

GEORGE MASON UNIVERSITY

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

JUNE 30, 2008



-TABLE OF CONTENTS-

	<u>Pages</u>
MANAGEMENT’S DISCUSSION AND ANALYSIS	1-10
FINANCIAL STATEMENTS:	
Statement of Net Assets	11
Statement of Revenues, Expenses, and Changes in Net Assets	12
Statement of Cash Flows	13-14
Notes to Financial Statements	15-40
INDEPENDENT AUDITOR’S REPORT:	
Report on Financial Statements	41-42
UNIVERSITY OFFICIALS	43

George Mason University

Financial Statements for the Year Ended June 30, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Institutional Profile

Since it was founded in 1972, George Mason University has grown into a major educational force and earned a reputation as an innovative, entrepreneurial institution. Located in the heart of Northern Virginia's technology corridor near Washington, D.C., George Mason has a growing and diverse student body and an exceptional faculty of enterprising scholars. The University was recently named the Number 1 national university to watch by U.S. News and World Report on its list of "Up-and-Coming Schools". In addition, reflecting the University's global outreach, Mason was recognized as being in the top 100 universities by the Academic Ranking of World Universities conducted annually by Shanghai Jiao Tong University's Institute of Higher Education. At the center of the world's political, information, and communications networks, George Mason is the university needed by a region and a world driven by new social, economic, and technological realities.

George Mason's development has been shaped in response to the educational needs of its cosmopolitan constituency. The university has gained national distinction in a range of academic fields, including public policy, information technology, economics, the fine and performing arts, law, conflict resolution, and, most recently, the biosciences. Strong alliances with business, the community, and government benefit George Mason's students and the larger society. Total enrollment is in excess of 30,000, with students studying in 168 degree programs at the undergraduate, master's, doctoral, and professional levels. In the past three years, Mason has added 27 degree programs, including advanced degrees in climate dynamics, information security, and neuroscience, as well as undergraduate degrees in conflict analysis and resolution, global affairs, global and environmental change, and film and video studies.

George Mason is a distributed university with campuses in Fairfax, Arlington, and Prince William counties. Each campus has a distinctive academic focus that plays a critical role in the economy of its region. At each campus, students and faculty have access to all the university's resources, while duplication of programs and support services is minimized through the use of technology. The university also offers programs on-site in Loudoun County, at the Center for Innovative Technology's Herndon Training Center, at the Smithsonian Institute's Conservation Research Center in Front Royal, VA, at its Ras Al Khaimah campus in the United Arab Emirates, and on the Internet.

The University is an agency of the Commonwealth of Virginia and therefore included as a component unit in the Commonwealth of Virginia's *Comprehensive Annual Financial Report*, a separate financial report that incorporates all agencies, boards, commissions and authorities over which the Commonwealth exercises, or has the ability to exercise, oversight authority. The 16 members of the George Mason University Board of Visitors govern University operations. Members of the Board are appointed by the Governor of Virginia.

Higher Education Restructuring

The Restructured Higher Education Financial and Administrative Operations Act, as amended, provides the opportunity for all sixteen public colleges and universities in Virginia to become eligible for additional operational authority, provided state goals and management standards are met. George Mason University is in the process of seeking additional operating authority in the areas of information technology and procurement.

Overview of the Financial Statements and Financial Analysis

This unaudited *Management's Discussion and Analysis* (MD&A) is required supplemental information under the Governmental Accounting Standards Board's (GASB) reporting model. This discussion and analysis provides an overview of the financial condition and results of operations of George Mason University for the year ended June 30, 2008. Comparative numbers are included for the year ended June 30, 2007. MD&A includes highly summarized data and therefore should be read in conjunction with the financial statements and footnotes that follow this section. The University's management is responsible for all of the financial information presented, including this discussion and analysis.

The University's financial statements have been prepared in accordance with GASB principles which establish standards for external financial reporting for public colleges and universities. These principles require that financial statements be presented on a consolidated basis to focus on the University as a whole, with resources classified for accounting and reporting purposes into four net asset categories. The three required financial statements are the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. As stated above, these financial statements are summarized in MD&A.

Financial Highlights

During FY 2008, construction and renovation of facilities continued at a very high level of activity with over 25 active projects being managed. This activity is evident in the \$107 million increase in Capital assets, net, and the \$93 million increase in Noncurrent liabilities, reflecting the debt issued to finance the construction activity. Two prominent examples of this construction activity are discussed below.

The University began, at its Fairfax campus, construction of a \$60 million, 180,000 square foot research building that will house the Volgenau School of Information Technology and Engineering, and fulfill the need for cutting-edge academic research and future information technology and engineering leaders. By combining academic and research space with corporate lease space, the building will be unlike any other throughout the Virginia public university system, and builds on the University's strength as an entrepreneurial university working with the business community. The new facility will open in the fall of 2009.

At its Prince William campus, the University began construction of the George Mason University Biomedical Research Lab (BRL). The new BRL will be one of 13 Regional Biocontainment Laboratories to be built nationwide with funds from the National Institutes of Health (NIH). To construct the laboratory, Mason was awarded a \$25 million NIH grant in 2005, which was subsequently increased to a total of \$27.5 million. In addition, the University is providing an estimated \$16.1 million in grant matching funds, plus another \$4.7 million not

considered to be matching funds under the grant, both of which are to be financed by notes payable for VCBA pooled bonds. The BRL will contain laboratories where Mason researchers will develop and test the next generation of vaccines, treatments and diagnostics to protect citizens against biological terrorism and infectious diseases.

The University's Board of Visitors voted to raise annual tuition and fees for the 2008-09 academic year. This decision provided the funding necessary for the University to invest in academic excellence, scholarships for students, faculty and staff salary increases, expanded teaching spaces and research, and fund an increasing share of its operating budget as the percentage funded by the Commonwealth continues to decline. Despite the increase, Mason's tuition and fees will remain lower than nearly half of Virginia's other four-year colleges and universities. The decision reflects the University's commitment to maintaining the highest level of standards and continuing to provide outstanding faculty and facilities.

Statement of Net Assets

The Statement of Net Assets presents the assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities) of the University as of the end of the fiscal year. This statement is a point of time financial statement. The purpose of the Statement of Net Assets is to present readers of the financial statements a fiscal snapshot of George Mason University at the end of the fiscal year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation.

From the information presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the University. They are also able to determine how much the institution owes vendors and creditors. In addition, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the institution. The difference between total assets and total liabilities, net assets, is one indicator of the current financial condition of the University, while the change in net assets is an indicator of whether the overall condition has improved or worsened during the year.

Net assets are divided into three major categories. The first category, "invested in capital assets, net of related debt," provides the University's equity in the property, plant, and equipment that it owns. The next category is "restricted net assets," which is divided into two subcategories, expendable and nonexpendable. Expendable restricted net assets are available for expenditure by the institution but must be spent as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. Nonexpendable restricted net assets consist of endowments and similar funds where donors or other outside sources have stipulated that, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income to be expended or placed in a reserve fund. The final category is "unrestricted net assets." Unrestricted net assets are available to the University for any lawful purpose of the institution.

A summary of the University's assets, liabilities, and net assets at June 30, 2008, and June 30, 2007, follows.

Statement of Net Assets*

	<u>June 30,</u> <u>2008</u>	<u>June 30,</u> <u>2007**</u>	Change (dollars)	Change (percentage)
Assets:				
Current assets	\$145,020	\$135,402	\$9,618	7%
Capital assets, net	584,307	476,938	107,369	23%
Other noncurrent assets	<u>176,366</u>	<u>132,643</u>	<u>43,723</u>	33%
Total assets	<u>905,693</u>	<u>744,983</u>	<u>160,710</u>	22%
Liabilities:				
Current liabilities	161,378	124,673	36,705	29%
Noncurrent liabilities	<u>346,591</u>	<u>253,937</u>	<u>92,654</u>	36%
Total liabilities	<u>507,969</u>	<u>378,610</u>	<u>129,359</u>	34%
Net assets:				
Invested in capital assets, net of debt	336,255	290,452	45,803	16%
Restricted: nonexpendable	3,221	2,500	721	29%
Restricted: expendable	44,201	67,262	(23,061)	(34%)
Unrestricted	<u>14,047</u>	<u>6,159</u>	<u>7,888</u>	128%
Total net assets	<u>\$397,724</u>	<u>\$366,373</u>	<u>\$31,351</u>	9%

* in thousands

** as restated for change in calculation of invested in capital assets net and reclass to noncurrent assets of appropriations available and unspent bond proceeds, to match FY 08 presentation

The University's financial position remained strong at the end of FY 2008. Total assets were \$906 million and net assets (total assets less liabilities of \$508 million) amounted to \$398 million. For FY 2008, current assets of \$145.0 million are \$16.4 million lower than current liabilities of \$161.4 million. This is a change from FY 2007 when current assets exceeded current liabilities by \$10.7 million. This decline in current assets relative to current liabilities is to be expected given the substantial and ongoing construction program, and the resulting large increase in capital assets. Nonetheless, current assets still cover 3.3 months of total operating expenses, including depreciation, which is unchanged from last year's 3.3 months of coverage. Capital assets, net of accumulated depreciation of \$273.7 million, totaled \$584.3 million, which represents an increase of \$107.4 million over FY 2007, and reflects the ongoing expansion of facilities at the University.

During FY 2008, the University's net asset position increased by \$31.4 million. Most of this increase in total net assets is reflected in the increases in net assets invested in capital assets, net of related debt (\$45.8 million) and unrestricted net assets (\$7.9 million). Restricted

expendable net assets declined by \$23.1 million as restricted capital appropriations received in FY 2007 were used for capital projects during FY 2008.

Capital Asset and Debt Administration

Development and renewal of capital assets is one of the critical factors in sustaining the high quality of the University's academic, research, and residential life functions. The University continues to maintain and upgrade current structures, and to add additional facilities.

Note 5 of the Notes to Financial Statements describes the University's rapidly expanding investment in capital assets, with total depreciable capital asset additions of \$105.9 million (excluding land, construction in progress, and works of art) and additions to construction in progress of \$116.9 million. Depreciation expense increased by \$2.5 million over the prior year to \$27.4 million.

Capital asset additions in FY 2008 included increases of \$85.7 million in buildings, \$8.6 million in equipment, \$5.7 million in infrastructure, \$.297 million in improvements, and \$5.5 million in library materials. The building increase included the completion and placing into service of the Krasnow Institute Addition (\$7.1 million), the Child Development Center (\$2.4 million), an improvement to Research I Building (\$.441 million), the Fairfax Aquatic Center Addition (\$8.0 million), Student Housing VII (\$63.1 million), and the West Building Renovation (\$3.1 million). Additions to infrastructure resulted primarily from improvements to the Fairfax campus infrastructure (\$4.4 million) and the Prince William campus infrastructure (\$1.3 million). The increase in improvements to land was attributable to the West parking lot project on the Fairfax campus (\$.166 million) and improvements made to the leased property at the Conservation Research Center in Front Royal, VA (\$.130 million).

