

GEORGE MASON UNIVERSITY

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

JUNE 30, 2012



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MANAGEMENT'S DISCUSSION AND ANALYSIS

George Mason University

Financial Statements for the Year Ended June 30, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS **Unaudited**

Overview of the Financial Statements and Financial Analysis

This unaudited *Management's Discussion and Analysis* (MD&A) is required supplementary information under the Governmental Accounting Standards Board's (GASB) reporting model. This discussion and analysis provides an overview of the financial condition, results of operations, and cash flows of George Mason University for the fiscal year ended June 30, 2012 (FY 2012). Comparative numbers are included for the fiscal year ended June 30, 2011 (FY 2011). 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 2012, the University continued to invest in the development of facilities that will support and enhance the capacity to achieve its strategic goals. A key aspect of this investment is the development of facilities and systems that enhance the quality of teaching and learning, create operating efficiencies, and support the development of diversified revenue streams, all of which are essential for the University's continued movement to an economic model which is less reliant on state appropriations. Several examples of this ongoing investment are set forth below.

During FY 2012, the University completed Whitetop and Rogers residence halls (Housing VIIIA). These two new residence halls added 600 beds increasing the number of students living on campus to about 6,000. These projects mark additional steps in the ongoing process of changing the nature of the campus by increasing the percentage of students living on campus. This change not only enhances campus life for students but also creates substantial additional revenue in the form of room and board fees and a larger on-campus market for expanding auxiliary enterprise revenues.

Also during FY 2012, the University made substantial progress on the addition to, and renovation of, the Science and Technology I and II buildings. This project involves renovation of

100,000 square feet of existing space and an addition of 50,000 square feet which will connect the two existing buildings. This project will complete the consolidation of the College of Science into one area of campus, and will provide modern science teaching labs to meet STEM instructional needs and support science education across the University. The project also provides University classrooms that include updated technology standards to meet faculty pedagogical needs. The project is expected to be ready for occupancy in August 2013.

In FY 2012, the joint graduate level bio-medical science program between the University and Georgetown University demonstrated that an innovative and collaborative program can also be a solid financial success. Classes are taken at the Prince William Campus of the University and the students are considered jointly George Mason and Georgetown students. The collaborative nature of the program is reflected in the faculty teaching the courses, access to both campuses, and transcripts. The program has become so popular that the University is constructing a graduate level residence hall at the Prince William Campus specifically to house students in this program. The program will prepare students for careers in the biological, biochemical, and medical biosciences industries, as well as for application to pre-medical programs and medical school.

After two years of receiving a substantial amount of American Recovery and Reinvestment Act (ARRA) State Fiscal Stabilization Funds (\$6.2 million in FY 2010 and \$20.1 million in FY 2011), the University, as expected, received none during FY 2012. These funds helped to offset the cumulative effect of successive years of cuts in state general fund appropriations.

In FY 2010, in preparation for the expected eventual loss of ARRA funding, the University recognized the need to develop a bridge strategy to create a pool of saved funds to carry forward several years into the future. The intent of the strategy is to avoid the double digit tuition increases that would otherwise be needed to offset the loss of ARRA State Fiscal Stabilization Funds and permanently lower state general fund appropriations. Pursuant to this strategy, in FY 2011 the University reverted \$21.6 million of saved general fund appropriations to the Commonwealth and was able to obtain a re-appropriation of those funds in FY 2012. The University was able to repeat this bridging strategy in FY 2012 by reverting \$22.0 million of saved general fund appropriations for re-appropriation in FY 2013. By drawing on this bridging fund over the course of the next several years the University will be able to avoid large tuition increases.

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 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, 2012, and June 30, 2011, follows.

Statement of Net Assets*

	June 30, 2012	June 30, 2011	Dollar Change	Percent Change
Assets:				
Current assets	\$ 169,316	\$ 147,898	21,418	14%
Capital assets, net	1,136,544	1,097,772	38,772	4%
Other noncurrent assets	49,605	53,006	(3,401)	-6%
Total Assets	1,355,465	1,298,676	56,789	4%
Liabilities:				
Current liabilities	144,371	140,625	3,746	3%
Noncurrent liabilities	656,768	627,318	29,450	5%
Total Liabilities	801,139	767,943	33,196	4%
Net Assets:				
Invested in capital assets, net of debt	495,616	478,598	17,018	4%
Restricted: nonexpendable	3,925	3,723	202	5%
Restricted: expendable	4,083	3,196	887	28%
Unrestricted	50,702	45,216	5,486	12%
Total Net Assets	\$554,326	\$530,733	\$23,593	4%

*In thousands

The University's financial position remained strong at the end of FY 2012. Total assets were \$1.355 billion and net assets (total assets less total liabilities of \$801.1 million) amounted to \$554.3 million. These total amounts were the result of an FY 2012 increase in total assets of \$56.8 million and an increase in net assets of \$23.6 million.

For FY 2012, current assets of \$169.3 million exceeded current liabilities of \$144.4 million by \$24.9 million. This represents a continuation of improving liquidity that began in FY 2011 and has continued in FY 2012. In FY 2011 current assets were \$7.3 million greater than current liabilities. This increase in current assets relative to current liabilities is primarily the result of the lower volume of construction activity and the consequent reduction in construction related payables. This reflects the fact that construction related payables are in current liabilities while the assets used to pay them are typically in restricted cash and cash equivalents, which is classified as a non-current asset.

Capital assets, net of accumulated depreciation of \$408.5 million, totaled \$1.136 billion, which represents an increase of \$38.8 million over FY 2011, and reflects the ongoing expansion of facilities at the University, although at a slower rate of increase than in the FY 2011 when capital assets increased by \$93.9 million.

The \$3.4 million, 6%, reduction in Other noncurrent assets primarily reflects the reduction in restricted bond proceeds used to pay for construction of capital assets.

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 new 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 \$98.0 million (excluding land, construction in progress, and works of art) and additions to construction in progress of \$78.4 million. Depreciation expense increased by \$5.7 million over the prior year to \$51.4 million.

Depreciable capital asset additions for FY 2012 included the following:

Asset Category	Amount (in millions)
Buildings	\$83.0
Equipment	\$7.9
Infrastructure	\$1.1
Intangibles including computer software	\$0.5
Library Materials	\$5.5
Total	\$98.0

Completed building projects included Rogers and Whitetop residence halls, renovation of Thompson Hall, renovation of the Presidents Park residence halls, and Fairfax Aquatic Center HVAC. Infrastructure additions included \$1.1 million for Aquia Creek Lane.

Major ongoing capital projects include: the Science and Technology building renovation and addition, the Fenwick Library addition, the Fine Arts building renovation, and the University Commons residence halls renovation, all at the Fairfax Campus, a residence hall and a dining facility for the Smithsonian-Mason Conservation Studies Program at Front Royal, and the Point of View facility at Belmont Bay.

Financial stewardship requires the effective management of resources, including the use of long-term debt to finance capital projects. Notes 7, 8 and 9 of the Notes to Financial Statements describe changes in the University's long-term debt. New capital revenue bonds and Virginia College Building Authority (VCBA) notes with a principal amount of \$77.3 million were issued during FY 2012, as follows:

Virginia 9(c) Revenue Bonds were issued to finance the following projects:

Project	Amount (in millions)
Student Housing VII-C	\$1.0
President's Park Renovation	\$2.7
Housing VIII	\$20.2
Smithsonian CRC Housing	\$4.1
Renovate Commons	\$14.4
Residence Hall V Part 2 (Refunding)	\$0.2
University Center (Refunding)	\$4.0
Student Housing (Refunding)	\$2.7
Total	\$49.3

VCBA Notes were issued to finance the following projects:

Project	Amount (in millions)
Fairfax Campus Dining	\$6.1
Smithsonian CRC - Dining	\$2.7
Parking Deck II (Refunding)	\$5.5
Aquatic Fitness Center (Refunding)	\$3.1
Fairfax Research I (Refunding)	\$6.3
Student Union III (Refunding)	\$2.3
Krasnow Institute (Refunding)	\$2.0
Total	\$28.0

Total long-term debt outstanding, including revenue bonds, notes payable, capital leases payable, installment purchases, bond premiums and discounts, and deferred gains and losses on refundings increased by \$32.7 million from the end of FY 2011 to the end of FY 2012, to a total of \$674.9 million.

