

Georgetown University

Financial Statements

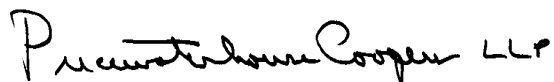
**For the years ended June 30, 2008 and 2007 and
Report Thereon**

Report of Independent Auditors

To the Board of Directors
Georgetown University

In our opinion, the accompanying statements of financial position and the related statements of activities and of cash flows present fairly, in all material respects, the financial position of Georgetown University (the University) as of June 30, 2008 and 2007, 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, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 12 to the financial statements, in fiscal year 2007 the University adopted Financial Accounting Standards Board (FASB) Statement No. 158, *Employer's Accounting for Defined Benefit Pension and other Postretirement Plans*.



November 20, 2008

Georgetown University
Statements of Financial Position
As of June 30, 2008 and 2007

<i>(in thousands)</i>	2008	2007
Assets		
Cash and cash equivalents	\$ 9,939	\$ 63,156
Accounts receivable, net	53,769	43,974
Prepaid expenses and other assets	75,475	73,109
Contributions receivable, net	131,069	118,535
Loans receivable, net	39,343	38,231
Unexpended bond proceeds	52,031	55,787
Investments	1,066,618	1,059,681
Land, buildings and equipment, net	836,363	802,126
Total assets	<u>\$ 2,264,607</u>	<u>\$ 2,254,599</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	\$ 116,179	\$ 109,204
Pension liability	26,657	23,579
Postretirement benefits liability	42,204	39,285
Refundable deposits on grants	57,114	48,560
Deferred revenue and gains	48,788	46,941
Collateral due broker	-	4,022
Other liabilities	18,976	23,893
Asset retirement obligation	27,964	26,561
Notes payable and long-term debt	818,578	768,635
Total liabilities	<u>1,156,460</u>	<u>1,090,680</u>
Net assets		
Unrestricted	99,675	205,991
Temporarily restricted	453,711	444,653
Permanently restricted	554,761	513,275
Total net assets	<u>1,108,147</u>	<u>1,163,919</u>
Total liabilities and net assets	<u>\$ 2,264,607</u>	<u>\$ 2,254,599</u>

The accompanying notes are an integral part of these financial statements

Georgetown University
Statement of Activities
For the year ended June 30, 2008

<i>(in thousands)</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues				
Tuition and fees, net	\$ 405,615	\$ -	\$ -	\$ 405,615
Grants and contracts	217,992	4	-	217,996
Sales and services of auxiliary enterprises	93,593	-	-	93,593
Contributions	40,119	783	-	40,902
Other investment income	8,219	375	-	8,594
Sales and services of educational departments	15,333	-	-	15,333
Investment return designated for current operations	28,635	33,054	-	61,689
Interest income on unexpended bond proceeds	2,500	-	-	2,500
Other sources	30,040	640	-	30,680
Net assets released from restrictions	26,092	(26,092)	-	-
Total operating revenues	<u>868,138</u>	<u>8,764</u>	<u>-</u>	<u>876,902</u>
Operating expenses				
Salaries and fringe benefits	475,218	-	-	475,218
Supplies and services	185,105	-	-	185,105
Depreciation, amortization and accretion	40,476	-	-	40,476
Interest on indebtedness	40,699	-	-	40,699
Rent	30,414	-	-	30,414
Utilities	31,181	-	-	31,181
Insurance	13,979	-	-	13,979
Travel	30,574	-	-	30,574
Repairs and maintenance	8,357	-	-	8,357
Books and periodicals	12,213	-	-	12,213
Other	21,864	-	-	21,864
Total operating expenses	<u>890,080</u>	<u>-</u>	<u>-</u>	<u>890,080</u>
Operating subtotal	<u>(21,942)</u>	<u>8,764</u>	<u>-</u>	<u>(13,178)</u>
Non operating revenues and expenses				
Capital contributions	9,731	18,193	41,486	69,410
Other net realized gains	15,379	24,412	-	39,791
Other net realized gains allocated to operations	(41,681)	-	-	(41,681)
Other net unrealized losses	(20,374)	(42,215)	-	(62,589)
Unrealized loss on swaps	(35,376)	-	-	(35,376)
Pension and postretirement liability adjustment	(9,079)	-	-	(9,079)
Net assets released from restrictions	96	(96)	-	-
Bond refunding loss	(3,070)	-	-	(3,070)
Non operating change in net assets	<u>(84,374)</u>	<u>294</u>	<u>41,486</u>	<u>(42,594)</u>
Change in net assets	(106,316)	9,058	41,486	(55,772)
Net assets at beginning of year	205,991	444,653	513,275	1,163,919
Net assets at end of year	<u>\$ 99,675</u>	<u>\$ 453,711</u>	<u>\$ 554,761</u>	<u>\$ 1,108,147</u>