Additions to construction in progress during FY 2008 included additional construction costs for ongoing projects such as the Prince William Biocontainment Lab (\$1.1 million), Science and Tech I and II Renovation (\$1.4 million), Student Union Building III (\$13.8 million), PE Building Renovation and Addition (\$9.5 million), Prince William Performing Arts Center (\$4.4 million), Hotel and Conference Center (\$1.8 million), Academic VI/Research II Building (\$29.3 million), Parking Deck III (\$22.4 million), Patriot Center Renovation (\$6.8 million), Academic V Building (\$9.4 million), Arlington II Building (\$10.4 million) plus a number of other smaller projects totaling another \$6.6 million.

Financial stewardship requires the effective management of resources, including the use of long-term debt to finance capital projects. Notes 7, 8 and 9 describe changes in the University's long-term debt. New capital long-term debt in the amount of \$107.7 million was issued during FY 2008. This increase is the result of \$20.6 million in Virginia 9(c) Revenue Bonds issued to finance Housing VII-C and Entrance Road (\$15.5 million), the Presidents Park Renovation (\$3.1 million), and Student Housing VII RB#3 (\$2.0 million) and \$87.1 million in VCBA Notes, issued to finance the following projects: Prince William Performing Arts Center RB#2 (\$8.6 million), Student Union I Building Renovation (\$5.1 million), Student Union III Building RB#3 (\$6.1 million), PE Building Addition/Renovation RB#3 (\$8.6 million), PE Building Addition Phase II RB#2 (\$3.8 million), Fairfax Surge Space Building RB#2 (\$3.0 million), Academic VI/Research II Building (\$4.9 million), Parking Deck III (\$20.8 million), Softball Field Improvement (\$1.5 million), Hotel and Conference Center (\$18 million), Student Union II Building Renovation (\$1.5 million), Series 2007B Refunding of Series 1997A (\$3.6 million), and Series 2007B Refunding of Series 2005A (\$1.7 million). Total long-term debt outstanding, including revenue bonds, notes payable, installment purchases, bond premiums and discounts,

and deferred gains and losses on refundings increased by \$95.0 million from the end of FY 2007 to the end of FY 2008.

Contractual commitments for capital outlay projects under construction at year end increased from \$27.0 million in FY 2007 to \$255.1 million in FY 2008. These obligations are for future efforts and therefore have not been accrued as expenses or liabilities on the University's financial statements. The large increase is caused primarily by the signing of construction contracts during FY 2008 for a list of projects including Arlington II, the Prince William Bio-containment Building, the Prince William Performing Arts Center, Parking Deck III, the Hotel and Conference Center, the Patriot Center Renovation, Academic VII/Research II Building, PE Building Renovation, Academic V Building, the Surge Space/Data Center Building, the Presidents Park Renovation, and Housing VII-C.

Statement of Revenues, Expenses, and Changes in Net Assets

Changes in total net assets as presented in the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the University's operating revenues, expenses incurred, and all other revenues, expenses, gains, and losses.

Generally speaking, operating revenues are received for providing goods and services to the students and other constituencies of the institution. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Salaries and fringe benefits for faculty and staff are the largest type of operating expense. Nonoperating revenues are revenues received for which goods and services are not provided. For example, state appropriations are nonoperating revenues because they are provided by the legislature without the legislature directly receiving commensurate goods and services for those revenues. State appropriations and gifts, included in this category, provide substantial support for paying operating expenses of the University. Therefore, the University, like most public institutions, will expect to report an operating loss.

A summary of the University's Statement of Revenues, Expenses, and Changes in Net Assets follows.

Statement of Revenues, Expenses, and Changes in Net Assets*

	<u>June 30, 2008</u>	<u>June 30, 2007**</u>	<u>Change</u> <u>(dollars)</u>	<u>Change</u> <u>(percentage)</u>
Operating revenues:				
Student tuition and fees, net of allowances	\$166,106	\$154,081	\$12,025	8%
Grants and contracts	95,204	84,797	10,407	12%
Auxiliary enterprises and other	<u>98,196</u>	<u>88,192</u>	<u>10,004</u>	11%
Total operating revenues	<u>359,506</u>	<u>327,070</u>	<u>32,436</u>	10%
Operating expenses:				
Education and general	403,761	374,482	29,279	8%
Depreciation	27,436	24,986	2,450	10%
Scholarships and fellowships	14,758	13,620	1,138	8%
Auxiliary enterprises	<u>78,094</u>	<u>68,607</u>	<u>9,487</u>	14%

Total operating expenses	<u>524,049</u>	<u>481,695</u>	<u>42,354</u>	9%
Operating loss	(164,543)	(154,625)	(9,918)	6%
Nonoperating revenues and expenses (net)	<u>185,175</u>	<u>197,218</u>	<u>(12,043)</u>	(6%)
Income before other revenues, expenses, gains or losses	20,632	42,593	(21,961)	(52%)
Capital appropriations, gifts, contributions and other expenses	<u>10,719</u>	<u>20,773</u>	<u>(10,054)</u>	(48%)
Increase in net assets	31,351	63,366	(32,015)	(51%)
Net assets at beginning of year	<u>366,373</u>	<u>303,007</u>	<u>63,366</u>	21%
Net assets at end of year	<u>\$397,724</u>	<u>\$366,373</u>	<u>\$31,351</u>	9%

* in thousands

** as restated for Pell grant receipts reporting change

The key number in the Statement of Revenues, Expenses, and Changes in Net Assets is "Income before other revenues, expenses, gains or losses" since this includes both operating results and the University's educational and general operating appropriation from the Commonwealth. This amount declined by \$22.0 million over the previous year (\$20.6 million for fiscal year 2008 compared to \$42.6 million for fiscal year 2007). This very large decrease in Income before other revenues, expenses, gains, or losses is primarily a result of a \$22.5 million decrease in restricted state general fund appropriations offset by an \$8.6 million increase in the state educational and general appropriation, a \$12.0 million increase in tuition and fees revenue, a \$9.0 million increase in auxiliary revenue, a \$10.4 million increase in grants and contracts revenue, and an increase of \$27.1 million in salaries, wages and benefits expense, and an increase of \$11.6 million in goods and services expense.

Operating revenue, consisting mostly of tuition and fees, grants and contracts, and auxiliary enterprises, increased by \$32.4 million, or 10%, over the prior year. Student tuition and fees, net of scholarship allowances, increased by \$12.0 million, or 8%, over the prior year. Most of this growth is attributable to tuition rate increases at all levels and out-of-state and premium tuition revenue generated for law and graduate programs. Grants and contracts revenue increased by \$10.4 million, or 12%, over the prior year. This change is a result of increased focus by academic units to grow sponsored funding including increasing the number of research faculty, bringing in faculty with existing research programs, and increasing the number of proposal submissions. Auxiliary revenue increased by \$10.0 million, or 11%, primarily due to increased student enrollment and increased utilization of residential facilities and programs.

Total operating expenses increased by \$42.4 million, or 9%, including an increase of \$27.1 million in compensation expenses, consisting of the natural expense classification salaries, wages, and fringe benefits. Nonoperating revenues net of nonoperating expenses decreased by \$12.0 million due primarily to the \$22.5 million decline in restricted state general fund appropriations partially offset by the \$8.6 million increase in state educational and general appropriations.

Statement of Cash Flows

The final statement is the Statement of Cash Flows. This statement presents information about the cash activity of the University during the year. Cash flows from operations will always be different from the operating loss on the Statement of Revenues, Expenses, and Changes in

Net Assets (SRECNA). This difference occurs because SRECNA is prepared on the accrual basis of accounting and includes non-cash items, such as depreciation expense, while the Statement of Cash Flows presents cash inflows and cash outflows without regard to accrual items. The Statement of Cash Flows provides information to assess the ability of the University to generate cash flows sufficient to meet its obligations.

The statement is divided into five parts. The first deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, non-investing, and noncapital financing purposes such as the state appropriations for educational and general programs and financial aid. The third section reflects the cash flows from capital financing activities and shows the purchases, proceeds, and interest received from these activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section deals with cash flows from investing activities. The fifth section reconciles the net cash used by operating activities to the operational loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

A summary of the University's Statement of Cash Flows follows.

Statement of Cash Flows*

	<u>June 30,</u> <u>2008</u>	<u>June 30,</u> <u>2007**</u>	<u>Change</u> <u>(dollars)</u>	<u>Change</u> <u>(percentage)</u>
Cash provided from operations	\$361,290	\$329,418	\$31,872	10%
Cash expended for operations	<u>498,272</u>	<u>442,809</u>	<u>55,463</u>	13%
Net cash used for operations	<u>(136,982)</u>	<u>(113,391)</u>	<u>(23,591)</u>	21%
Net cash provided by noncapital financing activities	186,839	199,827	(12,988)	(6%)
Net cash provided by (used for) capital financing activities	(1,605)	(23,056)	21,451	93%
Net cash provided by (used for) investing activities	<u>2,469</u>	<u>6,340</u>	<u>(3,871)</u>	(61%)
Net increase in cash	50,721	69,720	(18,999)	(27%)
Cash and cash equivalents, beginning of year	<u>168,182</u>	<u>98,462</u>	<u>69,720</u>	71%
Cash and cash equivalents, end of year	<u>\$218,903</u>	<u>\$168,182</u>	<u>\$50,721</u>	30%

* in thousands

** as restated for change in reporting of Pell grant receipts and appropriations available

The above summarized Statement of Cash Flows shows that the University generates 73 percent (\$361 million of \$498 million) of its operating cash requirements internally with the remainder (\$137 million) being provided in the form of appropriations from the Commonwealth of Virginia, gifts, and investment earnings. Nonoperating cash was provided by capital appropriations and the sale of revenue bonds, which were used to acquire capital assets.

Cash provided from operating activities increased by \$31.8 million in FY 2008. The major sources of the increase in operating cash are Student tuition and fees (\$7.7 million increase), Grants and contracts (\$9.2 million increase), Auxiliaries (\$8.5 million increase), and Other receipts (\$6.3 million increase). Uses of operating cash also increased from FY 2007 to FY 2008 by \$55.4 million. Major uses of operating cash are payments for salaries, wages, and fringe benefits (\$44.8 million increase) and payments for supplies and services (\$10.3 million increase).