Contractual commitments for capital outlay projects under construction at year end decreased from \$29.2 million in FY 2011 to \$28.9 million in FY 2012. These obligations are for future efforts and therefore have not been accrued as expenses or liabilities on the University's financial statements.

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 earned, operating expenses incurred, and all other revenues, expenses, gains, and losses.

Generally speaking, operating revenues are earned 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 in exchange as part of a transaction. 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 private gifts not restricted to a particular purpose, both of which are included in nonoperating revenues, provide substantial support for paying operating expenses of the University. The University, like most public institutions, does not cover all operating expenses with operating revenues, and therefore expects to report an operating loss.

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

Statement of Revenues, Expenses, and Changes in Net Assets*				
	June 30, 2012	June 30, 2011	Dollar Change	Percent Change
Operating Revenues:				
Student tuition and fees, net of allowances	\$ 270,868	\$ 250,271	20,597	8%
Grants and contracts	106,475	100,486	5,989	6%
Auxiliary enterprises and other	148,736	136,053	12,683	9%
Total operating revenues	526,079	486,810	39,269	8%
Operating Expenses:				
Educational and general	512,117	482,754	29,363	6%
Depreciation	51,411	45,732	5,679	12%
Auxiliary enterprises	105,300	98,627	6,673	7%
Total operating expenses	668,828	627,113	41,715	7%
Operating loss	(142,749)	(140,303)	(2,446)	2%
Nonoperating revenues and expenses (net)	124,894	128,555	(3,661)	-3%
Income (loss) before other revenue/expense/gain/loss	(17,855)	(11,748)	(6,107)	52%
Other revenue/expense/gain/loss	41,448	33,126	8,322	25%
Net increase in net assets	23,593	21,378	2,215	10%
Net assets at beginning of year	\$530,733	509,355	21,378	4%
Net assets at end of year	\$554,326	\$530,733	23,593	4%

*in thousands

Operating revenue, consisting primarily of tuition and fees, grants and contracts, and auxiliary enterprises, increased by \$39.3 million, or 8%, over the prior year. Student tuition and fees, net of scholarship allowances, increased by \$20.6 million, or 8%, over the prior year. This growth is attributable to tuition and fee increases and increased enrollment. Grants and contracts revenue, which includes some federal financial aid, increased by \$6.0 million, or 6%, over the prior year. Auxiliary and other revenue increased by \$12.7 million, or 9%, primarily due to increased student enrollment, an increase in the number of students housed on campus and increased utilization of on campus facilities and programs, increased mandatory fees, and increased room and board rates.

Total operating expenses increased by \$41.7 million, or 7%, including an increase of \$26.3 million in compensation expenses, consisting of salaries, wages, and fringe benefits, an increase in the purchase of goods and services of \$9.9 million, and an increase in depreciation expense of \$5.7 million.

The net result of the \$39.3 million increase in operating revenue and the \$41.7 million increase in operating expense, discussed in the above two paragraphs, was a \$2.4 million increase in the operating loss.

Nonoperating revenues net of nonoperating expenses decreased by \$3.7 million, or 3%, due primarily to a \$20.1 million decrease in ARRA State Fiscal Stabilization funds, a \$.4 million decrease in investment income, \$17.0 million increase in unrestricted and restricted (non-capital) state general fund appropriations, a \$.7 million increase in Pell receipts, a \$.6 million increase in non-capital private gifts, a \$.4 million increase in Build America Bonds subsidy revenue, and an increase in interest expense of \$1.9 million. The decrease in ARRA State Fiscal Stabilization funds was expected. In order to prepare for the loss of the ARRA funds, in FY 2011 the University reverted \$21.6 million of unspent general fund appropriations to the Commonwealth and was able to obtain a re-appropriation of those funds in FY 2012. The University was able to repeat this bridging strategy in FY 2012 by reverting \$22.0 million of unspent general fund appropriations for re-appropriation in FY 2013.

One of the most important numbers to note in the Statement of Revenues, Expenses, and Changes in Net Assets is "Income/(Loss) before other revenues, expenses, gains or losses" since this reflects both the University's operating results and the University's non-capital general fund appropriations from the Commonwealth, Pell grants, unrestricted gifts, and investment income, all of which are included in nonoperating revenues but are used to fund operating expenses. The loss amount increased by \$6.1 million (a larger loss) over the previous year (a loss of \$17.9 million for FY 2012 compared to a loss \$11.8 million for FY 2011). This increase in the loss before other revenues, expenses, gains, or losses is the sum of the \$3.7 million reduction in Nonoperating revenues net of nonoperating expenses, set forth in the preceding paragraph, and the \$2.4 million increase in the operating loss discussed above. Although there were both increases and decreases in nonoperating revenues and expenses, the most significant factor in the larger loss in FY 2012 was the \$20.1 million decrease in ARRA funds only partially offset by the \$17 million increase in state general fund appropriations.

The final category on the Statement of Revenues, Expenses, and Changes in Net Assets is called Other revenues, expenses, gains and losses and includes capital appropriations, capital grants and gifts, additions to permanent endowment, and gains/(losses) on the disposal of fixed assets. This category increased by \$8.3 million, or 25% (a net gain of \$41.4 million for FY 2012 compared to a net gain of \$33.1 million for FY 2011), caused primarily by the combined effect of a \$7.9 million increase in capital appropriations through the Commonwealth's General Obligation Bonds and Virginia College Building Authority 21st Century capital reimbursement programs, an increase of \$.8 million in capital grants and gifts, and a \$.4 million increase in loss on disposal of fixed assets.

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 income/(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*

	June 30, 2012	June 30, 2011	Dollar Change	Percent Change
Cash provided from operations	\$524,118	\$487,751	36,367	7%
Cash expended for operations	612,120	582,339	29,781	5%
Net cash used for operations	(88,002)	(94,588)	6,586	-7%
Net cash provided by noncapital financing activities	148,926	150,608	(1,682)	-1%
Net cash provided by (used for) capital financing activities	(48,266)	(55,890)	7,624	-14%
Net cash provided by (used for) investing activities	765	1,206	(441)	-37%
Net (decrease) increase in cash	13,423	1,336	12,087	905%
Cash, beginning of year	141,396	140,060	1,336	1%
Cash, end of year	\$154,819	\$141,396	13,423	9%

* in thousands

The above summarized Statement of Cash Flows shows that the University generated 86 percent (\$524.1 million of \$612.1 million expended) of its operating cash requirements from its own operations, with the remainder (\$88.0 million) being provided from non-capital appropriations from the Commonwealth of Virginia, non-capital private gifts, and Pell Grants, all of which are in the Net cash provided by non-capital financing activities category in the table above, and from investing activities, which is its own category in the table above.

Cash for capital financing activities was provided by capital appropriations from the Commonwealth of Virginia, capital gifts and grants, and the sale of revenue bonds, and was used to acquire capital assets and make debt principal and interest payments.

Although operations expended \$29.8 million more cash in FY 2012 than in FY 2011, it also generated \$36.4 million more cash in FY 2012 than in FY 2011, resulting in a reduced need for operating cash to be obtained from sources other than operations. Overall operations still resulted in a net usage of cash of \$88.0 million, but this was \$6.6 million less in net usage of cash than in FY 2011.

The major sources of the \$36.4 million increase in cash provided from operations in FY 2012 compared to FY 2011 were student tuition and fees (\$19.3 million increase), grants and

contracts (\$3.4 million increase), auxiliaries (\$12.4 million increase), and other receipts (\$1.3 million increase).

