

# GEORGETOWN UNIVERSITY



Annual Financial Report  
2010 - 2011



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## GEORGETOWN UNIVERSITY

*Senior Vice President and  
Chief Operating Officer*

November 21, 2011

***To Faculty, Staff and Friends of the Georgetown Community:***

I am pleased to present the attached report of Georgetown University's fiscal operations for the year ended June 30, 2011. The University financial statements, audited by PricewaterhouseCoopers, accompany this report.

Fiscal year 2011 occurred during the first full year since the end of the "great recession," with the national economy continuing a recovery that began midway through fiscal year 2010. Throughout the fiscal year, GDP growth remained positive, while unemployment, by all measures, remained consistently high. In contrast, the stock market rose significantly, and investment returns for the endowment and defined benefit plan portfolios rebounded significantly, with returns up 16.8% and 23.0% respectively for fiscal year 2011. The University ended the year with a \$12.8 million deficit, better than the \$25.5 million deficit budgeted and the seventh consecutive year of better than budgeted operating results. The University also had a very good year in fundraising, collecting \$207 million in cash gifts in fiscal year 2011, and securing another \$132.7 million in commitments. These positive results enabled the University's assets to grow 9.5%, and the University's net assets to grow 20.5%.

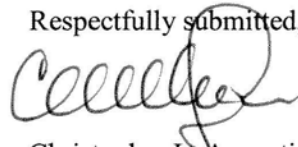
While the economy showed signs of recovery, unemployment still remained high, and inflation, driven by increases in energy costs, began to impact consumer prices. Anticipating that these negative economic trends would persist throughout the fiscal year, and that many families of current and incoming students were likely to be impacted by these trends, increases to tuition, room and board rates remained low again in fiscal year 2011, with tuition rates increased by only 3.0%, and room and board rates increased by only 2.0%. Additional resources were also devoted to providing need based financial aid for undergraduate students, as the University continued to maintain its commitment to meeting the full financial need of all eligible undergraduates. The University also continued to proceed cautiously on new hiring and spending, which limited expense growth.

Despite the economic environment, the University continued to make key investments to its programs and infrastructure. For example, during 2011, the University launched a new on-line program for advance practice nursing. This innovative program, which launched in the

spring, enrolled over 100 students by August 2011. The University had already successfully launched new programs in the McDonough School of Business and the School of Continuing Studies in previous years, and those additional enrollments and revenue contributed to the University's ability to operate through the recession without having to take drastic expense reduction actions. The University began work on the Georgetown Management System (GMS), a new Human Resources, Benefits, and Financial System that will replace the University's aging systems; continued work on the new Science Center, to be named Regents Hall; and began major renovation projects on two residence halls.

These positive accomplishments would not have been possible without your efforts and continued support. I look forward to working with you during this academic year as we continue to invest in our educational mission and manage through this difficult economic climate.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "C. Augustini", written over a thin horizontal line.

Christopher L. Augustini  
Senior Vice President and Chief  
Operating Officer

Attachment

## Financial Highlights

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For the seventh consecutive year, the University finished with better than budgeted operating performance, ending fiscal year 2011 with a \$12.8 million deficit. Higher operating gift revenues, higher endowment income generated from substantial new gifts, revenue from a settlement with MedStar Health over prior year activity, and general cost containment helped to achieve better than budgeted results. These factors also helped offset higher financial aid expense and lower interest earnings on working capital.

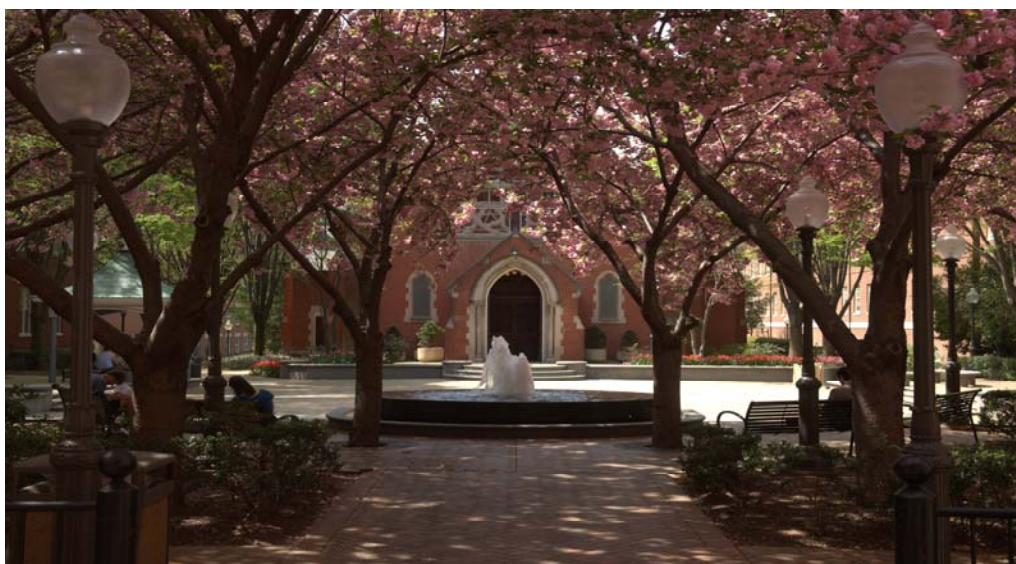
The Endowment increased in fiscal year 2011 to \$1,162.2 million, primarily the result of investment gains. The pooled endowment had a return of 16.8% in fiscal year 2011.

The University received cash contributions totaling \$207.0 million and commitments totaling \$132.7 million. Contributions for current operations totaled \$49.8 million, \$4 million higher than budget.

The University made progress on a number of key projects, including construction of a new Science Building, to be named Regents Hall, which is scheduled to be completed in the Fall of 2012, and the

renovation of two residence halls; Nevils Hall on the Main Campus, and Gewirz Hall on the Law Center Campus. The University also began the development and implementation of a new Human Resources, Benefits, and Financial System. The Human Resources module of the new Georgetown Management System (GMS) is scheduled to be implemented in January 2012. The University also continued to renovate and maintain its existing structures, and continued upgrades to its technology infrastructure. In all, the University had \$53.0 million of capital expenditures fiscal year 2011.

The University's working capital balances decreased from \$130.8 million at the end of fiscal year 2010 to \$106.6 million at the end of fiscal year 2011. The University paid off all remaining balances on its lines of credit in fiscal year 2011, restoring its full credit line capacity. The University's working capital and quasi-endowment balances in total remained flat, rising slightly from \$342.7 million at the end of fiscal year 2010 to \$343 million at the end of fiscal year 2011. The reduction in working capital balances was offset by gains in the equity markets.



**Table 1: Financial Summary**  
(\$ in millions)

	2007	2008	2009	2010	2011
<b>Financial Overview</b>					
Operating Results:					
Revenues	\$809.3	\$876.9	\$925.1	\$958.2	\$1,002.0
Expenses	818.4	890.1	937.5	965.8	1,014.8
Operating Net	(9.1)	(13.2)	(12.5)	(7.6)	(12.8)
Balance Sheet:					
Total Assets	\$2,254.6	\$2,264.6	\$2,116.7	\$2,251.6	\$2,464.6
Total Liabilities	1,090.7	1,156.5	1,257.9	1,304.0	1,322.4
Net Assets	1,163.9	1,108.1	858.8	947.7	1,142.2
<b>Endowment</b>					
Total Endowment	\$1,066.9	\$1,058.9	\$895.1	\$1,007.3	\$1,162.2
Total Return on Pooled Investments *	21.5%	-1.3%	-22.2%	12.3%	16.8%
Spending Rate on Pooled Endowment	4.9%	5.1%	5.6%	7.6%	6.7%
<b>Operating Cash and Investments</b>					
Ending Balances	\$113.6	\$76.7	\$98.0	\$130.8	\$106.6
<b>Facilities</b>					
Land, Buildings and Equipment, Net of Accumulated Depreciation	\$802.1	\$836.4	\$872.4	\$857.9	\$880.9
Purchases of Land, Buildings and Equipment **	26.4	73.4	71.4	27.0	52.1
<b>Debt</b>					
Outstanding Principal***	\$765.5	\$780.0	\$844.5	\$849.1	\$909.5
Principal and Interest on Debt****	33.4	44.4	47.6	35.5	73.5

\* As reflected in Note 6 of the Audited Financial Statement

\*\* Excludes cumulative effect of changes in accounting principle from adoption of FIN 47 and net asset retirement

\*\*\* Excludes fair value of swap contracts (\$32 million, as of June 30, 2011)

\*\*\*\* Excludes interest accrued for Capital Appreciation Bonds and GAINS Bonds; Includes for FY2011 a line of credit paydown of \$41.2 million

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**Table 2: FY 2011 Revenues and Expenses Compared to Budget**

*(\$ in Millions)*

	<b>2010 Actual</b>	<b>2011 Budget</b>	<b>2011 Actual</b>	<b>Budget to Actual Variance</b>
<b>Medical Center</b>				
Revenues	\$240.1	\$247.4	\$252.1	\$4.6
Expenses	268.7	277.7	274.2	3.5
Operating Net	(28.6)	(30.3)	(22.1)	8.1
<b>Main Campus</b>				
Revenues	469.4	478.9	492.6	13.7
Expenses	444.2	461.6	473.3	(11.7)
Operating Net	25.3	17.4	19.4	2.0
<b>Law Center</b>				
Revenues	122.0	117.3	124.9	7.6
Expenses	115.5	111.8	120.4	(8.6)
Operating Net	6.5	5.5	4.5	(0.9)
<b>University Services</b>				
Revenues	124.7	124.7	131.9	7.2
Expenses	138.7	134.2	137.3	(3.1)
Operating Net	(13.9)	(9.6)	(5.4)	4.1
<b>University Wide</b>				
Revenues	2.0	1.9	0.5	(1.3)
Expenses	(1.2)	10.4	9.7	0.7
Operating Net	3.1	(8.6)	(9.2)	(0.6)
<b>TOTAL UNIVERSITY</b>				
Revenues	958.2	970.2	1,002.0	31.8
Expenses	965.8	995.7	1,014.8	(19.1)
Operating Net	(\$7.6)	(\$25.5)	(\$12.8)	\$12.7

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## Analysis of Financial Results

*Positive fundraising results, high investment returns, and slow growth in spending helped the University achieve better than budgeted results in Fiscal Year 2011*

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### OVERVIEW

The University ended fiscal year 2011 with an operating deficit of \$12.8 million compared to a budgeted deficit of \$25.5 million and a fiscal year 2010 deficit of \$7.6 million. At year end, the University's total assets were \$2.5 billion and total liabilities were \$1.3 billion, resulting in net assets of \$1.1 billion. Operating cash and investments were \$107 million, and the total endowment ended fiscal year 2010 at \$1.2 billion, an increase of \$154 million.

Operating revenues increased 4.6% to \$1.0 billion in fiscal year 2011 with growth in many revenue categories.

#### Revenue

Gross Tuition and Fees increased by 5.5%, from \$570.5 million in fiscal year 2010 to \$602.2 million in fiscal year 2011. In order to minimize the impact of the economic crisis on students and their families, the University increased tuition rates by only 3.0% for undergraduates and most graduate and professional programs. These modest increases, as well as higher enrollment, particularly in graduate and professional programs, contributed to the

increase in tuition revenues. Table 3 shows tuition and fee charges in each of the University's academic centers for the academic years 2006-07 through 2010-11.

For the 2010-11 academic year, Georgetown accepted 20.2% of its undergraduate freshman applicants, with approximately 43.2% of those accepted matriculating. The first-year class enrolled in the 2010 fall semester had an average SAT-critical reading score of 690 (above the 94<sup>th</sup> percentile nationally) and an average SAT-math score of 693 (above the 92<sup>nd</sup> percentile nationally). Of the matriculating first-year students whose high schools provide a class ranking, approximately 97.3% ranked in the top 25% of their high school graduating class, and approximately 91.1% were in the top 10% of their high school graduating class. Table 4 shows undergraduate applications and freshman enrollment as well as those for graduate and professional schools for the five academic years 2006-07 through 2010-11.

As indicated in Table 5, Full-Time Equivalent enrollment for the fall semester was 15,386 for the University's undergraduate, graduate, and professional schools, a 13.9% increase from academic

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**Table 3: Annual Tuition and Fee Charges**

<u>School</u>	<u>Academic Year</u>				
	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
Undergraduate	\$33,934	\$35,964	\$37,947	\$39,036	\$40,203
Graduate	31,794	33,704	35,471	37,064	38,183
School of Business	35,328	37,800	39,984	41,952	45,984
Law	37,220	39,390	42,065	43,750	45,105
Medical	38,606	39,958	41,356	42,803	43,616

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**Table 4. Applicants and Enrollment**

	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
<b><i>Undergraduate:</i></b>					
Applicants	15,070	16,163	18,696	18,619	18,079
Accepted	3,367	3,363	3,514	3,683	3,643
Accepted as % of Applicants	22.3%	20.8%	18.8%	19.8%	20.2%
Enrolled	1,588	1,582	1,571	1,558	1,575
Enrolled as % of Accepted	47.2%	47.0%	44.7%	42.3%	43.2%
<b><i>Graduate and Professional:</i></b>					
Applicants					
Graduate School	7,373	7,407	7,734	8,427	9,005
School of Business	1,515	1,628	1,942	1,760	1,652
Law Center	11,237	10,896	10,688	11,653	12,404
School of Medicine	8,832	10,643	11,237	10,797	11,549
Accepted					
Graduate School	2,879	2,960	3,062	3,268	3,420
School of Business	621	569	569	649	692
Law Center	2,400	2,511	2,554	2,645	2,708
School of Medicine	382	376	429	440	420
Accepted as % of Applicants					
Graduate School	39.0%	40.0%	39.6%	38.8%	38.0%
School of Business	41.0%	35.0%	29.3%	36.9%	41.9%
Law Center	21.4%	23.0%	23.9%	22.7%	21.8%
School of Medicine	4.3%	3.5%	3.8%	4.1%	3.6%
Enrolled					
Graduate School	1,340	1,294	1,361	1,474	1,461
School of Business	226	264	256	251	258
Law Center	587	582	585	590	591
School of Medicine	191	190	194	197	196
Enrolled as % of Accepted					
Graduate School	46.5%	43.7%	44.4%	45.1%	42.7%
School of Business	36.4%	46.4%	45.0%	38.7%	37.3%
Law Center	24.5%	23.2%	22.9%	22.3%	21.8%
School of Medicine	50.0%	50.5%	45.2%	44.8%	46.7%

year 2006-07 to 2010-11. Undergraduate education had an enrollment increase of 251 students, and Graduate and Professional student enrollment increased by 1,575 students.

[Financial Aid](#) Since 1978 the University has maintained a policy of meeting the full financial need of all eligible undergraduate students, a commitment reaffirmed through the current economic crisis. The University also offers financial

aid for Georgetown University graduate students, including merit based scholarships, assistantships and fellowship awards. In fiscal year 2011 the University's tuition and fees netted \$470.9 million after taking into account financial aid, an increase of only \$13.9 million from fiscal year 2010. Aid funded by the University totaled \$108.0 million while aid funded by operating gifts or endowment totaled \$23.3 million in fiscal year 2011.

**Table 5: Full-Time-Equivalent (FTE)<sup>1</sup> Enrollment**

	Academic Year				
	2006-07	2007-08	2008-09	2009-10	2010-11
Undergraduate	6,711	6,887	6,921	7,276	7,381
Graduate and Professional:					
Graduate School	2,656	2,589	2,909	3,635	3,807
School of Business	683	797	912	929	974
Law Center	2,303	2,304	2,379	2,435	2,403
School of Medicine	788	818	813	818	821
Total Graduate and Professional	6,430	6,508	7,013	7,817	8,005
Total Number of Students <sup>2</sup>	13,141	13,395	13,934	15,093	15,386

*FTE - Includes full-time and part-time students. In 2010-11, enrollment included 13,701 full-time students and 3,170 part-time students. These statistics also include enrollment in Qatar for 2006-07 (60 FTE students), 2007-08 (100 FTE students), 2008-09 (138 FTE students), 2009-10 (146 students), and 2010-11 (169 students). Students studying abroad are included in the total headcount for 2009-10 (335 students), and 2010-11 (419 students).*

<sup>2</sup> *Enrollment in the School of Continuing Studies is included in undergraduate and graduate program enrollment numbers.*

[Undergraduate Financial Aid](#) In fiscal year 2011 undergraduate tuition and mandatory fees (including Main Campus and School of Nursing and Health Studies), as reported on the statement of activities, totaled \$269.9 million, an increase of \$10.1 million from the amount in fiscal year 2010.

Undergraduate financial aid totaled \$88.3 million in fiscal year 2011 (including Athletics scholarships), an increase of \$11.3 million, or 12.7%, from fiscal year 2010. Of the total in fiscal year 2011, \$19.7 million was funded by donors through operating gifts or endowment. Approximately 42% of all undergraduate

students received some form of need based financial aid in fiscal year 2011, compared to 40% in fiscal year 2010.

[Gifts – Alumni and Development](#) Gifts from alumni and Georgetown supporters provide critical funding for the University's ongoing operations as well as strategic priorities and investments. Current use gifts increased 9.8% from \$45.4 million in fiscal year 2010 to \$49.8 million in fiscal year 2011. The University continued to receive scholarship gifts in support of the 1789 Imperative, a fundraising initiative designed to increase funding from both current use and

**Table 6: Total Tuition and Financial Aid**

(\$ in thousands)	FY 2011	FY 2010	Change
Tuition and fees, gross	\$602,185	\$570,536	\$31,649
Less Financial Aid: University Sponsored*	(116,035)	(98,130)	(17,905)
Donor Sponsored	(15,282)	(15,468)	186
Tuition and fees, net	470,868	456,938	13,930

\*Includes Georgetown Fund gifts of \$5.8 million in FY 2010 and \$8.0 million in FY 2011

**Table 7: Undergraduate Tuition and Financial Aid**

(\$ in thousands)	FY 2011	FY 2010	Change
Undergraduate Tuition (Main and SNHS)	\$267,227	\$257,233	\$9,994
Mandatory Fees (Yates and Student Activity)	2,706	2,634	72
Total Tuition and Fees	269,933	259,867	10,066
Financial Aid			
University Sponsored*	(76,580)	(65,560)	(11,020)
Donor Sponsored	(11,710)	(11,410)	(300)
Total Aid	(88,290)	(76,970)	(11,320)

\*Includes Georgetown Fund gifts of \$5.8 million in FY 2010 and \$8.0 million in FY 2011

**Table 8: Fundraising Activity**

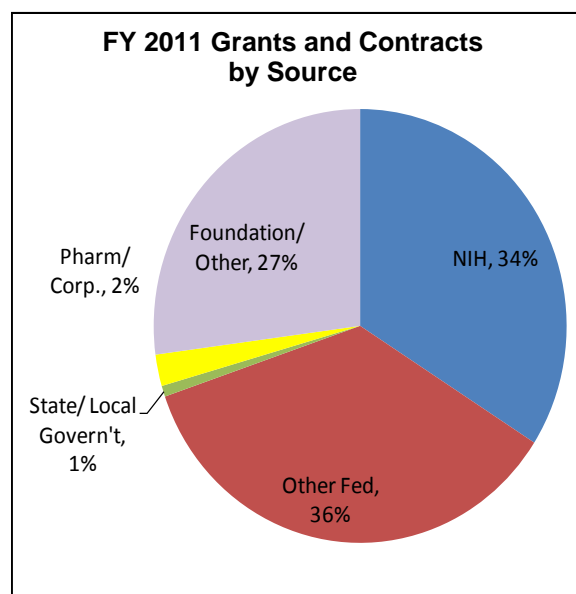
(in \$ millions)	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual
Annual Fund/Current Support	\$40.9	\$46.4	\$45.4	\$49.8
Plant Gifts	10.9	9.1	6.1	20.4
Endowment Gifts	48.5	118.2	23.0	131.5 **
Subtotal	\$100.3	\$173.8	\$74.5	\$201.7
Sponsored Programs* and other items	\$9.6	\$8.1	\$16.4	\$5.3
Total Cash Raised	\$109.9	\$181.9	\$90.9	\$207.0
Total Commitments	\$146.6	\$186.4	\$96.4	\$132.7

\*primarily foundation supported programs

\*\*includes funds transferred from a separately held trust

endowment giving for undergraduate, need-based scholarships. The University also received a number of large gifts in fiscal year 2011, including the Warwick and Mary Mason Washington Evans endowment for Medical Research in the amount of \$86.9 million, and a final payment towards the McDevitt professorship endowments. Total cash contributions, including current use, endowment and plant, were \$207.0 million in fiscal year 2011, with new commitments of \$132.7 million.