The accompanying notes are an integral part of these financial statements

Georgetown University
Statement of Activities
For the year ended June 30, 2007

<i>(in thousands)</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues				
Tuition and fees, net	\$ 375,621	\$ -	\$ -	\$ 375,621
Grants and contracts	205,211	-	-	205,211
Sales and services of auxiliary enterprises	91,227	-	-	91,227
Contributions	39,996	266	-	40,262
Other investment income	8,970	23	-	8,993
Sales and services of educational departments	12,195	-	-	12,195
Investment return designated for current operations	21,298	27,416	-	48,714
Interest income on unexpended bond proceeds	646	-	-	646
Other sources	26,040	359	-	26,399
Net assets released from restrictions	23,627	(23,627)	-	-
Total operating revenues	<u>804,831</u>	<u>4,437</u>	<u>-</u>	<u>809,268</u>
Operating expenses				
Salaries and fringe benefits	433,788	-	-	433,788
Supplies and services	172,858	-	-	172,858
Depreciation, amortization and accretion	38,719	-	-	38,719
Interest on indebtedness	34,999	-	-	34,999
Rent	27,082	-	-	27,082
Utilities	31,555	-	-	31,555
Insurance	18,176	-	-	18,176
Travel	29,035	-	-	29,035
Repairs and maintenance	6,679	-	-	6,679
Books and periodicals	11,255	-	-	11,255
Other	14,235	-	-	14,235
Total operating expenses	<u>818,381</u>	<u>-</u>	<u>-</u>	<u>818,381</u>
Operating subtotal	<u>(13,550)</u>	<u>4,437</u>	<u>-</u>	<u>(9,113)</u>
Non operating revenues and expenses				
Capital contributions	5,402	9,920	33,164	48,486
Other net realized gains	18,289	51,606	1,769	71,664
Other net realized gains allocated to operations	(34,144)	-	-	(34,144)
Other net unrealized gains	22,913	65,754	-	88,667
Unrealized gain on swaps	1,771	-	-	1,771
Change in additional minimum pension liability	18,145	-	-	18,145
Net assets transferred	(9,271)	9,271	-	-
Net assets released from restrictions	7,048	(7,048)	-	-
Bond refunding loss	(14,709)	-	-	(14,709)
Non operating change in net assets	<u>15,444</u>	<u>129,503</u>	<u>34,933</u>	<u>179,880</u>
Change in net assets before cumulative effect of change in accounting principle	1,894	133,940	34,933	170,767
Cumulative effect of a change in accounting principle	(24,566)	-	-	(24,566)
Change in net assets	<u>(22,672)</u>	<u>133,940</u>	<u>34,933</u>	<u>146,201</u>
Net assets at beginning of year	228,663	310,713	478,342	1,017,718
Net assets at end of year	<u>\$ 205,991</u>	<u>\$ 444,653</u>	<u>\$ 513,275</u>	<u>\$ 1,163,919</u>

The accompanying notes are an integral part of these financial statements

Georgetown University
Statements of Cashflows
For the years ended June 30, 2008 and 2007

<i>(in thousands)</i>	2008	2007
Cash flows from operating activities		
Change in net assets	\$ (55,772)	\$ 146,201
Adjustments to reconcile change in net assets to cash and cash equivalents used in operating activities		
Cumulative effect of a change in accounting principle	-	24,566
Depreciation, amortization and accretion	40,476	38,719
Net realized and unrealized loss (gain) on investments	24,116	(159,013)
Change in estimated cost to terminate swap	35,376	(1,771)
Pension and postretirement liability adjustment	9,079	(18,145)
(Recovery) provision for bad debts	(4,557)	12,988
Loss on disposal of fixed assets	42	111
Bond refunding loss	3,070	14,709
Receipt of contributed securities	(16,271)	(17,439)
Increase in accounts receivable	(9,737)	(12,702)
Increase in prepaid expenses and other assets	(10,382)	(12,310)
Increase in contributions receivable	(7,886)	(4,358)
Increase (decrease) in accounts payable and accrued liabilities	6,975	(25,804)
Increase in post retirement liability	3,412	4,019
Increase in refundable deposits on federal grants	8,555	8,163
Increase in deferred revenue and gains	1,847	1,314
(Decrease) increase in other liabilities	(4,917)	3,951
Less interest income on revolving student loan funds	(589)	(1,543)
Less contributions restricted for:		
Investment in endowment	(48,477)	(36,714)
Investment in plant	(10,630)	(14,394)
Investment from revolving student loan funds	-	(18)
Net cash and cash equivalents used in operating activities	<u>(36,270)</u>	<u>(49,470)</u>
Cash flows from investing activities		
Purchases of land, buildings and equipment	(73,352)	(30,395)
Proceeds from sales of investments	214,844	206,383
Purchases of investments	(233,481)	(200,229)
Securities sold (purchased) with cash collateral	3,855	(339)
Net cash and cash equivalents used in investing activities	<u>(88,134)</u>	<u>(24,580)</u>
Cash flows from financing activities		
Proceeds from contributions restricted for:		
Investment in endowment	48,477	36,714
Investment in plant	10,630	14,394
Cash (paid) received under securities lending agreements, net	(4,022)	362
Payments on notes payable and long-term debt	(48,289)	(130,880)
Proceeds from issuance of notes payable and long-term debt	61,642	233,133
Net change in unexpended bond proceeds	3,756	(55,740)
Payments on capital lease obligations	(335)	(453)
Disbursements for new student loans receivable	(5,980)	(3,635)
Repayments on student loans receivable	4,868	6,305
Write-off and other administrative costs of loans receivable	(149)	(1,588)
Interest income on revolving student loan funds	589	1,543
New contributions for revolving student loan funds	-	18
Net cash and cash equivalents provided by financing activities	<u>71,187</u>	<u>100,173</u>
Net (decrease) increase in cash and cash equivalents	(53,217)	26,123
Cash and cash equivalents at beginning of year	63,156	37,033
Cash and cash equivalents at end of year	<u>\$ 9,939</u>	<u>\$ 63,156</u>

Continued

The accompanying notes are an integral part of these financial statements

Georgetown University
Statements of Cashflows, continued
For the years ended June 30, 2008 and 2007

<i>(in thousands)</i>	2008	2007
Supplemental Data		
Noncash investing and financing activities		
Contributed securities	\$ 16,271	\$ 17,439
Net book value of asset retirement costs	-	1
Fixed assets-purchases and payables	4,991	4,817
Interest paid	35,895	24,276

The accompanying notes are an integral part of these financial statements

Georgetown University

Notes to Financial Statements

June 30, 2008 and 2007

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 summer and continuing education; 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 departments and agencies of the United States Government.

2. Significant Accounting Policies

Accrual Basis

The financial statements of the University have been prepared on the accrual basis of accounting.

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 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 accounting principles generally accepted in the United States of America 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 the asset retirement obligations, carrying value of land, buildings and equipment, non-traditional investments, certain real estate holdings, contingency reserves, retirement benefits, and accounts and contributions receivable. Actual results could differ materially, in the near term, from the amounts reported.