The major causes of the \$29.8 million increase in cash used by operations in FY 2012 compared to FY 2011 were payments for salaries, wages, and fringe benefits (\$28.0 million increase), payments for supplies and services (\$2.2 million increase), and a decrease in Perkins loan disbursements (\$.4 million decrease).

Cash provided by non-capital financing activities decreased \$1.7 million in FY 2012 compared to FY 2011, primarily due to a \$17.0 million increase in state general fund appropriations, a \$.7 million increase in Pell Grant receipts, and a \$.7 million increase in gifts. These increases were offset by a \$20.1 million decrease ARRA State Fiscal Stabilization funds.

The University's net cash used for capital financing activities decreased by \$7.6 million in FY 2012 compared to FY 2011. The primary components of the net decrease in cash used by capital financing activities include a decrease in the proceeds received from the issuance of capital related debt, including premiums, of \$17.9 million (increases the change in the net cash used), an increase in the cash received from capital appropriations, capital grants and gifts and proceeds from the sale of capital assets of \$3.1 million (decreases the change in net cash used), a decrease of \$26.9 million in the purchase of capital assets (decreases the change in net cash used), and an increase in debt service payments of \$4.5 million (increases the change in net cash used).

The primary sources of cash from investing activities are interest on non-general fund and local cash balances, interest on unspent bond proceeds, and endowment investment earnings. The primary cash outflow from investing activities is the purchase of investments. During FY 2012, these activities produced \$.4 million less cash than they did in FY 2011 primarily due to smaller balances of unspent bond proceeds earning interest.

Economic Outlook

As part of the Commonwealth of Virginia's statewide system of higher education, the University's economic outlook is closely tied to that of the Commonwealth. The University receives substantial support from the Commonwealth in the form of operating and capital appropriations. General fund operating appropriations from the Commonwealth have been declining for many years. During FY 2010 and FY 2011 these reductions in state general fund support to the University's operating budget were partially offset by federal stimulus funding. The federal stimulus funding ended in FY 2011.

The University adopted a bridge strategy to carry forward and gradually expend over several years savings in general fund appropriations enabled by the stimulus funding. As of the end of FY 2012 the University reverted to the Commonwealth \$22.1 million of saved general fund appropriations to be carried forward for re-appropriation in FY 2013. The University intends to repeat this strategy for several years into the future, using a portion of the saved amount each year, and carrying the remainder forward until it is fully expended.

This bridge strategy will ensure well considered and judicious use of the funds and avoid the need for drastic increases in tuition and fees, while also providing the University with time to enhance or develop multiple other revenue streams from activities such as expanding lifelong learning opportunities, using technology to extend distance learning opportunities, expanding

the commitment to continuing and professional education, investing in technologies relevant to research, continuing to explore global opportunities, building stronger relationships with alumni to help grow private giving, leveraging public-private partnerships, and expanding and enhancing auxiliary enterprise services for the growing population of students living on-campus. The University will also continue to assess the optimal combination of tuition and fees and discount levels. The ultimate result of the bridge strategy will be to keep the University moving along a path to an operational and financial model less reliant on State support, driven by creativity, flexibility, and innovation, and by which the University will not only survive, but thrive.

As the University moves forward on this path to a new operational and financial model it is also experiencing dramatic changes in its leadership. On July 1, 2012, President Alan Merten, who led the University for the last 16 years, was succeeded by Dr. Angel Cabrera, who was previously the President of Thunderbird School of Global Management in Arizona. In addition, during FY 2012 Dr. Maurice Scherrens, Senior Vice President of the University for the last 35 years, announced his decision to accept the Presidency of Newberry College in South Carolina effective August 13, 2012, and Thomas Hennessey, Chief of Staff, retired after 16 years of service.

President Cabrera has announced a plan to craft a new strategic vision for the university, in collaboration with the faculty and key internal and external stakeholders. President Cabrera will present the new strategic vision to the Board of Visitors for consideration and approval during FY 2013. The strategic vision will then form the basis for a new strategic plan which will be developed and approved prior to the end of FY 2014.

FINANCIAL STATEMENTS

George Mason University
Statement of Net Assets
As of June 30, 2012

ASSETS

Current assets:

Cash and cash equivalents (Note 2)	\$ 121,768,950
Short-term investments (Note 2)	214,049
Accounts receivable, net of allowance of \$1,169,912 (Note 4)	34,929,345
Notes receivable, net of allowance of \$10,204 (Note 4)	501,473
Prepaid expenses	3,103,422
Inventories	1,859,100
Due from the Commonwealth of Virginia	6,939,175
Total Current Assets	169,315,514

Noncurrent assets:

Restricted cash and cash equivalents (Note 2)	39,861,223
Restricted cash and cash equivalents in custody of others (Note 2)	111,641
Appropriations available- capital projects (restricted)	77
Notes receivable, net of allowance of \$56,181 (Note 4)	2,709,407
Depreciable capital assets, net of accumulated depreciation (Note 5)	1,053,424,489
Nondepreciable capital assets (Note 5)	83,119,608
Long-term investments (Note 2)	3,905,967
Unamortized bond issuance costs	3,016,771
Total noncurrent assets	1,186,149,183

Total assets	1,355,464,697
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LIABILITIES

Current liabilities:

Accounts payable and accrued expenses (Note 6)	62,517,775
Deferred revenue	39,072,005
Obligations under securities lending	7,137,215
Deposits held in custody for others	485,706
Long-term debt- current portion (Notes 7-10)	29,561,979
Accrued compensated absences- current portion (Notes 7-10)	5,595,744
Total current liabilities	144,370,424

Noncurrent liabilities (Notes 7-10)

Long-term debt	645,360,512
Accrued compensated absences	8,314,736
Other noncurrent liabilities	3,092,808
Total noncurrent liabilities	656,768,056

Total liabilities	801,138,480
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NET ASSETS

Invested in capital assets, net of related debt	495,616,203
Restricted: nonexpendable (Note 19)	3,925,326
Restricted: expendable (Note 19)	4,082,620
Unrestricted	50,702,068
Total net assets	\$ 554,326,217

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

**George Mason University Component Units
Combined Statements of Financial Position
As of June 30, 2012**

	Total Component Units
<hr/>	
Assets	
Cash and cash equivalents	6,249,206
Restricted cash and cash equivalents	7,759,438
Accounts receivable	87,399
Contributions receivable, net	19,549,895
Prepays & Other Assets	859,339
Deposits held with trustees	37,524,275
Leasing commissions	1,533,952
Net investment in direct financing lease	31,636,683
Beneficial interest in perpetual trusts	10,260,229
Annuity benefit contract	434,677
Deferred loan costs, net	3,003,495
Investments	104,961,310
Property and equipment, net	139,522,526
Art and antiques	572,567
Total Assets	<u><u>363,954,991</u></u>
 Liabilities and Net Assets	
Liabilities	
Accounts payable and accrued expenses	6,132,597
Accrued payroll and related expenses	44,174
Participation rent payable	80,507
Unearned rent	19,020
Trust liabilities	1,080,428
Other liabilities	199,003
Accrued annuity benefit	434,677
Derivative obligations including interest rate swap liability	21,444,826
Long-term debt including note payable	212,963,402
Amounts held for others	8,949,641
Total Liabilities	<u>251,348,275</u>
 Net Assets	
Unrestricted	(6,481,970)
Temporarily restricted	60,538,096
Permanently restricted	70,115,416
GMUF Arlington Campus, LLC	(6,012,805)
GMUF Mason Administration, LLC	(5,533,089)
GMUF Prince William Housing LLC	(6,164)
GMUF Prince William Life Sciences Lab LLC	(12,768)
Total Net Assets	<u>112,606,716</u>
 Total Liabilities and Net Assets	 <u><u>363,954,991</u></u>

The accompanying Notes to Financial Statements 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, 2012

Operating revenues:

Student tuition and fees (net of scholarship allowances of \$40,860,676)	\$ 270,868,475
Federal grants and contracts	84,810,040
State, local, and nongovernmental grants and contracts	21,665,115
Auxiliary enterprises (net of scholarship allowances of \$13,700,394)	141,062,184
Other operating revenue	7,673,430
Total operating revenue	526,079,244