[Grant and Contracts](#) Faculty and students were engaged in \$245 million of research, service, instruction, and training programs funded by federal and local governments, agencies, nonprofit organizations, and private sponsors in fiscal year 2011. Based on 2011 activity, the University received 34% of grant and contract revenues from NIH, 36% from



other federal government agencies including the Department of Defense, Department of Education and USAID, 1% from state and local governments, 2% from pharmaceutical companies and other corporations, and 27% from foundations and other sources. Total federal sources increased from \$165.8 million in fiscal year 2010 to \$169.7 million in fiscal year 2011, an increase of 1.9%.

Approximately 54% of fiscal year 2011 grant and contract revenue was generated by the Medical Center with 43% generated by the Main Campus and the remaining 3% by the Law Center and University Services. Indirect cost recovery revenue, which is used to defray the cost of research facilities operation, maintenance, depreciation, and debt, as well as administrative expenses, was \$36.6 million

**Table 9: Grants and Contracts by Source \***

<i>(\$ in thousands)</i>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>
Federal	\$161,226	\$162,826	\$165,846	\$169,674
Other Government	2,388	3,165	2,081	2,139
Private	59,612	68,712	72,129	73,208
<b>Total</b>	<b>223,225</b>	<b>234,703</b>	<b>240,056</b>	<b>245,021</b>

*\*The difference between revenues reported here and those in the financial statements is mainly due to grants for financial aid expense. In the financial statements, these revenues are netted against financial aid expenses.*

**MAIN CAMPUS**

*The Main Campus has achieved much and has broad and deep ambitions. In fiscal year 2010, a new facility for the McDonough School of Business was completed and occupied, This new facility, the Rafik B. Hariri Building, represents a splendid addition to the school and the greater campus and has proven pivotal in moving the MSB toward the upper echelons of national business schools. Also in fiscal year 2010, we began construction of a vital and exciting new center for the sciences. We expect to occupy this new facility in fall 2012.*

*The Main Campus had been blessed to enjoy stable leadership for a number of years but recently experienced some changing of the guard. In fiscal year 2009, we successfully concluded a search for a new Dean for Georgetown College. In fiscal year 2010, we successfully concluded a search for a new Dean for the School of Foreign Service and a search for a new Dean for the Georgetown Public Policy Institute. During fiscal year 2011, we conducted a successful search for a new dean for the McDonough School of Business who will assume that post in early fiscal year 2012.*

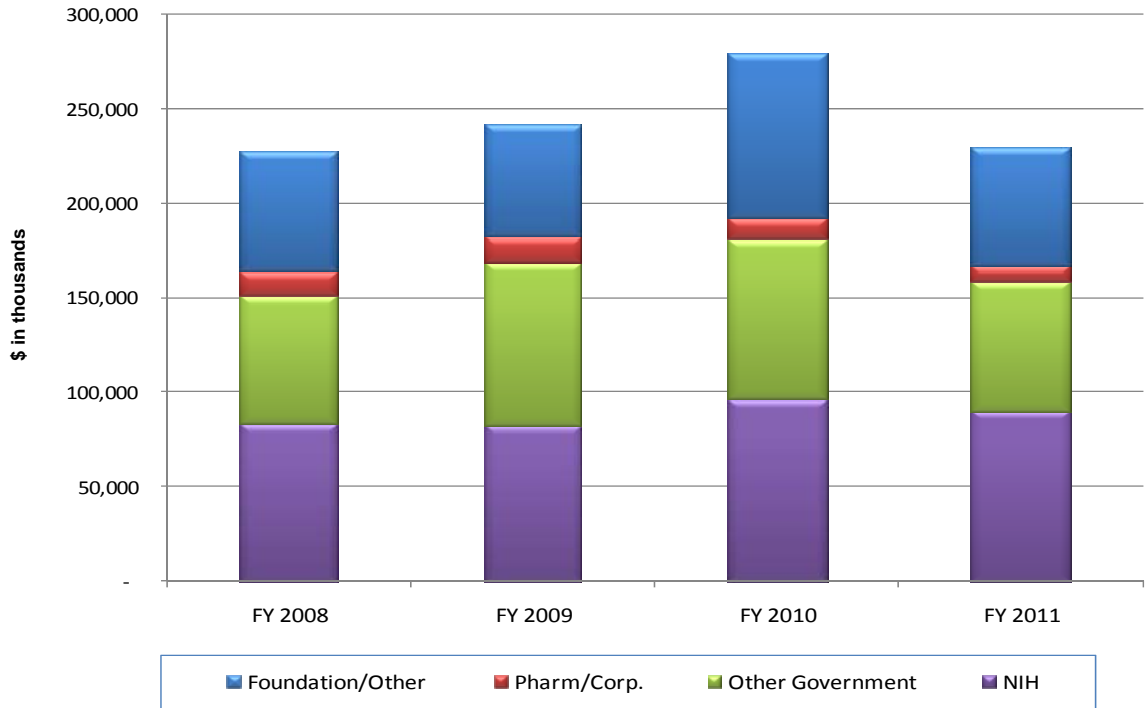
*With the introduction of several new professional master's degrees, the School of Continuing Studies continues to grow and strengthen dramatically. Global initiatives continue to expand our reach, especially in China, the Middle East (with the recent graduation of the third class of Georgetown's Qatar campus), and Latin*

*America (where a distinguished board of regional leaders supports an important certificate program for emerging leaders). In cooperation with other parts of the University, India is now coming into our conversations, with important visits to the subcontinent and to the Hilltop giving visible form to conversations being conducted at a distance. A recent development is that we will host a distinguished visiting Indian scholar on our campus beginning in fall 2012.*

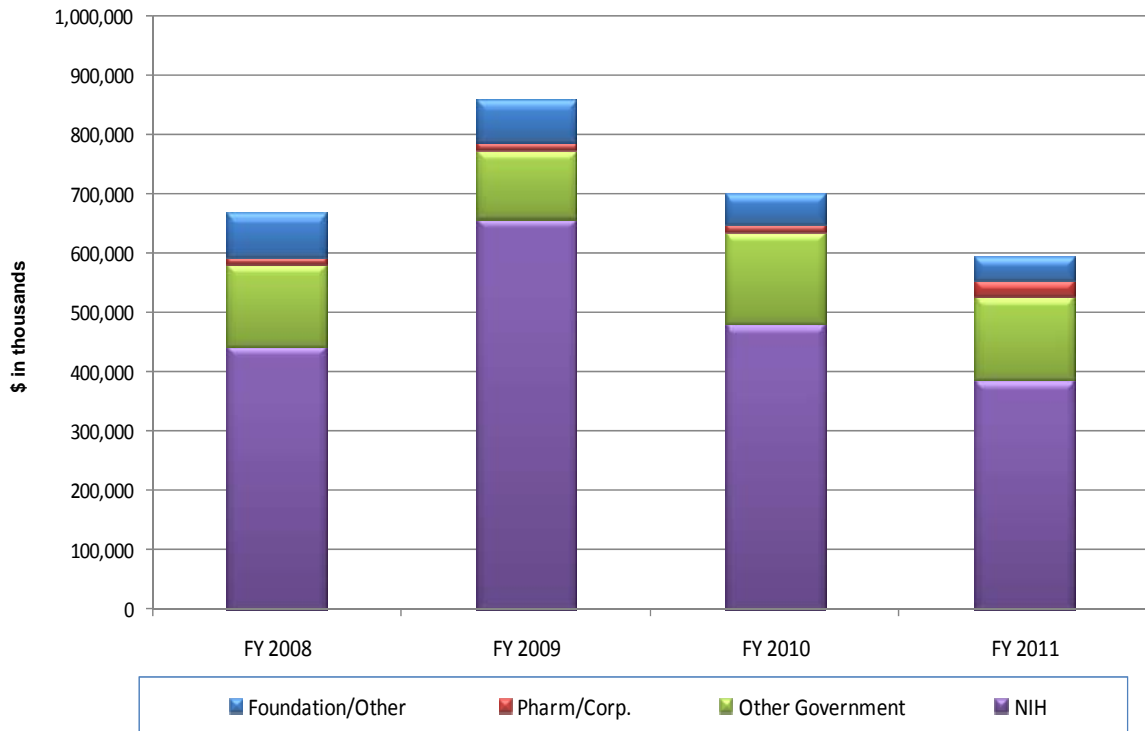
*As we approach the public phase of a major campaign, the focus of campus development activities is on support for faculty positions, for financial aid for students, and for strengthening departments and facilities in the natural sciences. Traditional undergraduate enrollments remain strong and stable (as per the government imposed undergraduate enrollment cap); overall enrollments in graduate programs have achieved double digit growth. The 2010-2020 Master Plan for the campus required by the city zoning board is moving towards final negotiations, with significant impact on our business model as there will be an overall cap imposed on our enrollment here on the Hilltop. The exact details of the new enrollment cap have not yet been determined.*

*Operating results for the Campus remain strongly positive, as they have been for many years, thereby giving a boost to our ambitions, particularly in completing funding for the new Science Center*

**Table 10: Total Awards Received**



**Table 11: Total Proposals Submitted**



in fiscal year 2011. The indirect cost rate, also referred to as the Facilities and Administrative rate, on organized research was set at 53.5% for fiscal year 2011. However, the University's blended rate for the year was closer to 17.6% due to grants and contracts with an off-campus rate, as well as clinical trials and training grants which have lower indirect cost rates.

Total awards received by the University decreased 17.6% from \$279.3 million in fiscal year 2010 to \$230.1 million in fiscal year 2011. Over the last three years, University researchers have been awarded \$45.4 million in ARRA grants, including \$19.4 million in fiscal year 2011. Most of the decline in awards can be attributed to the timing in which the University received renewals on long standing grants, including for the School of Foreign Service campus in Qatar, rather than a true loss of awards. NIH was the source for 39% of awards in fiscal year 2011; 30% of awards were from other federal, state, and local government sources; and 31% were from foundations (the majority of which were contract revenues for the School of Foreign Service campus in Qatar), pharmaceutical companies, other corporations and other sources. Table 10 shows the historical awards by source from fiscal year 2008 to 2011.

In fiscal year 2011, proposals submitted by the faculty, staff, and students totaled \$594 million, a decrease of 15.4% from the fiscal year 2010 total of \$702 million. Of the total proposal dollars, NIH accounted for 65%, other federal, state, and local government 24%, pharmaceutical companies 5%, and foundations 6%. The expiration of ARRA funding from the federal government accounted for approximately \$33 million of the decrease in proposals. Excluding ARRA activity, proposals would have decreased by 11.3% from fiscal year 2010, mainly the result of principal investigators focusing on completing the research associated with their ARRA grants rather than applying for new grants. Table 11 shows the historical amount of proposals by source for fiscal years 2008 through 2011.

Auxiliary Enterprises (revenues from room, board, bookstore, and other auxiliary activities) generated \$107.7 million in fiscal year 2011, an increase of 9.8% from fiscal year 2010. Approximately 60% of the revenue growth in auxiliaries was generated from a settlement received from MedStar Health for prior year utility costs. The remaining growth was generated from room, board, and conference center revenues.

All first year and sophomore students are required to live on campus unless an exemption is granted by the Housing Office. The rates for undergraduate housing ranged from \$8,014 to \$9,646 for the academic year 2010-11. Room rates for the Main Campus were only increased by 2.0% between fiscal year 2010 and 2011 while the rates for the Law Center were increased by 2.5%. Board rates were increased by 2.9% during the same time period.

Endowment Income was \$73.5 million in fiscal year 2011, an increase of 6.2% over fiscal year 2010. The increase was largely the result of income that was generated from the Warwick and Mary Mason Washington Evans endowment for Medical Research, which was received at the beginning of fiscal year 2011. The spending rate on the endowment fell by 6.3% in fiscal year 2011 as a result of prior year investment losses being taken into account in the payout formula, and a reduction in the payout percentage to 5.5% of a five year average in fiscal year 2011, down from 5.75% of a five year average in fiscal year 2010. This percentage will be reduced by 0.25% per year until it reaches 5.0% in fiscal year 2013.

Other Income consists primarily of revenues from athletic events, royalties, professional services, conferences, student activities, and other activities consistent with the University's mission. In fiscal year 2011, other income decreased 5.5% to \$55.3 million primarily due to declines in various clinical revenues received through the University's partnership with MedStar Health.

## EXPENSES

The University's operating expenses totaled \$1,014.8 million in fiscal year 2011, a 5.1% increase over the prior year. Cost containment, particularly on discretionary spending, continued to be the operating norm throughout the

University. Expense categories that showed significant growth included areas of non-discretionary spending such as rent and insurance, and non-discretionary spending in supplies and services.

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## MEDICAL CENTER

*Georgetown University Medical Center (GUMC) is an internationally recognized academic medical center with a three-part mission of research, teaching and patient care (through a partnership with MedStar Health). The largest, most prominent Catholic medical center in the country, GUMC's mission is carried out with a strong emphasis on public service and a dedication to the Catholic, Jesuit principle of cura personalis, or "care of the whole person."*

*In fiscal year 2011, educational programs at GUMC continued to attract the highest-quality applicants. The School of Medicine, with an enrollment of 804 and 1,805 full-time faculty, ranks 45 out of 133 accredited MD-granting United States medical schools in US News and World Report's Annual Graduate School Ranking issue. The School received applications from one in four students (26%) applying to medical schools nationally, and accepted only 3.6% of those 11,600 applicants to seat their class of 196 students. This year nearly 40% of the class went to top 25 related residency programs and 90% were placed into one of their top three choices for their residency. As part of a new curriculum, each member of the 2011 class is required to complete an individual scholarly research project; further creating a learning environment of scholarly inquiry, worthy of GUMC's Jesuit ideals.*

*The School of Nursing & Health Studies (SNHS) received 1,153 applications for the 110 slots available to the 2015 Class, with most students ranking in the top 4% of their high school class. SNHS (last ranked in 2010) also had four programs listed among the national rankings: the Nurse Anesthesia Master's program ranked 17th in the nation, the Nurse Midwifery Master's program ranked 19th, the Graduate Nursing Master's program ranked 36th and the Health Systems Administration Master's program ranked 29th. SNHS celebrated the appointment of Martin Iguchi, PhD as the new Dean. As a well-respected leader in public and community health, Dr. Iguchi is an innovative educator who will create a robust and scholarly enterprise that defines the Jesuit tradition.*

*The Biomedical Graduate Research Organization (BGRO) enrolls 616 PhD and Masters-level students. Academic programs at BGRO collected \$16.9 million in fiscal year 2011 tuition revenue across the 23 selective programs. BGRO successfully launched the second joint program between George Mason & Georgetown; the GeorgeSquared Special Master's Program at the Prince William County campus matriculated the first class of 21 students in fall 2011.*

*Lombardi Comprehensive Cancer Center (LCCC), one of only 40 NCI designated comprehensive cancer centers and the only one in the District, continues to distinguish itself in Breast and Colon Cancer research and Cancer System Biomedicine through continued investment in the Georgetown Database of Cancer (G-DOC), the Lombardi Health Disparities Initiative, and The Otto J. Ruesch Center for the Cure of Gastrointestinal Cancer. LCCC recently acquired space at 1000 New Jersey Avenue, SE, in the District of Columbia establishing a community-based outreach and health disparities research site lead by Lucile Adams-Campbell, PhD. Lombardi's internationally-renowned physicians treat virtually every type of cancer, including breast, lung, colorectal, prostate, head and neck, and cancers of the blood.*

*Throughout fiscal year 2011, the Medical Center community continued efforts in strategic planning. The goal of the SPI is to transform GUMC in a way that best positions it to be the leading medical center for education, research, and clinical delivery of a systems medicine approach to health, which holds the greatest promise for early detection and prevention of disease. In alignment with this strategic plan, a new Dean of Research was appointed; work on establishing a Center focused on Health Disparities has begun; an agreement of cooperation and revenue sharing with the School of Continuing Studies was launched; and the on-line advanced practice nursing program, which was launched in March, is operational in 39 states and enrolled more than 100 students through August.*

Compensation, which includes salary and benefits, comprises the largest expense category for the University. It represented 55.5% of the University's total expenses in fiscal year 2011 at \$562.9 million, an increase of 3.2% over fiscal year 2010.

In response to the economic crisis, the University did not implement a merit pool for staff in fiscal year 2011. However, the University implemented a salary plan for ordinary faculty at the Main Campus that began in January 2011. This plan, which will extend for five years, ensures that salaries for ordinary faculty remain competitive with other peer institutions.

Combined, these factors kept salary growth at only 2.9% in fiscal year 2011.

Benefit expenses include the cost of providing the following fringe benefits to employees: retirement plans, health benefits for current and retired employees, a dental plan, tuition assistance, and life insurance. Fringe costs also include employer's obligations as required by law for social security taxes, unemployment taxes and workmen's compensation. In fiscal year 2011, total benefit expenses were \$123.9 million, an increase of 4.6% over fiscal year 2010. The primary source of the increase came from a one time expense accrual of \$4 million for AAP.

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## LAW CENTER

*At the start of the 2010-2011 academic year, Georgetown Law welcomed into its community William M. Treanor as its new Executive Vice President and Dean. Dean Treanor, who previously served as Dean of Fordham Law School, has had a rich and varied legal career working in both higher education and government. Georgetown Law also welcomed to its faculty, Professor Robert B. Thompson. Professor Thompson, who was also appointed to the Peter P. Weidenbruch Jr. Professorship in Business Law, is a prolific scholar and dedicated teacher. The Weidenbruch Professorship was established in 2007 with a generous gift from David R. Belding and recognizes Peter Weidenbruch's distinguished service as a member of the Georgetown University Law Center faculty for more than 40 years.*

*Georgetown Law continues to be recognized as an innovative leader in legal education. Our clinical program is consistently ranked as the best in the country and this year has brought an explosion of experiential learning classes and externships offered at Georgetown. We celebrated the 50th anniversary of the E. Barrett Prettyman Fellowship program which gives new lawyers the chance to defend the less fortunate. This program was on the cutting edge when it began in 1961 and Georgetown has continued to build and refine its clinical programs throughout the years. This is evident in the creation of the new Community Justice Project Clinic lead by Professor Jane Aiken. This clinic, Georgetown Law's 13th, started in the fall of 2010 and provides students with the opportunity to work for social justice.*

*This academic year brought a number of notable speakers on campus for lectures, panels and symposiums on a wide range of topics such as human rights, health care, immigration, and national security. In recognizing the importance of interdisciplinary collaboration, many of these events were co-sponsored with our institutes and centers, with student groups and with colleagues within other areas of Georgetown University. Through these and other academic enriching programs, we continuing to create an atmosphere of learning that is both interesting and thought provoking. The 2010-2011 academic year was also a period in which members of the faculty were recognized for their scholarly work and achievements. Professor Daniel Ernst received the 2010 Surrency Prize from the American Society of Legal History, and Professor Carrie Menkel-Meadow received the ABA Section of Dispute Resolution's first-ever Award for Outstanding Scholarly Work. Professor Lisa Heinzerling, a highly regarded scholar and policy leader in the field of environmental law, was selected as the first recipient of the New Directions in Environmental Law Award by the Yale Environmental Law Association and the Yale Center for Environmental Law and Policy. In recognition of his longtime advocacy for underprivileged and disadvantaged youth, Professor Peter Edelman was selected as a recipient of the 15th annual Justice Potter Stewart Award by the Council for Court Excellence. This atmosphere of learning and research and the diversity of our programs allow us to continue to attract top students and hire and retain distinguished faculty and bring academic leaders to our campus*

leave, which was necessary in preparation for the conversion to a new payroll and benefits information system. The fringe benefit recovery rate of 35% for fiscal year 2011 was applied to institutionally funded salary and wages to cover benefit expenses.

Supplies and Services increased 11.6% from \$195.5 million in fiscal year 2010 to \$218.3 million in fiscal year 2011. Spending on supplies and services for sponsored research activities, which accounted for about one third of overall spending in this category, increased by 12.1% in fiscal year 2011. Spending on non-research activities increased by 11.5% in fiscal year 2011. This increase was driven by investments the University is making in a new human resources and financial system and in programs in the McDonough School of Business, as well as numerous minor repairs that were needed to the University's physical plant, including overseas properties.