Cash provided by non-capital financing activities decreased \$13.0 million in FY 2008, primarily due to net decrease of \$13.8 million in state appropriations offset by an increase in Pell grant receipts of approximately \$1 million. The University generated \$21.5 million more cash from capital financing activities in FY 2008 than in FY 2007. Primary sources of the increase in cash from capital financing activities include proceeds from the issuance of capital related debt (\$5.7 million increase from FY 2007), and proceeds from capital appropriations available (\$37.2 million increase from FY 2007), offset by an increase in cash outflows for purchases of capital assets (\$21.4 million increase from FY 2007). The primary source of cash from investing activities is interest on non-general fund and local cash balances and endowment investment earnings, and the primary use of cash from investing activities is the purchase of endowment investments.

Economic Outlook

The University faces numerous challenges including the weak economy, the ongoing decline in the percentage of the operating budget supported by state appropriations, the current state budget crisis, increased expectations of students and their parents, the challenge of recruiting and retaining high quality faculty and staff in the Washington, DC region, and managing the ongoing and growing capital construction program. Given this trend, securing additional private support is a key component to the University's economic future. In recognition of this, the University has enhanced development efforts in a variety of ways including providing both targeted and unrestricted giving opportunities, expanding its use of recognition publications and recognition societies, reaching out to alumni through the alumni magazine and newsletter, and pursuing public-private development projects and other opportunities to work cooperatively with the business community.

Despite the many challenges it faces, the University's financial position is strong. Operating revenues will continue to expand due to ongoing enrollment increases and higher levels of tuition and fees, which nonetheless remain extremely competitive and attractive to new students. As evidence of this, the University has seen a continual rise in interest not only among students in Virginia, but also among out-of-state college prospects. Nevertheless, the University is sensitive to the issue of affordability and is committed to ensuring that higher education remains affordable, regardless of individual family income. Through use of a periodic assessment, the University determines the impact of tuition and fee levels net of financial aid on applications, enrollment, and student indebtedness incurred for the payment of tuition and fees. Well managed, efficient auxiliary enterprises demanded by today's students will continue to provide a growing source of operating revenues while simultaneously contributing to the overall quality of the educational experience. In addition, management's cost containment efforts, strategic investments, and a growing and diversified research portfolio will help the University effectively manage a change in state support.

The University's economic future is supported and enhanced by its capital construction program. The capital construction program supports the University's mission by advancing the research agenda, reducing space deficiencies, supporting new university programs, improving the quality of on-campus life through investment in on-campus residence halls, including university life and services functions in all capital projects, and investing in recreation facilities. Included in the more than 25 ongoing construction projects are new academic and research buildings, a new parking deck, new student housing, new dining facilities, new and renovated fitness facilities, a hotel and conference center, and a new performing arts center.

The University's economic future is also supported and enhanced by its growing and diversified research program, including the following representative examples:

- Biological Sciences - Researchers at Mason's National Center for Biodefense are engaged in innovative biomedical research to develop unique approaches and techniques for the prevention and treatment of infectious diseases and biological threat agents.
- Scientists at the Center for Applied Proteomics and Molecular Medicine are continually developing new diagnostic tools and groundbreaking techniques for treating patients diagnosed with cancer and other diseases.
- Researchers at the Center for Earth Observing and Space Research (CEOSR) are using satellite microwave technology and buoy measurements to successfully predict whether tropical storms will develop hurricane strength.
- George Mason's Critical Infrastructure Protection Project (CIPP), is an interdisciplinary, multi-institutional research initiative focused on enhancing the security of cyber networks and economic processes that support the nation's critical infrastructures.

Management believes that the University will maintain its solid financial foundation, permitting it to continue to build on its standard of excellence in teaching, research, and public service.

FINANCIAL STATEMENTS

George Mason University
Statement of Net Assets
As of June 30, 2008

	George Mason	
	University	Component Unit
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 92,273,902	\$ 2,724,427
Short-term investments (Note 2)	15,140,017	43,783,453
Accounts receivable, net of allowance of \$568,498 (Note 4)	6,118,936	803,992
Notes receivable, net of allowance of \$8,733 (Note 4)	825,501	-
Grants and contracts receivable (restricted)	19,094,922	-
Pledges receivable, net	-	4,674,811
Prepaid expenses	3,395,463	61,745
Inventories	1,037,293	-
Due from the Commonwealth of Virginia	7,056,033	-
Leasing commissions	-	359,458
Unamortized bond issuance costs	78,269	61,931
Total current assets	145,020,336	52,469,817
Noncurrent assets:		
Restricted cash and cash equivalents (Note 2)	130,648,580	-
Appropriations available (restricted)	37,515,692	-
Notes receivable, net of allowance of \$47,827 (Note 4)	3,148,780	-
Depreciable capital assets, net of accumulated depreciation (Note 5)	444,937,362	83,102,369
Nondepreciable capital assets (Note 5)	139,369,990	20,093,553
Long-term investments (Note 2)	3,801,619	52,358,615
Pledges receivable	-	11,356,778
Other assets	-	14,919,787
Unamortized bond issuance costs	1,250,928	714,466
Total noncurrent assets	760,672,951	182,545,568
Total assets	905,693,287	235,015,385
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses (Note 6)	80,357,436	3,179,072
Advance from Treasurer of Virginia	11,584,901	-
Deferred revenue	31,423,424	782,942
Obligations under securities lending	19,159,125	-
Deposits held in custody for others	319,835	5,718,276
Long-term liabilities - current portion (Notes 7 - 10)	18,533,171	1,546,337
Total current liabilities	161,377,892	11,226,627
Noncurrent liabilities (Notes 7 - 10)	346,591,339	103,732,223
Total liabilities	507,969,231	114,958,850
NET ASSETS		
Invested in capital assets, net of related debt	336,255,115	3,177,319
Restricted: nonexpendable	3,220,778	57,520,293
Restricted: expendable	44,200,987	51,287,085
Unrestricted	14,047,176	8,071,838
Total net assets	\$ 397,724,056	\$ 120,056,535

The accompanying Notes to this Financial Statement are an integral part of this statement.

George Mason University
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2008

	George Mason University	Component Unit
Operating revenues:		
Student tuition and fees (net of scholarship allowances of \$22,435,148)	\$ 166,106,018	-
Federal grants and contracts	63,161,880	-
State, local, and nongovernmental grants and contracts	32,041,974	-
Auxiliary enterprises (net of scholarship allowances of \$6,359,195)	92,376,647	3,576,178
Other operating revenue	5,819,764	19,333,984
	<hr/>	<hr/>
Total operating revenue	359,506,283	22,910,162
	<hr/>	<hr/>
Operating expenses: (Note 12)		
Instruction	206,294,926	2,863,017
Research	52,351,777	8,269,877
Public service	12,636,880	1,053,500
Academic support	43,673,438	2,822,042
Student services	19,382,769	28,614
Institutional support	41,126,535	3,828,665
Operation and maintenance of plant	28,293,511	3,039,000
Depreciation and amortization	27,436,445	3,774,970
Scholarships and fellowships	14,758,370	1,521,749
Auxiliary enterprises	78,094,262	2,031,457
	<hr/>	<hr/>
Total operating expenses	524,048,913	29,232,891
	<hr/>	<hr/>
Operating income (loss)	(164,542,630)	(6,322,729)
	<hr/>	<hr/>
Nonoperating revenues (expenses):		
State educational and general appropriation (Note 13)	135,567,184	-
State general fund appropriations - restricted	38,567,709	-
Pell grant receipts	9,780,135	-
Investment earnings	746,313	(2,568,443)
Interest income	5,524,054	-
Interest expense (Note 14)	(5,010,462)	(5,941,067)
Other	-	8,139,666
	<hr/>	<hr/>
Net nonoperating revenues	185,174,933	(369,844)
	<hr/>	<hr/>
Income before other revenues, expenses, gains, or losses	20,632,303	(6,692,573)
	<hr/>	<hr/>
Other revenues, expenses, gains, or losses:		
Capital gifts and contributions	7,229,489	-
Capital appropriations	15,136,346	-
Additions to permanent endowments	720,778	3,375,275
Capital appropriation reversions	(11,773,000)	-
Other capital appropriation reductions	(311,088)	-
Other	(283,892)	(97,408)
	<hr/>	<hr/>
Net other revenues, expenses, gains, or losses	10,718,633	3,277,867
	<hr/>	<hr/>
Increase (decrease) in net assets	31,350,936	(3,414,706)
	<hr/>	<hr/>
Net assets - beginning of year	366,373,120	123,471,241
	<hr/>	<hr/>
Net assets - end of year	\$ 397,724,056	\$ 120,056,535
	<hr/>	<hr/>

The accompanying Notes to this Financial Statement are an integral part of this statement.

George Mason University
Statement of Cash Flows
For the Year Ended June 30, 2008

Cash flows from operating activities:	
Student tuition and fees	\$ 162,563,043
Grants and contracts	96,248,112
Auxiliary enterprises	92,665,549
Perkins loan receipts	231,534
Other receipts	9,581,364
Payments to suppliers	(132,986,952)
Payments to employees	(350,009,718)
Payments for scholarships and fellowships	(14,758,370)
Perkins loan disbursements	<u>(517,025)</u>
Net cash used by operating activities	<u>(136,982,463)</u>
Cash flows from noncapital financing activities	
State appropriations	174,134,893
Repayment of advance from Treasurer	1,084,901
Additions to endowments	720,778
Pell grant receipts	9,780,135
Agency transactions	<u>1,118,800</u>
Net cash provided by noncapital financing activities	<u>186,839,507</u>
Cash flows from capital and related financing activities	
Proceeds from capital appropriations available	11,138,217
Capital gifts and contributions	7,958,924
Proceeds from issuance of capital related debt	104,255,432
Bond premium paid on capital related debt	3,109,870
Bond issuance costs on capital related debt	(427,900)
Principal paid on capital related debt	(12,134,190)
Interest paid on capital related debt	(5,319,186)
Purchases of capital assets	<u>(110,186,338)</u>
Net cash provided by capital and related financing activities	<u>(1,605,171)</u>
Cash flows from investing activities	
Interest on investments	6,270,367
Purchase of investments	<u>(3,801,619)</u>
Net cash provided by investing activities	<u>2,468,748</u>
Net increase in cash	50,720,621
Cash and cash equivalents - beginning of the year	216,675,025
Appropriations available restatement (Note 2)	(45,767,049)
Less: Securities Lending - Treasurer of Virginia	<u>(2,725,223)</u>
Cash and cash equivalents - beginning of the year (restated)	<u>168,182,753</u>
Cash and cash equivalents - end of the year	<u><u>\$ 218,903,374</u></u>

The accompanying Notes to this Financial Statement are an integral part of this statement.