Operating expenses (Note 12)

Instruction	239,462,784
Research	65,925,777
Public service	20,960,785
Academic support	52,626,380
Student services	22,653,199
Institutional support	41,338,425
Operation and maintenance of plant	42,507,894
Depreciation and amortization	51,410,635
Student aid	26,642,193
Auxiliary enterprises	105,299,912
Total operating expenses	668,827,984

Operating income (loss)	(142,748,740)
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Nonoperating revenues (expenses):

State general fund appropriation (Note 13)	104,369,828
State general fund appropriations - restricted	18,240,008
Pell Grant Receipts	23,958,016
Gifts	2,124,403
ARRA Build America Bonds Subsidy	922,910
Investment income	881,853
Interest expense (Note 14)	(25,602,849)
Net nonoperating revenues	124,894,169

Income before other revenues, expenses, gains, and losses	(17,854,571)
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Other revenues, expenses, gains, and losses:

Capital grants and gifts	9,405,027
Capital appropriations	32,631,407
Additions to permanent endowments	201,942
Other	(790,272)
Net other revenues, expenses, gains, and losses	41,448,104

Increase in net assets	23,593,533
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Net assets beginning of year	530,732,684
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Net assets end of year	\$ 554,326,217
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The accompanying Notes to Financial Statements are an integral part of this statement.

**George Mason University Component Units
Combined Statements of Activities
For the Year Ended June 30, 2012**

	Total Component Units
Operating Revenue	
Contributions	35,772,185
Interest on direct financing lease	2,100,411
Investment and trust return	(1,308,428)
Rental income	15,298,491
Service fees	757,575
Total Operating Revenue	<u>52,620,234</u>
Operating Expenses	
Academic program support	26,560,689
Advertising and promotion	19,691
Depreciation	4,624,014
Fundraising	352,407
Insurance	252,410
Interest expense	7,049,103
Maintenance	99,016
Management fees	94,222
Office and other administrative expenses	3,298,547
Other program service benefits	3,269,979
Salaries and wages	302,921
Utilities	2,761,553
Total Operating Expenses	<u>48,684,552</u>
Change in Net Assets before Non-operating items and Other Changes	3,935,682
Non-operating Items	(12,175,362)
Payments to affiliates	(1,066,635)
Decline in value of pledged land	<u>(2,468,412)</u>
Change in Net Assets	(11,774,727)
Beginning Net Assets	<u>124,381,443</u>
Ending Net Assets	<u><u>112,606,716</u></u>

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

George Mason University
Statement of Cash Flows
For the Year Ended June 30, 2012

Cash flows from operating activities

Student tuition and fees	\$ 269,846,963
Grants and contracts	104,686,358
Auxiliary enterprises	141,821,829
Perkins loan receipts	1,178,341
Other receipts	6,584,826
Payments to suppliers	(158,152,356)
Payments to employees	(427,325,960)
Payments for student aid	(26,642,193)
Perkins loan disbursements	-

Net cash used by operating activities **(88,002,192)**

Cash flows from noncapital financing activities

State appropriations	122,609,836
Advance from Treasurer	-
Additions to endowments	201,942
Federal Direct Loan Program receipts	158,578,092
Federal Direct Loan Program disbursements	(158,578,092)
Pell Grant receipts	23,958,016
Noncapital gifts	2,124,403
Agency transactions	31,929

Net cash provided by noncapital financing activities **148,926,126**

Cash flows from capital and related financing activities

Proceeds from capital appropriations available	30,702,836
Capital grants and contributions	7,910,056
Proceeds from sale of capital assets	123,959
Proceeds from issuance of capital related debt	79,829,382
Bond premium paid on capital related debt	4,538,127
Bond issuance costs on capital related debt	(346,557)
Principal paid on capital related debt	(52,724,284)
Interest paid on capital related debt	(26,128,267)
Purchases of capital assets	(92,170,948)

Net cash provided by capital and related financing activities **(48,265,696)**

Cash flows from investing activities

Interest on investments	881,853
Purchase of investments	(117,013)

Net cash provided by investing activities **764,840**

Net increase in cash **13,423,078**

Cash and cash equivalents - beginning of the year	145,684,910
Less: Securities Lending - Treasurer of Virginia	(4,289,340)
Cash and cash equivalents - beginning of the year (restated)	<u>141,395,570</u>

Cash and cash equivalents - end of the year **\$ 154,818,648**

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, 2012

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

Statement of Net Assets	
Cash and cash equivalents	\$ 161,741,814
Less: Securities lending - Treasurer of Virginia	<u>(6,923,166)</u>
Net cash and cash equivalents	<u>\$ 154,818,648</u>

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

Operating loss	\$ (142,748,740)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	51,410,635
Changes in assets and liabilities:	
Accounts receivable (net)	(3,390,236)
Restricted assets receivable (net)	(1,020,406)
Perkins loan receivable	672,774
Perkins loan liability	505,567
Inventory	(1,208,343)
Prepaid expenses	4,233,210
Due from Commonwealth	(26,063)
Accounts payable and accrued liabilities	1,555,230
Deferred revenue	1,191,374
Compensated absences	<u>822,806</u>
Net cash used by operating activities	<u>\$ (88,002,192)</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, 2012

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.

The George Mason University Foundation, Inc. (GMUF) and Mason Housing, Inc. (MHI) qualify as component units of the University. GMUF was established to receive, hold, invest and administer property, and to make expenditures for the benefit of the University. During the year ended June 30, 2012, GMUF distributed \$30,183,075 to, or on behalf of, the University for both restricted and unrestricted purposes. Separate financial information regarding GMUF may be obtained by writing to the GMUF Business Office at 4400 University Drive, MSN 1A3, Fairfax, VA 22030. MHI was established to build and manage the University's faculty and staff housing. Separate financial information for MHI may be obtained by writing to Mason Housing, Inc., Attn- Thomas Calhoun, 4400 University Drive, MSN 2C1, Fairfax, VA 22030.

B. Basis of Presentation

The University's accounting policies conform with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (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 University follows accounting and reporting standards for "reporting by special-purpose governments engaged only in business-type activities."

GMUF and MHI are private, nonprofit organizations that report under Financial Accounting Standards Board (FASB) standards. Their financial statements included herein are presented in accordance with those standards.

C. Basis of Accounting

The University's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus considers all inflows, outflows, and balances affecting an entity's net assets. 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

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, infrastructure assets such as sidewalks, electrical and computer network cabling systems and intangible assets including computer software. Capital assets generally are defined by the University as assets with an initial cost of \$5,000 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 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
Intangibles including computer software	5-10 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.

F. Inventory

Inventory is composed of three distinct categories of items. The first category includes 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. The third category consists of the on-hand stock of material, supplies, and parts for use in maintaining the University's physical plant. All three 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, 2012. This is primarily composed of student tuition collected for courses that will be offered after June 30, 2012.

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, 2012, all unused vacation, overtime, compensatory, recognition and sick leave payable upon termination under University policy. The applicable share of employer related payroll taxes also is included.

J. Federal Financial Assistance Programs

The University participates in federally funded Pell Grants, Supplemental Educational Opportunity Grants, Federal Work-Study, Direct Loan, and the Perkins Loan programs. Federal programs are audited in accordance with generally accepted governmental auditing standards.

K. Net Assets

The Statement of Net Assets reports the difference between assets and liabilities as net assets. 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.

Governmental financial aid grants are treated as operating revenue, with the exception of Pell grants which are treated as nonoperating revenue in the University’s financial statements.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts, and state appropriations. 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 Revenues, 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 certain expenses for fiscal year 2013 that were paid in advance as of June 30, 2012. These prepaid expenses consist primarily of facility rentals, insurance premiums, and interest.

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 recognized 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.