Interest on Indebtedness totaled \$34.8 million in fiscal year 2011 compared to \$39.7 million in 2010. The University continued to benefit from the low interest rate environment, receiving rates on its variable interest rate debt that averaged 0.3% during fiscal year 2011. While only 19% of the University's debt is unhedged variable rate debt, the University still achieved budget savings on interest expense as a result of these historically low interest rates.

Rent and Utilities Rent totaled \$38.9 million, an increase of 15.7% from the prior year. The increase was mainly due to a change in accounting treatment for space the University occupies in its School of Foreign Service - Qatar campus. Outside of this new charge, rent remained relatively flat.

Utilities costs decreased by 4.7% between fiscal year 2010 and 2011. A winter with more normal temperatures than the previous winter, as well as a commodity purchasing strategy that mitigated the price shocks that occurred in the energy sector contributed to the expense decrease.

Insurance costs increased 10.2% from \$14.2 million in fiscal year 2010 to \$15.7 million in 2011. This expense category includes premiums paid for student health insurance, a pass-through cost to students; property and liability insurance; and professional liability insurance, which the University self insures. The increase in insurance costs was entirely due to an increase to the professional liability insurance reserves the University holds on its balance sheet.

Repairs and Maintenance expense decreased 3.6% from \$10.0 million in fiscal year 2010 to \$9.6 million in fiscal year 2011. The University continued its various software and hardware maintenance agreements on its newer network infrastructure, and continued to implement much needed equipment repairs.

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## UNIVERSITY SERVICES

*Throughout fiscal year 2011, University Services departments were involved in a number of important efforts that positively impacted the lives and working conditions of University staff, faculty and students. The Department of Facilities continued their work on a number of key construction projects, including the continued construction of the new Science Center, and a major renovation to Nevils Residence Hall, which began in late Spring 2011. University Information Services (UIS) led the effort to install new wireless service throughout the University's residence halls, and focused significant efforts on the development and implementation of the Georgetown Management System (GMS), a new Human*

*Resources and Financial Information system that will replace aging systems that are currently in place. UIS focused most of their efforts in fiscal year 2011 on the Human Resources and Payroll component of GMS, and expect to "Go Live" with this component in January 2012.*

*The University, through the continuous work of numerous departments within University Services, successfully settled a number of long standing issues with our clinical partner MedStar Health, including utility charges incurred in prior years. University Services operating results benefited from this settlement in fiscal year 2011, and the settlement is expected to provide budget stability going forward.*

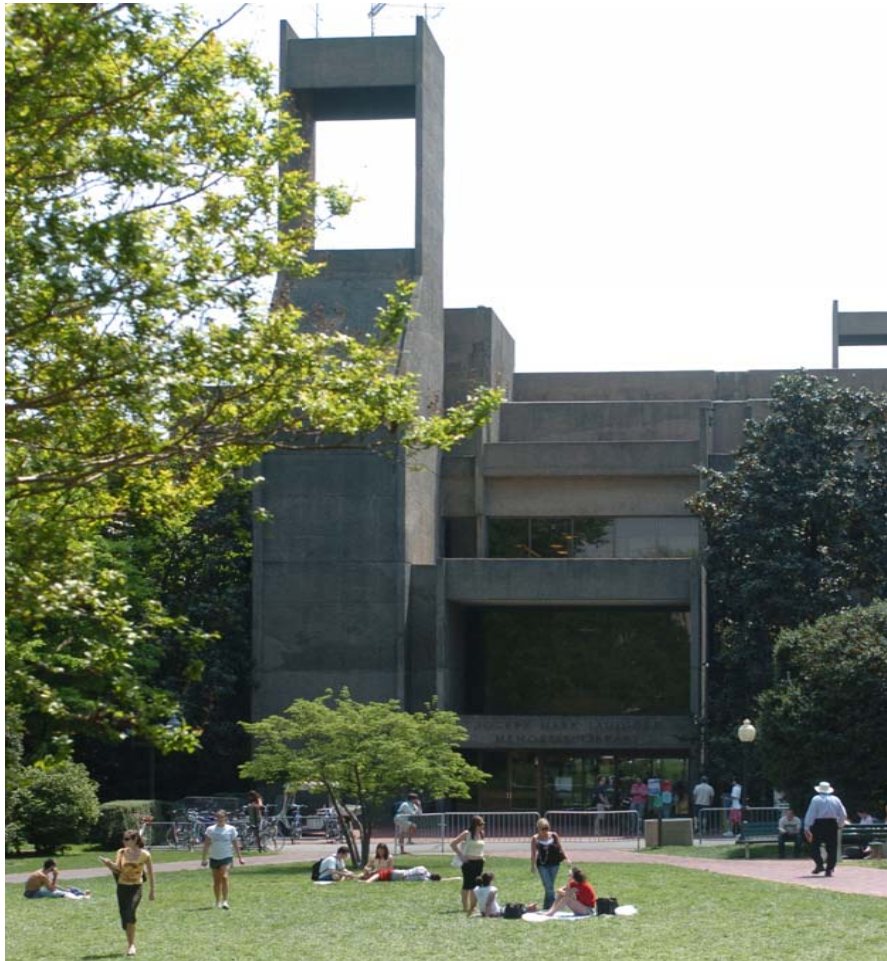
### Travel and Business Functions

Expenses for travel and business functions related to University business in fiscal year 2011 totaled \$36.6 million, an increase of 11.5% over fiscal year 2010. The increase was primarily the result of the continued growth in MBA and Executive Education programs in the McDonough School of Business, which require international travel as part of their educational residency programs, and the School of Continuing Studies, which started a number of new international executive education programs in fiscal year 2011.

Library and Other Expenses In fiscal year 2011, the University spent \$13.5 million in books, periodicals, subscriptions, and other materials to maintain and enhance collections in the main libraries—the Lauinger Library, the Dahlgren Library, the Edward Bennett Willams Law Library,

and the John Wolff International and Comparative Law Library—as well as smaller libraries throughout the University.

Other expenses consist primarily of non-service graduate student stipends, taxes and fees, bad debt, and expenses related to recruitment and relocation. In fiscal year 2011, other expenses totaled \$8.2 million, an increase of 59.8% over fiscal year 2010. In fiscal year 2010, the University benefited from a ruling by the IRS on FICA payments that resulted in a refund to the University of \$10.7 million. Excluding the impact of this refund, expenses in this category decreased 47% over fiscal year 2010, mainly due to a one time charge related to a change in the accounting treatment for capital equipment purchased using sponsored research revenues.



## Endowment and Pension Plan

*Strong gains in the equity markets, strong fundraising results, and continued strategic asset allocation helped to produce positive investment returns in fiscal year 2011.*

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### Overview

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 and are managed by the University's Investment Office. 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.

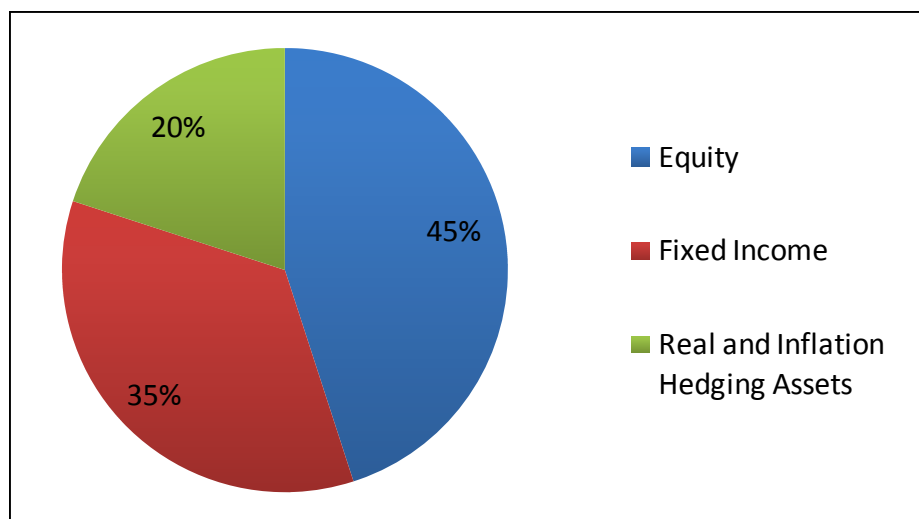
As of June 30, 2011, the total market value of the University Endowment was \$1.16 billion, an increase of approximately 15.4% over the previous fiscal year.

In fiscal year 2011, the Pooled Endowment Fund gained 16.8%, an attractive absolute return. Relative to other endowments with higher equity exposure, Georgetown chose to remain defensively positioned during the year, which has paid off during the recent fiscal crisis but translated into a weak relative return as of June 30. In addition, the combination of a low beta public equity portfolio and lagged private portfolio with less drastic markups resulted in underperformance during the period of market strength in the second half of 2010. By comparison, the Georgetown Policy Index returned 19.9% for the fiscal year, and the 70/30 benchmark gained 23.4%.

In fiscal year 2011, earnings from the Endowment's pooled fund were distributed at a rate of 5.50% of the

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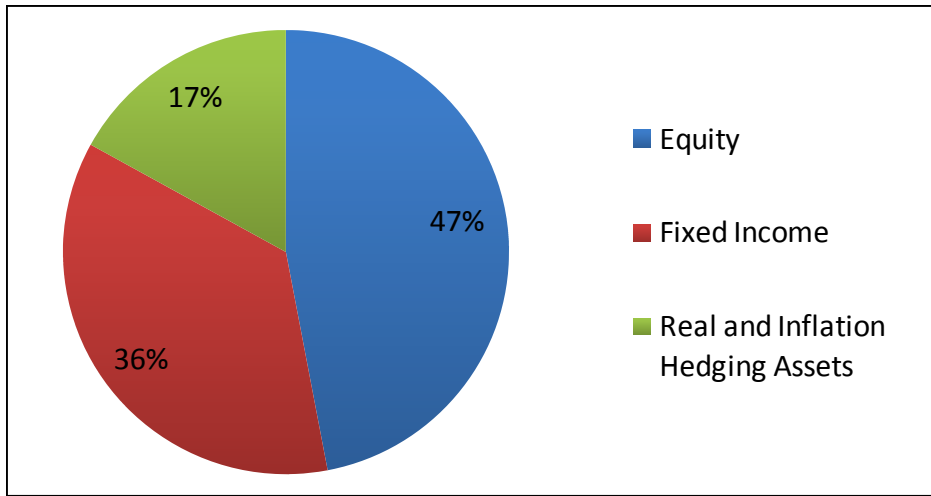
### Pooled Endowment—Target Asset Allocation



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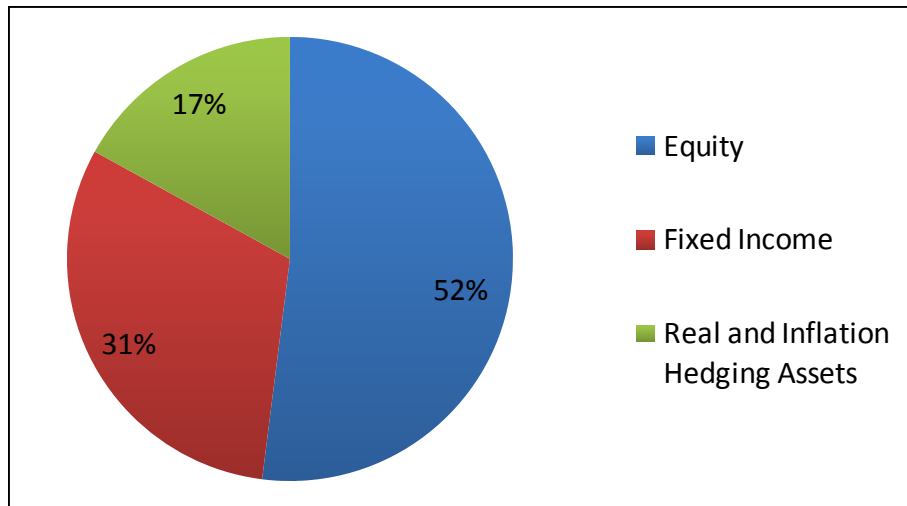
### Pooled Endowment Asset Allocation June 30, 2010



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### Pooled Endowment Asset Allocation June 30, 2011



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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). The distribution of \$66.5 million for fiscal year 2011 was matched by incoming contributions and gifts of \$59.5 million.

During fiscal year 2010, the latest year for which comparative numbers are available, the University's total endowment

per full-time equivalent (FTE) student was \$66,892 or 62% of the NACUBO mean.

The following table displays the investment performance of the pooled fund relative to various indices against which performance is typically measured. Georgetown uses two policy benchmarks. The 70/30 benchmark measures the performance of a passive allocation to solely U.S. stocks (70%) and bonds (30%). The asset allocation benchmark helps

measure the value of manager selection combined with tactical asset allocation tilts away from the strategic asset allocation.

\$131.7 million. The plan's assets returned 23.0% during the year, outperforming the asset allocation benchmark by 111 basis points.

Also overseen by the Investment Office is the Georgetown University Retirement Plan. At June 30, 2011, the market value of the retirement plan was

**Table 12: Endowment Returns and Benchmarks**

Endowment Pooled Fund Return					
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Georgetown (net of fees)	23.4%	-1.3%	-22.2%	12.3%	16.8%
Georgetown 70/30 Benchmark*	15.8%	-6.9%	-17.3%	14.2%	23.4%
Georgetown Policy Asset Allocation Benchmark**	17.2%	1.6%	-14.2%	13.5%	19.9%
Colleges and Universities (NACUBO) Median***	17.5%	-3.3%	-19.1%	11.9%	N/A
S&P 500 Index	20.6%	-13.1%	-26.2%	14.4%	30.7%
Lehman Agg. Bond Index	6.1%	7.1%	6.1%	9.5%	3.9%
CPI	2.7%	5.0%	-1.4%	1.1%	3.6%

\* 70% Russell 3000 + 30% Lehman Aggregate

\*\* Former and current Policy Benchmarks weighted according to their respective Policy Allocation.

\*\*\*NACUBO Results for fiscal year 2011 are not yet available.



# STATEMENT OF CAPITAL ACTIVITIES

*The University made significant progress on the construction of its new Science Center during fiscal year 2011, and continued to invest in its existing plant and technology*

The University invested \$53.0 million in 82 active capital projects in fiscal year 2011 compared to \$25.6 million on 83 active capital projects in fiscal year 2010. Investment in new construction was \$30.6 million or 58% of total capital spending. \$28.9 million of new construction spending was on the new science building as construction activity ramped up during fiscal year 2011. Renovation and improvement projects expenditures totaled \$16.4 million, representing 31% of total capital expenditures, and capital maintenance project costs totaled \$3.9 million during the year. \$2.1 million was invested in technology improvements.

### New Construction

In fiscal year 2011, significant progress was made on construction of the new Science Center, which will be named Regents Hall. By June 30, 2011,

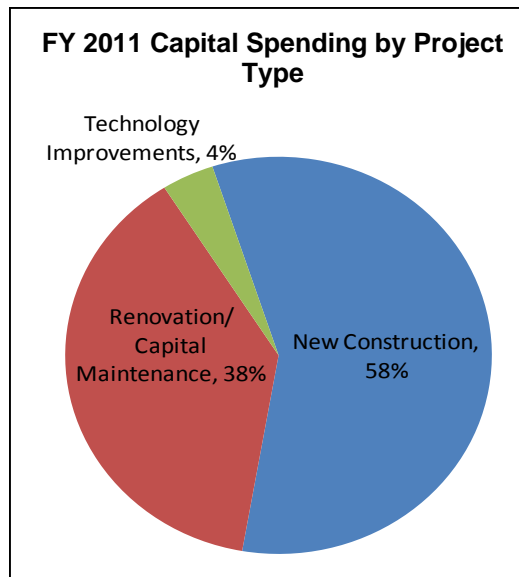


construction was approximately 56% complete. Major milestones achieved during the year include the following: installation of concrete and steel work; installation of the building's mechanical and electrical infrastructure; release of laboratory equipment for production; and, 80% completion of the building's exterior envelope. The project is on track, and the building is scheduled to open in fall 2012.

### Renovation and Improvement

Major renovations initiated in fiscal year 2011 include Nevils Hall, a student residence hall on the East Campus. Phase 1 of a two phase project was accomplished during the summer break, which consisted of an interior renovation of all 45 apartment units including replacement of all finishes, upgrades to the mechanical and plumbing systems, structural repairs, and fire protection system. Phase II will address the exterior of the building.

Another significant renovation project initiated in fiscal year 2011 was at Gewirz Residence Hall at the Law Center. Phase 1 of a three phase project was executed over the summer break, and included the replacement of the fire alarm system; mechanical system upgrades; repairs to the plumbing risers; and, renovation of kitchens and bathrooms in 37 of the 154 apartment units in the building. Phases II and III will address the remaining 117 apartment units.



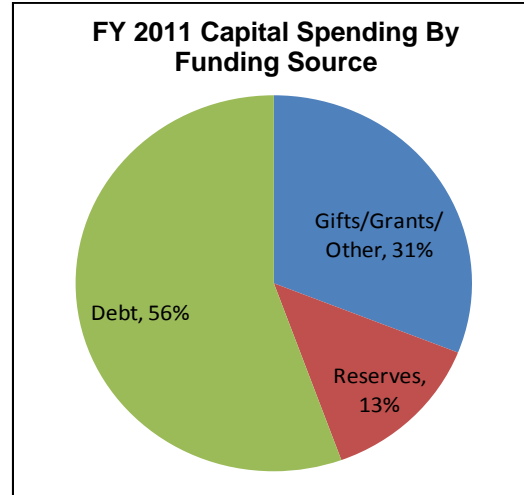
### **Progress in Capital Maintenance**

The University continued its High Priority Deferred Maintenance Program during fiscal year 2011, with another \$3 million appropriated for emergency repairs. \$2.4 million was used to address critical needs in the Utilities Plant, and \$1.5 million was expended in various buildings at the Medical Center and Main Campus that included the repair and replacement of building infrastructure equipment.

### **Technology Investment**

**Residence Hall Network Upgrade, Security Camera and Wireless Project:** In fiscal year 2011, a \$4.5 million project was executed to deploy a camera surveillance system in thirteen residence halls, and wireless network capabilities in nine of the residence halls that previously had no wireless connectivity. The camera surveillance system provides the Department of Public Safety with enhanced capabilities to monitor the perimeter and access points to improve residence hall security. Wireless network access in the residence hall rooms makes it easier for students to access University resources online and to collaborate with faculty and fellow students.

**Georgetown Management System:** The \$8 million multi-year project to replace the University's core administrative systems began in June 2010, and is the first major University system to be implemented as a Software as a Service, commonly designated as "in the cloud". The first phase is the replacement of the University's Human Resources, Benefits and Payroll systems. This phase is currently in the testing stage, and is scheduled to go live January 2012. The second phase is the replacement of the University's financial management system, which is in the early stages of design and project planning. The major project activities of this phase will commence in 2012 and implementation is scheduled to occur during fiscal year 2014.



**Information Technology Investment Plan:** The last year of a \$14.3 million five year plan to address technology deficiencies and deferred investments in high priority/critical processes in the areas of computing infrastructure, information security, instruction, research, compliance, and regulatory and business systems was completed in fiscal year 2011. Remaining funds are sufficient to address emergency needs during this fiscal year. The IT investment plan will be extended over the next three fiscal years to allow an additional investment of \$3 million in these areas.

The University's capital expenditures for fiscal year 2011 are summarized in Table 13.