George Mason University
Statement of Cash Flows
For the Year Ended June 30, 2008

RECONCILIATION OF STATEMENT OF CASH FLOWS, STATEMENT OF NET ASSETS:

Statement of Net Assets	
Cash and cash equivalents	\$ 222,922,482
Less: Securities lending - Treasurer of Virginia	<u>(4,019,108)</u>
Net cash and cash equivalents	<u>\$ 218,903,374</u>

RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating loss	\$ (164,542,630)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	27,436,445
Changes in assets and liabilities:	
Accounts receivable (net)	446,191
Restricted assets receivable (net)	(366,831)
Perkins loan receivable	(252,087)
Perkins loan liability	(33,404)
Inventory	(891,290)
Prepaid expenses	(504,665)
Due from Commonwealth	(1,281,241)
Accounts payable and accrued liabilities	1,251,114
Deferred revenue	1,472,425
Compensated absences	<u>283,510</u>
Net cash used by operating activities	<u>\$ (136,982,463)</u>

The accompanying Notes to this Financial Statement are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

George Mason University

Notes to Financial Statements As of June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

George Mason University is a comprehensive, doctoral institution that is part of the Commonwealth of Virginia's statewide system of higher education. The Board of Visitors, appointed by the Governor, is responsible for overseeing the governance of the University. A separate report is prepared for the Commonwealth of Virginia that includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The University is a component unit of the Commonwealth of Virginia and is included in the general-purpose financial statements of the Commonwealth.

According to Governmental Accounting Standards Board (GASB) Statement 39, *Determining Whether Certain Organizations are Component Units*, the George Mason University Foundation, Inc. (Foundation) meets criteria qualifying it as a component unit of the University. During the year ended June 30, 2008, the Foundation distributed \$19,526,799 to or on behalf of the University for both restricted and unrestricted purposes. Separate financial information regarding the Foundation may be obtained by writing to the Foundation Business Office at 4400 University Drive, MSN 1A3, Fairfax, VA 22030.

B. Basis of Presentation

The University's accounting policies conform with generally accepted accounting principles as prescribed by the GASB, including all applicable GASB pronouncements as well as applicable Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The financial statements have been prepared in accordance with GASB Statement Number 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement Number 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public College and Universities* an amendment of GASB Statement Number 34. The University follows Statement Number 34 requirements for "reporting by special-purpose governments engaged only in business-type activities."

The Foundation is a private, nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from

GASB revenue recognition and presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences.

C. Basis of Accounting

The University's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. All significant intra-agency transactions have been eliminated. The University's policy is to spend restricted resources before unrestricted resources when both are available for expenses that are properly chargeable to restricted resources.

D. Investments

In accordance with GASB Statement Number 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, purchased investments, interest-bearing temporary investments classified with cash, and investments received as gifts are recorded at fair value. All investment income, including changes in the fair value of investments (unrealized gains and losses), is reported as nonoperating revenue in the Statement of Revenues, Expenses, and Changes in Net Assets.

E. Capital Assets

Capital assets include land, buildings, library materials, works of art and historical treasures, equipment, improvements, and infrastructure assets such as sidewalks, and electrical and computer network cabling systems. Capital assets generally are defined by the University as assets with an initial cost of \$2,000 or more and an estimated useful life in excess of one year. Library materials are valued using published average prices for library acquisitions. Other capital assets are recorded at actual cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation, with the exception of intra-entity capital asset donations which, in accordance with GASB Statement Number 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, are recorded at the carrying value of the asset on the transferor's books as of the date of transfer. Expenses for major capital assets and improvements are capitalized as projects are constructed (construction in progress). Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose. The costs of normal maintenance and repairs that do not enhance the use of an asset, or materially extend its useful life, are not capitalized.

Depreciation is computed using the straight-line method over the estimated useful life of the asset with no residual value. Depreciation is not allocated to the functional expense categories. Normal useful lives by asset categories are listed below:

Buildings	25-50 years*
Improvements and infrastructure	10-30 years
Equipment	5-20 years
Library materials	10 years

* Research buildings are depreciated using the component method. The estimated useful lives of research building components range from 10-50 years.

Property and equipment held by the Foundation having a cost in excess of \$2,000 are capitalized at cost. Donated assets are capitalized at the estimated fair value at the date received. Buildings, furniture, and equipment are depreciated on a straight-line basis over their estimated useful lives. The estimated useful lives are as follows: buildings, 25 to 45 years; building improvements, 3 to 27 years; and furniture and equipment, 3 to 7 years.

F. Inventory

Inventory is composed of two distinct categories of items. The first category is composed of computers and related items for resale to students, faculty and staff. The second category is natural gas, which is used to power the University's physical plant. Both categories of inventory are valued at cost using the first-in, first-out inventory methodology.

G. Noncurrent Cash and Investments

Cash and investments that are externally restricted for expenditure in the acquisition or construction of noncurrent assets, to make debt service payments, or maintain sinking or reserve funds are classified as noncurrent assets in the Statement of Net Assets.

H. Deferred Revenue

Deferred revenue represents monies collected but not earned as of June 30, 2008. This is primarily composed of student tuition collected for courses that will be offered after June 30, 2008.

I. Accrued Compensated Absences

The amount of leave earned but not taken by salaried employees and administrative faculty members is recorded as a liability. The amount reflects, as of June 30, 2008, all unused vacation, overtime, compensatory, recognition and sick leave payable upon termination under University policy. The applicable share of employer related taxes also is included.

J. Federal Financial Assistance Programs

The University participates in federally funded Pell Grants, Supplemental Educational Opportunity Grants, Federal Work-Study, and Perkins Loan programs. Federal programs are audited in accordance with the Single Audit Act Amendments of 1996, the Office of Management and Budget Revised Circular A-133, *Audit of States, Local Governments and Non-Profit Organizations*, and the Compliance Supplement.

K. Net Assets

GASB Statement 34 requires that the Statement of Net Assets report the difference between assets and liabilities as net assets, not fund balances. Net assets are classified as invested in capital assets, net of related debt; restricted; and unrestricted. "Invested in capital assets, net of related debt" consists of capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction, or improvement of those assets. Net assets are reported as "restricted" when constraints on the net asset use are either externally imposed by creditors, grantors, or contributors; or imposed by law. Unrestricted net assets consist of net assets that do not meet the definitions above.

L. Revenue Classifications

Operating revenues include activities that have the characteristics of exchange transactions, such as: (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of auxiliary enterprises, net of scholarship allowances; and (3) federal, state, local and nongovernmental grants and contracts.

Certain governmental financial aid grants, with the exception of Pell grants which are treated as nonoperating revenue, and other federal, state or nongovernmental programs, are recorded as grants and contracts revenues in the University's financial statements.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts, and other revenue sources that are defined as nonoperating revenues by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement 34, such as state appropriations and investment and interest income. Nonoperating expenses include interest on debt related to the purchase of capital assets.

M. Scholarship Discounts and Allowances

Student tuition and fees revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenue, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods

and services provided by the University, and the amount that is paid by students and/or third parties making payments on the student's behalf.

N. Prepaid expenses

The University has recorded as a current asset facility rentals and insurance premiums for fiscal year 2009 that were paid in advance as of June 30, 2008.

O. Discounts, Premiums, and Bond Issuance Costs

Revenue bonds and notes payable on the Statement of Net Assets are reported net of related discounts, premiums, and deferred gains and losses on debt refunding, which are expensed over the life of the bond. Similarly, bond issuance costs are reported as a noncurrent asset that is amortized over the life of the bond on a straight-line basis.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

GASB Statement 40, *Deposit and Investment Risk Disclosures*, became effective for the period beginning after June 15, 2004. It amends GASB Statement 3, *Deposits with Financial Institutions*. GASB Statement 40 eliminates the custodial credit risk disclosures for Category 1 and 2 deposits and investments. However, this statement does not change the disclosure requirements for Category 3 deposits and investments. The University has no Category 3 deposits for FY 2008, but does have Category 3 investments. The following risk disclosures are required by GASB:

Custodial Credit Risk - the custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the University will not be able to recover the value of investment or collateral securities that are in possession of an outside party. The University has investments that are not registered in the University's name, and which are held by the George Mason University Foundation (GMUF), a separate not-for-profit corporation under the laws of the Commonwealth of Virginia. GMUF was created to receive, hold, invest and administer property, and to make expenditures for the benefit of the University. GMUF holds common and preferred stocks on behalf of the University in the amount of \$1,213,080. The other investments held for the University by GMUF are not investments whose existence is evidenced by securities that exist in physical or book entry form, and therefore are not subject to custodial credit risk.

Credit Risk - the risk that an issuer or other counterparty to an investment will not fulfill its obligations. GASB Statement Number 40 requires the disclosure of the credit quality ratings of all investments in debt securities subject to credit risk. Credit quality ratings are not required for U.S. government securities or other obligations explicitly guaranteed by the U.S. government. Information with respect to the University deposit exposure to credit risk is discussed below. None of the investments held for the University by GMUF are debt securities, and therefore no credit risk disclosure is required.

Concentration of Credit Risk - the risk of loss attributed to the magnitude of a government's investment in a single issuer. GASB Statement Number 40 requires disclosure of investments with any one issuer that represents five percent or more of total investments. However, investments issued or explicitly guaranteed by the U.S. government, and investments in mutual funds, external investment pools, and other pooled investments are excluded from the requirement. The University's investments are held by GMUF as a share of a larger investment pool managed by GMUF. No single issuer represents five percent or more of the overall investment pool managed by GMUF.

Interest Rate Risk - the risk that changes in interest rates will adversely affect the fair value of an investment. GASB Statement Number 40 requires disclosure of maturities any investments subject to interest rate risk. The University does not have an interest rate risk policy. GMUF holds money market funds in the amount of \$104,084 for the University. These money market funds have a maturity of less than one year. The other investments held for the University by GMUF are not investments of a type that are subject to interest rate risk.

Foreign Currency Risk - the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The University had no foreign investments or deposits for FY 2008.

A. Cash and Cash Equivalents

Pursuant to Section 2.2-1800, et seq., Code of Virginia, the Treasurer of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds, maintains all state funds of the University. Cash deposits held by the University are maintained in accounts that are collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400, et seq., Code of Virginia. In accordance with the GASB Statement 9, Definition of Cash and Cash Equivalents, cash represents cash with the Treasurer, cash on hand, and cash deposits including certificates of deposit and temporary investments with original maturities of three months or less.

B. Investments

The investment policy of the University is established by the Board of Visitors and monitored by the Finance and Resource Development Committee of the Board. The University has cash and cash equivalents and investments as set forth in Section D.