P. Commonwealth Equipment and Capital Project Reimbursement Programs

The Commonwealth has established several programs to provide state-supported institutions of higher education with bond proceeds for financing the acquisition of instructional and research equipment and facilities.

During Fiscal Year 2012, funding has been provided to the University from three programs:

- General Obligation Bonds (GOB) Program
- 21st Century Program
- Equipment Trust Fund (ETF) Program

The Commonwealth issues bonds and uses the proceeds to reimburse the University, and other institutions of higher education, for expenses incurred in the acquisition of equipment and facilities. The bond liability is assumed by the Commonwealth and is not reflected as a liability of the University.

The Statement of Net Assets line item “Due from the Commonwealth of Virginia” includes pending reimbursements at year-end from these programs. The Statement of Revenues, Expenses, and Changes in Net Assets line items “Capital grants and gifts” and “Capital appropriations” include the reimbursements from these programs.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

The University’s deposits and investments are subject to the following risks:

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 “category 3” 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 corporate stocks on behalf of the University in the amount of \$1,348,175, and corporate bonds in the amount of \$1,196,050, both of which are subject to custodial credit risk. The other investments held for the University by GMUF 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. 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. The corporate bonds, in the amount of \$1,196,050, held for the University by GMUF, are debt securities, and therefore subject to credit risk. Credit risk relative to these bonds is mitigated by GMUF’s investment policy guidelines on the credit quality of fixed income investments which state that the percentage of all fixed income assets rated below investment grade by one of the major reporting agencies (Standard & Poor’s and Moody’s) cannot exceed 25%. The other investments held for the University by GMUF are not investments of a type that are subject to credit risk.

Concentration of Credit Risk - the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments with any one issuer that represent five percent or more of total investments constitute concentration of credit risk. 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. GMUF holds money market funds in the amount of \$6,891 for the University. These money market funds have a maturity of less than one year. GMUF holds corporate bonds in the amount of \$1,196,050 for the University. These corporate bonds are subject to interest rate risk. The interest rate risk relative to these bonds is mitigated by GMUF's investment policy guidelines on fixed income investments, which limit maturities to a weighted average portfolio duration not to exceed 150% of the weighted average portfolio duration of the Barclays Aggregate Bond Index. 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 foreign deposits for FY 2012.

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. 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 Land Use 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	\$ 14,121,108
Treasurer of Virginia	100,724,676
Treasurer of Virginia (Securities Lending)	<u>6,923,166</u>
Subtotal	121,768,950
Restricted cash and cash equivalents:	
Treasurer of Virginia (State Nonarbitrage Program)	39,861,223
Held in custody of others	<u>111,641</u>
Subtotal	<u>39,972,864</u>
 Total Cash and cash equivalents	 <u>\$161,741,814</u>

Investments:

Short-term:	
Treasurer of Virginia (Securities Lending)	<u>\$214,049</u>
Long-term:	
Corporate stocks - held by GMUF	1,348,175
Corporate bonds - held by GMUF	1,196,050
Money Market Funds & Cash - held by GMUF	6,891
Certificates of deposit - held by GMUF	195
Alternative investments - held by GMUF	<u>1,354,656</u>
Subtotal Long-term	3,905,967
 Total Investments	 <u>\$4,120,016</u>

3. DONOR-RESTRICTED ENDOWMENTS

The University's endowment is managed by the George Mason University Foundation (GMUF). During FY 2012, the net appreciation on the investments of donor-restricted endowments was negative due to an overall investment loss of \$86,260.

Therefore, during FY 2012, 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 distribution rate of 5.75% based on a three year rolling twelve quarter average of each endowment's fair value.

4. ACCOUNTS AND NOTES RECEIVABLE

Accounts and notes receivable consisted of the following at June 30, 2012:

Accounts Receivable:

Student tuition and fees	\$9,599,315
Grants and Contracts receivable (restricted)	22,672,947
Other accounts receivable	<u>3,826,995</u>

Total accounts receivable	<u>\$36,099,257</u>
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Less allowance for doubtful accounts	<u>(1,169,912)</u>
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Net accounts receivable	<u>\$34,929,345</u>
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Notes Receivable:

Current:

Perkins loans receivable	\$482,312
State and nursing loans	11,249
Loans to students	18,116
Less allowance for doubtful accounts	<u>(10,204)</u>

Total current notes receivable	<u>\$501,473</u>
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Noncurrent:

Perkins loans receivable	\$2,655,468
State and nursing loans	\$110,120
Less allowance for doubtful accounts	<u>(56,181)</u>

Net non-current notes receivable	<u>\$2,709,407</u>
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5. CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2012 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Non-depreciable capital assets:				
Land	\$19,032,502	-	-	\$19,032,502
Construction-in-progress	70,138,302	78,387,803	85,340,451	63,185,654
Works of art and historical treasures	<u>852,217</u>	<u>49,235</u>	<u>-</u>	<u>901,452</u>
Total non-depreciable capital assets	<u>90,023,021</u>	<u>78,437,038</u>	<u>85,340,451</u>	<u>83,119,608</u>
Depreciable Capital Assets:				
Buildings	1,078,798,584	82,979,951	872,735	1,160,905,800
Improvements	33,327,892	-	-	33,327,892
Infrastructure assets	54,078,029	1,091,194	-	55,169,223
Equipment	109,613,141	7,940,458	9,251,851	108,301,748
Intangibles including computer software	12,384,725	501,108	-	12,885,833
Library materials	<u>86,386,161</u>	<u>5,488,034</u>	<u>567,817</u>	<u>91,306,378</u>
Total Depreciable Capital Assets	<u>1,374,588,532</u>	<u>98,000,745</u>	<u>10,692,403</u>	<u>1,461,896,874</u>
Less accumulated depreciation:				
Buildings	201,410,879	34,069,469	534,550	234,945,798
Improvements	19,200,907	1,584,488	-	20,785,395
Infrastructure assets	15,699,687	1,477,410	-	17,177,097
Equipment	60,066,085	8,728,784	8,675,803	60,119,066
Intangibles including computer software	10,236,416	1,008,431	-	11,244,847
Library materials	<u>60,225,946</u>	<u>4,542,053</u>	<u>567,817</u>	<u>64,200,182</u>
Total accumulated depreciation	<u>366,839,920</u>	<u>51,410,635</u>	<u>9,778,170</u>	<u>408,472,385</u>
Depreciable capital assets, net	<u>1,007,748,612</u>	<u>46,590,110</u>	<u>914,233</u>	<u>1,053,424,489</u>
Total capital assets, net	<u>\$1,097,771,633</u>	<u>\$125,027,148</u>	<u>\$86,254,684</u>	<u>\$1,136,544,097</u>

6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2012:

Employee salaries, wages and fringe benefits payable	30,891,679
Vendors and suppliers accounts payable	13,754,100
Interest payable	6,528,099
Capital projects accounts and retainage payable	<u>11,343,897</u>
Total accounts payable and accrued expenses	<u>\$ 62,517,775</u>

7. NONCURRENT LIABILITIES

Noncurrent liabilities consist of long-term debt, accruals for compensated absences and other noncurrent liabilities. A summary of changes in noncurrent liabilities for the year ended June 30, 2012 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	\$209,088,149	\$49,259,495	\$16,358,579	\$241,989,065	\$10,256,765	\$231,732,300
Notes Payable	366,780,000	28,005,000	33,780,000	361,005,000	14,965,000	346,040,000
Capital Lease Obligation	29,953,122	2,609,036	853,127	31,709,031	607,874	31,101,157
Installment Purchases	16,432,568	784,960	1,732,578	15,484,950	1,662,991	13,821,959
Bond Discount	(104,505)	-	(45,787)	(58,718)	(6,769)	(51,949)
Bond Premium	22,952,222	9,398,764	2,921,760	29,429,226	2,309,406	27,119,820
Deferred amount on refundings	<u>(2,907,203)</u>	<u>(1,992,127)</u>	<u>(263,267)</u>	<u>(4,636,063)</u>	<u>(233,288)</u>	<u>(4,402,775)</u>
Total Long-term Debt	<u>642,194,353</u>	<u>88,065,128</u>	<u>55,336,990</u>	<u>674,922,491</u>	<u>29,561,979</u>	<u>645,360,512</u>
Accrued Compensated Absences	13,087,674	13,128,694	12,305,888	13,910,480	5,595,744	8,314,736
Other noncurrent liabilities:						
Loan Funds	<u>2,587,241</u>	<u>529,768</u>	<u>24,201</u>	<u>3,092,808</u>	<u>-</u>	<u>3,092,808</u>
Total Long-term Liabilities	<u>\$657,869,268</u>	<u>\$101,723,590</u>	<u>\$67,667,079</u>	<u>\$691,925,779</u>	<u>\$35,157,723</u>	<u>\$656,768,056</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. The University's participation in the program is deemed to be involuntary as defined by GASB standards.

