations of significant variances compared to budget appear in individual campus and University Services sections of this report.

Table 2. Fiscal Year 2004 Revenues and Expenses Compared to Budget
(\$ in Thousands)

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES			
Tuition, net	\$ 292,987	\$ 299,688	\$ 6,701
Gifts - Alumni and Development	43,465	29,954	(13,511)
Grants and Contracts			
Direct Cost Recovery	138,833	146,375	7,542
Indirect Cost Recovery	41,320	36,921	(4,399)
Sales and Services - Educ. Depts.	3,332	5,969	2,637
Endowment Income	33,578	35,393	1,815
Auxiliary Enterprises	74,763	72,555	(2,208)
Other Sources			
Short Term Investments	7,021	6,959	(62)
Miscellaneous	19,609	22,752	3,143
TOTAL REVENUES	654,908	656,566	1,657
EXPENSES			
Salaries and Benefits	380,866	379,194	1,673
Supplies and Services	128,439	136,587	(8,148)
Depreciation	37,935	33,586	4,349
Interest on Indebtedness	33,403	32,227	1,175
Rent	18,083	19,159	(1,075)
Utilities	17,073	18,045	(972)
Insurance	8,766	10,892	(2,125)
Repairs and Maintenance	7,634	5,676	1,958
Travel & Business Functions	19,510	21,336	(1,826)
Library Books	9,957	9,411	547
Other	15,920	14,385	1,536
TOTAL EXPENSES	677,587	680,496	(2,909)
OPERATING NET	(22,678)	(23,930)	(1,252)
NON-OPERATING			
Capital Contributions		39,067	
Other Net Realized/Unrealized Gains/Losses		112,426	
Non-Operating Total		151,493	
Change in Net Assets		\$ 127,563	

Table 3. Fiscal Year 2004 Revenues and Expenses Compared to Budget and Fiscal Year 2003
(\$ in Millions)

	2003 Actuals	2004 Budget	Actual 2004	Budget to Actual Variance
Medical Center				
Revenues	\$183.3	\$208.5	\$191.7	(\$16.8)
Expenses	198.8	219.0	214.9	4.1
Operating Net	(15.5)	(10.5)	(23.2)	(12.7)
Main Campus				
Revenues	272.5	290.8	297.7	6.8
Expenses	259.4	278.7	285.5	(6.8)
Operating Net	13.1	12.2	12.1	(0.0)
Law Center				
Revenues	81.7	77.6	85.1	7.5
Expenses	73.1	74.4	78.1	(3.6)
Operating Net	8.6	3.2	7.0	3.8
University Services				
Revenues	78.2	78.0	78.5	0.6
Expenses	77.8	83.3	79.2	4.1
Operating Net	0.4	(5.3)	(0.7)	4.6
University Wide				
Revenues	0.0	0.0	3.6	3.6
Expenses	26.8	22.2	22.8	(0.6)
Operating Net	(26.8)	(22.2)	(19.1)	3.0
TOTAL UNIVERSITY				
Revenues	\$615.7	\$654.9	\$656.6	\$1.7
Expenses	635.9	677.6	680.5	(2.9)
Operating Net	(\$20.2)	(\$22.7)	(\$23.9)	(\$1.3)

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Main Campus

The Main Campus ended the year with a net operating surplus of \$12.1 million, which it plans to apply against future capital and program requirements. This surplus met budget but represents a 7.6% decrease from the actual FY 2003 surplus of \$13.1 million in 2003. These results, while favorable, reflect a continuing trend in Main Campus financial results. The 2002 surplus was \$14.3 million.

Total revenues for the Main Campus were \$297.7 million, or \$6.8 million above budget and 9.2%, or \$25.1 million, above the prior year actual revenues. The primary reasons for this growth are increased net tuition and fee income (\$16.8 million), increased current use gifts (\$1.8 million), and increased grants and contracts revenue (\$6.1 million). Expenses of \$285.5 million were above budget by \$6.8 million and 10.1%, or \$26.1 million above the prior year actual expenses. Compensation expenses grew by \$12.0 million due to program expansion, increased sponsored activities and a higher fringe benefits charge rate. Supplies and services expenditures increased by \$3.4 million over the prior year also due to program expansion and increased sponsored activities. Other significant increases over the prior year were: interest on indebtedness (\$3.5 million), insurance and legal expenses (\$1.8 million), and support to University Services (\$1.7 million). Other miscellaneous expenses grew \$3.5 million. Results compared to budget and prior year are shown in Tables 4 and 5.

Table 4. Results of Main Campus Fiscal Year 2004 Activities Compared to Budget
(\$ In Millions)

	2003	2004	
	Actual	Budget	Actual
<i>Operating</i>			
Revenues	\$272.5	\$290.8	\$297.7
Expenses	259.4	278.7	285.5
Operating Net	13.1	12.2	12.1
<i>Non-operating</i>			
Principal Repayment*	(1.6)	(1.8)	(1.8)
Total Activity	\$ 11.5	\$ 10.4	\$ 10.4

* includes interfund loan payments

Capital Contributions for the Main Campus totaled \$35.6 million in FY 2004. Of this amount, \$14.2 million was contributed to the endowment and \$21.4 million was earmarked for capital construction projects.

Figure 3 illustrates sources of Main Campus revenues and expenses by function for FY 2004. The Main Campus remained heavily dependent upon tuition and fees, which contributed 66% of all revenues from operations, followed by grants and contracts (17%), endowment and investments (7%), gifts (5%), other sources (3%) and auxiliary sales (2%).

The largest category of Main Campus expense was salaries and benefits which accounted for 52% of all expenses, followed by supplies and services (17%), University Services support (14%), facilities (6%), travel and business functions (4%), depreciation, library acquisitions and interest (each representing 2%), and other (1%).

Net tuition income (total revenues less institutionally funded student aid) for the Main Campus has maintained steady growth largely as a function of high demand for undergraduate programs and careful management of student aid expenses. The Main Campus remains fully committed to its policies of need-blind admissions and fully meeting demonstrated financial need, even as tuition rates increase. Continued strong undergraduate demand combined with growth in graduate program enrollments yielded an increase in net tuition income of 9.5% in FY 2004 relative to the prior year. Grants and contracts revenues increased 13.9% while endowment distributions increased 4.2%. Gifts supporting operations increased 12.5% in FY 2004.

Fall 2004 acceptance rates for undergraduates, a measure of demand and institutional selectivity, decreased to 22% from 23% even though the Main Campus enrolled the largest freshman class ever (1,526). Despite the increasingly competitive applicant pool, the yield rate increased significantly as more Early Action students chose to enroll. Applicant yield rates (the share of those accepting offers of admission) increased to 47% from 43% in FY 2003.

The share of undergraduate students receiving institutional scholarship in the 2003-2004 academic year was 33%, with the average institutional grant increasing to \$16,230 per student from \$14,590 in 2002-2003, \$13,500 in 2001-2002, \$12,900 in 2000-2001, and \$12,740 in 1999-00.