**Table 13: Capital Spending by Project Type (\$ in millions)**

<b>Progress of New Construction Projects</b>			
<b>Project</b>	<b>Actual</b>	<b>Thru FY2011</b>	<b>Cumulative Total Projected</b>
Science Building	28.9	37.5	93.0
All Other Projects	1.7	100.6	139.9
<b>Total New Construction</b>	<b>\$ 30.6</b>	<b>\$ 138.2</b>	<b>\$ 232.9</b>

<b>Renovation/Capital Maintenance Projects</b>			
<b>Campus</b>	<b>Actual</b>	<b>Thru FY 2011</b>	<b>Cumulative Total Projected</b>
Medical Center	3.7	9.6	27.2
Main Campus	2.8	4.0	11.3
Law Center	2.9	4.2	7.9
University Services	3.4	38.5	63.9
Student Housing	7.5	7.5	27.3
<b>Total Renovation/Cap. Maint.</b>	<b>\$ 20.3</b>	<b>\$ 63.9</b>	<b>\$ 137.6</b>

<b>Technology Improvements</b>			
<b>Project</b>	<b>Actual</b>	<b>Thru FY 2011</b>	<b>Cumulative Total Projected</b>
Information Technology Investment Plan	0.8	11.1	17.3
Residence Hall Network Upgrades	0.9	0.9	4.5
Other	0.4	17.3	17.9
<b>Total Technology</b>	<b>2.1</b>	<b>29.3</b>	<b>39.6</b>

<b>TOTAL CAPITAL EXPENDITURES</b>	<b>\$ 53.0</b>	<b>\$ 231.3</b>	<b>\$ 410.1</b>
Georgetown Management System	\$2.1	\$2.1	\$10.7



## Balance Sheet Highlights

*The University's balance sheet improved during the year as a result of strong growth in the Endowment Fund and pension plan assets.*

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### Overview

Total assets grew 9.5% from \$2.3 billion in fiscal year 2010 to \$2.5 billion in fiscal year 2011. Major contributing factors to the growth in assets were unexpended bond proceeds of \$72.2 million from two new bond issues, the 15.4% increase in the endowment from \$1.0 billion in fiscal year 2010 to \$1.2 billion in fiscal year 2011, and the \$43.1 million addition to Construction in Progress largely attributable to the Science building project. Cash and cash equivalents were lower in fiscal year 2011 due to the repayment of the University's outstanding lines of credit. The reduction in contributions receivable in fiscal year 2011 was a result of the payout of the Toulmin Beneficiary Trust.

Total liabilities remained almost unchanged at \$1.3 billion, increasing by 1.4% from fiscal year 2010 to fiscal year 2011, as an increase in notes payable and long-term debt was offset by a substantial reduction in pension liability. The net increase in notes payable and long-term debt was due to the issuance of \$90 million in new debt and a \$2.7 million bond issuance premium counterbalanced by the repayment of \$41.2 million in outstanding lines of credit and an unrealized gain on swaps of \$11.1 million. Higher actual returns on plan assets and increased employer contributions resulted in a lower pension obligation in fiscal year 2011.

Total net assets increased 20.5% from \$948 million in fiscal year 2010 to \$1.1 billion in fiscal year 2011. Deficiencies in endowment funds recorded in net unrestricted assets were lower by \$21.3 million, which led to an improvement in unrestricted net assets from \$(121.3) million in fiscal year 2010 to \$(60.4) million in fiscal year 2011. Increases in both temporarily

and permanently restricted net assets in fiscal year 2011 resulting from strong investment returns and new gifts, respectively, contributed to growth in net endowment assets.

### Investments

At June 30, 2011, the University maintained four investment portfolios, two of which are included in the University's Statement of Financial Position:

- Operating Cash and Investments provide funds to cover the University's daily operating needs (working capital) and for capital projects;
- The Endowment generates income for long-term support of the University's operations;
- Georgetown University Retirement Plan (GURP) holds and invests funds to pay benefits to retirees;
- The Employee Comprehensive Health Trust is used to manage payments of current employee health plan benefits.

**Table 14: Market Value of Investments**

Investments (\$ in millions)	Market Value 6/30/11	Market Value 6/30/10
Operating Cash and Investments*	\$106.6	\$130.8
Endowment*	\$1,160.3	\$1,007.3
GURP (Retirement Plan Trust)	\$131.7	\$106.8
Employees Comprehensive Health Trust	\$2.4	\$2.3
Total	\$1,401.0	\$1,247.2

\* Assets included in the Statement of Financial Position

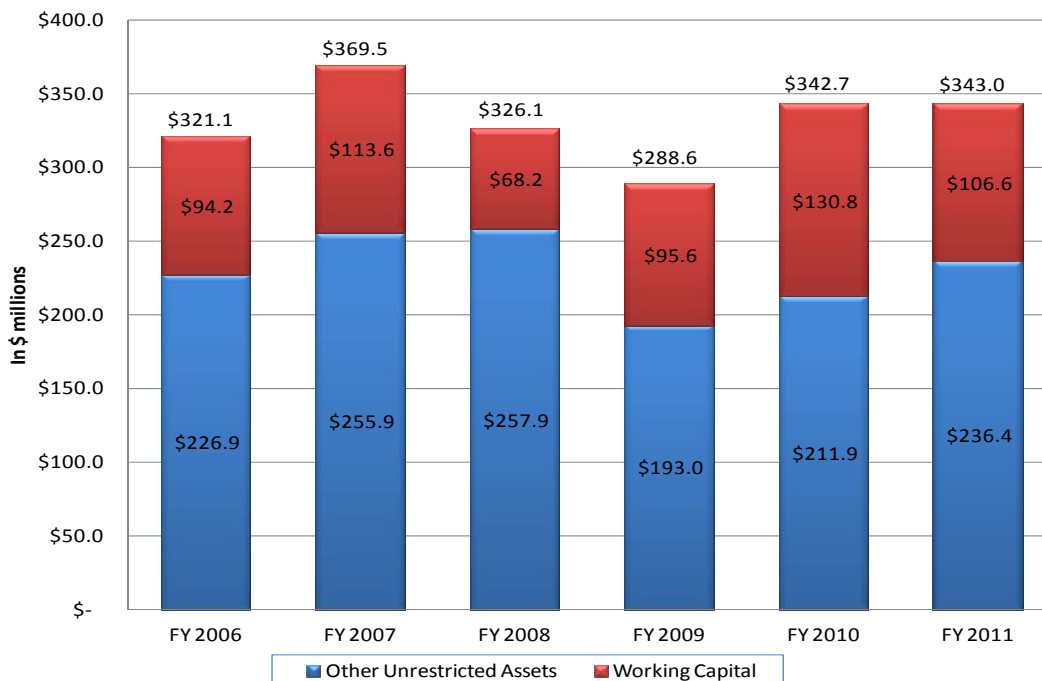
**OPERATING CASH AND INVESTMENTS**

The University's Operating Cash and Investments (OCI) portfolio stood at \$106.6 million at the end of fiscal year 2011, a decrease of \$24.2 million from the \$130.8 million balance at the end of fiscal year 2010. Major factors that contributed to the decline in OCI included the repayment of the University's outstanding lines of credit, and higher capital expenditures related to the construction of the new Science Center and the renovation of student hall residences.

The University continued to invest operating cash in designated funds and quasi-endowments. During fiscal year 2011, \$10.6 million was set aside for an anticipated bond redemption in 2018.

Table 15 shows the full liquidity available to the University, which includes both working capital and quasi endowment balances. At June 30, 2011, the University had the ability to liquidate all quasi-endowment balances within 30 days.

**Table 15: Unrestricted Assets and Working Capital**



**Table 16: FY2011 Changes to Operating Cash and Investments**  
*(\$ in millions)*

	<u>FY2011</u>	<u>FY2010</u>
<b>Beginning Balance</b>	<b>\$130.8</b>	<b>\$98.0</b>
Cash Flow from Operations		
Results from Operations	(12.8)	(7.6)
Depreciation	44.5	44.6
Accrued Interest	6.4	6.1
Pre-Paid Pension	3.0	9.5
Sponsored Activity	(9.4)	14.2
Other	2.9	(4.0)
Subtotal	<u>34.6</u>	<u>62.8</u>
Cash Flow from Financing/Capital		
Capital Expenditures	(57.7)	(25.6)
Principal Repayment	(55.7)	(1.8)
Gifts, Grants & Other	19.4	5.9
Bond Proceed Draw	20.5	26.5
Investment in Quasi-Endowments	(1.3)	(6.9)
Net Transfers (to)/from Endowment	(2.5)	(14.2)
Other	18.5	(13.9)
Subtotal	<u>(58.8)</u>	<u>(30.0)</u>
<b>Ending Balance</b>	<b><u>\$106.6</u></b>	<b><u>\$130.8</u></b>

### **FINANCING ACTIVITIES**

During fiscal year 2011, the University issued \$90 million in new debt to finance the construction of the new Science building and renovation projects within its student residence halls. In December 2010, the University issued \$45 million Series 2010 Bonds in the Index Rate Mode for a five year period. The rate resets monthly, and is based on a percentage of 1 Month LIBOR plus an applicable spread. In April 2011, the University issued \$45 million Series 2011 Bonds in the Term Rate Mode; the rate is fixed at 5% for a ten year term.

The University repaid \$41.2 million on its outstanding lines of credit which were used to finance a swap termination payment in 2009. The lines were therefore restored to their full capacity to bridge short-term cash needs.

The net effect of the University's debt transactions was an increase in the University's total debt of \$50 million, and a further reduction in the University's variable rate debt as a percentage of its total debt from 36% to 32%.

The University has four outstanding swap contracts. In accordance with GAAP, the University records the cost to terminate its swap contracts as a long-term liability. At the end of fiscal year 2011, this cost was \$31.9 million compared to \$43.0 million in fiscal year 2010.

**Total University**  
**Fiscal Year 2011 Revenues and Expenses Compared to Budget**

(\$ in Thousands)

	Budget	Actual	Variance
<b>REVENUES</b>			
Tuition, net	\$479,600	\$470,868	(\$8,732)
Gifts - Alumni and Development	45,552	49,840	4,288
Grants and Contracts	219,495	244,839	25,344
Endowment Income	66,633	73,516	6,883
Auxiliary Enterprises	101,631	107,684	6,054
Other Sources	57,276	55,268	(2,008)
<b>TOTAL REVENUES</b>	<b>970,187</b>	<b>1,002,016</b>	<b>31,829</b>
<b>EXPENSES</b>			
Salaries and Benefits	574,032	562,910	11,122
Supplies and Services	180,365	218,312	(37,947)
Depreciation	44,224	46,089	(1,865)
Interest on Indebtedness	41,488	34,765	6,722
Rent	33,697	38,891	(5,194)
Utilities	36,084	30,266	5,818
Insurance	13,544	15,661	(2,117)
Repairs and Maintenance	9,340	9,612	(271)
Travel & Business Functions	34,535	36,598	(2,063)
Library Books	12,813	13,494	(681)
Other	15,600	8,237	7,363
<b>TOTAL EXPENSES</b>	<b>995,722</b>	<b>1,014,836</b>	<b>(19,115)</b>
<b>OPERATING NET</b>	<b>(25,535)</b>	<b>(12,820)</b>	<b>12,714</b>
<b>NON-OPERATING</b>			
Capital Contributions		67,046	
Other Net Realized/Unrealized Gains/Losses		112,113	
All Other		28,220	
Non-Operating Total		<u>207,379</u>	
<b>Change in Net Assets</b>		<u><b>\$194,559</b></u>	

**Main Campus**  
**Fiscal Year 2011 Revenues and Expenses Compared to Budget**

(\$ in Thousands)

	Budget	Actual	Variance
<b>REVENUES</b>			
Tuition, net	\$315,260	\$310,559	(\$4,701)
Gifts - Alumni and Development	27,674	27,203	(471)
Grants and Contracts	86,534	105,127	18,593
Endowment Income	29,296	30,478	1,182
Auxiliary Enterprises	10,135	9,987	(148)
Other Sources	10,024	9,260	(764)
<b>TOTAL REVENUES</b>	<b>478,923</b>	<b>492,614</b>	<b>13,690</b>
<b>EXPENSES</b>			
Salaries and Benefits	241,470	237,542	3,928
Supplies and Services	66,818	74,282	(7,464)
Depreciation	11,135	11,842	(707)
Interest on Indebtedness	9,300	7,139	2,161
Rent	16,711	22,882	(6,171)
Utilities	686	516	170
Insurance	9,830	10,927	(1,097)
Repairs and Maintenance	1,624	995	629
Travel & Business Functions	15,922	17,259	(1,337)
Library Books	7,962	9,017	(1,055)
University Services Support	69,092	68,600	492
Other	11,009	12,251	(1,242)
<b>TOTAL EXPENSES</b>	<b>461,560</b>	<b>473,252</b>	<b>(11,199)</b>
<b>OPERATING NET</b>	<b>17,363</b>	<b>19,362</b>	<b>1,999</b>

**APPENDIX C**

**Medical Center**

**Fiscal Year 2011 Revenues and Expenses Compared to Budget**

*(\$ in Thousands)*

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>REVENUES</b>			
Tuition, net	\$75,702	\$73,246	(\$2,456)
Gifts - Alumni and Development	7,584	9,370	1,786
Grants and Contracts	129,216	132,567	3,351
Endowment Income	11,368	14,926	3,558
Auxiliary Enterprises		9	9
Other Sources	23,567	21,935	(1,632)
<b>TOTAL REVENUES</b>	<b>247,437</b>	<b>252,053</b>	<b>4,616</b>
<b>EXPENSES</b>			
Salaries and Benefits	140,640	132,153	8,487
Supplies and Services	55,076	66,973	(11,897)
Depreciation	8,691	8,542	149
Interest on Indebtedness	5,047	4,417	629
Rent	7,287	7,684	(397)
Utilities	31	39	(8)
Insurance	722	846	(124)
Repairs and Maintenance	1,231	1,920	(689)
Travel & Business Functions	4,926	5,240	(315)
Library Books	1,900	1,592	308
University Services Support	38,280	37,465	815
Other	13,866	7,295	6,571
<b>TOTAL EXPENSES</b>	<b>277,697</b>	<b>274,167</b>	<b>4,344</b>
<b>OPERATING NET</b>	<b>(30,260)</b>	<b>(22,114)</b>	<b>8,146</b>

<b>Law Center</b>			
<b>Fiscal Year 2011 Revenues and Expenses Compared to Budget</b>			
<i>(\$ in Thousands)</i>			
	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>REVENUES</b>			
Tuition, net	\$95,172	\$92,868	(\$2,304)
Gifts - Alumni and Development	4,333	7,262	2,929
Grants and Contracts	1,686	6,174	4,488
Endowment Income	8,911	9,337	426
Auxiliary Enterprises	5,465	5,251	(214)
Other Sources	1,743	4,048	2,305
<b>TOTAL REVENUES</b>	<b>117,309</b>	<b>124,940</b>	<b>7,630</b>
<b>EXPENSES</b>			
Salaries and Benefits	70,818	74,591	(3,773)
Supplies and Services	11,248	15,018	(3,770)
Depreciation	4,069	4,468	(399)
Interest on Indebtedness	3,555	3,276	279
Rent	717	1,026	(309)
Utilities	3,116	2,515	601
Insurance	5	21	(15)
Repairs and Maintenance	733	1,381	(648)
Travel & Business Functions	2,718	3,626	(907)
Library Books	2,866	2,876	(11)
University Services Support	8,345	8,386	(41)
Other	3,640	3,216	424
<b>TOTAL EXPENSES</b>	<b>111,830</b>	<b>120,400</b>	<b>(8,611)</b>
<b>OPERATING NET</b>	<b>5,480</b>	<b>4,540</b>	<b>(940)</b>

**University Services**  
**Fiscal Year 2011 Revenues and Expenses Compared to Budget**

(\$ in Thousands)

	Budget	Actual	Variance
<b>REVENUES</b>			
Tuition, net	(\$6,534)	(\$5,804)	\$729
Gifts - Alumni and Development	5,961	6,005	44
Grants and Contracts	2,059	971	(1,088)
Endowment Income	15,207	16,895	1,689
Auxiliary Enterprises	86,030	92,437	6,407
Other Sources	21,942	21,371	(571)
<b>TOTAL REVENUES</b>	<b>124,665</b>	<b>131,875</b>	<b>7,209</b>
<b>EXPENSES</b>			
Salaries and Benefits	121,110	119,732	1,378
Supplies and Services	47,222	62,038	(14,816)
Depreciation	20,327	19,387	940
Interest on Indebtedness	14,807	13,154	1,653
Rent	8,982	8,098	884
Utilities	32,250	27,196	5,054
Insurance	3,002	3,312	(310)
Repairs and Maintenance	5,752	5,315	437
Travel & Business Functions	10,969	10,473	496
Library Books	85	9	76
University Services Support	(113,566)	(114,451)	884
Other	(16,702)	(16,949)	248
<b>TOTAL EXPENSES</b>	<b>134,239</b>	<b>137,314</b>	<b>(3,075)</b>
<b>OPERATING NET</b>	<b>(9,573)</b>	<b>(5,439)</b>	<b>4,134</b>

<b>University Wide</b>			
<b>Fiscal Year 2011 Revenues and Expenses Compared to Budget</b>			
<i>(\$ in Thousands)</i>			
	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>REVENUES</b>			
Tuition, net	\$ -	\$ -	\$ -
Gifts - Alumni and Development			
Grants and Contracts	-	-	-
Endowment Income	1,852	1,880	28
Auxiliary Enterprises			-
Other Sources	-	(1,346)	(1,346)
<b>TOTAL REVENUES</b>	<b>1,852</b>	<b>534</b>	<b>(1,317)</b>
<b>EXPENSES</b>			
Salaries and Benefits	(6)	(1,109)	1,103
Supplies and Services		1	(1)
Depreciation	2	1,851	(1,849)
Interest on Indebtedness	8,779	6,779	2,000
Rent		(799)	799
Utilities			-
Insurance		556	(556)
Repairs and Maintenance			
Travel & Business Functions			
Library Books			
University Services Support			
Other	1,637	2,425	(788)
<b>TOTAL EXPENSES</b>	<b>10,411</b>	<b>9,704</b>	<b>708</b>
<b>OPERATING NET</b>	<b>(8,560)</b>	<b>(9,169)</b>	<b>(609)</b>



# **Georgetown University**

**Financial Statements**

**For the years ended June 30, 2011 and 2010 and  
Report Thereon**



## Report of Independent Auditors

To the Board of Directors  
Georgetown University

In our opinion, the accompanying statement of financial position and the related statements of activities and cash flows present fairly, in all material respects, the financial position of Georgetown University (the University) at June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

*PricewaterhouseCoopers LLP*

October 28, 2011

**Georgetown University**  
**Statements of Financial Position**  
**As of June 30, 2011 and 2010**

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<i>(in thousands)</i>	<u>2011</u>	<u>2010</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 60,709	\$ 105,583
Unexpended bond proceeds	72,236	-
Accounts receivable, net	69,046	68,133
Prepaid expenses and other assets	61,137	63,740
Contributions receivable, net	83,498	165,049
Loans receivable, net	41,175	41,411
Investments	1,195,962	949,802
Land, buildings and equipment, net	880,876	857,921
Total assets	<u>\$ 2,464,639</u>	<u>\$ 2,251,639</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 123,247	\$ 122,632
Deferred revenue and gains	50,138	53,869
Refundable deposits on grants	58,625	62,301
Pension liability	52,079	75,377
Postretirement benefits liability	45,778	47,728
Other liabilities	19,280	19,673
Asset retirement obligation	31,853	30,282
Notes payable and long-term debt	941,396	892,093
Total liabilities	<u>1,322,396</u>	<u>1,303,955</u>
<b>Net assets</b>		
Unrestricted	(60,411)	(121,316)
Temporarily restricted	400,698	323,563
Permanently restricted	801,956	745,437
Total net assets	<u>1,142,243</u>	<u>947,684</u>
Total liabilities and net assets	<u>\$ 2,464,639</u>	<u>\$ 2,251,639</u>

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

**Georgetown University**  
**Statement of Activities**  
**For the year ended June 30, 2011**

<i>(in thousands)</i>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Operating revenues</b>				
Tuition and fees, net	\$ 470,868	\$ -	\$ -	\$ 470,868
Grants and contracts	244,588	251	-	244,839
Sales and services of auxiliary enterprises	107,685	-	-	107,685
Contributions	37,787	6,865	-	44,652
Other allocations designated for operations	5,254	-	-	5,254
Other investment income	2,789	61	-	2,850
Sales and services of educational departments	20,520	13	-	20,533
Investment return designated for current operations	23,522	49,994	-	73,516
Other sources	31,435	384	-	31,819
Net assets released from restrictions	43,622	(43,622)	-	-
Total operating revenues	<u>988,070</u>	<u>13,946</u>	<u>-</u>	<u>1,002,016</u>
<b>Operating expenses</b>				
Salaries and fringe benefits	562,910	-	-	562,910
Supplies and services	218,312	-	-	218,312
Depreciation, amortization and accretion	46,089	-	-	46,089
Interest on indebtedness	34,766	-	-	34,766
Rent	38,891	-	-	38,891
Utilities	30,266	-	-	30,266
Insurance	15,661	-	-	15,661
Travel	36,598	-	-	36,598
Repairs and maintenance	9,612	-	-	9,612
Books and periodicals	13,494	-	-	13,494
Other	8,237	-	-	8,237
Total operating expenses	<u>1,014,836</u>	<u>-</u>	<u>-</u>	<u>1,014,836</u>
Operating subtotal	<u>(26,766)</u>	<u>13,946</u>	<u>-</u>	<u>(12,820)</u>
<b>Non operating revenues and expenses</b>				
Capital contributions	95	28,903	43,302	72,300
Contributions allocated to operations	(5,254)	-	-	(5,254)
Change in value of split interest agreements	-	2,737	2,200	4,937
Net realized gains	11,075	36,639	-	47,714
Spending rate allocated to operations	(12,181)	(44,960)	-	(57,141)
Net unrealized gains	46,653	57,448	-	104,101
Net unrealized gains on swaps	11,126	-	-	11,126
Pension and postretirement credit	28,220	-	-	28,220
Net assets released from restrictions	5,859	(5,859)	-	-
Other	2,078	(11,719)	11,017	1,376
Non operating change in net assets	<u>87,671</u>	<u>63,189</u>	<u>56,519</u>	<u>207,379</u>
Change in net assets	60,905	77,135	56,519	194,559
Net assets at beginning of year	(121,316)	323,563	745,437	947,684
Net assets at end of year	<u>\$ (60,411)</u>	<u>\$ 400,698</u>	<u>\$ 801,956</u>	<u>\$ 1,142,243</u>