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, 2012</u>
9 (c) Revenue Bonds:						
Commonwealth and Dominion	2004	2,340,000	3.75 to 5.0%	10 Years	2014	555,000
9(c) 2004 B Refunding (2001)	2004	9,939,875	2.0 to 5.0%	16 Years	2020	8,784,555
Student Housing VII	2005	25,800,000	3.75 to 5.0%	25 Years	2030	12,995,000
Student Housing VII RB#2	2006	39,080,000	4.0 to 5.0%	25 Years	2031	26,715,000
Renovate Housing Facilities-Dominion	2006	2,420,000	5.00%	10 Years	2016	1,210,000
Housing VIIC & Entrance Road	2007	15,495,000	4.0 to 5.0%	25 Years	2032	14,265,000
Presidents Park Renovation	2007	3,130,000	5.00%	10 Years	2017	1,905,000
Housing VII RB#3	2007	2,010,000	4.0 to 5.0%	25 Years	2032	1,810,000
Renovate Commonwealth & Dominion Ph II	2008	1,530,000	3.0 to 5.0%	10 Years	2018	1,090,000
Renovate Presidents Park Ph I	2008	3,095,000	3.0 to 5.0%	10 Years	2018	2,205,000
Student Housing VII	2008	1,955,000	3.0 to 5.0%	25 Years	2033	1,780,000
Student Housing VIIC	2008	23,870,000	3.0 to 5.0%	25 Years	2033	22,690,000
Renovate Presidents Park Ph II	2008	3,120,000	3.0 to 5.0%	20 Years	2028	2,895,000
Renovate Presidents Park Ph I	2009	1,790,000	3.0 to 5.0%	10 Years	2019	1,450,000
Student Housing VIIC	2009	8,255,000	3.0 to 5.0%	25 Years	2034	7,860,000
Student Housing VIII	2009	7,910,000	4.0 to 5.0%	25 Years	2034	7,910,000
9(c) 2009 C Refunding (2001)	2009	6,266,975	3.0 to 4.0%	15 Years	2024	6,266,975
9(c) 2009 C Refunding (2002)	2009	4,448,039	3.0 to 4.0%	13 Years	2022	4,448,039
9(c) 2009 D Refunding (2005)	2009	6,630,000	2.5 to 5.0%	13 Years	2022	6,630,000
9(c) 2009 D Refunding (2006B)	2009	8,230,000	2.5 to 5.0%	13 Years	2022	8,230,000
Renovate Presidents Park Ph II	2010	2,790,000	2.1 to 5.0%	10 Years	2020	2,520,000
Housing VIII	2010	39,420,000	2.1 to 5.0%	25 Years	2035	39,420,000
Smithsonian CRC - Housing	2010	5,415,000	2.1 to 5.0%	25 Years	2035	5,415,000
Renovate Commons	2010	1,325,000	2.1 to 5.0%	20 Years	2030	1,325,000
Student Housing VII-C	2011	1,045,000	2.0 to 5.0%	25 Years	2036	1,045,000
Presidential Park Renovation	2011	2,700,000	2.0 to 5.0%	10 Years	2021	2,700,000
Housing VIII	2011	20,230,000	2.0 to 5.0%	25 Years	2036	20,230,000
Smithsonian CRC - Housing	2011	4,070,000	2.0 to 5.0%	25 Years	2036	4,070,000
Renovate Commons	2011	14,350,000	2.0 to 5.0%	20 Years	2031	14,350,000
9(c) 2012 A Refunding (2002)	2012	234,169	3.0%	1 Year	2013	234,169
9(c) 2012 A Refunding (2002R)	2012	3,956,287	3.0 to 4.0%	3 Years	2015	3,956,287
9(c) 2012 A Refunding (2005)	2012	<u>2,674,040</u>	3.0 to 5.0%	12 Years	2024	<u>2,674,040</u>
Total 9 (c) bonds		<u>275,524,385</u>				<u>239,634,065</u>
9 (d) Revenue Bonds:						
Refunded Krasnow Institute for Advanced Study*	2003	2,677,686	5.2 to 6.375%	13 Years	2016	1,297,521
Refunded Warehouse	2003	<u>2,182,314</u>	5.2 to 6.375%	13 Years	2016	<u>1,057,479</u>
Total 9 (d) bonds		<u>4,860,000</u>				<u>2,355,000</u>
Total Bonds Payable		<u>\$280,384,385</u>				<u>\$241,989,065</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 from Revenue Bonds as of June 30, 2012 matures as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$10,256,765	\$10,156,552	\$20,413,317
2014	11,990,321	9,680,982	21,671,303
2015	12,800,985	9,138,974	21,939,959
2016	11,660,592	8,546,091	20,206,683
2017	11,140,759	8,072,212	19,212,971
2018-2022	55,475,603	33,502,627	88,978,230
2023-2027	55,564,040	21,977,525	77,541,565
2028-2032	55,225,000	10,067,939	65,292,939
2033-2037	<u>17,875,000</u>	<u>1,364,153</u>	<u>19,239,153</u>
Total	<u>\$241,989,065</u>	<u>\$112,507,055</u>	<u>\$354,496,120</u>

B. 2012 Defeasance of Debt

In March 2012, the Treasury Board, on behalf of the University, issued \$6,864,495 of General Obligation Bonds, Series 2012A to advance refund \$7,814,422 of Series 2002 and 2005A bonds. As a result, these bonds are considered to be defeased and the liability has been removed from the noncurrent liabilities line in the Statement of Net Assets. Any related assets in escrow have similarly been excluded. The resulting net loss of \$197,708 will be amortized over the life of the new debt. The details of each bond issue refunded are below.

	<u>Bonds Refunded</u>	<u>Interest Rate (Bonds Refunded)</u>	<u>Refunding Bonds Issued</u>	<u>Interest Rate (Refunding Bonds)</u>	<u>Accounting Gain (Loss)</u>	<u>Reduction in Debt Service</u>	<u>Economic Gain</u>
Housing V, Series 2002	\$420,000	5.0%	\$234,169	3.0%	\$189,543	\$206,374	\$202,607
Univ Center, Series 2002	4,719,422	5.0%	3,956,286	3.0 – 4.0%	396,812	854,215	839,336
Housing VII, Series 2005	<u>2,675,000</u>	5.0%	<u>2,674,040</u>	3.0 – 5.0%	<u>(784,063)</u>	<u>112,346</u>	<u>110,134</u>
Total	\$7,814,422		\$6,864,495		(\$197,708)	\$1,172,935	\$1,152,077

C. Prior Year Bond Defeasance

The Commonwealth of Virginia, on behalf of the University, issued bonds in previous fiscal years 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 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, 2012, \$9,305,000 of Series 2005, and \$8,230,000 of Series 2006B 9(c) general obligation bonds were considered defeased.