Cash and Cash Equivalents

The University defines cash and cash equivalents as cash on hand, demand deposits and short term investments with original 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.

Investments

Investments in common and preferred stocks and mutual funds, limited partnerships and limited liability companies consist of the University's ownership interest in externally managed investment funds, which invest in market-traded equity and fixed income securities.

Georgetown University
Notes to Financial Statements
June 30, 2008 and 2007

Investments, including alternative investments considered by the University as marketable, are reported at fair value. Fair value is based on quoted prices for securities traded on public exchanges. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities, or other reasonable valuation methodologies such as appraisals. Fair values for certain private equity and real estate investments held through limited partnerships, hedge funds or commingled fund shares are estimated by the respective external investment managers if market values are not readily ascertainable and are considered by the University as non-marketable alternative investments. 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.

The cost of investments sold is determined by use of the average cost method on the trade date. Investment income on endowments and other investments is reported net of management fees, unless otherwise stipulated by the specified donor. 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 current year.

Receivables and Revenue Recognition

The University reports receivables at their net realizable value.

Unconditional pledges are recognized, in the appropriate net asset categories, at their net present value, 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.

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

Loans receivable are primarily related to donor-structured loans and federal student financial aid programs. The loans have stated interest rates and repayment terms. The determination of the fair value of student loans receivable is not practicable.

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

	2008	2007
Royalty/advertising income	\$ 6,311	\$ 3,216
Alumni/special events	1,757	3,048
Athletic events	9,701	9,647
Other	12,911	10,488
Total other sources	<u>\$ 30,680</u>	<u>\$ 26,399</u>

Georgetown University

Notes to Financial Statements

June 30, 2008 and 2007

Sponsored Programs

The University receives grant and contract revenue from governmental and private sources. In 2008 and 2007, grant and contract revenue earned from governmental sources totalled \$163,613,000 and \$159,091,000, 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 sponsor. 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 operations of the University.

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. 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 assets are placed in service. There are no significant contributed services that are required to be reported. Cash received prior to conditions being met is recorded as deferred revenue and gains on the statement of financial position.

Because of uncertainties with regard to their realization and valuation, bequest intentions and other conditional promises are not estimated by management and 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 investments in various financial institutions that are federally insured for \$100,000 and for \$500,000 under the Federal Depository Insurance Corporation Act (FDICA) and Securities Investor Protection Corporation (SIPC), respectively. At June 30, 2008 and 2007, 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, and investments to date as it related to FDICA and SIPC insurance limits.

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.

Georgetown University
Notes to Financial Statements
June 30, 2008 and 2007

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.

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.

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, 2008 and 2007, and therefore no provision for income taxes has been made.

Financial Assistance

The University maintains a policy of offering qualified 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):

	2008	2007
Tuition and fees, gross	\$ 501,521	\$ 461,909
Less discounts: University sponsored	(79,824)	(77,199)
Donor sponsored	(16,082)	(9,089)
Tuition and fees, net	<u>\$ 405,615</u>	<u>\$ 375,621</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. Realized and unrealized gains (losses), including endowment income in excess of the spending rate and the effect of derivative financial instruments, pension and postretirement liability adjustment, bond refunding loss and all capital contributions, are reported as non-operating.

Georgetown University
Notes to Financial Statements
June 30, 2008 and 2007

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 6% of a five year moving average of the pooled endowment market value.

3. Accounts Receivable

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

	2008	2007
Research grants	\$ 37,899	\$ 29,128
Students	5,909	5,414
Due from third party	10,213	6,752
Other	7,175	11,287
	<u>61,196</u>	<u>52,581</u>
Less: allowance for doubtful accounts	(7,427)	(8,607)
Total accounts receivable, net	<u>\$ 53,769</u>	<u>\$ 43,974</u>

The provision for bad debts, (net of recoveries), related to accounts receivable for the years ended June 30, 2008 and 2007 was (\$58,000) and \$1,224,000 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):

	2008	2007
Deferred compensation	31,412	35,081
Bond issuance costs	19,467	20,055
Life insurance premium stabilization	4,803	4,803
Tenant improvement allowance	5,484	-
Other	14,309	13,170
Total prepaid expenses and other assets	<u>\$ 75,475</u>	<u>\$ 73,109</u>

Georgetown University
Notes to Financial Statements
June 30, 2008 and 2007

5. Contributions Receivable and Split-Interest Agreements

Contributions Receivable

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

	2008	2007
Gross contributions receivable expected to be collected in:		
Less than one year	\$ 40,143	\$ 41,811
One year to five years	47,724	43,745
Over five years	10,079	4,628
	<u>97,946</u>	<u>90,184</u>
Less: Discount to present value	(6,333)	(5,443)
Allowance for doubtful accounts	(38,380)	(43,028)
	<u>\$ 53,233</u>	<u>\$ 41,713</u>

The above amounts do not include split-interest agreements held by outside trustees of \$77,836,000 and \$76,822,000 at June 30, 2008 and 2007, respectively.

Discount rates on outstanding pledges at June 30, 2008 ranged from 2.46% to 8.29%.

Since 1999 the University has received conditional pledges totalling \$23,573,000 of which conditions have been met and approximately \$11,569,000 has been received thus far.

Split-Interest Agreements

The University receives certain planned gift donations that benefit not only the University, but also another beneficiary designated by the donor. 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, and are generally gifts to be received by the University in the future. 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. Assets held in trust by and for the University are \$19,360,000 and \$29,023,000 as of June 30, 2008 and 2007, respectively, and are valued at either fair-value or at the discounted present value of the estimated future receipts from the trusts. Where applicable, estimated future payments are discounted at a risk-free rate of return based on the expected term of the split-interest agreements at the time the agreements are created, ranging from 4.2% to 10.6%. The change in value of these assets was an unrealized gain of \$5,633,000 and \$15,310,000 at June 30, 2008 and 2007, respectively.