C. Securities Lending Transactions

Investments and cash equivalents held by the Treasurer of Virginia represent the University's allocated share of cash collateral received and reinvested and securities received for the State Treasury's securities lending program. Information related to the credit risk of these investments and the State Treasury's securities lending program is available on a statewide level in the *Commonwealth of Virginia's Comprehensive Annual Financial Report*. The Commonwealth's policy is to record unrealized gains and losses in the General Fund in the Commonwealth's basic financial statements. When gains or losses are realized, the actual gains and losses are recorded by the affected agencies.

D. Summary of the University's Cash, Cash Equivalents, and Investments

	<u>Market Value</u>
Cash and cash equivalents:	
Local funds	\$ 13,626,982
Treasurer of Virginia	74,627,812
Treasurer of Virginia (Securities Lending)	<u>4,019,108</u>
Subtotal	92,273,902
Restricted cash and cash equivalents:	
Treasurer of Virginia (State Nonarbitrage Program)	<u>130,648,580</u>
Total	<u>\$222,922,482</u>

Note- In FY 2007 the University reported appropriations available as cash and cash equivalents. For FY 2008 they are reported in Restricted Assets as a receivable called "Appropriations available". On the Statement of Cash Flows, "Cash and cash equivalents- beginning of the year" has been restated down by \$45,767,049 to account for the effect of this reporting change on the prior year amount.

Investments:

Short-term:	
Treasurer of Virginia (Securities Lending)	\$15,140,017
Long-term:	
Corporate stocks- held with GMUF	1,213,080
Mutual Funds- held with GMUF	586,490
Money Market Funds- held with GMUF	104,084
Real Estate- held with GMUF	138,010
Alternative Investments- held with GMUF	<u>1,759,955</u>
Total	<u>\$18,941,636</u>

E. Summary of GMUF's Investments

The fair market value of investments held by the Foundation at June 30, 2008 is summarized as follows:

Cash and Money market	\$7,815,819
Mutual funds:	
Equity funds	14,946,618
Bond funds	2,166
U.S. government and agency obligations	1,412,810
Corporate stocks	20,303,001
Corporate bonds	11,105,419
Alternative investments	38,459,863
Real estate and other	<u>2,096,372</u>
Total Investments	<u>\$96,142,068</u>

The Foundation's investment earnings are summarized as follows for the year ended June 30, 2008:

Interest and dividends	\$2,561,399
Realized gains	549,604
External management fees	(251,181)
Unrealized loss	<u>(5,242,376)</u>
	(2,382,554)
Realized/unrealized gains (losses) included with change in split interest agreements:	
Interest and dividends	99,853
Realized gains	37,611
External management fees	(8,294)
Unrealized loss	<u>(315,104)</u>
	<u>(185,934)</u>
Net investment return	<u>\$ (2,568,488)</u>

3. DONOR-RESTRICTED ENDOWMENTS

The University's endowment is managed by the George Mason University Foundation (GMUF). For FY 2008, the net appreciation on the investments of donor-restricted endowments was negative due to an overall investment loss. Therefore, during FY 2008, no net appreciation of donor-restricted endowments became available for expenditure by the governing board.

Net appreciation of donor restricted-endowments is recorded in the Net Assets of the University as an increase in Net assets restricted- expendable to reflect the fact that the net appreciation must be spent in accordance with the stipulations set forth in the underlying endowment agreements.

The state law regarding the ability to spend net appreciation of donor-restricted endowments is the *Uniform Prudent Management of Institutional Funds Act*, Section 55-268.11 of the Code of Virginia.

The University's endowment policy seeks to maintain the growth of the present value of existing assets at a rate at least equal to the inflation rate plus the current spending rate of 4 percent based on a three year rolling average of each endowments fair value, net of investment advisory fees.

4. ACCOUNTS AND NOTES RECEIVABLE

Accounts and notes receivable consisted of the following at June 30, 2008:

Accounts Receivable:

Student tuition and fees	\$4,531,883
Other accounts receivable	<u>2,155,551</u>

Total accounts receivable	<u>\$6,687,434</u>
Less allowance for doubtful accounts	<u>(568,498)</u>

Net accounts receivable	<u>\$6,118,936</u>
-------------------------	--------------------

Notes Receivable:

Current:

Perkins loans receivable - current portion	\$628,929
State and nursing loans	183,108
Loans to students, faculty and staff	22,197
Less allowance for doubtful accounts	<u>(8,733)</u>

Total current notes receivable	<u>\$825,501</u>
--------------------------------	------------------

Noncurrent:

Perkins loans receivable - long term portion	\$3,171,764
State and nursing loans	\$24,843
Less allowance for doubtful accounts	<u>(47,827)</u>

Net non-current notes receivable	<u>\$3,148,780</u>
----------------------------------	--------------------

The Foundation's pledges receivable as of June 30, 2008 are as follows:

Due in less than one year	\$4,674,811
Due in one to five years	5,930,059
Due in more than five years	<u>7,955,127</u>
Less discount present value	<u>(2,528,408)</u>
Total	<u>\$16,031,589</u>

Discount rates range from 1.63% to 5.12%.

As of June 30, 2008, the Foundation received \$3,290,238 of conditional promises to give, primarily matching funds for which the fundraising goals have not yet been achieved. These conditional promises to give are not recognized as assets in the consolidated statement of financial position.

5. CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2008 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Non-depreciable capital assets:				
Land	\$15,674,061	-	-	\$15,674,061
Construction-in-progress	94,124,225	116,885,235	87,648,288	123,361,172
Works of art and historical treasures	<u>295,457</u>	<u>39,300</u>	-	<u>334,757</u>
Total non-depreciable capital assets	<u>110,093,743</u>	<u>116,924,535</u>	<u>87,648,288</u>	<u>139,369,990</u>
Depreciable Capital Assets:				
Buildings	406,367,953	85,710,127	-	492,078,080
Improvements	23,252,306	296,533	-	23,548,839
Infrastructure assets	24,802,698	5,742,918	-	30,545,616
Equipment	93,983,001	8,566,957	3,911,373	98,638,585
Library materials	<u>69,093,484</u>	<u>5,537,856</u>	<u>807,618</u>	<u>73,823,722</u>
Total Depreciable Capital Assets	<u>617,499,442</u>	<u>105,854,391</u>	<u>4,718,991</u>	<u>718,634,842</u>
Less accumulated depreciation:				
Buildings	128,435,823	11,896,132	-	140,331,955
Improvements	14,075,736	1,436,455	-	15,512,191
Infrastructure assets	11,433,376	855,782	-	12,289,158
Equipment	50,758,869	8,490,365	3,586,456	55,662,778
Library materials	<u>45,951,305</u>	<u>4,757,711</u>	<u>807,618</u>	<u>49,901,398</u>

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Total accumulated depreciation	<u>250,655,109</u>	<u>27,436,445</u>	<u>4,394,074</u>	<u>273,697,480</u>
Depreciable capital assets, net	<u>366,844,333</u>	<u>78,417,946</u>	<u>324,917</u>	<u>444,937,362</u>
Total capital assets, net	<u>\$476,938,076</u>	<u>\$195,342,481</u>	<u>\$87,973,205</u>	<u>\$584,307,352</u>

The following comprises property and equipment for the Foundation at June 30, 2008:

Land	\$19,520,986
Buildings	92,332,695
Building improvements	4,195,814
Furniture and equipment	<u>1,024,041</u>
Total	117,073,536
Accumulated depreciation and amortization	<u>(14,450,181)</u>
Net property and equipment	<u>\$102,623,355</u>

6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2008:

Employee salaries, wages and fringe benefits payable	34,032,485
Vendors and suppliers accounts payable	9,885,909
Capital projects accounts and retainage payable	<u>36,439,042</u>
Total accounts payable and accrued expenses	<u>\$ 80,357,436</u>

7. NONCURRENT LIABILITIES

Noncurrent liabilities consist of long-term debt, installment purchases, accruals for compensated absences and retirement plans, and other noncurrent liabilities. A summary of changes in noncurrent liabilities for the year ended June 30, 2008 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Non-current Portion</u>
Long-term debt:						
Revenue Bonds	\$120,141,130	\$20,635,000	\$7,250,030	\$133,526,100	\$8,591,431	\$124,934,669
Notes Payable	119,080,000	81,890,000	3,625,000	197,345,000	4,305,000	193,040,000
Installment Purchases	12,412,200	1,805,432	1,282,954	12,934,678	1,344,245	11,590,433
Bond Discount	(458,871)	-	(304,797)	(154,074)	(16,523)	(137,551)
Bond Premium	5,773,188	3,195,136	546,873	8,421,451	500,273	7,921,178
Deferred amount on refundings	-	<u>(354,181)</u>	<u>(23,794)</u>	<u>(330,387)</u>	<u>(35,690)</u>	<u>(294,697)</u>
Total Long-term Debt	<u>256,947,647</u>	<u>107,171,387</u>	<u>12,376,266</u>	<u>351,742,768</u>	<u>14,688,736</u>	<u>337,054,032</u>
Accrued Compensated Absences	10,474,766	10,721,087	10,437,577	10,758,276	3,844,435	6,913,841
Loan Funds	<u>2,656,870</u>	-	<u>33,404</u>	<u>2,623,466</u>	-	<u>2,623,466</u>
Total Long-term Liabilities	<u>\$270,079,283</u>	<u>\$117,892,474</u>	<u>\$22,847,247</u>	<u>\$365,124,510</u>	<u>\$18,533,171</u>	<u>\$346,591,339</u>

8. BONDS PAYABLE

A. Revenue Bonds

George Mason University bonds are issued pursuant to Section 9, Article X of the Constitution of Virginia. Section 9(c) bonds are backed by the full faith, credit, and taxing power of the Commonwealth, and are issued to finance capital projects which, when completed, are expected to generate revenue to repay the debt. Conversely, section 9(d) bonds are exclusively the limited obligations of the University to be repaid from pledged general revenues and other funds generated by the University. Net proceeds from the sale of revenue bonds are required to be invested in the Virginia State Non-Arbitrage program. GASB Statement Number 31 deems this participation to be involuntary.