Figure 3. Main Campus Revenue and Expenses Fiscal Year 2004

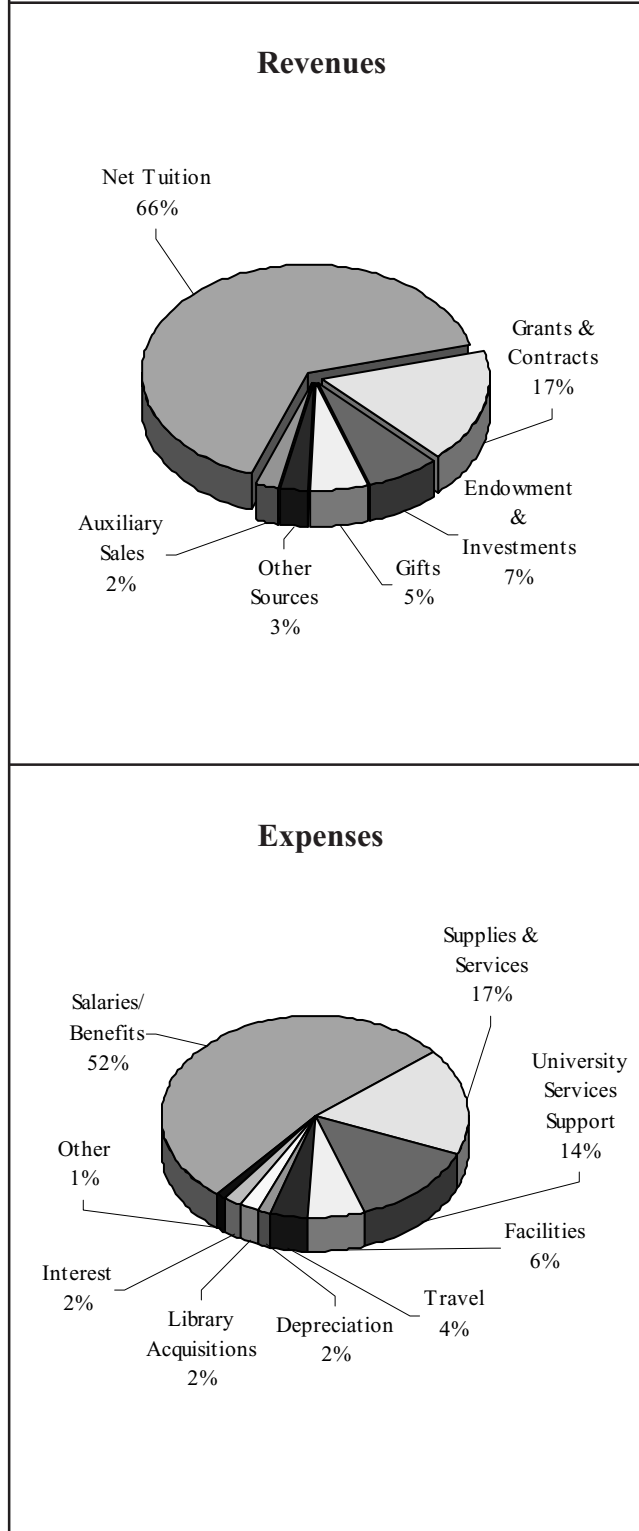


Table 5. Fiscal Year 2004 Revenues and Expenses Compared to Budget
(\$ in Thousands)

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES			
Tuition, net	\$192,286	\$194,476	\$2,190
Gifts - Alumni and Development	20,379	16,186	(4,193)
Grants and Contracts			
Direct Cost Recovery	40,051	44,853	4,801
Indirect Cost Recovery	4,073	5,077	1,004
Sales and Services - Educ. Depts.	-	149	149
Endowment Income	18,791	19,391	601
Auxiliary Enterprises	6,810	6,696	(114)
Other Sources	-	-	
Short Term Investments	2,279	2,641	362
Miscellaneous	6,174	8,183	2,009
TOTAL REVENUES	290,842	297,651	6,809
EXPENSES			
Salaries and Benefits	153,468	150,792	2,676
Supplies and Services	39,230	48,847	(9,617)
Depreciation	5,756	4,435	1,321
Interest on Indebtedness	5,677	5,888	(211)
Rent	8,650	8,633	17
Utilities	282	479	(197)
Insurance	5,688	7,589	(1,902)
Repairs and Maintenance	642	438	203
Travel & Business Functions	10,277	11,091	(814)
Library Books	5,317	5,094	223
University Services Support	-	-	
Institutional Support	25,315	25,312	3
Plant Operations & Maintenance	13,873	13,873	(0)
Other	4,512	3,061	1,450
TOTAL EXPENSES	278,686	285,532	(6,846)
OPERATING NET	12,156	12,119	(37)
NON-OPERATING			
Principal Repayment*		(1,764)	
Total Activity		\$ 10,354	

* includes interfund loan payments

Medical Center

The Medical Center's operating results for FY 2004 resulted in a deficit of \$23.2 million compared to a budgeted deficit of \$10.5 million and projected deficit of \$24.8 million as revised in the February 2004 Financial Plan submission. The deficit was greater than the \$15.5 million deficit recorded in FY 2003. Detailed explanations of the various components of the Medical Center operations are presented below.

Table 6. Results of Medical Center Fiscal Year 2004 Activities Compared to Budget

(\$ In Millions)

	2003	2004	
	Actual	Budget	Actual
<i>Operating</i>			
Revenues	\$183.3	\$208.5	\$191.7
Expenses	198.8	219.0	214.9
Operating Net	(15.5)	(10.5)	(23.2)
<i>Non-operating</i>			
Principal Repayment*	(2.8)	(3.1)	(3.1)
Total Activity	<u>(\$18.3)</u>	<u>(\$13.6)</u>	<u>(\$26.3)</u>

* includes interfund loan payments

Sponsored Research Programs

FY 2004 direct and indirect sponsored research revenues in the Medical Center were \$95.8 million and \$31.1 million respectively for a total of \$126.9 million. The results were higher than the revised total budget of \$125.2 million and the FY 2003 total of \$119.7 million.

Direct research grew by 4.6%, while indirect cost recovery grew by 11% compared to the FY 2003 results, the first significant growth since FY 2001. Figure 4 depicts the growth in direct and indirect sponsored research for the period from FY 2001 to 2004.

Sponsored research proposals in FY 2004 were at a record level of \$639.3 million, versus \$523.5 million in FY 2003 and \$422.8 million in FY 2002 respectively. Awards also showed a modest increase to \$134.3 million in FY 2004, versus total dollar awards in FY 2003 of \$126 million and \$117.2 million in FY 2002 (see Figures 5 and 6).

Philanthropy

The Medical Center received \$9.2 million in current use cash gift revenues in FY 2004, a \$2 million increase over the revised budget of \$7.2 million and higher than the FY 2003 actual of \$7.5 million. The increase was mainly due to one major gift occurring in FY 2004 rather than as anticipated in FY 2005.

Education

Net tuition and fees for all schools totaled \$37.7 million in FY 2004, versus a revised budget of \$38.1 million and compared to \$39.4 million in FY 2003.

Other Revenues

All other sales and services revenue for FY 2004 totaled \$10.3 million, versus a revised budget of \$11 million.

Expenses

Most categories of expenses were relatively well controlled versus budget. FY 2004 actual expenses were \$214.9 million versus a revised budget of \$213.2 million; however, expenses were up significantly when compared to the FY 2003 actual of \$198.7 million. This year to year increase was due, in part, to over \$7 million of recruitment and retention expenses incurred in FY 2004.

Expense reductions are principally attributed to:

- Results from the mid-year cost containment effort (valued at \$2.0 million),
- Lower actual depreciation expense, and
- Lower direct sponsored research expense.