9. **NOTES PAYABLE**

A. VCBA Notes

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:

<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, 2012</u>
Parking Deck II	2003	13,455,000	2.5 to 5.0%	21 Years	2025	1,180,000
Fairfax Research I	2004	10,005,000	3.0 to 5.0%	21 Years	2026	1,275,000
Aquatic Fitness Center	2004	6,785,000	3.0 to 5.0%	16 Years	2021	1,320,000
VCBA 2004B Refunding (1997A)	2004	13,470,000	3.0 to 5.0%	12 Years	2017	8,965,000
VCBA 2004B Refunding (1999A)	2004	2,720,000	3.0 to 5.0%	15 Years	2020	2,200,000
Krasnow Institute	2005	4,495,000	3.5 to 5.0%	21 Years	2027	1,620,000
Student Union III	2005	4,890,000	3.5 to 5.0%	21 Years	2027	1,775,000
Student Union III RB#2	2006	5,190,000	3.0 to 5.0%	21 Years	2028	4,510,000
PE Addition/Renovation	2006	6,035,000	3.0 to 5.0%	22 Years	2029	5,460,000
PE Building Addition, Phase II	2006	2,800,000	3.0 to 5.0%	22 Years	2029	2,530,000
Krasnow Institute Addition	2006	1,955,000	3.0 to 5.0%	20 Years	2027	1,625,000
Patriot Center Addition/Renovation	2006	8,200,000	3.0 to 5.0%	21 Years	2028	7,130,000
PW Bio Containment Lab	2006	13,260,000	3.0 to 5.0%	22 Years	2029	11,990,000
PW Performing Arts Center	2006	10,790,000	3.0 to 5.0%	22 Years	2029	9,755,000
Fairfax Surge Space Fit Out	2006	1,515,000	3.0 to 5.0%	21 Years	2028	1,315,000
Fairfax Surge Space Building	2006	6,340,000	3.0 to 5.0%	21 Years	2028	5,515,000
PW Performing Arts Center RB#2	2007	8,565,000	4.5 to 5.0%	20 Years	2028	7,690,000
Student Union I Renovation	2007	5,085,000	4.5 to 5.0%	20 Years	2028	4,560,000
Student Union III RB#3	2007	6,130,000	4.5 to 5.0%	25 Years	2033	5,575,000
PE Addition/Renovation RB#2	2007	8,555,000	4.5 to 5.0%	20 Years	2028	7,680,000
PE Building Addition Phase II, RB#2	2007	3,820,000	4.5 to 5.0%	20 Years	2028	3,430,000
Fairfax Surge Space Bldg RB#2	2007	2,965,000	4.5 to 5.0%	20 Years	2028	2,665,000
Academic VI/Research II	2007	4,945,000	4.5 to 5.0%	20 Years	2028	4,440,000
Parking Deck III	2007	20,750,000	4.5 to 5.0%	25 Years	2033	19,280,000
Softball Field Improvement	2007	1,510,000	5.00%	10 Years	2018	995,000
Hotel & Conference Center	2007	18,000,000	4.5 to 5.0%	30 Years	2038	17,085,000
Student Union II Renovation	2007	1,490,000	5.00%	10 Years	2018	1,065,000
VCBA 2007B Refunding (1997A)	2007	3,555,000	4 to 4.25%	10 Years	2018	2,160,000
VCBA 2007B Refunding (2005A)	2007	1,675,000	4.0 to 4.5%	12 Years	2020	1,490,000

<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, 2012</u>
Patriot Center Renovation, Phase II	2009	1,860,000	2.1 to 5.0%	20 Years	2029	1,720,000
Arlington Phase II	2009	7,945,000	2.1 to 5.0%	25 Years	2034	7,550,000
PW Performing Arts Center RB#3	2009	17,960,000	2.1 to 5.0%	20 Years	2029	16,680,000
Parking Deck III Phase I	2009	9,790,000	2.1 to 5.0%	25 Years	2034	9,310,000
PE Building Phase I	2009	2,750,000	2.1 to 5.0%	20 Years	2029	2,555,000
Surge Space & Fit-Out	2009	10,730,000	2.1 to 5.0%	20 Years	2029	9,965,000
Academic VI/Research II, RB#2	2009	20,335,000	2.1 to 5.0%	20 Years	2029	18,890,000
PE Building Phase II	2009	5,245,000	2.1 to 5.0%	20 Years	2029	4,875,000
Biomedical Research Lab, RB#2	2009	6,405,000	2.1 to 5.0%	20 Years	2029	5,950,000
Hotel & Conference Center	2009	25,190,000	2.1 to 5.0%	30 Years	2039	24,315,000
Student Union I Addition/Renovation	2009	7,980,000	2.1 to 5.0%	20 Years	2029	7,415,000
Student Union II Renovation	2009	585,000	2.1 to 5.0%	10 Years	2019	470,000
Parking Deck III Phase II	2009	13,885,000	2.1 to 5.0%	25 Years	2034	13,210,000
W. Campus Connector & Campus Entrances	2009	6,010,000	2.1 to 5.0%	20 Years	2029	5,585,000
PW Loop Road and Entrance	2009	575,000	3.0 to 5.0%	7 Years	2017	490,000
Arlington Phase II	2009	5,010,000	3.0 to 5.0%	25 Years	2035	4,895,000
PW Performing Arts Center	2009	3,390,000	3.0 to 5.0%	20 Years	2030	3,280,000
Fairfax Surge Space Fit Out Data Center	2009	1,685,000	2.0 to 5.0%	20 Years	2030	1,580,000
PW Regional Biomedical Laboratory	2009	1,950,000	2.0 to 5.0%	20 Years	2030	1,830,000
Hotel & Conference Center	2009	8,300,000	3.0 to 5.0%	30 Years	2040	8,165,000
Student Union I Addition/Renovation	2009	7,725,000	3.0 to 5.0%	20 Years	2030	7,470,000
Student Union II Renovation	2009	4,830,000	3.0 to 5.0%	20 Years	2030	4,670,000
Arlington Phase II	2010	3,570,000	5.00%	7 Years	2018	3,570,000
Student Union II Renovation	2010	2,935,000	3.75 to 5.5%	20 Years	2031	2,935,000
Student Union I Addition/Renovation	2010	5,390,000	3.75 to 5.5%	20 Years	2031	5,390,000
Smithsonian CRC-Dining	2010	2,395,000	3.75 to 5.6%	25 Years	2036	2,395,000
Krasnow Institute Addition II	2010	5,215,000	2.0 to 5.5%	20 Years	2031	5,040,000
Fieldhouse Life/Safety/Code Renovation	2010	1,395,000	3.75 to 5.5%	20 Years	2031	1,395,000
Repair Aquatic & Fitness Center HVAC	2010	2,325,000	2.0 to 5.0%	10 Years	2021	2,135,000
VCBA 2010B Refunding (2003A)	2010	2,990,000	2.0 to 5.0%	10 Years	2021	2,990,000
Fairfax Campus Dining	2011	6,090,000	5.00%	10 Years	2022	6,090,000
Smithsonian CRC-Dining	2011	2,690,000	3.0 to 5.0%	25 Years	2037	2,690,000
VCBA 2012A Refunding (2003A)	2012	5,525,000	3.0 to 5.0%	12 Years	2025	5,525,000
VCBA 2012A Refunding (Aquatic Ctr 2004A)	2012	3,130,000	5.00%	8 Years	2021	3,130,000
VCBA 2012A Refunding (Research I 2004A)	2012	6,310,000	2.75 to 5.0%	13 Years	2026	6,310,000
VCBA 2012A Refunding (2005A)	2012	4,260,000	3.0 to 5.0%	12 Years	2025	4,260,000
Total Notes Payable		<u>\$423,305,000</u>				<u>\$361,005,000</u>

Long-term debt from Notes Payable as of June 30, 2012 matures as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$14,965,000	\$16,305,517	\$31,270,517
2014	16,335,000	15,623,683	31,958,683
2015	17,050,000	14,849,810	31,899,810
2016	17,785,000	14,038,147	31,823,147
2017	18,680,000	13,177,616	31,857,616
2018-2022	91,795,000	52,815,042	144,610,042
2023-2027	97,700,000	30,877,130	128,577,130
2028-2032	59,295,000	11,570,178	70,865,178
2033-2037	21,745,000	3,441,525	25,186,525
2038-2042	<u>5,655,000</u>	<u>281,763</u>	<u>5,936,763</u>
Total	<u>\$361,005,000</u>	<u>\$172,980,411</u>	<u>\$533,985,411</u>

B. 2012 Defeasance of Debt

In March 2012, the VCBA, on behalf of the University, issued \$19,225,000 of VCBA Pooled Bonds, Series 2012A to advance refund \$20,055,000 of Series 2003A, 2004A, and 2005A bonds. As a result, these bonds are considered to be defeased and the liability has been removed from the noncurrent liabilities line in the Statement of Net Assets. Any related assets in escrow have similarly been excluded. The resulting net loss of \$1,794,419 will be amortized over the life of the new debt. The details of each bond issue refunded are below. VCBA Pooled Bonds are reported as Notes Payable by the University.