The following schedule describes each of the revenue bonds outstanding:

<u>Bond Title</u>	<u>Year Issued</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Bond Term</u>	<u>Final Payment Due</u>	<u>Balance Outstanding at June 30, 2008</u>
9(c) Revenue Bonds:						
Humanities III	1989	9,400,000	6.5 to 6.7%	20 Years	2009	867,621
Residence Halls III	1989	10,697,000	6.4 to 6.7%	20 Years	2009	987,390
Student Union II Addition	1998	1,572,296	3.5 to 5.5%	14 Years	2012	750,109
Residence Hall V	2001	21,780,000	4.0 to 5.0%	23 Years	2024	8,420,000
Housing Renovations	2001	3,435,000	4.0 to 5.0%	10 Years	2011	1,280,000
University Center	2002	14,695,852	3.75 to 5.25%	13 Years	2015	10,041,845
Residence Hall V	2002	8,635,000	2.25 to 5.0%	20 Years	2022	6,690,000
Residence Halls IV	2003	5,438,119	3.6 to 8.4%	7 Years	2010	1,710,279
Commonwealth and Dominion	2004	2,340,000	3.75 to 5.0%	10 Years	2014	1,530,000
9(c) 2004B Refunding	2004	9,939,875	2.0 to 5.0%	16 Years	2020	9,738,856
Student Housing VII	2005	25,800,000	3.75 to 5.0%	25 Years	2030	25,155,000
Student Housing VII RB#2	2006	39,080,000	4.0 to 5.0%	25 Years	2031	39,080,000
Renovate Housing -Dominion	2006	2,420,000	5.0%	10 Years	2016	2,200,000
Housing VIIC & Entrance Road	2007	15,495,000	4.0 to 5.0%	25 Years	2032	15,495,000
Presidents Park Renovation	2007	3,130,000	5.0%	10 Years	2017	3,130,000
Student Housing VII RB#3	2007	<u>2,010,000</u>	4.0 to 5.0%	25 Years	2032	<u>2,010,000</u>
Total 9(c)		<u>175,868,142</u>				<u>129,086,100</u>
9(d) Revenue Bonds:						
Refunded Krasnow Institute for Advanced Study *	2003	2,677,686	5.2 to 6.375%	13 Years	2016	2,446,281
Refunded Warehouse	2003	<u>2,182,314</u>	5.2 to 6.375%	13 Years	2016	<u>1,993,719</u>
Total 9(d)		<u>4,860,000</u>				<u>4,400,000</u>
Total Bonds Payable		<u>\$180,728,142</u>				<u>\$133,526,100</u>

* The Krasnow Foundation has deposited funds with the George Mason University Foundation, which are used to reimburse the University for the debt service payments the latter is obligated to make.

Long-term debt as of June 30, 2008 matures as follows:

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2009	\$8,591,431	\$6,074,514	\$14,665,945
2010	7,421,912	5,781,708	13,203,620
2011	6,843,505	5,437,039	12,280,544
2012	6,680,275	5,121,280	11,801,555
2013	6,786,257	4,797,658	11,583,915
2014-2018	30,019,244	19,118,546	49,137,790
2019-2023	27,343,476	12,700,351	40,043,827
2024-2028	24,340,000	6,562,769	30,902,769
2029-2033	<u>15,500,000</u>	<u>1,410,888</u>	<u>16,910,888</u>
Total	<u>\$133,526,100</u>	<u>\$67,004,753</u>	<u>\$200,530,853</u>

B. Commonwealth Bond Obligations

Commonwealth of Virginia Educational Institutions bonds, 9(b) general obligation bonds, were approved by voter referendum in the November 1992 general election. The bond liability is assumed by the Commonwealth of Virginia and is not reflected as a liability of the University.

In December 1996, Virginia College Building Authority issued \$53,160,000 in Educational Facilities Revenue bonds for the 21st Century College Program. The bond liability is assumed by the Commonwealth of Virginia and is not reflected as a liability of the University.

Chapter 924 of the 1997 Act of the General Assembly authorized the Virginia Public Building Authority to provide \$500,000 for capital costs related to the University's construction of the Prince William Auditorium from the excess bond proceeds of the Authority. The bond liability is assumed by the Commonwealth of Virginia and is not reflected as a liability of the University.

C. Prior Year Bond Defeasance

The Commonwealth of Virginia, on behalf of the University, issued bonds in previous fiscal years for which the proceeds were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on other debt. The bonds representing that debt are therefore considered defeased. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the University's financial statements. On June 30, 2008, \$9,830,000 of general obligation bonds outstanding (Series 2001 9(c) bonds) was considered defeased.

9. NOTES PAYABLE

The University participates in the Public Higher Education Financing Program (Pooled Bond Program) created by the Virginia General Assembly in 1996. Through the Pooled Bond Program, the Virginia College Building Authority (VCBA) issues 9(d) bonds and uses the proceeds to purchase debt obligations (notes) of the University and various other institutions of higher education. The University's general revenue secures these notes.

The following schedule describes each of the notes outstanding:

	Year	Original	Interest	Bond	Final	Balance
<u>Bond Title</u>	<u>Issued</u>	<u>Amount</u>	<u>Rate</u>	<u>Term</u>	<u>Payment Due</u>	<u>Outstanding at June 30, 2008</u>
Fairfax Parking Garage Expansion	1999	4,100,000	4.5 to 6.0%	10 Years	2009	370,000
Student Union I Renovation	2002	2,460,000	3.0 to 5.0%	9 Years	2011	1,195,000
Parking Deck II	2003	13,455,000	2.5 to 5.0%	21 Years	2024	12,115,000
Fairfax Research I	2004	10,005,000	3.0 to 5.0%	21 Years	2025	9,345,000
Aquatic Fitness Center	2004	6,785,000	3.0 to 5.0%	16 Years	2020	6,105,000
VCBA 2004B Refunding (1997A)	2004	13,470,000	3.0 to 5.0%	12 Years	2016	13,385,000
VCBA 2004B Refunding (1999A)	2004	2,720,000	3.0 to 5.0%	15 Years	2019	2,665,000
Krasnow Institute	2005	4,495,000	3.5 to 5.0%	21 Years	2026	4,355,000
					Final	Balance

<u>Bond Title</u>	<u>Year Issued</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Bond Term</u>	<u>Payment Due</u>	Outstanding
						at June 30, 2008
Student Union III	2005	4,890,000	3.5 to 5.0%	21 Years	2026	4,740,000
Student Union III RB#2	2006	5,190,000	3.0 to 5.0%	21 Years	2027	5,190,000
PE Addition/Renovation	2006	6,035,000	3.0 to 5.0%	22 Years	2028	6,035,000
PE Bldg Addition, Phase II	2006	2,800,000	3.0 to 5.0%	22 Years	2028	2,800,000
Krasnow Institute Addition	2006	1,955,000	3.0 to 5.0%	20 Years	2026	1,895,000
Patriot Center Addition/Renovation	2006	8,200,000	3.0 to 5.0%	21 Years	2027	8,200,000
PW Bio Containment Lab	2006	13,260,000	3.0 to 5.0%	22 Years	2028	13,260,000
PW Performing Arts Center	2006	10,790,000	3.0 to 5.0%	22 Years	2028	10,790,000
Fairfax Surge Space Fit Out	2006	1,515,000	3.0 to 5.0%	21 Years	2027	1,515,000
Fairfax Surge Space Building	2006	6,340,000	3.0 to 5.0%	21 Years	2027	6,340,000
PW Performing Arts Center RB#2	2007	8,565,000	4.5 to 5.0%	20 Years	2027	8,565,000
Student Union I Renovation	2007	5,085,000	4.5 to 5.0%	20 Years	2027	5,085,000
Student Union III RB#3	2007	6,130,000	4.5 to 5.0%	25 Years	2032	6,130,000
PE Addition/Renovation RB#3	2007	8,555,000	4.5 to 5.0%	20 Years	2027	8,555,000
PE Bldg Addition Phase II, RB#2	2007	3,820,000	4.5 to 5.0%	20 Years	2027	3,820,000
Fairfax Surge Space Bldg RB#2	2007	2,965,000	4.5 to 5.0%	20 Years	2027	2,965,000
Academic VI/Research II	2007	4,945,000	4.5 to 5.0%	20 Years	2027	4,945,000
Parking Deck III	2007	20,750,000	4.5 to 5.0%	25 Years	2032	20,750,000
Softball Field Improvement	2007	1,510,000	5.0%	10 Years	2017	1,510,000
Hotel & Conference Center	2007	18,000,000	4.5 to 5.0%	30 Years	2037	18,000,000
Student Union II Renovation	2007	1,490,000	5.0%	10 Years	2017	1,490,000
VCBA 2007B Refunding (1997A)	2007	3,555,000	4.0 to 4.25%	10 Years	2017	3,555,000
VCBA 2007B Refunding (2005A)	2007	<u>1,675,000</u>	4.0 to 4.5%	12 Years	2019	<u>1,675,000</u>
Total		<u>\$205,510,000</u>				<u>\$197,345,000</u>

Long-term debt as of June 30, 2008 matures as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$4,305,000	\$9,079,144	\$13,384,144
2010	7,510,000	8,833,994	16,343,994
2011	7,840,000	8,484,075	16,324,075
2012	8,225,000	8,090,538	16,315,538
2013	8,300,000	7,678,113	15,978,113
2014-2018	48,380,000	31,579,438	79,959,438
2019-2023	45,625,000	19,826,357	65,451,357
2024-2028	47,435,000	8,871,438	56,306,438
2029-2033	14,690,000	2,603,888	17,293,888
2034-2038	<u>5,035,000</u>	<u>586,688</u>	<u>5,621,688</u>
Total	<u>\$197,345,000</u>	<u>\$105,633,673</u>	<u>\$302,978,673</u>

2008 Defeasance of Debt

In October 2007, the University issued \$3,555,000 of VCBA Pooled Bonds, Series 2007B, with interest rates of 4.0 to 4.25 percent to refund \$3,525,000 of outstanding notes payable with interest rates of 3.75 to 5.0 percent. The Series 2007B bonds issued to refund a portion of the Fairfax Swimming Pool and Prince William Aquatics, Series 1997A were advance refunded, where the net proceeds of \$3,590,000 (after payment of \$25,000 in issuance costs) were used to purchase state and local government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1997A notes. As a result, a portion of the 1997A Fairfax Swimming Pool and Prince William Aquatics notes were then considered to be defeased and the liability for those notes has been removed from the noncurrent liabilities line in the Statement of Net Assets. Any related assets in escrow have similarly been excluded. The Series 1997A notes were called in December 2007 and fully repaid, and are thus no longer defeased.

Although the advance refunding resulted in the recognition of an accounting loss of \$383,000 for the year ended June 30, 2008, the University in effect reduced its aggregate debt service payments by \$161,500 over the next 10 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$134,000.

In October 2007, the University also issued \$1,675,000 of VCBA Pooled Bonds, Series 2007B, with interest rates of 4.0 to 4.5 percent to refund \$1,630,000 of outstanding notes payable with interest rates of 3.5 to 5.0 percent. The Series 2007B bonds issued to refund the Child Development Center, Series 2005A were advance refunded, where the net proceeds of \$1,689,000 (after payment of \$12,000 in issuance costs) were used to purchase state and local government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2005A notes. As a result, the 2005A Child Development Center notes are considered to be defeased and the liability for those notes has been removed from the noncurrent liabilities line in the Statement of Net Assets. Any related assets in escrow have similarly been excluded.