The Medical Center Phase I restructuring, a budget driven downsizing to improve research economics, resulted in an annualized expense reduction of \$7.9 million. Sixty-three non-tenured faculty and staff positions were eliminated, with an annualized impact

Figure 4. Direct Cost and Indirect Cost Recovery for 2001 - 2004

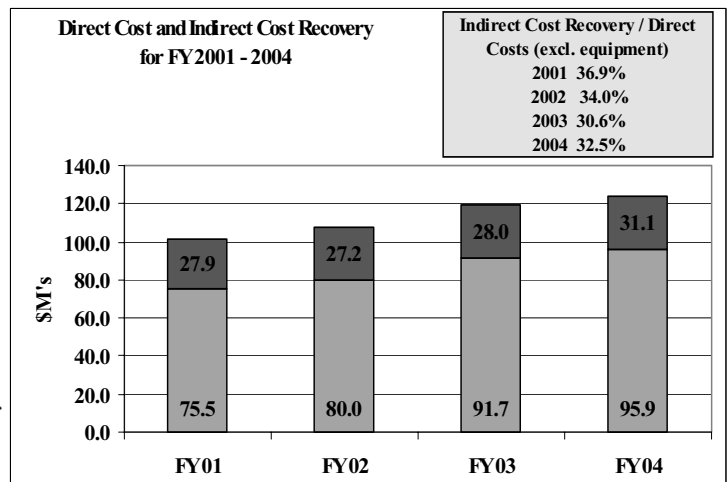
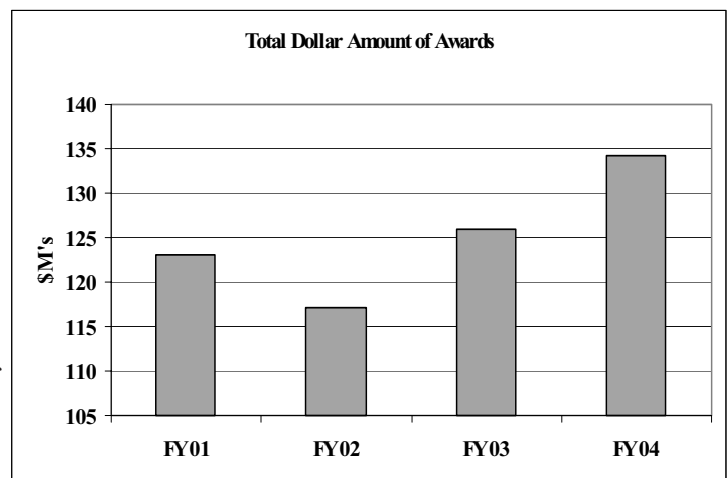


Figure 5. Total Dollar Amount of Proposal Submitted



Figure 6. Total Dollar Amount of Awards



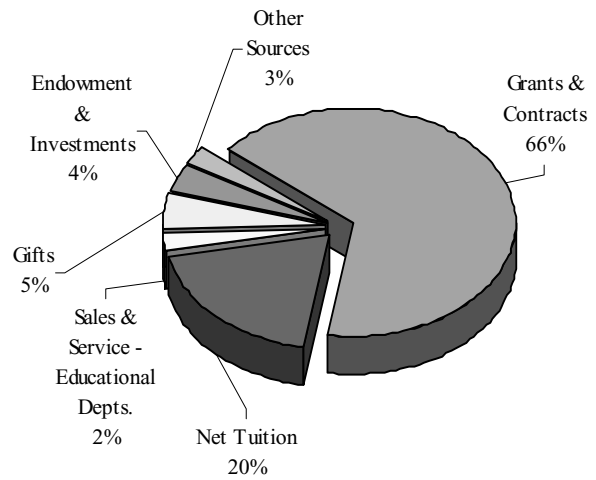
of \$4.9 million. Other expense reductions, including shifting of certain expenses to sponsored research, totaled \$3 million.

Summary

For 2004, the Medical Center was able to finish the year with an actual budget deficit of (\$23.2 million), which was below the revised budgeted deficit of (\$24.7 million). However, this deficit was significantly greater than the FY 2003 results of (\$15.5 million).

Figure 7. Medical Center Revenue and Expenses Fiscal Year 2004

Revenues



Expenses

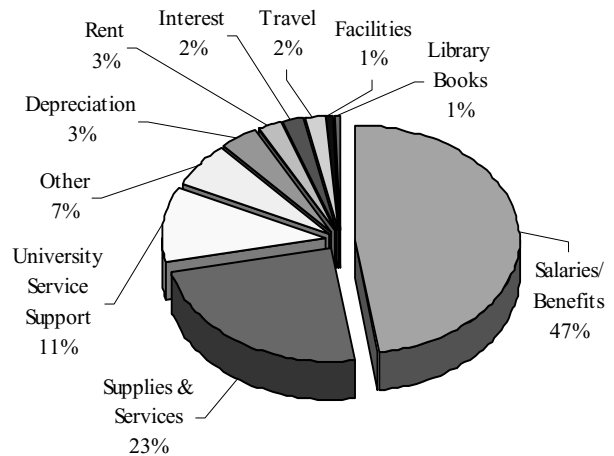


Table 7. Fiscal Year 2004 Revenues and Expenses Compared to Budget
(\$ in Thousands)

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES			
Tuition, net	\$37,104	\$37,782	\$678
Gifts - Alumni and Development	20,994	9,192	(11,802)
Grants and Contracts			
Direct Cost Recovery	96,726	95,891	(835)
Indirect Cost Recovery	36,705	31,128	(5,577)
Sales and Services - Educ. Depts.	3,332	4,728	1,395
Endowment Income	6,754	7,389	635
Auxiliary Enterprises	-	90	90
Other Sources			
Short Term Investments	-	519	519
Miscellaneous	6,869	4,982	(1,887)
TOTAL REVENUES	208,485	191,703	(16,782)
EXPENSES			
Salaries and Benefits	101,458	102,479	(1,021)
Supplies and Services	56,119	51,338	4,781
Depreciation	8,334	7,259	1,075
Interest on Indebtedness	4,285	4,288	(2)
Rent	4,472	5,717	(1,245)
Utilities	103	61	43
Insurance	393	360	33
Repairs and Maintenance	1,741	1,230	511
Travel & Business Functions	4,242	4,064	178
Library Books	1,132	1,235	(102)
University Services Support			
Institutional Support	15,071	15,071	0
Plant Operations & Maintenance	7,617	7,617	0
Other	14,028	14,191	(164)
TOTAL EXPENSES	218,995	214,909	4,085
OPERATING NET	(10,510)	(23,207)	(12,697)
NON-OPERATING			
Principal Repayment*		(3,075)	
Total Activity		\$ (26,282)	

* includes interfund loan payments

Law Center

The Law Center ended the year with operating revenues exceeding operating expenditures by \$7.0 million. This operating surplus is \$3.8 million greater than budgeted and is primarily the result of higher than budgeted tuition and fees revenues. The repayment of annual debt principal reduced this operating surplus to \$4.9 million and funding for construction costs associated with the Hotung International Building and the Sports and Fitness Center further reduced the surplus to \$1.4 million.

Operating revenues in fiscal year 2004 were \$85.1 million, 4.1% higher than the previous fiscal year and \$7.5 million more than budgeted. The Law Center exceeded the budgeted net tuition revenues by \$3.8 million. This was attributable to increased enrollments in the part-time division of the graduate program as well as an unbudgeted increase in the number of transfer students in the JD program. Gifts supporting operations of the Law Center exceeded the budget by \$1 million for the year. The Law Center received \$2.6 million of external grants and contracts during fiscal year 2004, which was approximately \$1.4 million more than anticipated in the budget. These grants were for faculty research and clinical programs.