Amounts payable to beneficiaries, gift annuities payable, and pooled income fund liabilities of \$9,495,000 and \$15,456,000 are in either accrued liabilities or deferred revenue and gains on the statements of financial position as of June 30, 2008 and 2007, respectively.

Georgetown University
Notes to Financial Statements
June 30, 2008 and 2007

6. Investments

At June 30, 2008 and 2007 the cost and fair value of investments were (in thousands):

	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	\$ 46,584	\$ 46,584	\$ 68,057	\$ 68,057
Investments:				
U.S. Gov't/Corp. bonds	123,228	124,311	136,920	138,636
Equity securities	206,136	206,501	234,571	290,164
Collateralized securities	-	-	3,855	3,855
Real estate	-	-	6,256	57,500
Notes/other assets	13,676	11,467	5,257	3,487
Alternative investments	581,360	677,755	394,617	497,982
Total	<u>\$ 970,984</u>	<u>\$ 1,066,618</u>	<u>\$ 849,533</u>	<u>\$ 1,059,681</u>

The use of the cash and cash equivalents reported above is limited and it is, therefore, excluded from cash and cash equivalents on the accompanying statements of financial position. Included in investments at June 30, 2007, are assets of the self-insurance trusts as described in Note 13.

The University no longer engages in securities lending of its endowment pool investments. At June 30, 2007, \$3,855,000 of investments were pledged as collateral under securities lending agreements.

During fiscal year 2008, the University sold a real estate investment property for \$77,800,000, which included outstanding back rental payments. The University recognized a gain on the sale of approximately \$4,548,000.

As of June 30, 2008, a portion of the University's investments totalling approximately \$8,500,000 were in the Columbia Strategic Cash Portfolio ("Strategic Fund") money market mutual fund. Management was notified in December 2007 that the Strategic Fund had ceased to be convertible to cash on demand, as the net asset value ("NAV") had fallen below one dollar. At June 30, 2008 the University has reflected this investment at fair value based on the NAV of \$.9712, recognizing an-other-than-temporary impairment at the balance sheet date of \$310,000. The adjustment to fair value is reflected in net unrealized losses on the accompanying 2008 statement of activities. Any further redemptions are only through the liquidation of the Strategic Fund, the timing of which is currently uncertain. Accordingly, the University reclassified the Strategic Fund from cash equivalents to investments on the accompanying 2008 balance sheet.

Investments considered to be marketable alternative investments amounted to approximately \$213,803,000 and \$215,336,000 as of June 30, 2008 and 2007, respectively.

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The following table summarizes the non-marketable alternative investment types at June 30, 2008 and 2007 (fair value in thousands):

<u>Alternative Investment Type</u>	<u>2008</u>		<u>2007</u>	
	<u>Number of Funds</u>	<u>Fair Value</u>	<u>Number of Funds</u>	<u>Fair Value</u>
Hedge Funds	13	\$ 224,974	8	\$ 126,156
Private Equity	30	183,850	28	121,434
Real Assets	10	55,128	5	35,056
	<u>53</u>	<u>\$ 463,952</u>	<u>41</u>	<u>\$ 282,646</u>

Alternative investments include limited partnerships, limited liability corporations, and off-shore investment funds. Included in investments of the limited partnerships are certain types of financial instruments including, among others, futures and forward contracts and options intended to hedge against changes in the market value of investments. These financial instruments, which involve varying degrees of off-balance sheet risk, may result in losses due to changes in the market (market risk).

Investments in non-marketable alternative investments consist of the University's ownership interest in externally managed public equity and fixed income, private equity, venture capital, and hedge funds which are organized as limited partnerships. These investments are generally subject to certain withdrawal restrictions, and are less liquid than the University's other investments.

Fees incurred in the management of the investments for the years ended June 30, 2008 and 2007 were approximately \$5,495,000 and \$6,017,000, respectively.

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Investment Income

Total net investment income for the years ended June 30, 2008 and 2007 consists of the following (in thousands):

	2008			2007	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Other investment income	\$ 8,219	\$ 375	\$ -	\$ 8,594	\$ 8,993
Investment income on endowments	24,250	1,253	-	25,503	20,587
Net realized gains	15,379	24,412	-	39,791	71,664
Unrealized gains (losses)	(20,374)	(42,215)	-	(62,589)	88,667
Less investment management expenses	(5,495)	-	-	(5,495)	(6,017)
Total income from investments	<u>\$ 21,979</u>	<u>\$ (16,175)</u>	<u>\$ -</u>	<u>\$ 5,804</u>	<u>\$ 183,894</u>
Operations:					
Investment returns	\$ 26,974	\$ 1,628	\$ -	28,602	\$ 23,563
Allocated from non-operating revenues	9,880	31,801	-	41,681	34,144
Used for operations	<u>36,854</u>	<u>33,429</u>	<u>-</u>	<u>70,283</u>	<u>57,707</u>
Non-operating:					
Investment returns	(4,995)	(17,803)	-	(22,798)	160,331
Allocated to operations	(41,681)	-	-	(41,681)	(34,144)
Included in non-operating activities	(46,676)	(17,803)	-	(64,479)	126,187
Total income from investments	<u>\$ (9,822)</u>	<u>\$ 15,626</u>	<u>\$ -</u>	<u>\$ 5,804</u>	<u>\$ 183,894</u>

The University's endowment totalled \$1,058,882,000 and \$1,066,861,000 at June 30, 2008 and 2007 respectively.

Pooled Endowment Investments

At June 30, 2008 and 2007 respectively, \$959,696,000 and \$887,280,000 of the University's investments are pooled and are carried at market value. Included in the pooled funds are quasi endowments, which are internally designated and invested as endowed funds. The market value of these funds as of June 30, 2008 and 2007, respectively, was \$257,932,000 and \$183,139,000. Excluded from pooled investments are separately invested life income endowments of \$17,286,000 and \$29,023,000 and other separately invested funds of \$81,891,000 and \$89,922,000 at June 30, 2008 and 2007, respectively. Individual pooled endowment funds acquire and dispose of units based on the per unit market value at the beginning of the calendar month within which the transaction occurs.