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

**Georgetown University**  
**Statement of Activities**  
**For the year ended June 30, 2010**

<i>(in thousands)</i>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Operating revenues</b>				
Tuition and fees, net	\$ 456,938	\$ -	\$ -	\$ 456,938
Grants and contracts	230,122	16	-	230,138
Sales and services of auxiliary enterprises	98,039	-	-	98,039
Contributions	36,258	4,523	-	40,781
Other allocations designated for operations	4,616	-	-	4,616
Other investment income	2,931	2	-	2,933
Sales and services of educational departments	24,087	126	-	24,213
Investment return designated for current operations	23,726	45,490	-	69,216
Other sources	30,928	417	-	31,345
Net assets released from restrictions	34,239	(34,239)	-	-
Total operating revenues	<u>941,884</u>	<u>16,335</u>	<u>-</u>	<u>958,219</u>
<b>Operating expenses</b>				
Salaries and fringe benefits	545,240	-	-	545,240
Supplies and services	195,541	-	-	195,541
Depreciation, amortization and accretion	44,606	-	-	44,606
Interest on indebtedness	39,799	-	-	39,799
Rent	33,615	-	-	33,615
Utilities	31,756	-	-	31,756
Insurance	14,213	-	-	14,213
Travel	32,822	-	-	32,822
Repairs and maintenance	9,969	-	-	9,969
Books and periodicals	13,109	-	-	13,109
Other	5,155	-	-	5,155
Total operating expenses	<u>965,825</u>	<u>-</u>	<u>-</u>	<u>965,825</u>
Operating subtotal	<u>(23,941)</u>	<u>16,335</u>	<u>-</u>	<u>(7,606)</u>
<b>Non operating revenues and expenses</b>				
Capital contributions	1,726	14,059	25,645	41,430
Contributions allocated to operations	(4,616)	-	-	(4,616)
Change in value of split interest agreements	(24)	1,243	38,553	39,772
Net realized gains	343	2,537	-	2,880
Spending rate allocated to operations	(13,016)	(40,566)	-	(53,582)
Net unrealized gains	35,164	44,067	-	79,231
Net realized/unrealized losses on swaps	(8,101)	-	-	(8,101)
Pension and postretirement expense	(568)	-	-	(568)
Net assets released from restrictions	5,268	(5,268)	-	-
Other	121	(16,370)	16,249	-
Non operating change in net assets	<u>16,297</u>	<u>(298)</u>	<u>80,447</u>	<u>96,446</u>
Change in net assets	(7,644)	16,037	80,447	88,840
Net assets at beginning of year	(113,672)	307,526	664,990	858,844
Net assets at end of year	<u>\$ (121,316)</u>	<u>\$ 323,563</u>	<u>\$ 745,437</u>	<u>\$ 947,684</u>

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

**Georgetown University**  
**Statements of Cash Flows**  
**June 30, 2011 and 2010**

<i>(in thousands)</i>	<u>2011</u>	<u>2010</u>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 194,559	\$ 88,840
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities		
Depreciation, amortization and accretion	51,538	49,911
Net realized and unrealized gains on investments	(155,420)	(80,793)
Change in fair value swaps	(11,126)	8,101
Pension and postretirement (credit) expense	(28,220)	568
Provision of bad debts	4,436	822
Loss on disposal of fixed assets	651	99
Receipt of contributed securities	(13,042)	(7,602)
Increase in accounts receivable	(1,425)	(13,774)
Decrease in prepaid expenses and other assets	1,132	807
Decrease (increase) in contributions receivable	77,765	(38,830)
(Decrease) increase in accounts payable and accrued liabilities	(8,891)	6,492
Increase in pension/postretirement liability	2,972	9,481
(Decrease) increase in refundable deposits on grants	(3,676)	9,363
(Decrease) Increase in deferred revenue and gains	(3,732)	4,978
Decrease in other liabilities	(392)	(659)
Change in asset retirement obligation	(28)	(26)
Less interest income on revolving student loan funds	(840)	(354)
Contributions restricted for:		
Investment in endowment	(42,810)	(25,679)
Investment in plant	(19,250)	(5,747)
Net cash provided by operating activities	<u>44,201</u>	<u>5,998</u>
<b>Cash flows from investing activities</b>		
Purchases of land, buildings and equipment	(52,129)	(26,683)
Proceeds from sales of investments	301,326	252,453
Purchases of investments	(379,024)	(222,926)
Net cash (used in) provided by investing activities	<u>(129,827)</u>	<u>2,844</u>
<b>Cash flows from financing activities</b>		
Proceeds from contributions restricted for:		
Investment in endowment	42,810	25,679
Investment in plant	19,250	5,747
Payments on notes payable and long-term debt	(40,755)	(149,285)
Proceeds from issuance of notes payable and long-term debt	92,722	151,400
Change in unexpended bond proceeds	(72,236)	26,488
Payments on capital lease obligations	(1,978)	(12)
Disbursements of new student loans receivable	(5,876)	(5,981)
Repayments of student loans receivable	6,175	4,925
Write-off and other administrative costs of loans receivable	(200)	(273)
Interest income on revolving student loan funds	840	354
Net cash provided by financing activities	<u>40,752</u>	<u>59,042</u>
Net (decrease) increase in cash	(44,874)	67,884
Cash and cash equivalents at beginning of year	105,583	37,699
Cash and cash equivalents at end of year	<u>\$ 60,709</u>	<u>\$ 105,583</u>

*Continued*

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

**Georgetown University**  
**Statements of Cash Flows, continued**  
**For the years ended June 30, 2011 and 2010**

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*(in thousands)*

**2011**

**2010**

**Supplemental Data**

Noncash investing and financing activities

Contributed securities	\$ 13,042	\$ 7,602
Fixed assets-purchases and payables	9,506	1,691
Capital lease obligations	4,753	271
Interest paid	34,193	28,335

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

# Georgetown University

## Notes to Financial Statements

### June 30, 2011 and 2010

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#### 1. Nature of Operations

Georgetown University (the "University"), located in Washington, D.C., is the nation's oldest Catholic and Jesuit University. Today the University is a major international research university, which includes four undergraduate schools; a school for continuing studies; graduate schools in the arts and sciences, nursing and health studies, business, and foreign service; and professional schools in law and medicine. In addition to providing educational services, the University performs research, training, and other services under grants, contracts, and similar agreements with sponsoring organizations, primarily to departments and agencies of the United States Government.

#### 2. Significant Accounting Policies

##### **Basis of Presentation**

The financial statements of the University have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

In 2009, the FASB issued "The FASB Accounting Standards Codification ("ASC" or "Codification") and the Hierarchy of Generally Accepted Accounting Principles ("GAAP")". This standard was effective for the University in 2010. Upon effect, the Codification became the source of authoritative US GAAP recognized by the FASB and the University's notes to the financial statements no longer make reference to the Statement of Financial Accounting Standards ("SFAS") or other US GAAP pronouncements. The adoption of the Codification had no impact on the University's financial position or results of activities.

The University adopted the updated provisions of FASB guidance regarding Derivatives and Hedging on July 1, 2009. The new requirement amends and expands the disclosure requirement related to derivative instruments, to provide users of financial statements with an enhanced understanding of the use of derivative instruments by the University and how these derivatives affect the financial position, financial performance and cash flows of the University. This Statement requires qualitative disclosures about the objectives and strategies for using derivative instruments, quantitative disclosures about the fair value of, and gains and losses on, derivative instruments, as well as disclosures about credit-risk-related contingent features in derivative agreements.

The University adopted FASB issued fair value guidance for the year ended June 30, 2010 which emphasizes the need to use judgment in determining if a formerly active market has become inactive and in determining fair values when the market has become inactive. The guidance also requires expanded disclosures by major security types based upon the nature and risks of the security and disclosure of the inputs and valuation techniques used to measure fair value including any changes during the period.

The University also adopted FASB updated guidance regarding fair value measurement of investments in certain entities that calculate net asset value per share (or its equivalent) as of June 30, 2010. This update applies to investments that do not have a readily determinable fair value and are held by an entity that is required to report investment assets at fair value. This update creates a practical expedient to measure the fair value of such investments on the basis of the net asset value ("NAV") per share (or its equivalent) and requires disclosures by major category of the investments about the attributes of investments.

**Georgetown University**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

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In January 2010, the FASB issued authoritative accounting guidance on improving disclosure of fair value measurements. The guidance requires reporting entities to 1) make new disclosures about amount and reasons for significant transfers in and out of Level 1 and Level 2 fair value measurements and input and valuation techniques used to measure fair value for both recurring and nonrecurring fair value measurements that fall in either Level 2 or Level 3, and 2) present separately information about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measures. The new and revised disclosures are effective for annual reporting periods beginning after December 15, 2009 except for disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measures, which are effective for fiscal years beginning after December 15, 2010. Management adopted the guidance on the disclosure related to the input and valuation techniques used to measure fair value in fiscal year 2011. The adoption of the expanded disclosure on Level 3 roll forward of activity is not expected to have a significant impact on the University's financial statements.

In May 2011, the FASB issued ASU 2011-04 *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. ASU 2011-4 is intended to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRS. The amendments are of two types: (i) those that clarify the Board's intent about the application of existing fair value measurement and disclosure requirements and (ii) those that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The update is effective for annual periods beginning after December 15, 2011. Management is in the process of evaluating the impact of the adoption of this update on the University's financial statements.

**Classification of Net Assets**

The University's net assets have been classified and reported as follows:

Unrestricted – All net assets which are not subject to donor imposed restrictions.

Temporarily Restricted – Net assets whose use is subject to donor imposed restrictions that either expire by the passage of time or can be fulfilled and removed by actions of the University pursuant to these donor restrictions.

Permanently Restricted – Net assets that are subject to donor-imposed restrictions that require the original contribution to be maintained in perpetuity by the University but permits the use of the investment earnings for general or specific purposes.

**Estimates**

The preparation of financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the reported amounts 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. Significant items subject to such estimates and assumptions include accounts receivable, contribution receivables, alternative investments, certain real estate holdings, carrying value of land, buildings and equipment, retirement benefits, contingency reserves, and asset retirement obligations. Actual results could differ materially, in the near term, from the amounts reported.

# Georgetown University

## Notes to Financial Statements

### June 30, 2011 and 2010

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#### **Reclassifications**

Certain prior year amounts have been reclassified to conform with current year's presentation.

#### **Cash and Cash Equivalents**

The University defines cash and cash equivalents as cash on hand, demand deposits and short term investments with maturities of three months or less when purchased. The carrying amount of cash equivalents approximates fair value. The University records in unexpended bond proceeds, on the statement of financial position, cash and cash equivalents held for bond financed land, buildings and equipment. The balances in unexpended bond proceeds as of June 30, 2011 and 2010 were \$72,236,000 and \$0, respectively.

#### **Investments**

Investments are stated at fair market value in the financial statements. The change in unrealized appreciation or depreciation of investments is reflected in the statements of activities. Realized gains and losses on sales of investments are computed on an average cost method and are recorded on the trade date of the transaction.

Investments consist of traditional assets such as cash, stocks and bonds as well as alternative investment funds including hedge funds, private equity, private high yield, real estate and commodities.

Additional information regarding the University's fair value methodologies for investments is provided in footnote 10, *Fair Value Measurements*. These valuations necessarily involve assumptions and estimation methods which are uncertain, and therefore the estimates could differ materially from actual results. The fair value of non-marketable alternative investments may be based on historical cost, obtainable prices for similar assets, or other estimates. The University reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Alternative investments are less liquid than the University's other investments.

Investment income on endowments and other investments is reported net of management fees. The University's investment portfolio includes certain real estate properties owned by the University, carried at their estimated fair value based on the latest available independent appraisal and other relevant information. Any significant change in the estimated fair value, as determined by management, is reflected in the year of change.

#### **Receivables and Revenue Recognition**

The University reports receivables expected to be collected within one year at their net realizable value.

Tuition and fee revenues consist of all tuition and fee revenue earned, net of certain scholarships and discounts, University sponsored and donor sponsored. The University recognizes unrestricted revenues from student tuition and fees within the fiscal year in which the academic term is predominantly conducted. Deferred tuition and fees are included in deferred revenue and gains in the statement of financial position.

Unconditional pledges received prior to 2009 and expected to be collected in future years, are discounted using a risk-free rate of return effective the last day of the quarter in which the date of gift occurs and net of an allowance for uncollectible accounts.

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Unconditional pledges received in 2009 and thereafter and expected to be collected in future years are recognized at fair value which is measured at the present value of their future cash flows. The discounts on those amounts are computed using risk adjusted interest rates applicable to the years which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

The major components of other sources of revenue were as follows at June 30 (in thousands):

	<u>2011</u>	<u>2010</u>
Rent	\$ 2,357	\$ 2,391
Royalty/Advertising Income	4,968	5,309
Alumni/Special Events/Student Activities	5,675	4,053
Other	8,070	8,914
Athletic Events	<u>10,749</u>	<u>10,671</u>
Total Other Sources	<u>\$ 31,819</u>	<u>\$ 31,338</u>

Sales and services of auxiliary enterprises revenue primarily represents revenue received from students for room and board charges as well as bookstore and food services operations.

**Grants and Contracts**

The University receives grant and contract revenue from governmental and private sources. In 2011 and 2010, grant and contract revenue, excluding direct lending, which is a pass through activity, earned from governmental sources totalled \$173,384,000 and \$164,628,000, respectively. The University recognizes revenue associated with the direct costs of sponsored programs as the related costs are incurred. Indirect costs recovered on federally-sponsored programs are generally based on predetermined reimbursement rates negotiated with the University's cognizant federal agency, the Department of Health and Human Services. Indirect costs recovered on all other grants and contracts are based on rates negotiated with the respective sponsors. Funds received for sponsored research activity are subject to audit. Based upon information currently available, management believes that any liability resulting from such audits will not materially affect the financial position or change in net assets of the University.

The University also receives revenue from private foundations for research and contractual services, including an agreement with an unrelated Foundation to establish a degree granting branch campus as part of the School of Foreign Service. The University is reimbursed for all allowable costs and expenses incurred on behalf of the Foundation.

**Classification of Contributions**

Contributions are recorded as increases in the appropriate net asset category based on donor restrictions.

Expirations of temporary restrictions on net assets are reported as net assets released from restrictions in the statement of activities. Contributions with donor stipulated restrictions which are met within the same reporting period are reported as unrestricted.

Absent explicit donor stipulations about the length of time long lived assets must be maintained, the University reports expiration of donor restrictions as unrestricted when donated or acquired long lived

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assets are placed in service. Cash received prior to the donor's agreement being signed and executed is recorded as deferred revenue on the statement of financial position.

Because of uncertainties with regard to their realization and valuation, bequest intentions and other conditional promises are recognized only if and when the specified conditions are met.

**Concentration of Credit Risk**

Financial instruments that potentially subject the University to significant concentrations of credit risk principally consist of cash and cash equivalents, accounts receivable and investments. The University places its cash and cash equivalents and investments in various financial institutions that are federally insured for \$250,000 and for \$500,000 under the Federal Depository Insurance Corporation Act (FDICA) and Securities Investor Protection Corporation (SIPC), respectively. At June 30, 2011 and 2010, the aggregate balances were in excess of the insurance and therefore, bear some risk since they are not collateralized. The University has not experienced any losses on its cash and cash equivalents, or investments to date as it related to FDICA and SIPC insurance limits. Concentrations of credit risk with respect to accounts receivable and contributions receivable are limited due to the majority of receivables being from widely diversified sources. Concentrations of credit risk with respect to grants receivable are limited due to the nature of the receivable; however, about 30% of grants receivable is related to one federal agency.

**Loans Receivable**

Loans receivable are primarily related to donor-structured loan programs and federal student financial aid programs. The loans have stated interest rates and repayment terms. At June 30, 2011 and 2010, the University had outstanding student loans receivable balances in the amount of \$41,175,000 and \$41,411,000, respectively. Management has considered the credit and market risk associated with these outstanding balances and believes the recorded amount of these loans approximates fair market value at June 30, 2011.

The University records loans receivable net of allowance for doubtful accounts (credit losses) for the following receivables (in thousands):

	June 30, 2011		June 30, 2010	
	Receivable Balance	Related Allowance	Receivable Balance	Related Allowance
Perkins	\$ 31,271	\$ 333	\$ 32,667	\$ 187
Other federal loans	4,555	111	3,463	166
Institutional loans - medical and law	5,449	27	5,285	22
Institutional loans - other	11	-	11	-
Other loans	360	-	360	-
Total	\$ 41,646	\$ 471	\$ 41,786	\$ 375

Annually, management assesses the adequacy of the allowance for credit losses by evaluating its student loan portfolio and the volume of its delinquent loans. The University's receivables represent the outstanding loan balance from current and former students under each loan program.

Loans disbursed under the Federal Perkins Loan Program are guaranteed by the federal government. Federal regulations, such as the provisions for assignment to the federal government, write-off, and

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cohort default rate calculations minimize the need for a large allowance. The level of the allowance is adjusted based on the results of management's analysis.

It is the University's policy to write off a student loan when internal and external collection efforts have been exhausted and the loan is deemed uncollectable. Student loans that are more than 5 years past due are evaluated for billing, assignment, or write-off. Student loan accounts that are less than 5 years past due either remain in an internal billing status or with an external agency for collection.

Changes in the allowance for loans receivable for the year ended June 30, 2011 were as follows (in thousands):

	Perkins	Other Federal Loans	Institutional Loans - Medical and Law	Total
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Beginning balance, July 1, 2010	\$ 187	\$ 166	\$ 22	\$ 375
Provision for credit losses	167	(33)	5	139
Recoveries	(21)	(22)	-	(43)
Ending balance, June 30, 2011	<u>\$ 333</u>	<u>\$ 111</u>	<u>\$ 27</u>	<u>\$ 471</u>

Management considers the allowance for loans receivable to be prudent and reasonable. Furthermore, the University's allowance is general in nature and is available to absorb losses from any loan category. Management believes that the allowance for loans receivable as of June 30, 2011 is adequate to absorb losses inherent in the portfolio as of that date.

**Inventories**

Inventories are valued at cost, principally using the first-in, first-out method, which is not in excess of net realizable value. Inventories are included in prepaid expenses and other assets on the statement of financial position.

**Collections**

The University has elected not to capitalize the cost or value of its collection of works of art, historical treasures, and similar assets. There were no deaccessions during the year.

**Land, Buildings and Equipment**

Land, buildings and equipment are stated at cost on date of acquisition, or fair value on date of donation, including interest capitalized on related borrowings during the period of construction, less accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives of the University's assets are as follows:

Buildings and improvements	20-50 years
Computer software (purchased and internally developed)	5-10 years
Furniture and equipment	5-20 years

Upon sale or retirement of property and equipment, the related cost and accumulated depreciation are removed from the accounts and the resulting gains or losses are reflected in the statement of activities.

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The University reviews its property and equipment assets for impairment in value whenever events or circumstances indicate that the carrying value may not be recoverable. In performing the review, if the fair value, less selling costs from the disposition of the asset, is less than its carrying value, an impairment loss is recognized. No impairment losses were recognized in the periods ending June 30, 2011 or 2010.