Operating expenditures were \$78.1 million, 6.8% greater than last year and approximately \$3.6 million more than budgeted. Although the Law Center carefully monitors costs within its departments, unbudgeted expenses were incurred as a result of additional programming required to support the additional students enrolled in academic programs and for the programs supported by unanticipated grants received during fiscal year 2004.

Table 8. Results of Law Center Fiscal Year 2004 Activities Compared to Budget
(\$ In Millions)

	2003	2004	
	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>
<i>Operating</i>			
Revenues	\$81.7	\$77.6	\$85.1
Expenses	<u>73.1</u>	<u>74.4</u>	<u>78.1</u>
Operating Subtotal	8.6	3.2	7.0
<i>Non-operating</i>			
Principal Repayment*	<u>(1.8)</u>	<u>(2.1)</u>	<u>(2.1)</u>
Total Activity	<u>\$ 6.8</u>	<u>\$ 1.1</u>	<u>\$ 4.9</u>

* includes interfund loan payments

During FY 2004, the Law Center received capital contributions of \$7.2 million. Of the \$7.2 million received, \$3.4 million was added to the endowment and \$3.8 million was for the campus completion project.

The Law Center continues to depend heavily on tuition and fees for its revenue. This is illustrated in Figure 8. For FY 2004, 78.5% of the Law Center revenues were derived from Tuition and Fees, which is net of financial aid costs. The second largest revenue component was Endowment/Investment income, representing 6.7% of the budget. Auxiliary Enterprises revenues, which includes income generated from our residence facility, contributed 4.7% to the Law Center's operating revenue.

In FY 2004, salaries and benefits represented the largest expense category (60.9%) for the Law Center. Supplies and services necessary to support the faculty, the library and related academic functions constituted the second largest category, at 11.6% of the operating budget.

Once again, the Law Center received a record number of applications. A total of 12,508 applications were received for the class that entered in the fall of 2004, the highest the Law Center has ever received and the most any law school has ever received. Of all applicants nationwide, one in eight applied to the Georgetown Law Center, an increase of 3% over last year. In the past six years, Georgetown Law Center's applications have increased 77%, while the increase for all law schools is 49%. The Law Center's overall acceptance rate for the day class has also improved. Six years ago, the acceptance rate was 29% but this year it was 18%. More significantly, over the last several years, the academic quality of the entering class has continued to rise and now has a mean LSAT score in the 98th percentile and median undergraduate grade point average of 3.67 on a 4.0 scale. This strong application pattern provides assurance that we will be able to continue to improve the quality of the student body.

Figure 8. Law Center Revenue and Expenses Fiscal Year 2004

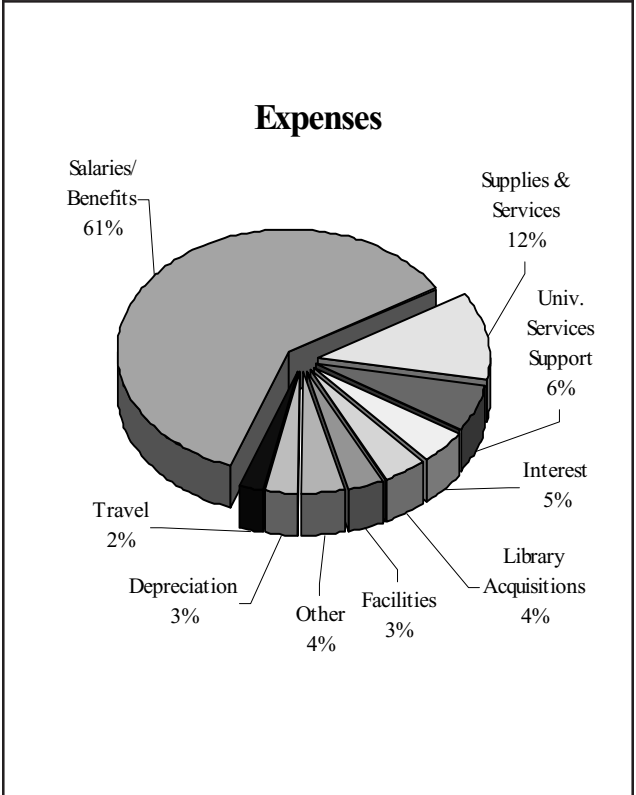
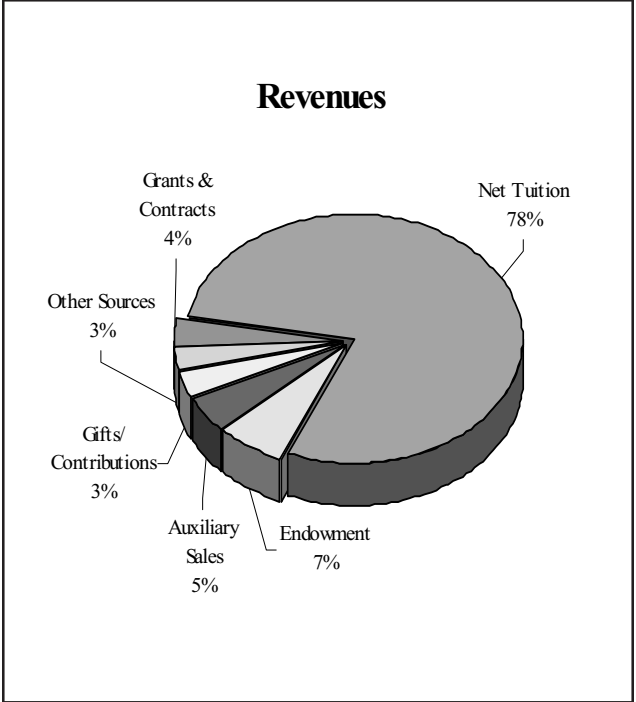


Table 9. Fiscal Year 2004 Revenues and Expenses Compared to Budget
(\$ in Thousands)

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES			
Tuition, net	\$63,046	\$66,797	\$3,751
Gifts - Alumni and Development	1,863	2,810	947
Grants and Contracts			
Direct Cost Recovery	1,219	2,603	1,384
Indirect Cost Recovery	212	422	210
Sales and Services - Educ. Depts.	-	-	-
Endowment Income	5,365	5,721	356
Auxiliary Enterprises	3,582	4,004	422
Other Sources	-	-	-
Short Term Investments	-	28	28
Miscellaneous	2,286	2,666	380
TOTAL REVENUES	77,574	85,051	7,477
EXPENSES			
Salaries and Benefits	45,522	47,496	(1,974)
Supplies and Services	7,855	9,028	(1,173)
Depreciation	2,403	2,351	52
Interest on Indebtedness	3,080	3,507	(426)
Rent	1,038	1,074	(37)
Utilities	1,395	1,062	333
Insurance	-	5	(5)
Repairs and Maintenance	587	456	131
Travel & Business Functions	1,279	1,770	(491)
Library Books	3,508	3,056	452
University Services Support	-	-	-
Institutional Support	4,800	4,800	0
Plant Operations & Maintenance	100	100	(0)
Other	2,843	3,344	(502)
TOTAL EXPENSES	74,411	78,051	(3,640)
OPERATING NET	3,162	7,000	3,837
NON-OPERATING			
Principal Repayment*		(2,062)	
Total Activity		\$ 4,938	

* includes interfund loan payments

University Services

University Services is the budgetary unit that includes the Office of the President, the Office of the Senior Vice President (which encompasses Affirmative Action, Auxiliary Services, Facilities and Student Housing, Human Resources, Information Services, Internal Audit, University Safety, Risk Management and Project and Planning Management), Alumni and University Relations, Campus Ministry, Financial Affairs, Communications and Public Affairs, and University Counsel.