Annually, management determines whether a deficiency has occurred in its pooled funds. A deficiency occurs when the market value of an individual donor-restricted pooled fund is less than the cost of the investment. Deficiencies of \$10,243,000 and \$390,000 for donor-restricted pooled endowment funds have been recorded in unrestricted net assets at June 30, 2008 and 2007, respectively. Deficiencies of \$2,402,000 and \$1,974,000 for donor-restricted separately invested endowment funds have been recorded in unrestricted net assets at June 30, 2008 and 2007,

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respectively. These deficiencies are the result of declines in market values.

	2008	2007
Pooled endowment units	2,314,752	2,001,805
Market value per unit	\$ 414.60	\$ 443.24
Decrease in market value per unit	\$ 28.64	\$ 63.70
Distributions per unit	\$ 20.48	\$ 18.96
Total annual rate of return	-1.3%	21.5%

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.

	Allocation 2008	Market Value 06/30/08
Total allocation to operations based on standard spending formula	\$ 44,798	\$ 959,696
Income on endowment	(3,117)	
Net allocation to operations based on standard spending formula	<u>\$ 41,681</u>	<u>\$ 959,696</u>

7. Land, Buildings and Equipment

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

	2008	2007
Buildings and improvements	\$ 1,078,403	\$ 1,059,804
Furniture and equipment	39,937	25,817
Construction in progress	77,028	44,191
Land and improvements	62,013	62,013
Computer software	39,066	31,494
Equipment under capital leases	8,579	8,579
Subtotal	<u>1,305,026</u>	<u>1,231,898</u>
Less: accumulated depreciation and amortization	<u>(468,663)</u>	<u>(429,772)</u>
Total	<u>\$ 836,363</u>	<u>\$ 802,126</u>

The net book value of buildings totalling \$663,038,000 and \$675,323,000 at June 30, 2008 and 2007, respectively, includes buildings pledged as collateral of approximately \$64,322,000 and \$65,546,000, respectively.

The University acquired \$1,723,000 and \$1,680,000 in property through grants for the years ended June 30, 2008 and 2007, respectively.

Amortization of computer software was \$2,227,000 and \$2,066,000 for the years ended June 30, 2008 and 2007, 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 will be

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leased back for future use. The gain from the sale of \$19,800,000 was deferred and will be recognized over the 15 year lease term beginning in fiscal year 2005. The University recognized on a straight line basis \$1,320,000 of the gain as non-operating revenue.

8. Accounts Payable and Accrued Liabilities

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

	2008	2007
Trade payables	\$ 40,667	\$ 32,630
Deferred compensation	31,412	35,081
Accrued interest	1,724	1,775
Retiree non-pension benefit cost	788	114
Accrued transaction costs (Note 13)	2,953	5,472
Employee costs	33,606	31,057
Other	5,029	3,075
Total accounts payable and accrued liabilities	<u>\$ 116,179</u>	<u>\$ 109,204</u>

9. Notes Payable and Long-Term Debt

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

Description	2008	2007
Bonds payable to JP Morgan Chase; 3%-4%; annual payments; matures in 2021	\$ 7,017	\$ 7,438
Series C, D, E Bonds of 1988; 3.75%-5.35%; annual payments; matures in 2016	-	42,500
Series A Bonds of 1999 - Taxable; *4.331%; annual payments; matures in 2029	100,000	100,000
Series A Bonds of 1999; *3.380%; annual payments; matures in 2021	121,400	129,050
Series B 2001; *4.745%; annual payments; matures in 2041	67,450	68,900
Series C 2001; *4.898%; annual payments; matures in 2041	73,600	73,600
Series D 2001; *4.925%; annual payments; matures in 2041	73,650	73,650
Series A 2007; 5.00%; annual payments, matures in 2042	175,895	175,895
Series B 2007; *3.43%; annual payments; matures 2041	57,875	57,875
Series C 2007; *3.65%; annual payments; matures 2041	57,450	-
Bonds payable to the U.S. Government; 3%-5%; semi-annual payments; matures in 2022	3,053	3,289
Mortgage loans payable to the U.S. Public Health		
Service - DCMF; 2.5%; annual payments; matures in 2020	7,632	8,175
Capitalized lease obligations, with monthly payments		
of principal and interest of \$12 and \$8, respectively; matures in 2009	50	385
Payable PNC Bank LIBOR + 50 BPS matures in 2019	18,000	12,259
Various mortgages and notes payable; various %; annual payments; maturing at various dates through 2019	7,212	2,572
Subtotal	<u>770,284</u>	<u>755,588</u>
Estimated cost to terminate swap	38,562	3,185
Series A 2007 premium	9,732	9,862
Total	<u>\$ 818,578</u>	<u>\$ 768,635</u>

* Represents the variable rates as of June 30, 2008

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The fair value of the University's debt obligations was approximately \$751,352,000 and \$702,851,000 at June 30, 2008 and 2007, respectively. The fair value represents the quoted present value of debt service cashflows of DC Revenue Bonds and carrying amounts for all other debt which approximates fair value.

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

2009	\$ 14,032
2010	9,109
2011	10,046
2012	9,633
2013	10,766
Thereafter	<u>716,698</u>
Total	<u>\$ 770,284</u>

On April 11, 2007, the University issued \$175,895,065 Series 2007A and \$57,875,000 Series 2007B bonds. The Series 2007A bonds were utilized to advance refund \$79,148,654 of the District's University Revenue Bonds, Series 2001A bonds dated April 6, 2001, maturing on April 1, 2019 through April 1, 2041. The Series 2007B bonds were utilized to advance refund \$36,440,000 of the District's University Revenue Refunding Bonds Series 1998A, dated January 7, 1998, maturing April 1, 2008 through April 1, 2018. The Series 2001A and 1998A debt was legally defeased as of June 30, 2007.