**Asset Retirement Obligations**

The University accounts for legal obligations associated with the retirement of tangible long-lived assets in accordance with authoritative guidance on Accounting for Asset Retirement Obligations. Authoritative guidance requires that the fair value of a liability for a conditional asset retirement obligation be recognized in the period in which it occurred if a reasonable estimate of fair value can be made. The University measured fair value at June 30, 2011 and June 30, 2010 using a discount rate of 5.2% which is in accordance with authoritative guidance on Fair Value Measurements. During fiscal year 2011, the University increased the asset retirement liability by accretion expense of \$1,599,000 and reduced it by remediations of \$28,000. At June 30, 2011 and 2010, the University reflected a liability for conditional asset retirement obligations of \$31,853,000 and \$30,282,000, respectively.

**Income Taxes**

Under provisions of the Internal Revenue Code and the applicable income tax regulations of the District of Columbia, the University is exempt from taxes on income, other than unrelated business income, under code Section 501(c)(3). The University had no material net unrelated business income during the years ended June 30, 2011 and 2010, and therefore no provision for income taxes has been made.

**Financial Assistance**

The University maintains a policy of offering qualified undergraduate applicants admission to the University without regard to financial circumstance. Student financial need is generally fulfilled through a combination of scholarships and fellowships, loans, and employment during the academic year. Tuition and fees have been reduced by certain scholarships and discounts.

Net tuition and fee revenue is calculated as follows for the years ended June 30 (in thousands):

	<u>2011</u>	<u>2010</u>
Tuition and fees, gross	\$ 602,185	\$ 570,536
Less discounts: University sponsored	(116,035)	(98,130)
Donor sponsored	<u>(15,282)</u>	<u>(15,468)</u>
Tuition and fees, net	<u>\$ 470,868</u>	<u>\$ 456,938</u>

**Measure of Operations**

The University uses a spending rate methodology to determine the amount of endowment income and gains that is included in operating income. The income from donor restricted endowment funds are recorded as temporary restricted asset. Certain amount of endowment income are reinvested in the endowment corpus until certain conditions, as stipulated by the donors, are met, generally when the corpus reaches a specified amount or until a specific time has passed. The reinvestment results in the income being transferred from temporary restricted asset to permanently restricted asset. These transfers, as well as realized and unrealized gains (losses) in excess of the spending rate, the effect of derivative financial instruments, pension and postretirement liability adjustment, bond refunding loss

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and all capital contributions and pledges that are subject to implicit time restriction, are reported in the non-operating section of the statement of activities. Pledge gifts where funds are to be used to support current operations will be released from the non operating section of the financial statements when payments on the pledge are received and allocated to operations for spending.

**Spending Rate**

The University has adopted an endowment spending policy governing the expenditure of the total return of funds by the pooled endowment fund (see Note 6). The spending policy is designed to stabilize annual spending levels and to preserve the portfolio and is independent of the actual yield and appreciation of investments for the year. To achieve this objective, additions to an endowment fund will receive a distribution in the month following the addition to the endowment. The distribution is based on 5.50% and 5.75% of a five year moving average of the pooled endowment market value for the years ended June 30, 2011 and 2010, respectively.

**3. Accounts Receivable**

The major components of accounts receivable, net of applicable allowances for doubtful accounts, were as follows at June 30 (in thousands):

	<u>2011</u>	<u>2010</u>
Research grants	\$ 41,738	\$ 36,679
Students	8,744	12,388
Due from third party healthcare provider	7,314	13,452
Other	16,319	17,332
	<u>74,115</u>	<u>79,851</u>
Less: allowance for doubtful accounts	<u>(5,069)</u>	<u>(11,718)</u>
Total accounts receivable, net	<u>\$ 69,046</u>	<u>\$ 68,133</u>

The provision for bad debts, net of recoveries, related to accounts receivable for the years ended June 30, 2011 and 2010 was \$520,000 and \$459,000, respectively, and are included in other operating expenses in the accompanying statements of activities.

**4. Prepaid Expenses and Other Assets**

The major components of prepaid expenses and other assets were as follows at June 30 (in thousands):

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	<u>2011</u>	<u>2010</u>
Deferred compensation	\$ 20,017	\$ 22,139
Bond issuance costs	14,077	13,391
Tenant improvement allowance	5,411	6,075
Summer school	4,574	5,158
Life insurance premium stabilization	4,061	4,732
Licensing	3,064	2,297
Other	9,933	9,948
Total prepaid expenses and other assets	<u>\$ 61,137</u>	<u>\$ 63,740</u>

**5. Contributions Receivable and Split-Interest Agreements**

**Contributions Receivable**

Contributions receivable are summarized as follows at June 30 (in thousands):

	<u>2011</u>	<u>2010</u>
Gross contributions receivable expected to be collected in:		
Less than one year	\$ 38,381	\$ 36,855
One year to four years	58,128	58,015
Over four years	16,690	7,643
	<u>113,199</u>	<u>102,513</u>
Less: Discount to present value	(9,651)	(7,026)
Allowance for doubtful accounts	(34,806)	(31,020)
	<u>\$ 68,742</u>	<u>\$ 64,467</u>

The above amounts do not include split-interest agreements held by outside trustees of \$14,756,000 and \$100,582,000 at June 30, 2011 and 2010, respectively.

Unconditional pledges received in 2009 and thereafter are discounted using a rate of return of 5.20% which is in accordance with authoritative guidance on Fair Value Measurements. Outstanding amounts of pledges received prior to 2009 are discounted using rates ranging from 2.46% to 8.29%.

The University has received conditional pledges totalling \$4,678,000 of which \$1,544,000 has met the conditions specified by the donors and been received thus far.

The University records all pledges made to the University, net of allowance and discount, as capital contributions in the non-operating section of the statement of activities. As payments are made on unrestricted pledges, funds are allocated to operations to be used for current operations. At June 30, 2011 and 2010 respectively, the University received \$5,254,000 and \$4,616,000 of pledge payments which were allocated to current operations.

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**Split-Interest Agreements**

The University receives planned gift donations that benefit not only the University, but also other beneficiaries designated by the donors. These contributions are termed split-interest agreements which include: perpetual trusts, charitable lead and remainder trusts, a gift annuity fund and a pooled income fund. Typically, these gifts are received by the University in future years. The University receives income from certain lead and perpetual trusts. The assets held by the respective trustees for these trusts will not revert to the University at any time and the income received is used according to donor stipulations. The University is also a remainderman to certain charitable remainder trusts. Upon the death of the beneficiaries of these charitable remainder trusts, the assets will revert to the University to be used according to the donors' wishes. The University's share of split-interest agreements is included in either investments or contributions receivable on the statements of financial position. Investment assets held in trust by and for the University are \$19,256,000 and \$16,709,000 as of June 30, 2011 and 2010, respectively. Split interest investment assets received in 2011 and 2010 were measured using a rate of return of 5.20% which is in accordance with authoritative guidance on Fair Value Measurements. Split interest assets that are held by outside trustees are recorded in contributions receivable and discounted using the same rate of return as noted above. The change in value of both the investment and contribution assets was an unrealized gain of \$4,937,000 and \$39,772,000 respectively for the years ended June 30, 2011 and 2010, respectively.

Amounts payable to beneficiaries, gift annuities payable, and pooled income fund liabilities of \$8,494,000 and \$8,265,000 are in other liabilities on the statements of financial position as of June 30, 2011 and 2010, respectively.

**6. Investments**

At June 30, 2011 and 2010 the fair value of investments are (in thousands):

	<u>2011</u> Fair Value	<u>2010</u> Fair Value
Cash equivalents	\$ 46,947	\$ 46,349
Investments:		
Fixed Income	342,149	316,429
Equity securities	575,336	415,189
Real assets	193,547	154,299
Notes/other assets	36,182	17,536
Total	<u>\$1,194,161</u>	<u>\$949,802</u>

Excluded from the fair value of investments is the 20% equity investment in the TRC-Georgetown Regional Dialysis, LLC, which renders dialysis services by contracting with licensed personnel to operate the outpatient Dialysis Units in the metropolitan Washington, DC area, the value of which is \$1,801,000 for the year ended June 30, 2011.

Cash equivalents in the investment portfolio are excluded from cash and cash equivalents on the accompanying statements of financial position.

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Besides the traditional asset types (stocks, bonds and cash), the University employs alternative investment funds to diversify its portfolio. The alternative investments used in Georgetown's investments portfolio include marketable alternatives such as hedge funds, and non-marketable alternatives such as private equity, private high yield, real estate and commodities.

Investments considered to be marketable alternative investments amounted to approximately \$157,214,000 and \$162,456,000, as of June 30, 2011 and 2010, respectively.

The following table summarizes the non-marketable alternative investment types at June 30, 2011 and 2010 (in thousands):

<u>Alternative Investment Type</u>	<u>2011</u>		<u>2010</u>	
	<u>Number of Funds</u>	<u>Fair Value</u>	<u>Number of Funds</u>	<u>Fair Value</u>
Commodity Related	11	\$ 59,402	9	\$ 55,692
Private High Yield	6	53,111	6	47,824
Private Equity	26	136,249	25	121,079
Private Real Estate	4	28,793	4	21,771
	<u>47</u>	<u>\$ 277,555</u>	<u>44</u>	<u>\$ 246,366</u>

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**Investment Income**

Total net investment income for the years ended June 30, 2011 and 2010 consists of the following (in thousands):

	2011			2010	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Total</u>
Other investment income	\$ 2,789	\$ 61	\$ -	\$ 2,850	\$ 2,933
Investment income on endowments	19,725	5,034	-	24,759	20,493
Net realized gains (losses)	11,075	36,639	-	47,714	2,880
Unrealized gains (losses)	46,653	57,448	-	104,101	79,231
Less investment management expenses	(8,384)	-	-	(8,384)	(4,859)
 Total income from investments	\$ 71,858	\$ 99,182	\$ -	\$ 171,040	\$ 100,678
 Operations:					
Investment returns, net	\$ 14,130	\$ 5,095	\$ -	19,225	18,567
Allocated from non-operating revenues	12,181	44,960	-	57,141	53,582
Used for operations	26,311	50,055	-	76,366	72,149
 Non-operating:					
Investment returns	57,728	94,087	-	151,815	82,111
Allocated to operations	(12,181)	(44,960)	-	(57,141)	(53,582)
Included in non-operating activities	45,547	49,127	-	94,674	28,529
Total income from investments	\$ 71,858	\$ 99,182	\$ -	\$ 171,040	\$ 100,678

The University's endowment totalled \$1,162,239,000 and \$1,007,299,000 at June 30, 2011 and 2010, respectively.

**Pooled Endowment Investments**

At June 30, 2011 and 2010, respectively, \$1,116,490,000 and \$878,135,000 of the University's investments are pooled and carried at fair value. Included in the pooled funds are quasi endowments, which are internally designated and invested as endowed funds. The fair value of these funds as of June 30, 2011 and 2010, respectively, was \$236,405,000 and \$211,935,000. The University recorded pending purchases and pending sales of \$170,000 and \$47,000, respectively at June 30, 2011. Excluded from pooled investments are separately invested life income endowments of \$17,927,000 and \$16,334,000 and other separately invested funds of \$27,822,000 and \$112,830,000 at June 30, 2011 and 2010, respectively. Individual pooled endowment funds acquire and dispose of units based on the per unit market value in the month preceding the transaction.

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	<u>2011</u>	<u>2010</u>
Pooled endowment units	3,295,959	2,837,920
Market value per unit	\$ 338.75	\$ 309.43
Increase in market value per unit	\$ 29.32	\$ 10.02
Distributions per unit	\$ 20.81	\$ 22.22
Total annual rate of return	16.8%	12.3%

Investment earnings are distributed to the individual funds of the pool based on each fund's proportionate share of assets in the pool at a rate of distribution determined by the University. Earnings in excess of the distributions are reinvested into the pool.

Based on the University's spending rate calculation (see note 12), funds were allocated to operations annually, at \$57,141,000 and \$53,582,000 for the years ended June 30, 2011 and 2010, respectively.

**7. Land, Buildings and Equipment**

At June 30, the components of the University's fixed assets were as follows (in thousands):

	<u>2011</u>	<u>2010</u>
Buildings and improvements	\$ 1,218,944	\$ 1,208,700
Furniture and equipment	56,703	51,127
Construction in progress	59,714	16,596
Land and improvements	69,295	69,045
Computer software	56,275	54,875
Equipment under capital leases	15,275	8,861
Subtotal	<u>1,476,206</u>	<u>1,409,204</u>
Less: accumulated depreciation and amortization	<u>(595,330)</u>	<u>(551,283)</u>
Total	<u>\$ 880,876</u>	<u>\$ 857,921</u>

The net book value of buildings totalling \$703,098,000 and \$726,178,000 at June 30, 2011 and 2010, respectively, includes buildings pledged as collateral of approximately \$45,654,000 and \$58,372,000, respectively.

The University acquired \$1,604,000 and \$1,133,000 in property through grants for the years ended June 30, 2011 and 2010, respectively.

Amortization of computer software was \$3,695,000 and \$3,844,000 for the years ended June 30, 2011 and 2010, respectively.

The Green Building located at 2001 Wisconsin Avenue and the Harris Building located at 3300 Whitehaven Street were sold by the University on September 15, 2004 for \$73,300,000 and are being leased back for future use. The gain from the sale of \$19,800,000 was deferred and is being recognized over the 15 year lease term beginning in fiscal year 2005 in the amount of \$1,317,000 annually as non-operating revenue.

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**8. Accounts Payable and Accrued Liabilities**

The major components of accounts payable and accrued liabilities were as follows at June 30 (in thousands):

	<u>2011</u>	<u>2010</u>
Trade payables	\$ 42,397	\$ 45,261
Deferred compensation	20,017	22,139
Accrued interest	7,712	7,140
Employee costs	45,011	39,741
Other	8,110	8,351
Total accounts payable and accrued liabilities	<u>\$ 123,247</u>	<u>\$ 122,632</u>

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**9. Notes Payable and Long-Term Debt**

Notes payable and long-term debt at June 30 were as follows (in thousands):

Description	<u>2011</u>	<u>2010</u>
Bonds payable to JP Morgan Chase; 3.0%-4.0%; annual principal payments and semi-annual interest payments; matures in 2021	\$ 5,668	\$ 6,135
Series A Bonds of 1999-Taxable;*0.333%; interest paid every 35 days; matures in 2029	63,850	63,850
Series B 2001; 4.70%; semi-annual payments; matures in 2018	67,450	67,450
Series C 2001; 5.25%; semi-annual payments; matures in 2034	73,600	73,600
Series D 2001; 5.50%; semi-annual payments; matures in 2036	73,650	73,650
Series A 2007; 5.00%; semi-annual payments, matures in 2042	175,895	175,895
Series B-1 2007; *.08%; monthly payments; matures in 2041	28,950	28,950
Series B-2 2007; *.08%; monthly payments; matures in 2041	28,925	28,925
Series C-1 2007; *.08%; monthly payments; matures in 2041	28,725	28,725
Series C-2 2007; *.08%; monthly payments; matures in 2041	28,725	28,725
Series B 2008; 7.22%; semi-annual payments; matures in 2019	44,490	44,490
Series A 2009; 5.00%; semi-annual payments; matures in 2021	57,240	57,240
Series B 2009; *.06%; monthly payments; matures in 2024	15,050	15,050
Series C 2009; *.06%; monthly payments; matures in 2042	45,650	45,650
Series 2010 Bonds; *1.027%; monthly payments; matures in 2016	45,000	-
Series 2011 Bond; 5%; semi-annual payments; matures in 2030	45,000	-
Bonds payable to the U.S. Government; 3%-5.5%; semi-annual payments; matures in 2022	2,287	2,553
Mortgage loans payable to the U.S. Public Health Service-DCMF; 2.50%; annual principal payments, semi-annual interest payments; matures in 2020	7,065	7,353
Capitalized lease obligations; matures at various dates through 2016	4,753	271
Payable PNC Bank, Tranche 1; 0.69125%/Tranche 2; 0.697%; matures in 2019	18,000	18,000
Payable PNC Bank; 1.44125%; matures in 2014	10,000	10,000
Payable Wachovia Bank; **1.80%; matures in 2011	-	11,204
Payable Bank of New York; **2.06%; matures in 2010	-	10,000
PNC LOC; **0.75%; matures in 2011	-	10,000
M & T; **1.60%; matures in 2010	-	10,000
Georgetown Jesuit Community; 3.0%; annual payments; matures in 2019	500	500
Subtotal	<u>870,473</u>	<u>818,216</u>
Estimated cost to terminate swaps	31,908	43,034
Series A 2007 accretion	24,988	18,591
Series A 2007 premium	9,187	9,394
Series A 2009 premium	2,170	2,858
Series 2011 premium	2,670	-
Total	<u>\$ 941,396</u>	<u>\$ 892,093</u>

\* Represents the variable rates as of June 30, 2011

\*\* Represents the rates as of June 30, 2010

The fair value of the University's debt obligations, excluding capitalized leases, was approximately \$884,241,000 and \$842,791,000 at June 30, 2011 and 2010, respectively. The fair value of the University's debt was determined by discounting the future stream of payments using interest rates commensurate with the University's credit standing, market risk, and non-performance risk. The following interest rates were used for the fair value of debt obligations:

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- Fixed rate on tax-exempt bonds: rate is based on bond price data for AAA MMD from Thomson Reuters as of June 30, 2011 plus an estimated credit spread for the University of 1.25%. The tax-exempt yields on 30-year bonds range from 1.48% to 5.60%.
- Fixed rate on taxable bonds and notes: rate is based on bond price data for 10-year U.S. Treasuries from Bloomberg as of June 30, 2011 plus an estimated credit spread for the University of a range between 1.55% and 2.10%. The taxable yields on 30-year bonds range from 2.01% to 6.47%.
- Variable Rate Demand Bonds and Auction Rate Securities trade in the market at price of 100% (par), therefore fair market value equals the outstanding par amount.

Maturities of debt obligations for the years ending June 30 are as follows (in thousands):

	<u>Base</u>	<u>With VRDB</u> <u>Term Loans</u>
2012	\$ 7,674	\$ 26,895
2013	12,845	57,357
2014	20,974	71,555
2015	12,532	43,893
2016	18,227	30,367
Thereafter	<u>798,221</u>	<u>640,406</u>
Total	<u>\$ 870,473</u>	<u>\$ 870,473</u>

**Bonds**

On August 6, 2009, the University issued \$57,240,000 Series 2009A and \$60,700,000 Series 2009B-C Bonds. These bonds were used to refund Series 1999A Tax-Exempt bonds.

On August 6, 2009, the Series 2009B and Series 2009C Bonds, totaling \$60,700,000 in aggregate principal amount, were issued as weekly variable rate demand bonds. In the event that any of the Series 2009B Bonds or Series 2009C Bonds are tendered for purchase and are not remarketed (in cases where remarketing is permitted), the purchase price of tendered Bonds is to be paid by a draw on a letter of credit issued by TD Bank, N.A. (the "Bank"). The Letter of Credit serves as a credit and liquidity facility for the Series 2009B Bonds and the Series 2009C Bonds (the "Credit"). If any of the tendered Series 2009B or Series 2009C Bonds are not remarketed prior to the stated termination date of the Letter of Credit (August 6, 2012), and if certain conditions are satisfied, the Credit extended by the bank will convert to a five year term loan, amortizing in ten semi annual installments falling in fiscal years 2013-2018. These amounts that are earlier than the maturity of the agreements, are reflected as such in the debt maturity schedule above in the column titled "With VRDB term loans".

On December 29, 2010, the University issued \$45,000,000 Series 2010 Bonds. The Series 2010 Bonds were issued in the Index Rate Mode for an Index Rate period ending April 1, 2016. The Series 2010 Bonds were issued to fund the construction of a new Science Center on the University's Main Campus. The Series 2010 Bonds were purchased directly by Wells Fargo Bank, NA, pursuant to a Continuing Covenants Agreement dated as of December 1, 2010 between the University and Wells Fargo Bank, NA. The 2010 Bonds are subject to Mandatory Purchase on April 1, 2016, at which

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point the University and Wells Fargo Bank could renew the Continuing Covenants Agreement, remarket the bonds, or repurchase the bonds. The University also has the option of extending the Mandatory Purchase date by one year to April 1, 2017.

On April 7, 2011, the University issued \$45,000,000 Series 2011 Bonds. The Series 2011 Bonds were issued in the Term Rate Mode for an Initial Term Rate period ending April 1, 2021. The Series 2011 Bonds are subject to mandatory purchase on April 1, 2021. The Series 2011 Bonds were issued to fund the construction of a new Science Center on the University's Main Campus, and various other capital projects within the University's dormitories.