Of the \$78.6 million in revenues these operations generated, auxiliary sales (e.g. room and board charges) accounted for approximately \$51.9 million and grants and contracts revenue accounted for \$3 million. Remaining revenues came from various sources, including telecommunications charges, concession sales, parking fees, gifts, and services provided to MedStar. Total revenues exceeded budget by approximately \$0.5 million. Approximately \$1.5 million in federal grant funds for the construction of the Bus Maintenance Facility was recognized in FY 2004 and served to offset lower than expected auxiliary services revenue. Current use gifts also contributed to the positive result against budget.

Revenue as compared to FY 2003 declined by 4% due to elimination of MedStar revenue for telecommunications services, as well as a reduction in FY 2004 unbudgeted revenue for the Bus Maintenance Facility and current use gifts when compared to FY 2003 amounts by \$1.5 million and \$1.2 million respectively.

Table 10. Results of University Services Fiscal Year 2004 Activities Compared to Budget
(\$ In Millions)

	2003	2004	
	Actual	Budget	Actual
<i>Operating</i>			
Revenues	\$78.2	\$78.0	\$78.5
Expenses	77.8	83.3	79.2
Operating Subtotal	0.4	(5.3)	(0.7)
<i>Non-operating</i>			
Principal Repayment*	(9.5)	(9.6)	(9.3)
Total Activity	<u>(9.1)</u>	<u>(\$14.9)</u>	<u>(\$10.0)</u>

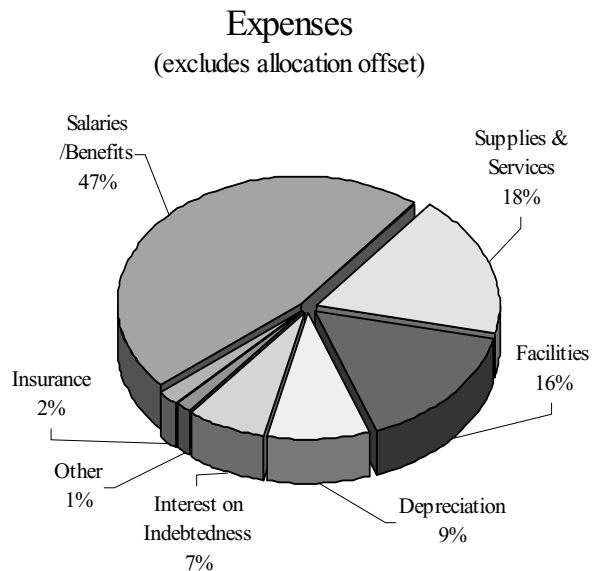
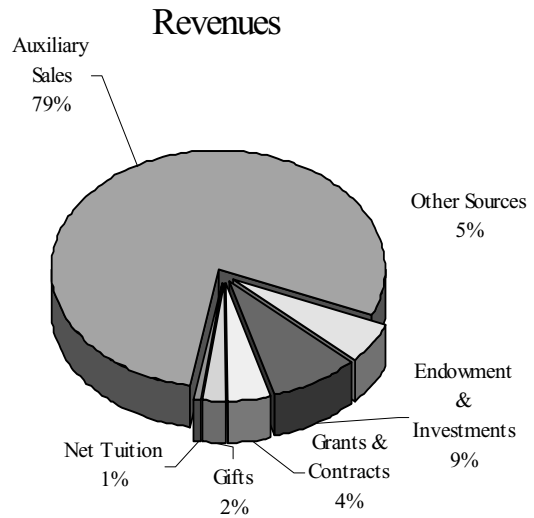
* includes interfund loan payments

Expenses in FY 2004 were lower than budget by \$4.1 million. Salaries and fringe benefits were lower than budget by \$4.5 million which helped to offset overages in supplies and services and travel. Also contributing to this result were depreciation (under budget by \$2.5 million) and repairs and maintenance (under budget by \$1.1 million). Expenses also declined as compared to FY 2003 by 1%.

Detailed results are shown in Tables 10 and 11.

In FY 2004, University Services departments were asked to maintain prior year budget levels, with the exception of a 3% salary merit pool increase plus fringe and funding for development of a new Office of University Safety and related programs.

Figure 9. University Services Revenue and Expenses - Fiscal Year 2004



UNIVERSITY SERVICES

Table 11. Fiscal Year 2004 Revenues and Expenses Compared to Budget
(\$ in Thousands)

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES			
Tuition, net	\$552	\$ 634	\$ 82
Gifts - Alumni and Development	230	1,823	1,594
Grants and Contracts			
Direct Cost Recovery	836	3,028	2,192
Indirect Cost Recovery	330	294	(36)
Sales and Services - Educ. Depts.	-	1,092	1,092
Endowment Income	2,635	2,891	256
Auxiliary Enterprises	64,371	61,764	(2,607)
Other Sources	-	-	
Short Term Investments	4,742	3,786	(957)
Miscellaneous	4,279	3,214	(1,066)
TOTAL REVENUES	77,975	78,526	552
EXPENSES			
Salaries and Benefits	74,413	69,848	4,564
Supplies and Services	24,782	27,177	(2,395)
Depreciation	16,305	13,752	2,553
Interest on Indebtedness	10,112	10,472	(361)
Rent	3,873	3,694	179
Utilities	15,292	16,442	(1,149)
Insurance	2,686	2,937	(252)
Repairs and Maintenance	4,664	3,551	1,113
Travel & Business Functions	3,660	4,366	(706)
Library Books	1	27	(26)
University Services Support	-	-	
Institutional Support	(45,187)	(45,184)	(3)
Plant Operations & Maintenance	(21,591)	(21,591)	-
Other	(5,709)	(6,251)	542
TOTAL EXPENSES	83,300	79,241	4,060
OPERATING NET	(5,326)	(714)	4,611
NON-OPERATING			
Principal Repayment*		(9,295)	
Total Activity		\$ (10,009)	

* includes interfund loan payments

University Wide

The University Wide category contains revenues and expenses that have not been allocated to the campuses the past. In FY 2003 significant effort was invested in developing a plan for phasing out expenses in University Wide and attributing most of these expenses to the campuses. As a result, the campuses and University Services have agreed to a program that provides for the absorption of a majority of University Wide expenses over a multi-year period. This elimination of most of University Wide will allow for more informed decision making by campuses. The agreement to absorb the expenses without worsening operating results should improve the University’s cash position as well. University Wide deficit of \$ 19.1 million in FY 2004 is a significant improvement over the \$ 26.8 million deficit in FY 2003. Detailed results are shown in Tables 11 and 12.

University Wide expenses fall into four major categories: fringe benefit costs not fully recovered from the campuses, unallocated interest expense from Capital Appreciation Bonds and the \$100 million working capital borrowing, and unallocated depreciation expense. Selected highlights of activities in these University Wide expense areas follow.