On July 10, 2007, the University closed on a sale of \$57,450,000 of auction rate University Revenue Bonds, Series 2007C. Those bonds were used to advance refund Series 1988 C, D and E bonds and provided approximately \$12,300,000 of new money to the University.

The University has available five unsecured lines of credit at financial institutions totalling \$215,000,000 with interest payable on the outstanding balance calculated daily based upon 35, 40, 30, 40 and 35 basis points, respectively, over 30 day LIBOR. There are no outstanding balances at June 30, 2008.

The University has entered into various interest rate swap agreements to manage the interest cost and risk associated with its outstanding debt. The interest rate swap agreements were not entered into for trading or speculative purposes. Under the terms of these agreements, the University pays a fixed rate, determined at inception, and receives a variable rate on the respective notional principal amounts. The estimated cost to the University to terminate these swaps as of June 30, 2008 and 2007 was approximately \$38,562,000 and \$3,185,000 respectively, and is included in notes payable and long term debt in the statement of financial position. An unrealized loss of \$35,376,000 and an unrealized gain of \$1,771,000 were recognized for the years ended June 30, 2008 and 2007, respectively, and is included in non operating revenue and expenses on the statement of activities.

On August 8, 2006, the University entered into a forward swap agreement with Goldman Sachs Mitsui Marine Derivative Products, L.P. relating to the Series 2007B and 2007C Refunding Bonds. The initial notional amount of the swap is \$65,550,000. The effective date of the swap was March 31, 2008, and the termination date will be April 1, 2041. Payment are made weekly based on a floating rate of 68% of 3 month LIBOR.

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On February 20, 2007, the University entered into a forward swap agreement with Goldman Sachs Mitsui Marine Derivative Products, L.P. relating to the Series 2007C Refunding Bonds. The initial notional amount of the swap was \$45,050,000. The effective date of the swap was July 10, 2007, and the termination date will be April 1, 2040. Payments are made weekly based on the floating rate of 68% of 1 month LIBOR.

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

Remaining Notional Amount at June 30, 2008	Expiration Date	Estimated Cost to Terminate-swap At June 30, 2008	Estimated Cost to Terminate-swap At June 30, 2007
\$ 15,100,000	April 9, 2018	\$ (1,291,000)	\$ (770,000)
33,300,000	April 13, 2020	(3,601,000)	(2,213,000)
76,650,000	May 3, 2021	(8,937,000)	(5,539,000)
35,350,000	May 3, 2024	(6,375,000)	(3,805,000)
73,600,000	March 28, 2031	(3,580,000)	2,072,000
73,600,000	April 25, 2034	(3,737,000)	2,581,000
73,650,000	May 1, 2036	(3,837,000)	2,698,000
65,550,000	April 1, 2041	(5,684,000)	848,000
25,100,000	April 1, 2040	(1,520,000)	943,000
<u>\$ 471,900,000</u>		<u>\$ (38,562,000)</u>	<u>\$ (3,185,000)</u>

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.

10. Restricted Net Assets

Temporarily Restricted Net Assets

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

	2008	2007
Buildings and improvements	\$ 67,793	\$ 52,840
Time and other restrictions	339,709	347,822
Financial aid	30,137	29,650
Term endowments	3,046	3,032
Instruction and research	13,026	11,309
Total	<u>\$ 453,711</u>	<u>\$ 444,653</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):

	2008	2007
General operations	\$ 224,958	\$ 211,119
Instruction and research	161,440	149,152
Financial aid	159,094	143,735
Other restrictions	9,269	9,269
Total	<u>\$ 554,761</u>	<u>\$ 513,275</u>

Net Assets Released From Restrictions

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

	2008	2007
Financial aid	\$ 11,364	\$ 11,241
Instruction and research	7,568	7,103
Time and other restrictions	6,882	5,208
Term endowments	111	104
Buildings and equipment	263	7,019
Total	<u>\$ 26,188</u>	<u>\$ 30,675</u>

The University's policy is to release to unrestricted net assets, any temporarily restricted funds that were used for the construction or purchase of long-lived assets that have been placed into service during the current year. During fiscal year 2007, management identified \$9,271,000 of restricted funds that were incorrectly transferred to unrestricted funds in years prior to 2005, relating to constructed assets. This amount was transferred back to temporarily restricted net assets in fiscal year 2007. The correction of this incorrect transfer had no impact on the University's total net assets as of June 30, 2007 or on the total change in net assets for the year ended June 30, 2007.

11. Operating Expenses by Function

Expenses were incurred for the following functions for the years ended June 30, 2008 and 2007 (in thousands):

	2008	2007
Program:		
Instruction	\$ 323,602	\$ 285,688
Research	145,246	134,370
Scholarships and fellowships	12,657	11,198
Auxiliary enterprises - direct	57,424	51,325
Public service	39,631	40,703
Other	16,333	5,718
Support:		
Institutional support	124,145	122,748
Academic support	171,042	166,631
Total	<u>\$ 890,080</u>	<u>\$ 818,381</u>

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

Fundraising expenses totalling \$383,000 and \$432,000 are included in the travel expense line on the statement of activities for the years ended June 30, 2008 and 2007, respectively.

12. 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.

The discount rate used in determining the actuarial present value of the projected benefit obligation was 6.46% and 6.19% at June 30, 2008 and 2007, respectively. The rate of increase in future compensation levels was based on an age-graded salary scale averaging 4.0% at June 30, 2008 and 2007. The expected long-term rate of return on plan assets used in determining net pension expense was 8.0% at June 30, 2008 and 2007.

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 10% for employees hired on or after that date. The expense recorded under the Defined Contribution Retirement Plan was \$22,024,000 and \$20,411,000 for the years ended June 30, 2008 and 2007, 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 Georgetown 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.