**Lines of Credit**

The University carries four committed unsecured lines of credit totalling \$165,000,000. The lines renew on an annual basis. The interest rate ranges from LIBOR plus 40 basis points to LIBOR plus 260 basis points. As of June 30, 2010, the outstanding balance was \$41,204,000. During FY 2011 the outstanding balance was paid down and there is no remaining outstanding balance as of June 30, 2011.

**Interest Rate Swaps**

The following schedule presents the notional principal amounts of the University's interest rate swaps at June 30:

<u>Swap Counterparty</u>	<u>Remaining</u>	<u>Expiration</u>	<u>Fair Value</u>	
	<u>Notional Amount</u>	<u>Date</u>	<u>2011</u>	<u>2010</u>
Morgan Stanley Capital Services, Inc.	\$ 214,700,000	April 1, 2036	\$ (3,947,000)	\$ (8,578,000)
Deutsche Bank AG	60,700,000	April 1, 2042	(12,259,000)	(14,607,000)
Goldman Sachs Mitsui Marine Derivative Products, L.P.	65,550,000	April 1, 2041	(11,792,000)	(14,809,000)
Goldman Sachs Mitsui Marine Derivative Products, L.P.	25,100,000	April 1, 2040	(3,910,000)	(5,040,000)
	<u>\$ 366,050,000</u>		<u>\$ (31,908,000)</u>	<u>\$ (43,034,000)</u>

The estimated cost to terminate the swaps is the fair value. These financial instruments necessarily involve counter-party credit exposure. The counterparties for these swap transactions are major financial institutions that meet the University's criteria for financial stability and credit-worthiness. The fair value of the interest rate swaps was computed by a third-party evaluator using the net present value of fixed and floating future cash flows, with floating future cash flows determined by projecting forward rates.

**Liability Derivatives Not Designated as Hedging Instruments**

	<u>2011</u>		<u>2010</u>	
	<u>Statement of Financial Position Location</u>	<u>Fair Value</u>	<u>Statement of Financial Position Location</u>	<u>Fair Value</u>
Interest rate contracts	Notes Payable and Long Term Debt	\$31,908,000	Notes Payable and Long Term Debt	\$ 43,034,000

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	<u>Location of Gain (Loss) recognized in the Statement of Activities</u>	<u>Amount of Gain (Loss) recognized in Statement of Activities</u>	
		<u>2011</u>	<u>2010</u>
Interest rate contracts	Unrealized gain (loss) on swaps	<u>\$ 11,126,000</u>	<u>\$ (8,101,000)</u>

The University entered into these agreements to reduce the cost of borrowing and mitigate variable rate debt exposure.

Certain of the University's derivative instruments contain provisions that require the University's debt to maintain an investment grade credit rating from two of the major credit rating agencies. If the University's debt were to fall below investment grade, it would be in violation of these provisions, and the counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a liability position on June 30, 2011 is \$31,908,000. The University is not required to post collateral to its counterparties.

**10. Fair Value Measurements**

Authoritative guidance on fair value measurements requires the University to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs reflect market data obtained from sources independent of the University and unobservable inputs reflect the management's assumptions about how market participants would value an asset or liability based on the best information available. The University follows the guidance and adopts a three-level hierarchy which prioritizes the inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value as follow:

- Level 1 is based upon quoted prices in active markets that the University has the ability to access for identical assets or liabilities. Market price data is generally obtained from exchange or dealer markets. The University does not adjust the quoted price for such assets and liabilities.
- Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers, and brokers.
- Level 3 is based on valuation techniques that use significant inputs that are unobservable as they trade infrequently or not at all.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

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The University performs due diligence reviews of the Net Asset Value ("NAV") in the capital accounts with its investment managers to ensure conformity with US GAAP. The University has assessed factors including, but not limited to, managers' compliance with *Fair Value Measurement* standard, price transparency and valuation procedures in place, the ability to redeem at NAV at the measurement date, and existence of certain redemption restrictions at the measurement date. Furthermore, investments which can be redeemed at NAV by the University on the measurement date or in the near term are classified as Level 2. Investments which cannot be redeemed on the measurement date or in the near term are classified as Level 3.

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The following table presents the financial instruments carried at fair value as of June 30, 2011, by caption on the statement of financial position based on the valuation hierarchy defined above (in thousands):

<b>Assets</b>	<b>Quoted Prices in Active Markets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total Fair Value</b>
Cash equivalents	\$ 10,178	\$ 40,654	\$ -	\$ 50,832
Deferred compensation	\$ 20,017	\$ -	\$ -	\$ 20,017
Split interest agreements - trust held by others	\$ -	\$ -	\$ 14,756	\$ 14,756
Unexpended Bond Proceeds	\$ 72,236	-	-	\$ 72,236
<b>Investments:</b>				
Cash equivalents	\$ 46,947	\$ -	\$ -	\$ 46,947
Fixed income - U.S. treasury notes	49,394	-	-	49,394
Fixed income - mutual funds	-	11,074	-	11,074
Fixed income - corporate debt and equity securities	-	31,019	61,726	92,745
Fixed income - corporate and sovereign securities	-	-	20,018	20,018
Fixed income - equity securities	-	-	510	510
Fixed income - fund of funds	-	-	11,171	11,171
Fixed income - growth and income	1,345	1,234	-	2,579
Fixed income - investment grade	133,825	-	-	133,825
Fixed income - asset backed and corporate securities	-	-	11,774	11,774
Fixed income - private high yield	-	-	9,059	9,059
Equity - public - stocks	-	121,160	29,570	150,730
Equity - public - global securities	-	62,361	-	62,361
Equity - public -long/short	-	1,062	63,985	65,047
Equity - public - emerging/frontier markets	-	75,430	-	75,430
Equity - public - activist strategy	-	66,697	-	66,697
Equity - public - small cap	-	15,952	-	15,952
Equity - private - fund of funds	-	-	60,558	60,558
Equity - private - venture capital	-	-	14,942	14,942
Equity - private - private equity	-	-	60,749	60,749
Equity - growth and income	1,952	918	-	2,870
Real assets - inflations linked treasuries	23,331	-	-	23,331
Real assets - natural resources index fund	-	47,749	-	47,749
Real assets - public real estate	-	34,272	-	34,272
Real assets - private commodity related	-	-	47,385	47,385
Real assets - private fund of funds	-	-	6,380	6,380
Real assets - private real estate	-	-	22,413	22,413
Real assets - venture capital	-	-	12,017	12,017
Notes and other - other investments	14,537	2,275	-	16,812
Notes and other - securities	-	114	-	114
Notes and other - split interest agrmts - as trustee	19,256	-	-	19,256
Total investments	<u>290,587</u>	<u>471,317</u>	<u>432,257</u>	<u>1,194,161</u>
Total assets at fair value	<u>\$ 393,018</u>	<u>\$ 511,971</u>	<u>\$ 447,013</u>	<u>\$ 1,352,002</u>
<b>Liabilities</b>				
Interest rate swaps	\$ -	\$ 31,908	\$ -	\$ 31,908
Split interest agreements - as trustee	8,494	-	-	8,494
Total liabilities at fair value	<u>\$ 8,494</u>	<u>\$ 31,908</u>	<u>\$ -</u>	<u>\$ 40,402</u>

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The following table presents the financial instruments carried at fair value as of June 30, 2010, by caption on the statement of financial position based on the valuation hierarchy defined above (in thousands):

<b>Assets</b>	<b>Quoted Prices in Active Markets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total Fair Value</b>
Cash equivalents	\$ 83,828	\$ 20,292	\$ -	\$ 104,120
Deferred compensation	\$ 22,139	\$ -	\$ -	\$ 22,139
Split interest agreements - trust held by others	\$ -	\$ -	\$ 100,582	\$ 100,582
<b>Investments:</b>				
Cash equivalents	\$ 38,358	\$ 7,991	\$ -	\$ 46,349
Fixed income - U.S. treasury notes	24,779	-	-	24,779
Fixed income - mutual funds	2,545	10,844	-	13,389
Fixed income - corporate debt and equity securities	-	30,247	41,378	71,625
Fixed income - corporate/convertible bonds	52,334	77,590	-	129,924
Fixed income - corporate and sovereign securities	-	-	18,585	18,585
Fixed income - hedged high yield fund of funds	-	-	10,304	10,304
Fixed income - asset backed and corporate securities	-	-	43,182	43,182
Fixed income - real estate debt	-	-	4,642	4,642
Equity - public - stocks	-	1,937	-	1,937
Equity - public - global securities	-	60,565	-	60,565
Equity - public -long/short	-	18,844	44,455	63,299
Equity - public - emerging/frontier markets	-	44,191	-	44,191
Equity - public - stocks-long/short currencies	-	13,342	-	13,342
Equity - public - activist strategy	-	55,368	-	55,368
Equity - public - passive index	-	24,877	-	24,877
Equity - public - small cap	-	30,530	-	30,530
Equity - private - fund of funds	-	-	111,852	111,852
Equity - private - venture capital	-	-	9,227	9,227
Real assets - inflations linked treasuries	21,322	-	-	21,322
Real assets - natural resources index fund	-	37,666	-	37,666
Real assets - public real estate	-	17,848	-	17,848
Real assets - private commodity related	-	-	55,692	55,692
Real assets - private real estate fund of funds	-	-	21,771	21,771
Notes and other - certificates of deposit	-	827	-	827
Notes and other - split interest agrmts - as trustee	16,709	-	-	16,709
Total investments	<u>156,047</u>	<u>432,667</u>	<u>361,088</u>	<u>949,802</u>
Total assets at fair value	<u>\$ 262,014</u>	<u>\$ 452,959</u>	<u>\$ 461,670</u>	<u>\$ 1,176,643</u>
<b>Liabilities</b>				
Interest rate swaps	\$ -	\$ 43,034	\$ -	\$ 43,034
Split interest agreements - as trustee	8,265	-	-	8,265
Total liabilities at fair value	<u>\$ 8,265</u>	<u>\$ 43,034</u>	<u>\$ -</u>	<u>\$ 51,299</u>

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The following table describes the University's inputs and valuation methodologies for assets and liabilities measured at fair value as of June 30, 2011 (in thousands):

<u>Assets</u>	<u>Level</u>	<u>Input/Methodology</u>
Cash equivalents	1	Valued at net asset value (NAV) of money market fund.
	2	Repurchase agreements valued at market value, collateralized with US treasuries and agencies.
Deferred Compensation	1	Valued at the closing price reported in active market in which the mutual fund is traded.
Split interest agreements - trust held by others	3	Valued using discounted cash flow analysis of the beneficial interest in future cash flows based on assumed timing and duration of those cash flows.
Unexpended bond proceeds	1	Valued at net asset value (NAV) of money market fund.
Fixed income	1	Consists of U.S. government securities valued at the closing price reported in the active market in which the individual security is traded; certain corporate bonds are valued at the closing price reported in the active market in which the bond is traded.
	2	Valued based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.
	3	Valued at estimated fair value based on the audited US GAAP financial statements and the quarterly financial information received from the investment advisor and/or general partner and NAV where there is no active market and/or there are restrictions on redemptions. These investments generally have redemption restrictions.
Equity - public	2	Valued using NAV as a practical expedient. The NAV is based on the fair value of underlying assets owned by the funds, minus liabilities divided by shares outstanding.
	3	Valued at estimated fair value based on the audited US GAAP financial statements and the quarterly financial information received from the investment advisor and/or general partner and NAV where there is no active market and/or there are restrictions on redemptions. These investments generally have redemption restrictions.
Equity - private	3	Valued at estimated fair value based on the audited US GAAP financial statements and the quarterly financial information received from the investment advisor and/or general partner and NAV where there is no active market and/or there are restrictions on redemptions. These investments generally have redemption restrictions.
Real assets	1	Valued at the last reported selling price in an active market.
	2	Valued using NAV as a practical expedient. The NAV is based on the fair value of underlying assets owned by the funds, minus liabilities divided by shares outstanding.
	3	Valued at estimated fair value based on the audited US GAAP financial statements and the quarterly financial information received from the investment advisor and/or general partner and NAV where there is no active market and/or there are restrictions on redemptions. These investments generally have redemption restrictions.
<b><u>Liabilities</u></b>		
Interest rate swaps	2	Valued using both observable and unobservable inputs, such as quotations received from the counterparty, dealers or brokers, whenever available and considered reliable. In instances where models are used, the value of the interest rate swap depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, yield curves, credit curves, measures of volatility, prepayment rates, assumptions for non-performance risk, and correlations of such inputs. Certain of the interest rate swap arrangements have inputs which can generally be corroborated by market data .
Split interest agreements - as trustee	1	Valued at the last reported selling price in an active market.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

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The following table is a roll-forward of the statement of financial position amounts for financial instruments classified by the University within Level 3 of the fair value hierarchy defined above as of June 30, 2011 (in thousands):

	Fair Value at June 30, 2010	Investment Type Reclassification	Leveling Reclassification	Adjusted Fair Value at June 30, 2010	Net Realized/ Unrealized Gain	Net Purchases (Sales)	Fair Value at June 30, 2011	Total Gains *
Fixed income - real estate debt	\$ 4,642	\$ (4,642)	-	\$ -	\$ -	\$ -	\$ -	\$ -
Fixed income - asset backed & corporate securities	43,182	(31,185)	-	11,997	270	(493)	11,774	842
Fixed income - corporate debt, equity, sovereign, hedged high yield	70,267	25,523	-	95,790	9,323	(13,800)	91,313	13,592
Fixed income - fund of funds	-	10,304	-	10,304	954	(87)	11,171	954
Equity - private	121,079	-	-	121,079	17,572	(2,402)	136,249	18,892
Equity - public	44,455	-	18,066	62,521	12,101	18,933	93,555	12,101
Real assets - private	77,463	-	-	77,463	4,059	6,673	88,195	4,033
Split interest - trusts held by others	100,582	-	-	100,582	3,157	(88,983)	14,756	3,157
<b>Total investments</b>	<b>\$ 461,670</b>	<b>\$ -</b>	<b>\$ 18,066</b>	<b>\$ 479,736</b>	<b>\$ 47,436</b>	<b>\$ (80,159)</b>	<b>\$ 447,013</b>	<b>\$ 53,571</b>

\* Including earnings attributable to the change in unrealized gains for assets still held at June 30, 2011

The following table is a roll-forward of the statement of financial position amounts for financial instruments classified by the University within Level 3 of the fair value hierarchy defined above as of June 30, 2010 (in thousands):

	Fair Value at June 30, 2009	Net Realized/ Unrealized Gain	Net Purchases (Sales)	Fair Value at June 30, 2010	Total Gains *
Fixed income - real estate debt	\$ 2,436	\$ 2,859	\$ (653)	\$ 4,642	\$ 2,901
Fixed income - asset backed & corporate securities	34,919	(1,909)	10,172	43,182	5,824
Fixed income - corporate debt, equity, sovereign, hedged high yield	66,611	16,581	(12,925)	70,267	16,722
Equity - private	111,058	12,876	(2,855)	121,079	14,758
Equity - public	47,833	1,299	(4,677)	44,455	1,299
Real assets - private	43,911	2,431	31,121	77,463	4,718
Split interest - trusts held by others	64,191	36,391	-	100,582	36,391
<b>Total investments</b>	<b>\$ 370,959</b>	<b>\$ 70,528</b>	<b>\$ 20,183</b>	<b>\$ 461,670</b>	<b>\$ 82,613</b>

\* Including earnings attributable to the change in unrealized gains for assets still held at June 30, 2010

All net realized and unrealized gains and losses in the tables above are reflected in the accompanying statements of activities.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is effective at the beginning of the reporting period. For the year ended June 30, 2011, \$82,144,000 of fixed income investments transferred from Level 2 to Level 1. Fixed income mutual funds with share prices available in public markets are classified as Level 1. Additionally, \$29,570,000 of public equity investment in stocks transferred from Level 2 to Level 3. Public equity in stocks which cannot be redeemed in the near future at net asset value per share (or its equivalent) is classified as level 3.

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The following table is an alternative investment diversity strategy as of June 30, 2011 (in thousands):

<u>Category</u>	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency (if currently eligible)</u>	<u>Redemption notice period</u>
<b><u>Equity</u></b>				
Long/Short Equity	\$ 65,047	\$ -	Quarterly, annually, every 3 years	45-90 days
Private Equity Fund of Funds	60,558	20,500	N/A	N/A
Private Equity	60,749	13,200	N/A	N/A
Venture Capital	14,942	10,700	N/A	N/A
<b><u>Fixed Income</u></b>				
Hedged High Yield	80,996	-	Monthly, quarterly, annually every 3 years	20-120 days
Hedged High Yield Fund of Funds	11,171	-	Quarterly	90 days
Private High Yield	53,111	-	N/A	N/A
<b><u>Real Assets</u></b>				
Private Real Estate Fund of Funds	6,380	300	N/A	N/A
Private Commodity Related	47,385	33,000	N/A	N/A
Private Commodity Related Venture Capital	12,017	6,400	N/A	N/A
Private Real Estate	22,413	11,900		
<b>Total Alternative Investments</b>	<b>\$ 434,769</b>	<b>\$ 96,000</b>		

**11. Restricted Net Assets**

**Temporarily Restricted Net Assets**

Temporarily restricted net assets at June 30 are available for the following purposes (in thousands)

	<u>2011</u>	<u>2010</u>
Time and other restrictions	\$ 256,142	\$ 189,229
Buildings and improvements	86,416	78,457
Financial aid	37,612	34,781
Instruction and research	17,160	17,846
Term endowments	3,368	3,250
Total	<u>\$ 400,698</u>	<u>\$ 323,563</u>

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**Permanently Restricted Net Assets**

Permanently restricted net assets at June 30 are restricted to investment in perpetuity, the income from which is expendable to support (in thousands):

	<u>2011</u>	<u>2010</u>
General operations	\$ 316,711	\$ 308,944
Instruction and research	284,112	255,496
Financial aid	<u>201,133</u>	<u>180,997</u>
Total	<u>\$ 801,956</u>	<u>\$ 745,437</u>

**Net Assets Released From Restrictions**

Donor restrictions met were as follows for the years ended June 30 (in thousands):

	<u>2011</u>	<u>2010</u>
Time and other restrictions	\$ 23,351	\$ 13,467
Financial aid	14,304	14,370
Instruction and research	11,196	11,015
Buildings and equipment	591	605
Term endowments	<u>39</u>	<u>50</u>
Total	<u>\$ 49,481</u>	<u>\$ 39,507</u>

**12. Uniform Prudent Management of Institutional Funds Act**

**Interpretation of Relevant Law**

The Board of Directors of the University have approved management's interpretation of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as enacted by the Council of the District of Columbia. UPMIFA requires the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment; and (b) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation was added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (a) the duration and preservation of the fund; (b) the purposes of the University and the donor-restricted endowment fund; (c) general economic conditions; (d) the possible effect of inflation and deflation; (e) the expected total return from income and the appreciation of investments; (f) other resources of the University; and, (g) the investment policies of the University.

### **Return Objectives and Risk Parameters**

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the policy benchmark approved by the Board.

### **Strategies Employed for Achieving Objectives**

To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation with exposure to equities, fixed income and real assets.

### **Spending Policy**

The University's primary investment objective for the Endowment Fund is to achieve the highest long-term total investment return on investment assets that is compatible with the University's risk tolerance and time horizons and consistent with prudent investment practices. Superior investment performance should, over the long term, maintain or enhance the purchasing power of the Endowment Fund so that its income distribution will provide at least as much support for the annual University budget in the future as it does at present.

The objectives of the University's endowment portfolios contemplate a reasonable and disciplined investment approach. Accordingly, consistent with their specific objectives, each endowment portfolio should be appropriately diversified in order to provide reasonable assurance that no single security or class of securities has a disproportionate impact on the portfolio.

The University has adopted an endowment spending policy governing the expenditure of the total return of funds by the pooled endowment fund (see note 6). The spending policy is designed to stabilize annual spending levels and to preserve the portfolio and is independent of the actual yield and appreciation of investments for the year. To achieve this objective, additions to an endowment fund will receive a distribution in the month following the addition to the endowment. The distribution is based on 5.50% and 5.75% of a five year moving average of the pooled endowment market value for the years ended June 30, 2011 and 2010, respectively.