	2003	2004	
	Actual	Budget	Actual
<i>Operating</i>			
Revenues	\$ 0.0	\$ 0.0	\$ 3.6
Expenses	26.8	22.2	22.8
Operating Subtotal	(26.8)	(22.2)	(19.1)
<i>Non-operating</i>			
Principal Repayment	-	-	-
Total Activity	<u>(\$26.8)</u>	<u>(\$22.2)</u>	<u>(\$19.1)</u>

Fringe Benefits

During FY 2004, fringe benefits expense under-recoveries exceeded budget by approximately \$ 2.6 million. Compared to FY 2003, un-recovered fringe benefits expenses absorbed by University Wide decreased in FY 2004 by \$3.7 million to \$ 9.1 million. This improvement was a result of an increase in the fringe benefit rate charged to campuses of 1% from 25% to 26% as well as changes to the health care plan including increased premiums and deductibles. This improvement was offset by \$ 2 million additional expenses over original budget in GU health plan and \$ 2 million in workers compensation.

Interest Expense

Interest expense on \$100 million of taxable debt for working capital and an accrual for deferred interest on a portion of the \$300 million in tax-exempt debt for capital projects issued in FY 2001 totaled \$8.1 million compared to budget of \$10.2 million. The positive variance was due primarily to lower project costs associated with the Southwest Quadrangle as well as prevailing low interest rate environment.

Depreciation Expense

University Wide depreciation expense primarily consists of equipment depreciation expense as well as depreciation on certain new building projects, e.g. Law Center Completion project and Southwest Quadrangle. Total depreciation expense in FY 2004 was \$5.8 million.

Table 13. Fiscal Year 2004 Revenues and Expenses Compared to Budget
(\$ in Thousands)

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES			
Tuition, net	\$ -	\$ -	\$ -
Gifts - Alumni and Development	-	(58)	(58)
Grants and Contracts			
Direct Cost Recovery	-	-	-
Indirect Cost Recovery	-	-	-
Sales and Services - Educ. Depts.	-	-	-
Endowment Income	33	-	(33)
Auxiliary Enterprises	-	-	-
Other Sources	-	-	-
Short Term Investments	-	(15)	(15)
Miscellaneous	-	3,707	3,707
TOTAL REVENUES	33	3,635	3,602
EXPENSES			
Salaries and Benefits	6,005	8,578	(2,573)
Supplies and Services	453	197	256
Depreciation	5,138	5,788	(650)
Interest on Indebtedness	10,249	8,073	2,176
Rent	50	40	10
Utilities	-	2	(2)
Insurance	-	-	-
Repairs and Maintenance	-	-	-
Travel & Business Functions	52	45	7
Library Books	-	-	-
University Services Support	-	-	-
Institutional Support	-	-	-
Plant Operations & Maintenance	-	-	-
Other	248	39	208
TOTAL EXPENSES	22,194	22,762	(568)
OPERATING NET	(22,161)	(19,127)	3,034

Statement of Financial Position

Georgetown's total net assets, which represent the University's equity, increased during FY 2004 by 17.4% from \$732.1 million at the end of FY 2003 to \$859.6 million. Assets increased by \$122.5 million, while liabilities declined by \$5.1 million.

Assets

Most of the increase in assets can be attributed to an increase in investments which rose from \$627 million at the end of FY 2003 to \$738.8 million. The endowment increased by 15.2% to \$703.3 million by the end of FY 2004. The total return on the pooled investments was 19.7%.

The value of land, buildings and equipment, net rose by \$43.9 million while the value of unexpended bond proceeds dropped by \$39.1 million.

Contributions receivable, net, dropped from \$138.9 million to \$128.3 million.

Liabilities

Noteworthy changes in liabilities included a drop in Pension Liability from \$50.6 million for FY 2003 to \$39.7 million due primarily to a 20.7% increase in plan assets and an increase in securities held as collateral (Collateral Due Broker) from \$11.7 million to \$32.4 million.

Notes Payable and long-term debt, which includes the estimated cost to terminate the swap agreements, dropped from \$729.2 million at the end of FY 2003 to \$721.7 million at the end of FY 2004. Before accounting for this liability, notes payable and long-term debt increased from \$677.0 million to \$705.7 million at the end of FY 2004, an increase accounted for by a \$38.5 million draw on bank lines of credit offset by principal repayment. The lines were paid off August 18, 2004.

Accrued Interest Expense associated with the 2001 Series A bonds (CABs) increased from \$11.2 million at the end of FY 2003 to \$16.7 million at the end of FY 2004.

Net Assets

Unrestricted net assets rose from \$193.1 million to \$244.2 million. Contributing to this change was a reduction in the estimated cost to terminate the interest rate swap agreements of \$36.2 million and a minimum pension liability adjustment of \$10.6 million. Temporarily restricted net assets rose by \$59.3 million and permanently restricted net assets rose by \$17.1 million due to capital contributions.

Investments

Georgetown maintains seven investment portfolios, four of which are included on the University's Statement of Financial Position:

- Operating Cash and Investments, which provide funds to cover the University's daily operating needs (working capital) and which hold gifts for capital projects.
- The Endowment, which generates income for long-term support for University operations.
- GURP (Georgetown University Retirement Plan), which holds and invests funds to pay benefits to retirees.
- Retiree Welfare Benefit Trust (also known as the GU Health and Life Insurance Plans Portfolio) which provides funding to pay the benefits and expense obligations of the University's post-retirement welfare plan when due.
- Employees Comprehensive Health Trust which is used to manage payments of current employee Georgetown Health Plan benefits.
- Workers' Compensation, Property and Casualty Self Insurance Trust which was set up to hold funds for payment of these liabilities. The present value of expected liabilities amounts to \$4.7 million at the end of FY 2004.
- Hospital Professional and Comprehensive General Liability Self Insurance Trust which was set up to pay malpractice claims. The present value of expected liabilities equals the value of the plan assets.

Table 14. Investments <i>(\$ in millions)</i>	Market Value 6/30/04	Market Value 6/30/03
Operating Cash and Investments*	\$76.4	\$74.7
Endowment*	\$703.4	\$610.3
GURP (Retirement Plan Trust)	\$91.5	\$75.8
Retiree Welfare Benefit Trust	\$11.5	\$12.0
Employees Comprehensive Health Trust	\$1.1	\$0.3
Workers' Compensation, Property & Casualty Self-Insurance Trust*	\$0.1	\$1.0
Hospital Professional and Comprehensive General Liability Trust*	\$4.0	\$7.9
Total	\$887.9	\$782.0

* Assets are included in Statement of Financial Condition

Operating Cash and Investments

During FY 2004 the University's Operating Cash and Investments (OCI) portfolio rose by \$1.7 million. Net cash flow from operations generated \$7.1 million, while cash flow from financing and capital activities used \$5.4 million. Without the \$38.5 million draw on the lines of credit Financing/capital activities would have shown a \$43.9 million use of cash, primarily because over half of capital expenditures were financed using reserves or gifts that were part of the beginning OCI balance.

Table 15. FY 2004 Changes to Operating Cash and Investments

(\$ in Millions)

Beginning Balance	\$74.7
Cash Flow from Operations	
Results from Operations	(23.9)
Depreciation	33.6
Accrued Interest (CABs)	5.5
Pre-Paid Pension	(3.3)
Sponsored Activity	(5.9)
Other	<u>1.1</u>
Subtotal	\$ 7.1
Cash Flow from Financing/Capital	
Capital Expenditures*	(\$89.9)
Capital Equipment	(5.7)
Principal Repayment	(11.6)
Gifts, Grants & Other	34.2
Bond Proceed Draw**	39.1
Line of Credit	38.5
Inter Fund Activity	(11.6)
Other	<u>1.6</u>
Subtotal	(5.4)
Ending Balance	\$76.4

*Includes spending of \$0.4 million on Jesuit Community and \$3.7 million on Alumni House

**Net of Interest Earnings in Bond Account

Most of the assets in OCI were held in a TCW Intermediate Bond Portfolio with a 12-month return of 1.4%. There was also \$21.7 million at the end of FY 2004 in the Riggs AIS (Automated Investment Sweep) account, which returned 1.0%.