Although the advance refunding resulted in the recognition of an accounting gain of \$28,500 for the year ended June 30, 2008, the University in effect increased its aggregate debt service payments by \$277,000 over the next 12 years but obtained an economic gain (difference between the present values of the old and new debt service payments) of \$22,000.

Prior Year Debt Defeasance

The Virginia College Building Authority (VCBA), in FY 2008 and prior years, issued 9(d) VCBA pooled bonds, the proceeds of which were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on other debt. The notes representing that other debt are therefore considered defeased. Accordingly, the trust account's assets and liabilities for the defeased notes are not included in the University's financial statements. On June 30, 2008, \$2,585,000 of notes from the Series 1999 9(d) VCBA pooled

bonds, and \$1,630,000 of notes from the Series 2005 9(d) VCBA pooled bonds, were considered defeased.

10. INSTALLMENT PURCHASES PAYABLE

The University has entered into various installment purchase contracts to finance the acquisition of photocopiers, office modulars, the equipment necessary for the implementation of the Energy Performance Contract Agreement and other equipment. The remaining length of the purchase agreements range from one to thirteen years with varying rates of interest.

Principal and interest payments on these commitments for fiscal years subsequent to June 30, 2008 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$1,344,245	\$467,795	\$1,812,040
2010	1,198,059	417,231	1,615,290
2011	1,085,386	375,681	1,461,067
2012	1,077,625	337,221	1,414,846
2013	878,230	300,193	1,178,423
2014-2018	4,329,458	1,024,908	5,354,366
2019-2021	<u>3,021,675</u>	<u>190,945</u>	<u>3,212,620</u>
Total	<u>\$12,934,678</u>	<u>\$3,113,974</u>	<u>\$16,048,652</u>

11. COMPONENT UNIT DEBT

A. Long Term Debt

On October 7, 2003, the Foundation issued \$35,125,000 of variable rate Fairfax County Economic Development Authority bonds. \$27,700,000 of the bonds were used to finance a housing project for the University and the remaining \$7,425,000 were used to refinance existing properties the Foundation owns and rents to the University. Interest is accrued and paid monthly, the bonds mature annually on February 1 and the final maturity is on February 1, 2029. Additionally, the Foundation simultaneously entered into an interest rate swap with a commercial bank to effectively fix the interest rate on \$22,425,000 of the bonds.

As a security for the payment of the bonds, the Foundation entered into an irrevocable letter of credit with a commercial bank in the initial amount of \$35,593,333 at 12% per annum and expiring on October 15, 2008. As of June 30, 2008, no draws have been taken against the letter of credit; however, due to principal payments on the bonds, the letter of credit amount as of June 30, 2008 was reduced to \$31,509,600. As of June 30, 2008, the principal balance outstanding on the bonds was \$31,095,000.

Beginning on June 30, 2005, restrictive covenants related to the bond went into effect, including unrestricted liquidity of not less than \$6,000,000 and a property debt service coverage ratio of not less than 1.20 to 1. As of June 30, 2008, the Foundation was in compliance with the required restrictive covenants.

Interest incurred on the bonds as well as the related swap agreement during fiscal year 2008 totaled \$1,268,948.

On September 24, 2004, GMUF Arlington Campus, LLC secured a \$61 million construction/mini-permanent loan with a consortium of banks and secured by a deed of trust on the property on 3434 North Washington Street and the improvements to be made on the property. The terms of the loan are seven years floating at LIBOR plus 2.25%. Concurrently, the GMUF Arlington Campus, LLC entered into a forward swap agreement with a financial institution to synthetically lock the interest rate at 6.96% for years three through seven. The loan requires monthly payments of interest only for 24 months and then will be amortized on a 25-year basis thereafter. This loan was paid off on August 18, 2006, resulting in zero balance outstanding at June 30, 2008.

In addition to the \$61 million dollar loan, GMUF Arlington Campus, LLC entered into a \$6 million loan agreement for five years at a floating rate of LIBOR plus 2.25%. This second loan is secured by real property owned by the Foundation at a cost of approximately \$10.4 million and by \$823,000 of fixed income marketable securities. The proceeds from that loan have been deposited into an investment account with a financial institution guaranteed to earn income at the rate of LIBOR plus 1.25% locking in the negative arbitrage for the Foundation at 1%. This loan requires monthly payments of interest only with a principal payment of \$1 million due at the end of both year three and year four with the balance due September 2009. This loan was paid off on August 18, 2006 resulting in zero balance outstanding at June 30, 2008.

On August 18, 2006, GMUF Arlington Campus, LLC secured a permanent 10-year \$68.5 million loan by executing a deed of trust on real property located at 3434 North Washington Street with a book value of \$58,810,080 with a financial institution. There are two notes ("A note" and "B note") under the deed of trust with the A note for \$64,000,000 at a fixed interest rate of 6.24% per annum, two years interest only, with 30 year amortization thereafter, and the B note for \$4,500,000 at a fixed interest rate of 10.50% per annum, two years interest only, with a 30 year amortization thereafter. The resulting blended rate for the two notes is 6.52%.

On February 16, 2007, GMUF Arlington Campus, LLC secured an additional seven-year \$1,300,000 collateral loan, secured by real property with a financial institution. The note has a fixed interest rate of 6.3%. As of June 30, 2008, the principal balance outstanding on the note was \$1,200,000.

In fiscal year 2008, interest expense on all GMUF Arlington Campus, LLC loans totaled \$4,621,166.

The following are maturities of the long-term debt for the next five years ending June 30:

2009	\$1,354,480
2010	1,609,922
2011	1,685,004
2012	1,776,360
2013	1,869,811
Thereafter	<u>92,499,423</u>
Total	<u>\$100,795,000</u>

B. Derivative Instruments

In October 2003, the Foundation entered into an interest rate swap agreement with a financial institution against the floating rate bonds in the notional amount of \$22,425,000 at a fixed interest rate of 4.56%, including all costs, on a 20-year amortization schedule. Concurrently, the Foundation entered into a 20-year interest rate cap agreement with the same financial institution in the notional amount of \$12,700,000, at a rate of 10%. At June 30, 2008, the notational amount on the swap was \$19,475,000 and on the cap was \$11,750,000. The interest rate swap was used as a cash flow hedge to synthetically fix the rate of the bonds and to eliminate changes in the market interest rates.

The fair value of the interest rate swap at June 30, 2008, totaled a derivative liability of \$809,341 and the interest rate cap at June 30, 2008, totaled a derivative asset of \$21,824. The net change in value has been recorded as an unrealized loss on derivative in the consolidated statement of activities. Additionally, all assets or liabilities related to the interest rate swap and interest rate cap convert to zero at contract maturity in 2024.

On September 24, 2004, GMUF Arlington Campus, LLC entered into a forward interest rate swap agreement with a financial institution to lock the interest rate at 6.96% for years three through seven related to their \$61 million construction/mini-permanent loan. The interest rate swap was used as a cash flow hedge to synthetically fix the rate of the loan and to eliminate changes in the market interest rates. On August 18, 2006, the forward interest rate swap was unwound and settled for \$1,058,000, resulting in a realized loss on derivative of \$984,456 in the consolidated statement of activities as of June 30, 2007.

In October 2006, the Foundation entered into an interest rate swap agreement with a financial institution against the floating rate bonds in the notional amount of \$25,775,000 on a 23-year amortization schedule. At June 30, 2008, the notational amount on the swap was \$25,775,000. The swap was used as a cash flow hedge to stabilize the interest rate for the last five years of the bond issue related to the student housing project and expects to create positive cash flows over the remaining bond life. At closing on October 19, 2006, the Foundation received \$250,000 up front cash. Under the swap agreement, beginning in February 2007 the Foundation will received the difference between the Bond Market Association (BMA) index and 68.48% of the 5 year LIBOR index from the swap provider. If the BMA index is higher than 68.48% of the 5 year LIBOR index, the Foundation paid the difference to the swap provider. In fiscal year 2008, the swap provider paid \$10,978 to the Foundation which is included in interest expense on the consolidated statement of activities.

The fair value of the interest rate swap at June 30, 2008, totaled a derivative liability of \$143,569. The net change in value has been recorded as an unrealized gain on derivative in the consolidated statement of activities. Additionally, all assets or liabilities related to the interest rate swap and interest rate cap convert to zero at contract maturity in 2029.

12. EXPENSES BY NATURAL CLASSIFICATION

The following table shows a classification of expenses both by function as listed in the Statement of Revenues, Expenses, and Changes in Net Assets and by natural classification, which is the basis for amounts shown in the Statement of Cash Flows.

	<u>Salaries and Wages</u>	<u>Fringe Benefits</u>	<u>Goods and Services</u>	<u>Scholarships and Fellowships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$150,077,305	\$35,188,533	\$21,029,088	-	-	\$206,294,926
Research	30,111,702	5,651,835	16,588,240	-	-	52,351,777
Academic Support	26,237,960	8,866,813	8,568,665	-	-	43,673,438
Student Services	12,675,133	3,345,334	3,362,302	-	-	19,382,769
Public Services	5,822,775	1,351,237	5,462,868	-	-	12,636,880
Operation and Maintenance of Plant	8,977,231	3,114,943	16,201,337	-	-	28,293,511
Institutional Support	23,495,147	9,695,948	7,935,440	-	-	41,126,535
Depreciation Expense	-	-	-	-	27,436,445	27,436,445
Scholarships and Fellowships	-	-	-	14,758,370	-	14,758,370
Auxiliary Enterprises	<u>21,904,602</u>	<u>5,640,678</u>	<u>50,548,982</u>	-	-	<u>78,094,262</u>
Totals	<u>\$279,301,855</u>	<u>\$72,855,321</u>	<u>\$129,696,922</u>	<u>\$14,758,370</u>	<u>\$27,436,445</u>	<u>\$524,048,913</u>

13. STATE APPROPRIATIONS – CURRENT UNRESTRICTED FUNDS

George Mason University receives appropriations from the General Fund of the Commonwealth. The Appropriation Act specifies that such unexpended appropriations shall revert, as specifically provided by the General Assembly, at the end of a biennium. For years ending at the middle of a biennium, unexpended appropriations that have not been approved for reappropriation in the next year by the Governor become part of the General Fund of the Commonwealth and are, therefore, no longer available to the University for disbursements. The following is a summary of General Fund appropriations received by the institution including all supplemental appropriations and reversions:

Original Appropriation	\$ 136,146,251
Central adjustment for budget reduction	(6,912,313)
Central adjustment for tuition incentive	614,746
Central adjustment for FY 07 interest	1,412,801
Central adjustment for additional FY 07 interest	510,972
Central adjustment for FY 07 SPCC rebate	108,047
Central Adjustments for Salary and Benefits:	
Increased employee mileage reimbursement	16,327
Group life rate increase	172,253
Retirement rate adjustments	818,804
Retiree health credit rate adjustment	137,803
Health insurance premium increase	1,511,432
VSDP rate adjustment	301,441
Salary increase – state employees	2,570,469
Salary increase – pay practices	170,201

Funds for VIVA Program	<u>26,338</u>
Final Appropriation	137,605,572
Reversal of prior year accruals and cash reversion	<u>(2,038,388)</u>
Final Appropriation, net of prior year accruals and reversion	<u>\$ 135,567,184</u>

14. INTEREST EXPENSE

During 2008, the University incurred interest expense totaling \$12,661,218. Of this amount, \$7,650,756 was capitalized as part of the cost of construction and \$5,010,462 was expensed.