The assumed rates of increase in the per capita cost of covered health care benefits for plan participants are assumed to decrease from 9% in 2008 to 5.0% over the next eight 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 \$686,000 and \$776,000 at June 30, 2008 and 2007, respectively. The aggregate of the service and interest cost components of net periodic postretirement benefit expense would increase by \$48,000 and \$46,000 for the years ended June 30, 2008 and 2007, respectively. Decreasing the assumed health care cost trend rates by one percentage point in each year would decrease the accumulated postretirement benefit obligation by

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\$618,000 and \$694,000 at June 30, 2008 and 2007, respectively. The aggregate of the service and interest cost components of the net periodic postretirement benefit expense would decrease by \$43,000 and \$41,000 for the years ended June 30, 2008 and 2007, respectively.

The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 6.39% and 6.21% at June 30, 2008 and 2007, respectively. The expected long-term rate of return on plan assets used in determining net postretirement benefit expense was 8.0% at June 30, 2008 and 2007.

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

	2008		2007	
	Pension Benefits	Other Postretirement Benefits	Pension Benefits	Other Postretirement Benefits
Change in benefit obligation:				
Benefit obligation, beginning of year	\$ 155,850	\$ 44,913	\$ 152,391	\$ 43,405
Service cost	4,034	1,225	4,011	1,231
Interest cost	9,399	2,775	9,401	2,733
Plan participants' contributions	-	818	-	1,333
Actuarial (gain) loss	(11,025)	(689)	272	296
Gross benefits paid	(11,436)	(5,192)	(10,225)	(4,635)
Federal subsidy on benefits paid	-	485	-	550
Plan amendments	754	-	-	-
Benefit obligation, end of year	<u>\$ 147,576</u>	<u>\$ 44,335</u>	<u>\$ 155,850</u>	<u>\$ 44,913</u>
Change in plan assets:				
Fair value of plan assets, beginning of year	\$ 132,270	\$ 5,628	\$ 109,266	\$ 8,301
Actual return on plan assets	(11,202)	(462)	23,230	629
Employer contributions	11,287	1,339	10,000	-
Plan participants' contributions	-	818	-	1,333
Benefits paid	(11,436)	(5,192)	(10,225)	(4,635)
Fair value of plan assets, end of year	<u>\$ 120,919</u>	<u>\$ 2,131</u>	<u>\$ 132,271</u>	<u>\$ 5,628</u>
Funded status, end of year	<u>\$ (26,657)</u>	<u>\$ (42,204)</u>	<u>\$ (23,579)</u>	<u>\$ (39,285)</u>

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	2008		2007	
	Pension Benefits	Other Postretirement Benefits	Pension Benefits	Other Postretirement Benefits
Amounts recognized in the statement of financial position:				
Liabilities	<u>\$ (26,657)</u>	<u>\$ (42,204)</u>	<u>\$ (23,579)</u>	<u>\$ (39,285)</u>
Amount not yet recognized in net periodic benefit cost and included in unrestricted net assets:				
Net actuarial loss	\$ 45,740	\$ 14,956	\$ 36,846	\$ 15,608
Prior service cost/(credit)	754	(1,261)	76	(1,421)
	<u>\$ 46,494</u>	<u>\$ 13,695</u>	<u>\$ 36,922</u>	<u>\$ 14,187</u>
Components of net periodic benefit cost:				
Service cost	\$ 4,034	\$ 1,225	\$ 4,011	\$ 1,231
Interest cost	9,399	2,775	9,401	2,733
Expected return on assets	(10,647)	(335)	(8,777)	(664)
Amortization of prior service (credit)/cost	76	(160)	148	(160)
Actuarial loss	1,931	759	3,384	785
Net periodic benefit cost	<u>\$ 4,793</u>	<u>\$ 4,264</u>	<u>\$ 8,167</u>	<u>\$ 3,925</u>
Additional information:				
Accumulated benefit obligation	\$ 138,200	N/A	\$ 145,546	N/A
Expected contributions in fiscal year ending June 30, 2009	\$ 10,000	\$ 929	\$ -	\$ -

The estimated net actuarial loss and prior service cost for the pension and postretirement plans that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year are \$3,041,000 and \$556,000, respectively.

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The asset allocation for the University's pension plans and postretirement benefit plans at the end of fiscal year 2008 and fiscal year 2007, and the target allocation for June 30, 2008, by asset category, were as follows:

Pension Plan

<u>Asset Category</u>	<u>Target Allocation for June 30, 2008</u>	<u>Percentage of Pension Plan Assets</u>	
		<u>June 30, 2008</u>	<u>June 30, 2007</u>
U.S. public equity securities	45%	43%	42%
Non-U.S. public equity	20%	22%	25%
Debt securities	25%	25%	18%
Real assets	10%	9%	9%
Cash	0%	1%	6%
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

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. 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.

Postretirement Benefit Plans

<u>Asset Category</u>	<u>Target Allocation for June 30, 2008</u>	<u>Percentage of Postretirement Benefit Plan Assets</u>	
		<u>June 30, 2008</u>	<u>June 30, 2007</u>
U.S. public equity securities	60%	60%	60%
Fixed income securities	40%	40%	40%
Other	0%	0%	0%
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

The purpose of the portfolios for the postretirement benefit plans is to provide current funding to pay the benefits and expense obligations of the Georgetown University's postretirement benefit plans when due. Prior to the 2001 fiscal year, it was the University's funding policy to contribute an amount equal to the FAS 106 cost. Between 2001 and 2007, the University made no contributions, however, in the 2008 fiscal year, the University contributed \$1,339,000. In keeping with this purpose, the portfolio strives to maximize total return within reasonable and prudent levels of risk 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 a full market cycle against a relevant peer universe and against standard market benchmarks.

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In September 2006, the Financial Accounting Standards Board (“FASB”) issued Statement No. 158, *Employer’s Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of FASB Statements No. 87, 88, 106 and 132R. Statement No. 158 requires an employer to recognize the over funded or under funded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through changes in unrestricted net assets of a not-for-profit organization. Statement No. 158 also requires an employer to measure the plans funded status as of the same date as the employer’s fiscal end.