Table 16. Operating Cash and Investments

(\$ in Millions)

Month Ending	Bond Portfolio	Cash in Banks	Automated Investment Sweep	Common Fund	Total
June 30, 2003	\$51,956,544	\$4,278,351	\$18,451,000	\$12,610	\$74,698,505
June 30, 2004	\$50,407,360	\$4,289,556	\$21,710,000	\$30,283	\$76,437,199

Endowment

Georgetown University's Endowment Fund consists of two components. The first and largest is a discretionary pooled fund, which derives its name from the fact that the funds are commingled or "pooled" for investment purposes much like assets in a traditional mutual fund. The second component of the University's Endowment Fund consists of a variety of non-discretionary separately invested assets, which, by their very nature or due to donor restriction, are not suitable for investment in the pooled fund.

As of June 30, 2004, the market value of the Endowment Fund was approximately \$703.4 million, representing a 15.3% increase from the prior fiscal year end market value of \$610.3 million. The most significant contributor to this performance was the 19.7% return on the pooled fund investment, reflecting a particularly strong year in the equity markets. New gifts of approximately \$21.2 million were more than offset by distributions to operations of \$35.4 million, negatively impacting market value. Table 13 displays the investment performance of the pooled fund relative to various indices against which performance is typically measured.

Table 17. Endowment Pooled Fund Return					
	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Georgetown (net of fees)	10.8%	-8.0%	-12.3%	-1.9%	19.7%
Georgetown Benchmark	9.5%	-7.8%	-7.7%	2.8%	20.4%
Colleges and Universities (NACUBO) Median*	9.6%	-5.2%	-5.3%	2.9%	*
S&P 500 Index	7.2%	-14.8%	-18.0%	0.3%	19.1%
Lehman Agg. Bond Index	4.6%	11.2%	8.6%	10.4%	0.3%
CPI	3.7%	3.2%	1.1%	2.2%	3.4%

**As reported in the 2003 National Association of College and University Business Officers (NACUBO) Endowment Study. FY 2003 is the latest year for which information is available.*

Earnings from the Endowment's pooled fund are distributed at a rate of 5% of the average of the prior five years' beginning market values. The purpose of the distribution policy is to strike a balance between current spending and endowment growth (and thus future spending) in the hope that the long term purchasing power of both can be protected.

In FY 2004, the University distributed approximately \$35.4 million in endowment pooled fund earnings, the equivalent of 7.1% of the market value of the pooled fund at the beginning of the year. The remaining earnings were reinvested in the pooled fund. This distribution constituted 5.4% of total University operating revenues in fiscal year 2004.

During fiscal year 2003, the latest year for which comparative numbers are available, the University's total endowment per full-time equivalent (FTE) student was \$49,605 or 48.1% of the NACUBO mean for private universities with endowments between \$501 million and \$1 billion.

Georgetown University Retirement Plan

As of June 30, 2004 the market value of Retirement Plan was \$91.5 million. The value of plan assets increased 13.8%, due to the plan's major weighting (64%) in domestic and international equities.

	Market Value	Current Weighting	1 Year Return	3 Year Return	5 Year Return
Domestic Equity				2.20%	-0.30%
MCM US Equity Market Fund	\$48,088,196	52.60%	21.30%	--	--
International Equity					
Capital Guardian	\$10,771,611	11.80%	30.10%	4.40%	--
Domestic Fixed Income					
Morgan Stanley Fixed Income Fund	\$4,701,322	5.10%	3.10%	6.10%	6.90%
PIMCO	\$22,068,571	24.10%	1.00%	7.60%	7.40%
Total Fixed Income	\$26,769,893	29.30%	1.50%	7.00%	7.20%
Cash	\$5,856,474	6.40%	1.00%	1.70%	3.30%
Total Fund	\$91,486,174	100.00%	13.80%	4.10%	1.90%

Note: Time Weighted Rates of Return

Land, Buildings, and Equipment

University land, buildings and equipment increased by approximately 6.1% to \$763.0 million during FY 2004. This reflects new capital construction and purchases during the year that exceeded the depreciation recognized on existing facilities.

Capital project expenditures totaled \$89.9 million in FY 2004; \$49.0 million (54.5%) were funded from bond proceeds with the remaining \$40.9 million (45.5%) funded from University cash, reserves, new gifts and operations. Table 19 provides a summary of the major capital project expenditures by campus, as well as a summary of capital equipment expenditures by campus.

Table 19. FY 2004 Capital Expenditures (\$ in Millions)

	2004 Project Expenditure	2004 Capital Equipment Expenditure	Total
Main Campus			
Performing Arts Center	\$3.4	\$0.0	\$3.4
Mid Campus Project	2.4	-	2.4
All Other Main Campus	6.2	0.6	6.8
Subtotal Main Campus	12.1	0.6	12.7
Medical Center			
Multi-Disciplinary Teaching Labs	2.0	-	2.0
Pestell Commitment	2.7	-	2.7
All Other Medical Center	2.0	4.6	6.6
Subtotal Medical Center	6.7	4.6	11.3
Law Center			
Law Center Campus Completion	24.3	-	24.3
All Other Law Center	0.6	0.1	0.7
Subtotal Law Center	24.9	0.1	25.0
Southwest Quadrangle	23.5	-	23.5
Student Housing			
New South Renovation	7.8	-	7.8
All Other Student Housing	0.8	-	0.8
Subtotal Student Housing	8.6	-	8.6
University Information Systems	0.6	-	0.6
University Services			
Power Plant Chiller Upgrade	12.0	-	12.0
All Other University Services	1.6	0.4	2.0
Subtotal University Services	13.5	0.4	13.9
TOTAL	\$89.9	\$5.7	\$95.6

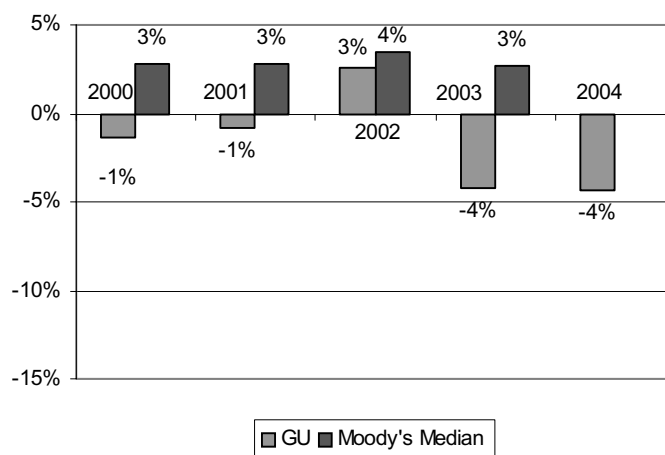
REVIEW OF FINANCIAL CONDITION

While the previous discussion of operating activity and balance sheet results is useful in understanding the events and transactions of the past fiscal year, a review of financial trends is also helpful in assessing the University's overall financial condition. Financial ratio analysis is an important tool for performing such an assessment.