15. COMMITMENTS

A. Operating Leases

The University is committed under various operating leases for rental of off-campus facilities. The leases are for one to ten year terms. Facility rental expenses for the fiscal year ended June 30, 2008 were \$5,191,395. The University had, as of June 30, 2008, the following total future minimum rental payments due under the above leases:

<u>Year Ended June 30,</u>	
2009	\$ 4,850,382
2010	4,340,719
2011	4,141,268
2012	1,825,882
2013	<u>1,741,342</u>
Total	<u>\$16,899,593</u>

B. Construction

Outstanding commitments for capital outlay projects that were under construction at June 30, 2008 were \$255,120,339.

16. RETIREMENT AND PENSION SYSTEMS

A. Virginia Retirement System (VRS)

Substantially all full-time classified salaried employees of George Mason University participate in the defined benefit retirement plan administered by VRS. The VRS is an agent multiple-employee public employee retirement system that acts as a common investment and administrative agency for the Commonwealth of Virginia and its political subdivisions.

The VRS does not measure assets and pension benefit obligations separately for individual state institutions. Information relating to this plan is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report (CAFR). Because the employees of the University are also employees of the Commonwealth, the Commonwealth of Virginia and not the University has the overall responsibility for contributions to this plan. The CAFR provides disclosure of the Commonwealth's unfunded pension benefit obligation at June 30, 2008. The same report contains historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

The University's expenses include the amount assessed by the Commonwealth for contributions to VRS, which totaled approximately \$9,640,439 for the year ended June 30, 2008. The retirement contribution rate was 11.1% for fiscal year 2008. Contributions to VRS were calculated using the base salary amount of approximately \$86,740,681 for the year ended June 30, 2008.

The University's law enforcement officers participate in the Virginia Law Officers' Retirement System (VaLORS). The University's expenses include the amount assessed by the Commonwealth for contributions to VaLORS, which totaled approximately \$546,561 for the year ended June 30, 2008. The VaLORS retirement contribution rate was 18.2% for fiscal year 2008. Contributions to VaLORS were calculated using the base salary amount of approximately \$2,998,104 for the year ended June 30, 2008.

The University's expenses include the amount assessed by the Commonwealth for contributions to the VRS Alternative Severance Option early retirement program, which totaled approximately \$115,961 for the year ended June 30, 2008. Contributions were determined by formula based on years of service and annual salary.

The University's total payroll was approximately \$282,031,151 for fiscal year 2008.

B. Faculty Retirement Plans

Most full-time faculty and certain administrative staff participate in one faculty retirement plan with two investment providers rather than the VRS. These are defined contribution plans where the retirement benefits received are based upon the employer's 10.3 percent contribution plus interest and dividends. The employee is not required to make contributions to the program. Individual contracts issued under the plan provide for full and immediate vesting of the University's contributions. As with VRS, the employees' contributions are assumed by the employer. Total pension costs under these plans were approximately \$13,748,176 for the year ended June 30, 2008. Contributions were calculated using the base salary of approximately \$133,151,622 for fiscal year 2008. The University's total payroll for fiscal year 2008 was approximately \$282,031,151. The following schedule summarizes the cost and participation in the optional retirement plans.

<u>Faculty Retirement Plans</u>	<u>Retirement Pension Cost</u>	<u>Plan's Covered Payroll</u>	<u>Contribution Percentage</u>
TIAA-CREF*	\$10,132,485	\$98,149,705	10.3%
Fidelity Investments	<u>3,615,691</u>	<u>35,001,917</u>	10.3%
Total	<u>\$13,748,176</u>	<u>\$133,151,622</u>	

*Teachers Insurance and Annuity Association/College Retirement Equities Fund

C. Deferred Compensation

Employees of the University are employees of the Commonwealth of Virginia. State employees may participate in the Commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the Commonwealth matching up to \$20 per pay period. The dollar amount match can change depending on the funding available in the Commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under Section 401(a) of the Internal Revenue Code. Employer contributions under the Deferred Compensation Plan were approximately \$879,907 for the fiscal year ended June 30, 2008.

17. POST-RETIREMENT BENEFITS

The Commonwealth participates in the VRS administered statewide group life insurance program which provides post employment life insurance benefits to eligible retired and terminated employees. The Commonwealth also provides health care credits against the monthly health insurance premiums of its retirees who have at least 15 years of service and participate in the State health plan. Information related to these plans is available at the statewide level in the Commonwealth's Comprehensive Annual Financial Report.

18. RISK MANAGEMENT AND EMPLOYEE HEALTH CARE PLANS

The University is exposed to various risks of loss related to torts; theft, or damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The University participates in insurance plans maintained by the Commonwealth of Virginia. The Department of Human Resource Management administers the Commonwealth employee health care and worker's compensation plans, and the Department of Treasury, Division of Risk Management, administer the risk management insurance plans. Risk management insurance includes property, general liability, faithful performance of duty bond, automobile, and air and watercraft plans. The University pays premiums to each of these departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth's Comprehensive Annual Financial Report.

19. SUBSEQUENT EVENTS

In July 2008, the University executed a \$41.5 million construction contract with Whiting-Turner Contracting Company for construction management services on the Prince William Biomedical Research Laboratory Project.

During September 2008, the renovation of Presidents Park I, Phase I, was completed. \$2.9 million included in Construction in Progress at June 30, 2008, will be capitalized to buildings during FY 2009.

During September 2008, Student Union Building III, part of the Student Housing VII project, was completed. \$9.9 million, included in Construction in Progress at June 30, 2008, will be capitalized to buildings during FY 2009.

During September 2008, the renovation of Commonwealth and Dominion Halls was completed. \$728 thousand, included in Construction in Progress at June 30, 2008, will be capitalized to buildings during FY 2009.

In November 2008, the Commonwealth Treasury Board completed the sale of the General Obligation Bonds, Series 2008B. The University's share of the total principal amount of the bonds issued is \$34.3 million. The University will use the proceeds of these bonds to finance several student housing construction and renovation projects. Payment on the bonds will be made semi-annually, with an interest rate ranging from 3 to 5 percent. The final payment will be due in 2033.

In November 2008, the University signed a PPEA (Public-Private Education Facilities and Infrastructure Act) comprehensive agreement in the amount of \$53.6 million with University Hotel Partners, LLC for the design and construction of a hotel/conference center (\$50.3 million) and related infrastructure (\$3.3 million).

During December 2008 the George Mason Softball Field Improvement was completed. \$194 thousand, included in Construction in Progress at June 30, 2008, will be capitalized to Improvements, along with additional expenditures made during FY 09, bringing total capitalization to approximately \$2.1 million.

In January 2009, the University entered into fourteen promissory notes with the Virginia College Building Authority (VCBA) to participate in the Educational Facilities Revenue Bonds, Series 2009A, issued by the VCBA under its Pooled Bond Program. The total principal amount of these notes is \$136.7 million. The University will use the proceeds of these notes to finance several construction and renovation projects including six new buildings, five additions/renovations, a new parking deck, and other campus improvements. Payment on the notes will be made semi-annually, with an interest rate ranging from 2.1 percent to 5 percent. The final payment will be due in 2038.

In February 2009, the University signed a contract in the amount of \$17.5 million with Hess Construction for design-build services for an addition to, and renovation of, Student Union Building I.

In February 2009, the University's Board of Visitors voted to rescind the University's participation in the campus at Ras al Khaimah (RAK) in the United Arab Emirates at the conclusion of the Spring 2009 semester due to procedural and budgetary changes made in the campus' operations by the partner foundation in the RAK. No significant costs will be incurred to close out the University's participation.

Subsequent to June 30, 2008, the global financial and credit markets experienced some of the greatest turbulence in their history, resulting in significant reductions in equity values and available credit. University management estimates the effect of these declines on its investment portfolio, including its endowment, to be a decrease of approximately 33 percent, or \$1.3 million, as of February 28, 2009.

The George Mason University Foundation's investments, included in the Component Unit column of the *Statement of Net Assets*, have experienced similar declines during this period of market volatility. The market value of the Foundation's investments decreased approximately 27%, or \$26.0 million, as of February 28, 2009.

In March 2009, the University announced that it will terminate its cooperative agreement with the Northern Virginia Regional Park Authority for operation of the Hemlock Overlook Center for Experiential Education. The decision to bring the agreement to a close followed an assessment of the facility's cost viability and its fit with the University's future plans. Mason will end its joint agreement with the Park Authority effective June 30, 2009. No significant costs will be incurred to close out the University's participation.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

April 23, 2009

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
George Mason University

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of **George Mason University**, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2008, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component unit of the University, which is discussed in Note 1. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates the amounts included for the component unit of the University is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the component unit of the University that was audited by other auditors upon whose report we are relying was audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and discretely presented component unit of the University as of June 30, 2008, and the respective changes in

financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated April 23, 2009, on our consideration of George Mason University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

A handwritten signature in black ink, appearing to read "Walter J. Kucharik".

AUDITOR OF PUBLIC ACCOUNTS

JHS/clj

GEORGE MASON UNIVERSITY

BOARD OF VISITORS

As of June 30, 2008

Ernst Volgenau, Rector

J. Knox Singleton, Vice Rector

Carol Merchant Kirby, Secretary

Anne K. Altman	Glenn C. Lewis
Terri Cofer Beirne	Byron F. Marchant
Kathleen deLaski	Charlie H. Mills, III
C. Gibson Dunn	Long Nguyen
Dennis Garcia	Sudhakar V. Shenoy
Harry F. Hopper, III	William Soza

D. Jean Wu

Suzanne Slayden, Faculty Representative
Deidra Marie Bailey, Student Representative
Aline Sandouk, Student Representative

ADMINISTRATIVE OFFICERS

Alan G. Merten, President

Maurice W. Scherrens, Senior Vice President

Elizabeth A. Brock
Associate Vice President and Controller