The University's pooled endowment consists of approximately 1,601 individual endowment funds. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds, including Board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

### **Funds with Deficiencies**

At times, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor requires the University to retain as a fund of perpetual duration. Deficiencies of \$18,555,000 and \$39,831,000 for donor-restricted pooled funds have been recorded in unrestricted net assets at June 30, 2011 and 2010, respectively. Deficiencies of \$242,000 and \$2,626,000 for donor-restricted separately invested endowment funds have been recorded in unrestricted net assets at June 30, 2011 and 2010, respectively.

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**Endowment Net Asset Composition by Type of Fund as of June 30, 2011 (in thousands):**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ (18,797)	\$ 170,009	\$ 784,610	\$ 935,822
Board designated endowment funds	226,417	-	-	226,417
<b>Total funds</b>	<u>\$ 207,620</u>	<u>\$ 170,009</u>	<u>\$ 784,610</u>	<u>\$ 1,162,239</u>

**Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2011 (in thousands):**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 159,068	\$ 119,461	\$ 728,770	\$ 1,007,299
Investment return:				
Investment income	19,725	5,034	-	24,759
Investment expenses	(15,189)	-	-	(15,189)
Net appreciation (realized and unrealized)	56,323	96,824	2,200	155,347
Total investment return	<u>60,859</u>	<u>101,858</u>	<u>2,200</u>	<u>164,917</u>
Contributions	-	93	51,105	51,198
Appropriation of endowment assets for expenditure	(16,647)	(49,818)	-	(66,465)
Other changes:				
Other	(55)	(1,585)	2,535	895
Transfers to create board designated endowment funds	4,395	-	-	4,395
<b>Endowment net assets, end of year</b>	<u>\$ 207,620</u>	<u>\$ 170,009</u>	<u>\$ 784,610</u>	<u>\$ 1,162,239</u>

**Endowment Net Asset Composition by Type of Fund as of June 30, 2010 (in thousands):**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ (42,457)	\$ 119,461	\$ 728,770	\$ 805,774
Board designated endowment funds	201,525	-	-	201,525
<b>Total funds</b>	<u>\$ 159,068</u>	<u>\$ 119,461</u>	<u>\$ 728,770</u>	<u>\$ 1,007,299</u>

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**Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2010 (in thousands):**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 140,578	\$ 95,141	\$ 659,388	\$ 895,107
Investment return:				
Investment income	19,441	1,052	-	20,493
Investment expenses	(11,648)	(97)	-	(11,745)
Net appreciation (realized and unrealized)	33,559	47,847	38,553	119,959
Total investment return	<u>41,352</u>	<u>48,802</u>	<u>38,553</u>	<u>128,707</u>
Contributions	450	(584)	33,018	32,884
Appropriation of endowment assets for expenditure	(16,912)	(44,742)	-	(61,654)
Other changes:				
Other	(18,655)	20,844	(2,189)	-
Transfers to create board designated endowment funds	12,255	-	-	12,255
<b>Endowment net assets, end of year</b>	<u>\$ 159,068</u>	<u>\$ 119,461</u>	<u>\$ 728,770</u>	<u>\$ 1,007,299</u>

**Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowment Only)**

	<u>2011</u>	<u>2010</u>
<b>Permanently Restricted Net Assets</b>		
Portion of perpetual endowment funds retained permanently	\$ 784,610	\$ 728,770
<b>Total permanently restricted endowment net assets</b>	<u>\$ 784,610</u>	<u>\$ 728,770</u>
<b>Temporarily Restricted Net Assets</b>		
Term endowment funds	\$ 3,368	\$ 3,250
Portion of perpetual endowment funds subject to time and purpose restrictions	166,641	116,211
<b>Total temporarily restricted endowment net assets</b>	<u>\$ 170,009</u>	<u>\$ 119,461</u>

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**13. Operating Expenses by Function**

Expenses were incurred for the following functions for the years ended June 30, 2011 and 2010 (in thousands):

	<u>2011</u>	<u>2010</u>
Program:		
Instruction	\$ 383,794	\$ 370,404
Research	178,112	167,905
Scholarships and fellowships	14,975	15,116
Auxiliary enterprises - direct	56,298	61,656
Public service	21,827	25,969
Other	6,066	12,352
Support:		
Institutional support	136,778	138,835
Academic support	216,986	173,588
Total	<u>\$ 1,014,836</u>	<u>\$ 965,825</u>

Operation and maintenance of plant, depreciation and interest expense are allocated to functional classifications based on the relative dollars in the base categories.

Fundraising expenses totalling \$20,389,000 and \$20,549,000 are included in the statement of activities for the years ended June 30, 2011 and 2010, respectively.

**14. Pension and Other Postretirement Benefit Costs**

The University provides certain pension, health care and life insurance benefits to retired employees who meet plan eligibility requirements.

**Defined Benefit Retirement Plan**

The Georgetown University Retirement Plan ("the Plan"), originally effective January 1, 1954, and thereafter amended, covers eligible faculty members, staff employees, and certain employees of the University. Benefits under the Plan are based on years of service and the participants' highest compensation for a specified period of employment. The University's policy is to contribute amounts sufficient to meet minimum funding requirements as set forth in employee benefit and tax laws plus such additional amounts as determined to be appropriate. Effective January 1, 2009, the Plan was closed to all new employees hired on or after January 1, 2008, or resumed active participation in the Plan by May 15, 2008 except for Georgetown Jesuit Community lay employees, as defined in the plan document.

The discount rate used in determining the actuarial present value of the projected benefit obligation was 5.41% and 5.24% at June 30, 2011 and 2010, respectively. The discount rate used in determining the net benefit cost was 5.24% and 6.12% at June 30, 2011 and 2010, respectively. The rate of increase in future compensation levels was based on a flat 3.0% at June 30, 2011 and 2010. The expected long-term rate of return on plan assets used in determining net pension expense at June 30, 2011 and 2010 was 8.0%, which was selected based on long-term expectations and current investment allocation.

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**Defined Contribution Retirement Plan**

Faculty members and certain staff not participating in the Plan are eligible to join the Defined Contribution Retirement Plan. The University's policy is to contribute a percentage of the employee's salary. The University's contribution is 12% for employees hired prior to January 1, 1996 and up to 10% for employees hired on or after that date. The expense recorded in salaries and fringe benefits for the Defined Contribution Retirement Plan was \$33,808,000 and \$33,496,000 for the years ended June 30, 2011 and 2010, respectively.

**Health and Life Insurance Plans**

The purpose of the Georgetown University Health and Life Insurance Plans portfolio ("the Portfolio") is to provide current funding to pay the benefits and expense obligations of the University's postretirement benefit plans when due. Prior to fiscal year 2001, it was the University's funding policy to contribute to the related trusts an amount equal to the actuarially determined expense. During FY10, the University dissolved the Postretirement Benefits Trust.

The assumed rates of increase in the per capita cost of covered health care benefits for plan participants are assumed to decrease from 7.5% in 2011 to 5.0% over the next five years and remain at that level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. Increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation by \$793,000 and \$893,000 at June 30, 2011 and 2010, respectively. The aggregate of the service and interest cost components of net periodic postretirement benefit expense would increase by \$64,000 and \$96,000 for the years ended June 30, 2011 and 2010, respectively. Decreasing the assumed health care cost trend rates by one percentage point in each year would decrease the accumulated postretirement benefit obligation by \$732,000 and \$818,000 at June 30, 2011 and 2010, respectively. The aggregate of the service and interest cost components of the net periodic postretirement benefit expense would decrease by \$58,000 and \$85,000 for the years ended June 30, 2011 and 2010, respectively.

The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 5.34% and 5.17% at June 30, 2011 and 2010, respectively. The discount rate used in determining the net benefit cost was 5.17% and 6.07% at June 30, 2011 and 2010, respectively.

Projected benefit payments to be made from the Pension and Postretirement plans for the next ten years subsequent to the fiscal year ended June 30, 2011 are as follows (in thousands):

	<b><u>Postretirement Benefits</u></b>		
	<b><u>Pension</u></b>	<b><u>Employer</u></b>	
	<b><u>Benefits</u></b>	<b><u>Payments</u></b>	<b><u>Medicare Subsidy</u></b>
2012	\$ 18,611	\$ 3,366	\$ 515
2013	15,091	3,616	624
2014	15,306	3,827	715
2015	15,313	4,006	801
2016	14,948	4,146	896
2017-2021	74,372	23,337	6,061
Total	<u>\$ 153,641</u>	<u>\$ 42,298</u>	<u>\$ 9,612</u>

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The following information summarizes activity in the pension and postretirement benefit plans (in thousands):

	<u>2011</u>		<u>2010</u>	
	<u>Pension</u>	<u>Other</u>	<u>Pension</u>	<u>Other</u>
	<u>Benefits</u>	<u>Postretirement</u>	<u>Benefits</u>	<u>Postretirement</u>
		<u>Benefits</u>		<u>Benefits</u>
<b>Change in benefit obligation:</b>				
Benefit obligation,				
beginning of year	\$ 182,160	\$ 47,728	\$ 160,461	\$ 46,893
Service cost	2,543	1,367	2,428	1,253
Interest cost	9,134	2,466	9,383	2,833
Plan participants' contributions	-	3,366	-	1,944
Actuarial (gain) loss	(2,185)	(3,951)	18,026	(699)
Gross benefits paid	(7,824)	(5,551)	(8,138)	(5,004)
less: federal subsidy on benefits paid	N/A	353	N/A	508
Benefit obligation, end of year	<u>\$ 183,828</u>	<u>\$ 45,778</u>	<u>\$ 182,160</u>	<u>\$ 47,728</u>
<b>Change in plan assets:</b>				
Fair value of plan assets,				
beginning of year	\$ 106,783	\$ -	\$ 94,293	\$ 5
Actual return on plan assets	23,348	-	16,524	(5)
Employer contributions	9,442	2,185	4,104	3,060
Plan participants' contributions	-	3,366	-	1,944
Benefits paid	(7,824)	(5,551)	(8,138)	(5,004)
Fair value of plan assets, end of year	<u>\$ 131,749</u>	<u>\$ -</u>	<u>\$ 106,783</u>	<u>\$ -</u>
Funded status, end of year	<u>\$ (52,079)</u>	<u>\$ (45,778)</u>	<u>\$ (75,377)</u>	<u>\$ (47,728)</u>

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	<u>2011</u>		<u>2010</u>	
	<u>Pension</u>	<u>Other</u>	<u>Pension</u>	<u>Other</u>
	<u>Benefits</u>	<u>Postretirement</u>	<u>Benefits</u>	<u>Postretirement</u>
		<u>Benefits</u>		<u>Benefits</u>
<b>Amounts recognized in the statements of financial position:</b>				
Liabilities	\$ (52,079)	\$ (45,778)	\$ (75,377)	\$ (47,728)
<b>Amount not yet recognized in net periodic benefit cost and included in unrestricted net assets:</b>				
Net actuarial loss	\$ 61,704	\$ 9,453	\$ 85,469	\$ 14,048
Prior service cost/(credit)	149	(780)	169	(941)
	<u>\$ 61,853</u>	<u>\$ 8,673</u>	<u>\$ 85,638</u>	<u>\$ 13,107</u>
<b>Components of net periodic benefit cost:</b>				
Service cost	\$ 2,543	\$ 1,367	\$ 2,428	\$ 1,253
Interest cost	9,134	2,466	9,383	2,833
Expected return on assets	(8,173)	-	(6,916)	
Amortization:				
Actuarial loss	6,405	644	6,555	740
Prior service cost /(credit)	20	(160)	20	(160)
Net periodic benefit cost	<u>\$ 9,929</u>	<u>\$ 4,317</u>	<u>\$ 11,470</u>	<u>\$ 4,666</u>
<b>Other changes in plan assets and benefit obligations recognized in the statement of activities</b>				
Current year actuarial (gain)/loss	\$ (17,360)	\$ (3,951)	\$ 8,418	\$ (694)
Amortization of actuarial loss	(6,405)	(644)	(6,555)	(741)
Amortization of prior service credit/(cost)	(20)	160	(20)	160
Total recognized in nonoperating revenues and expenses	<u>(23,785)</u>	<u>(4,435)</u>	<u>1,843</u>	<u>(1,275)</u>
	<u>\$ (13,856)</u>	<u>\$ (118)</u>	<u>\$ 13,313</u>	<u>\$ 3,391</u>
<b>Additional Information:</b>				
Accumulated benefit obligation	\$ 175,723	N/A	\$ 173,900	N/A
Expected contributions in fiscal year ending June 30, 2012	\$ 11,800	\$ 3,366		

The estimated net actuarial loss for the pension and postretirement plans that will be amortized from unrestricted net assets into net periodic benefit costs over the next fiscal year are \$4,139,000 and \$339,000, respectively. The estimated prior service cost/(credit) for the pension and post retirement plans that will be amortized from unrestricted net assets into net periodic benefit costs over the next fiscal year is \$20,000 and (\$160,000), respectively.

The asset allocation for the University's pension plan at the end of fiscal year 2011 and fiscal year 2010, and the target allocation for June 30, 2011, by asset category, were as follows:

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**Pension Plan**

<u>Asset Category</u>	<u>Target Allocation for June 30, 2011</u>	<u>Percentage of Pension Plan Assets</u>	
		<u>June 30, 2011</u>	<u>June 30, 2010</u>
U.S. public equity securities	36.9%	35.9%	33.0%
Non-U.S. public equity	11.8%	13.2%	9.9%
Global Equity	16.3%	16.3%	12.5%
Debt securities	25.0%	23.9%	31.5%
Real assets	10.0%	0.0%	4.1%
Cash	0.0%	10.7%	9.0%
Total	100.0%	100.0%	100.0%

The purpose of the Georgetown University Retirement Plan portfolio is to provide funding to pay the benefits and expense obligations of the Plan when due. The University funds at least the minimum required under the Employee Retirement Income Security Act (ERISA). In keeping with this purpose, the portfolio strives to achieve the following objectives:

1. To maintain fully funded status with regard to the Accumulated Benefit Obligation (ABO);
2. To maintain flexibility in determining the future level of contributions; and
3. To maximize total return within reasonable and prudent levels of risk in order to minimize contributions and maintain sufficient liquidity to meet disbursement needs.

The performance of individual investment managers and the incremental return achieved from active management will generally be evaluated over three year periods or over a full market cycle against a relevant peer universe and against standard market benchmarks.

The financial instruments in which the Georgetown University Retirement Plan assets were invested as of June 30, 2011 were carried at fair value based on the same inputs and valuation methodologies as described in note 10 – fair value measurements.

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The following table presents the financial instruments carried at fair value for the Georgetown University Retirement Plan assets as of June 30, 2011 (in thousands):

Assets	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Investments:				
Cash equivalents	\$ 14,152	\$ -	\$ -	\$ 14,152
Fixed income - investment grade	31,444	-	-	31,444
Equity - public - stocks	-	38,802	-	38,802
Equity - public - global securities	-	21,518	-	21,518
Equity - public - emerging markets	-	6,381	-	6,381
Equity - public - activist strategy	-	19,452	-	19,452
Total assets at fair value	\$ 45,596	\$ 86,153	\$ -	\$ 131,749

**15. Commitments and Contingent Liabilities**

The University receives a substantial amount of its revenues from U.S. Government grants and contracts. The ultimate determination of amounts received under these programs generally is based upon allowable costs, which are subject to audit, and are reported to the U.S. Government. Recovery of indirect costs is based on predetermined rates negotiated with the government. The University is of the opinion that adjustments, if any, arising from such audits will not have a material effect on the financial statements.

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 wilful misconduct, or acts in bad faith. The indemnifications serve to place the University in a liability position no different than if it had performed the services for itself. The University was not aware of any liability under such service agreements for the years ended June 30, 2011 or 2010.

The University has unfunded commitments with one public equity manager in addition to the seventeen private equity managers, four real estate investment managers, three private high yield managers and seven commodity related managers. Remaining unfunded commitments as of June 30, 2011 and 2010 totalled \$98,796,000 and \$116,830,000, respectively.

The University carries insurance policies on insurable risks, which it believes to be appropriate. The University generally has self-insured retention limits and has obtained fully insured layers of coverage in excess of self-insured retention limits. Accruals for self-insurance losses are made based on the University's claims experience and actuarial assumptions. The University has certain liabilities with respect to existing or potential claims, lawsuits, and other proceedings. The University accrues for these liabilities when it is probable that future costs will be incurred and such costs can be reasonably estimated.

The University self insures for hospital professional and comprehensive general liability. At June 30,

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2011 and 2010, liabilities for future claims were \$1,533,000 and \$1,775,000, respectively. These amounts are included in other liabilities in the accompanying statements of financial position.

The University self insures for commercial auto, property, general liability, directors' and officers' liability and workers compensation liability. At June 30, 2011 and 2010, the University had recorded reserves in the amount of \$4,450,000 and \$4,719,000, respectively.

The University is a defendant in a number of malpractice lawsuits, all of which are pending in trial or appellate courts of the District of Columbia. According to legal counsel, each of the cases is being defended pursuant to the coverage afforded by the respective malpractice insurance policies. Such coverage is subject to the terms and provisions of those policies, including limitations of liability and any applicable exceptions or exclusions. The University is involved in various other claims and legal actions arising in the ordinary course of business. Based upon information currently available, management believes the ultimate disposition of these matters will not have a material adverse effect on the University's financial position, change in net assets or cash flows.

Contractual commitments authorized by the Board of Directors were approximately \$57,200,000 and \$74,480,000 at June 30, 2011 and 2010, respectively. The commitments pertain to construction and major maintenance projects. Bonds, loans, federal grants and other University revenues are expected to provide the necessary funding for these commitments.

On May 17, 2005, the University entered into a 10 year agreement with an unrelated Foundation to establish a degree granting branch campus as part of the School of Foreign Service. The Foundation owns the facility and is responsible for construction and maintenance. The University will be reimbursed for all allowable costs and expenses incurred on behalf of the Foundation. An irrevocable standby letter of credit has been established by the Foundation. A management fee is paid to the University on an annual basis.

The University entered into the Covenant of Purpose, Use, and Ownership with the National Institute of Standards and Technology (NIST) in consideration of the \$6,900,000 award to assist in financing a portion of the Institute for Soft Matter Synthesis and Metrology which will be located within the new Science Research Building on the University main campus. The Covenant restricts the use of the property for which the award was given and the right to sell, lease, mortgage, or otherwise alienate any right to or interest in the property for a period of 20 years from the issuance of a certificate of occupancy.

## **16. Leases**

The University's leases consist of both operating and capital leases for facilities, office equipment, and vehicles. The lease terms generally range from one month to ten years with options to renew at varying times (in thousands):

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	<u>2011</u>	<u>2010</u>
<b>Rent expense under operating leases</b>		
Facilities	\$ 36,885	\$ 35,869
Equipment	2,784	4,552
Vehicles	673	1,440
Total	<u>\$ 40,342</u>	<u>\$ 41,861</u>
<b>Assets recorded under capital leases</b>		
Equipment	15,275	8,862
Less accumulated depreciation	(9,986)	(8,099)
	<u>\$ 5,289</u>	<u>\$ 763</u>

Minimum annual rentals for the five years subsequent to fiscal year ended June 30, 2011 and in the aggregate are (in thousands):

	<u>Capital Leases</u>	<u>Operating Leases</u>
2012	\$ 1,382	\$ 17,358
2013	1,307	17,381
2014	1,096	14,939
2015	933	13,546
2016	35	13,679
Thereafter	-	<u>53,424</u>
Total	<u>\$ 4,753</u>	<u>\$ 130,327</u>

**17. Tax Losses**

At June 30, 2011 and 2010, the University had cumulative unrelated business income net operating loss carryovers of approximately \$11,600,000 and \$9,600,000, respectively. Based upon the year incurred these losses can be carried over for 15 to 20 years.

**18. Related Parties**

Members of the University's Board of Directors and their related entities contributed approximately \$13,809,000 and \$991,000 during the years June 30, 2011 and 2010, respectively, which is included in contribution revenue in the accompanying statement of activities. Approximately \$13,962,000 and \$8,226,000 were included in contributions receivable at June 30, 2011 and 2010, respectively, in the accompanying statements of financial position.

**19. Subsequent Events**

On July 26, 2011, \$40,000,000 was advanced to the University from the PNC Bank line of credit. The purpose of the draw was to provide liquidity for the University due to the uncertainty of the status of the U.S. debt ceiling and the potential effect on all federal funding received by the University. The line was repaid on August 23, 2011.

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The University has performed an evaluation of subsequent events through October 28, 2011, which is the date the financial statements were issued, noting no additional events which affect the financial statements as of June 30, 2011.