The 2007 adoption of FASB Statement No. 158 had the following increment effect on the University’s statement of financial position as of June 30, 2007 (in thousands):

	Before Application of Statement 158	Incremental Effect	After Application of Statement 158
Prepaid expenses and other assets	\$ 86,528	\$ (13,419)	\$ 73,109
Total assets	2,268,018	(13,419)	2,254,599
Pension liability	26,619	(3,040)	23,579
Postretirement liability	25,098	14,187	39,285
Total liabilities	1,079,533	11,147	1,090,680
Unrestricted net assets	230,557	(24,566)	205,991
Total net assets	1,188,485	(24,566)	1,163,919
Total liabilities and net assets	2,268,018	(13,419)	2,254,599

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, 2008 are as follows:

	<u>Postretirement Benefits</u>		
	Pension Benefits	Employer Payments	Medicare Subsidy
2009	\$ 17,356	\$ 3,545	\$ 485
2010	12,180	3,805	529
2011	11,504	3,957	557
2012	12,674	4,096	570
2013	12,860	4,170	593
2014-2018	68,792	22,198	3,107
Total	<u>\$ 135,366</u>	<u>\$ 41,771</u>	<u>\$ 5,841</u>

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13. 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, 2008 or 2007.

The University has capital call commitments with thirty-two private equity managers, ten real estate investment managers and one public equity manager. Remaining capital call commitments as of June 30, 2008 and 2007 totalled \$218,300,000 and \$168,905,000, 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. During the year ended June 30, 2007, the University dissolved the Hospital Professional and Comprehensive General Liability Trust. At June 30, 2008 and 2007, liabilities for future claims were \$3,990,000 and \$4,785,000, respectively. These amounts are included in other liabilities in the accompanying statements of financial position.

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 considers its liability, if any, to be adequately covered by insurance from its commercial carriers and/or the University's working capital.

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 \$32,541,000 and \$67,412,000 at June 30, 2008 and 2007, respectively. The commitments pertain to construction and

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major maintenance projects. Bonds, loans, federal grants and other University revenues are expected to provide the necessary funding for these commitments.

Effective February 17, 2000, the University adopted a plan to transfer the Georgetown University Hospital, the Community Practice Network and the Faculty Practice Group (the transferred business), to Medstar Health Inc. Accrued estimates of \$72,931,000 were recorded to recognize expenses related to the transaction. At June 30, 2008 and 2007, the remaining estimated liabilities for transactions costs were \$2,953,000 and \$5,472,000, respectively.

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 by 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.

14. 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):

	2008	2007
Rent expense under operating leases		
Facilities	\$ 31,866	\$ 21,414
Equipment	3,885	3,630
Vehicles	1,594	1,868
Total	<u>\$ 37,345</u>	<u>\$ 26,912</u>
Assets recorded under capital lease		
Equipment	8,579	8,579
Less accumulated depreciation	(8,051)	(7,740)
	<u>\$ 528</u>	<u>\$ 839</u>

Minimum annual rentals for the five years subsequent to fiscal year ended June 30, 2008 and in the aggregate are (in thousands):

	Capital Leases	Operating Leases
2009	\$ 50	\$ 11,224
2010	-	10,501
2011	-	10,571
2012	-	10,632
2013	-	10,882
Thereafter	-	67,834
Total	<u>\$ 50</u>	<u>\$ 121,644</u>

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15. Tax Losses

In fiscal year 2008, the University adopted FASB Interpretation No. 48 (“FIN 48”), *Accounting for Uncertainty in Income Taxes* – an Interpretation of SFAS No. 109, *Accounting for Income Taxes*. The adoption did not have a material effect on the financial statements.

At June 30, 2008 and 2007, the University had cumulative unrelated business income net operating loss carryovers of approximately \$5,000,000 and \$3,800,000, respectively. Based upon the year incurred these losses can be carried over for 15 to 20 years.

16. Subsequent Events

As of June 30, 2008, the University had interest rate swaps for which Lehman Brothers serves as the counterparty. The estimated cost to terminate these swaps was valued at \$31.4 million as of June 30, 2008. In September and October 2008, Lehman Brothers and certain related entities filed for bankruptcy thus giving the University the right to terminate the swaps. The estimated cost to terminate these swaps as of October 31, 2008 was approximately \$43.5 million.

The University has \$551.4 million of variable rate debt as of June 30, 2008, in a seven or a 35 day auction mode insured by MBIA Insurance Corporation and Ambac Assurance Corporation. The University intends to convert or remarket a substantial portion of its variable rate debt to fixed rate debt or other variable rate modes during Fiscal Year 2009. On September 25, 2008, \$44.5 million of taxable debt (2008B series) was issued with \$36 million used to refund the amount of 1999A taxable bonds.

In August, 2008, the University entered into an interest rate swap agreement with Morgan Stanley Capital Services, Inc. The University will make floating rate payments based upon Securities Industry and Financial Markets Association in exchange for receiving a floating rate payment based upon LIBOR plus a spread, with an effective date of September 2, 2008, an initial notional amount of \$214.7 million and a termination date of April 1, 2036.

17. Recent Accounting Pronouncements

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements*. The Statement defines fair value, outlines a framework for measuring fair value, and details the required disclosures about fair value measurements. For the University, the provisions of the Statement are effective for fiscal year ending June 30, 2009.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. The Statement permits entities to choose to measure selected financial instruments and certain other items at fair value. For the University, the provisions of the Statement are effective for fiscal year ending June 30, 2009.

In August 2008, the FASB issued Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosures for all Endowment Funds*. The Staff Position provides guidance on the net asset classification of donor-restricted endowment funds for organizations subject to UPMIFA and expands disclosures about an organization's endowment; both donor-restricted and board-designated funds. For the University, the

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provisions of the Staff Position are effective for fiscal year ending June 30, 2009.

Management is in the process of evaluating the impact of these pronouncements on the University's financial position, changes in net assets and financial statement disclosures.