For approximately the last ten years the Report of the Treasurer has included variations of ratios developed by Moody's Investors Service. Moody's calculates these ratios for all colleges and universities with credit ratings. The most recent available medians for these ratios are from FY 2003 and are useful for benchmarking. Georgetown is currently rated A3 by Moody's. Consequently, for the ratios that follow, Georgetown is compared with the Moody's medians for large institutions (those with greater than 3,000 FTE students) rated "single A". While these ratios are only a subset of those available and calculated, they do represent some of the more important among those that reflect operating effectiveness and flexibility.

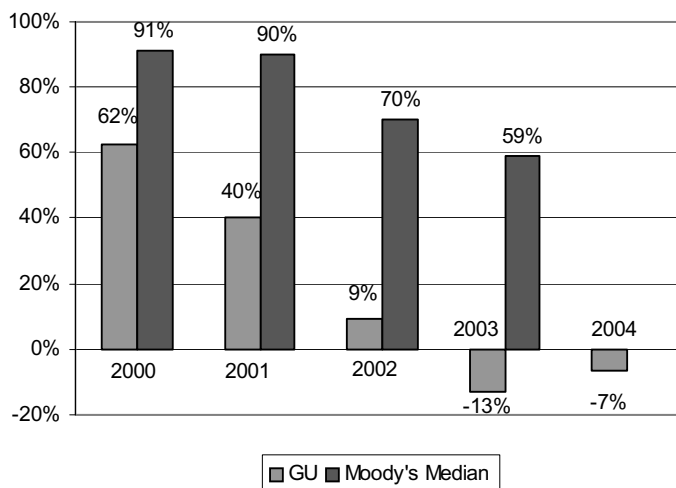
Operating Margin

This ratio indicates the direction and degree to which the University balanced annual operating expenses and revenues. The improvement in 2000-2002 was attributable to the sale of the clinical enterprise and better than budget operating performance. In 2003, the University returned to operating in a deficit. While it is anticipated that the University will continue with operating deficits over the next few years, it is also anticipated that this ratio will revert back to an upward trend. Georgetown compares unfavorably to the Moody's median, which was 2.7% in 2003.



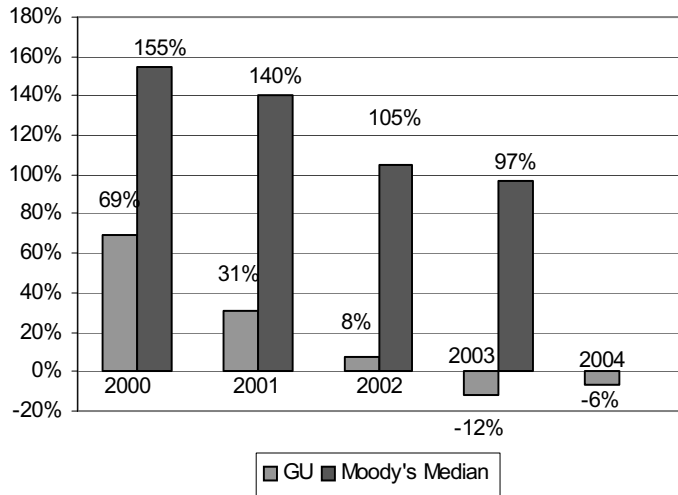
Unrestricted Financial Resources to Operations

This ratio measures the buffer provided to the annual budget by unrestricted expendable fund balances. The University has experienced a downward trend in this ratio since 2000 as a result of significant capital market declines and increased capital construction activity. Although capital markets improvements led the University to improve in this ratio, a negative ratio persists. As a result, University departments are no longer allowed to use existing reserves to fund operating expenses. Georgetown compares unfavorably to the Moody's median, which was 59% in 2003.



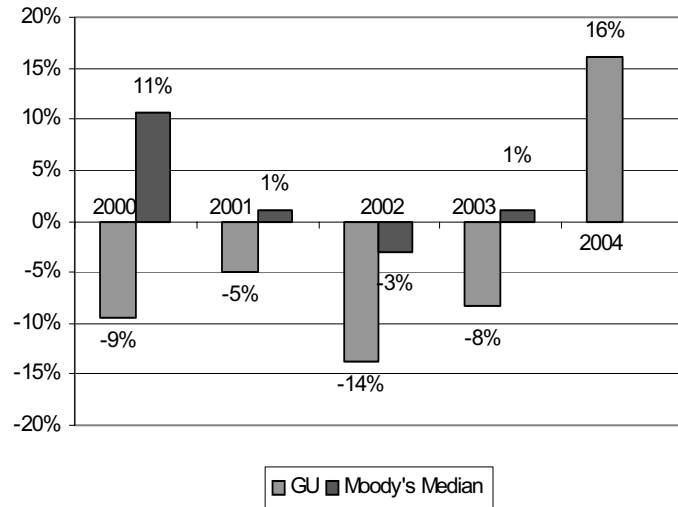
Unrestricted Financial Resources to Debt

This ratio measures the coverage of direct debt by the most liquid financial resources available to the University. The University has experienced a downward trend in this ratio over the last few years as a result of significant capital market declines and increased investment in capital construction. The Moody's median for this ratio was 97% in 2003 and this clearly indicates that Georgetown is very heavily leveraged.



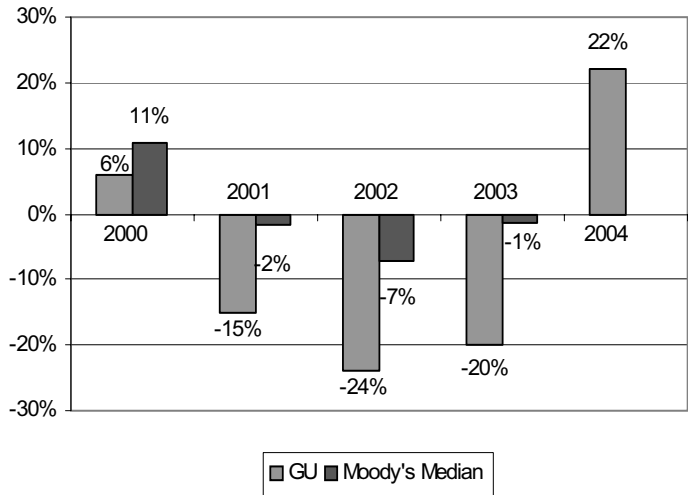
Return on Net Assets Ratio

This ratio indicates the direction and degree to which the University has improved its total resource base. Despite posting operating surpluses in 2001 and 2002, the University posted negative results in this ratio over the last few years, largely the result of significant capital market declines. However, as a result of marked improvement in the capital markets this year, the University posted its first positive return on net assets in five years. The University compares favorably to the Moody's median for this ratio, which was 1.0% in 2003.



Return on Financial Resources Ratio

This ratio indicates the direction and degree to which an institution has improved its financial resources, net of plant assets. The ratio improved in 2000 largely due to the impact of the MedStar transaction. However, between 2001 and 2003 capital market declines resulted in a significant decrease in the University’s net assets, which coupled with increased investment in plant assets led to a decline in this ratio. The University benefited from significant gains in the capital markets in 2004, leading to a significant positive return on financial resources. Moody’s median for this ratio was -1.25% in 2003.



Actual Debt Service Coverage

This ratio measures the actual margin of protection for annual debt service payments from annual operations. Performance in this ratio is largely dependent on the University’s ability to generate operating surpluses, as the University’s debt service payments have remained relatively stable over the last few years. Moody’s median for this ratio was 2.41 in 2003.