	<u>Bonds Refunded</u>	<u>Interest Rate (Bonds Refunded)</u>	<u>Refunding Bonds Issued</u>	<u>Interest Rate (Refunding Bonds)</u>	<u>Accounting Gain (Loss)</u>	<u>Reduction in Debt Service</u>	<u>Economic Gain</u>
Parking Deck II, Series 2003A	\$5,755,000	4.0 – 5.0%	\$5,525,000	3.0 – 5.0%	(\$496,660)	\$343,138	\$295,810
Aquatic Fitness Center, Series 2004A	3,280,000	4.0 – 5.0%	3,130,000	5.0%	(303,048)	150,085	134,286
Research I, Series 2004A	6,610,000	4.0 – 5.0%	6,310,000	2.75 – 5.0%	(491,643)	701,279	601,452
Student Union III, Series 2005A	2,295,000	5.0%	2,230,000	3.0 – 5.0%	(277,923)	185,784	161,404
Krasnow Institute, Series 2005A	<u>2,115,000</u>	5.0%	<u>2,030,000</u>	3.0 – 5.0%	<u>(225,145)</u>	<u>205,311</u>	<u>177,755</u>
Total	\$20,055,000		\$19,225,000		(\$1,794,419)	\$1,585,597	\$1,370,707

C. Prior Year Debt Defeasance

The Virginia College Building Authority (VCBA) issued 9(d) VCBA pooled bonds in previous fiscal years 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, 2012, \$8,885,000 of notes from Series 2003A, \$9,890,000 from Series 2004A and \$5,405,000 from the Series 2005A 9(d) VCBA pooled bonds were considered defeased.

10. INSTALLMENT PURCHASES PAYABLE & CAPITAL LEASE OBLIGATION

A. Installment Purchases

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 Agreements and other equipment. The remaining lengths 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, 2012 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$1,662,991	\$625,174	\$2,288,165
2014	1,535,218	567,310	2,102,528
2015	1,418,905	508,970	1,927,875
2016	1,390,334	455,291	1,845,625
2017	1,402,901	399,923	1,802,824
2018-2022	6,338,682	1,132,033	7,470,715
2023-2025	<u>1,735,919</u>	<u>176,414</u>	<u>1,912,333</u>
Total	<u>\$15,484,950</u>	<u>\$3,865,115</u>	<u>\$19,350,065</u>

B. Capital Lease

During FY 2011, the University entered into a twenty-five year capital lease with George Mason University Foundation (GMUF) for the provision of a 150,000 square foot administration building at the Fairfax campus. The University has accounted for the acquisition of the administration building and its furniture and equipment as a capital lease, and therefore has recorded the building and its furniture and equipment as Depreciable capital assets, net, and has also recorded a corresponding lease liability in Long-term debt, both on its Statement of Net Assets as of June 30, 2012.

Principal and interest payments on the capital lease for fiscal years subsequent to June 30, 2012 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$607,874	\$1,961,750	\$2,569,624
2014	646,485	1,922,602	2,569,087
2015	689,956	1,880,890	2,570,846
2016	735,057	1,836,338	2,571,395
2017	775,237	1,789,196	2,564,433
2018-2022	4,684,081	8,130,530	12,814,611
2023-2027	6,371,848	6,416,802	12,788,650
2028-2032	8,684,277	4,084,206	12,768,483
2033-2037	<u>8,514,216</u>	<u>1,035,543</u>	<u>9,549,759</u>
Total	<u>\$31,709,031</u>	<u>\$29,057,857</u>	<u>\$60,766,888</u>

11. COMPONENT UNITS

Component unit combining financial statements and additional disclosures in accordance with FASB standards are presented below.

Combining Statement of Financial Position As of June 30, 2012

	George Mason University Foundation	Mason Housing, Inc. *	Component Units Total
Assets			
Cash and cash equivalents	\$6,195,799	\$53,407	\$6,249,206
Restricted cash and cash equivalents	2,450,622	5,308,816	7,759,438
Accounts receivable	-	87,399	87,399
Contributions receivable, net	19,549,895	-	19,549,895
Prepays and other assets	831,429	27,910	859,339
Deposits held with trustees	37,524,275	-	37,524,275
Leasing commissions	1,533,952	-	1,533,952
Net investment in direct financing lease	31,636,683	-	31,636,683
Beneficial interest in perpetual trusts	10,260,229	-	10,260,229
Annuity benefit contract	434,677	-	434,677
Deferred loan costs, net	1,332,781	1,670,714	3,003,495
Investments	104,961,310	-	104,961,310
Property and equipment, net	110,680,590	28,841,936	139,522,526
Art and antiques	572,567	-	572,567
Total Assets	327,964,809	35,990,182	363,954,991
Liabilities and Net Assets			
Liabilities			
Accounts payable and accrued expenses	6,132,597	-	6,132,597
Accrued payroll and related expenses	-	44,174	44,174
Participation rent payable	-	80,507	80,507
Unearned rent	19,020	-	19,020
Trust liabilities	1,080,428	-	1,080,428
Other liabilities	85,467	113,536	199,003
Accrued annuity benefit	434,677	-	434,677
Derivative obligations including interest rate swap liability	9,125,309	12,319,517	21,444,826
Long-term debt including notes payable	173,238,402	39,725,000	212,963,402
Amounts held for others	8,949,641	-	8,949,641
Total Liabilities	199,065,541	52,282,734	251,348,275
Net Assets			
Unrestricted	9,810,582	(16,292,552)	(6,481,970)
Temporarily restricted	60,538,096	-	60,538,096
Permanently restricted	70,115,416	-	70,115,416
GMUF Arlington Campus, LLC	(6,012,805)	-	(6,012,805)
GMUF Mason Administration, LLC	(5,533,089)	-	(5,533,089)
GMUF Prince William Housing LLC	(6,164)	-	(6,164)
GMUF Prince William Life Sciences Lab LLC	(12,768)	-	(12,768)
Total Net Assets	128,899,268	(16,292,552)	112,606,716
Total Liabilities and Net Assets	\$327,964,809	\$35,990,182	\$363,954,991

* March 31, 2012 year-end

**Combining Statement of Activities
For the Year Ended June 30, 2012**

	George Mason University Foundation	Mason Housing, Inc. *	Component Units Total
Operating Revenue:			
Contributions	\$35,772,185	-	\$35,772,185
Interest on direct financing lease	2,100,411	-	2,100,411
Investment and trust return	(1,308,428)	-	(1,308,428)
Rental income	12,071,666	3,226,825	15,298,491
Service fees	757,575	-	757,575
Total Operating Revenue	49,393,409	3,226,825	52,620,234
Operating Expenses:			
Academic program support	26,560,689	-	26,560,689
Advertising and promotion	-	19,691	19,691
Depreciation	3,570,873	1,053,141	4,624,014
Fundraising	352,407	-	352,407
Insurance	144,601	107,809	252,410
Interest expense	7,049,103	-	7,049,103
Maintenance	-	99,016	99,016
Management fees	-	94,222	94,222
Office and other administrative expenses	3,184,168	114,379	3,298,547
Other program service benefits	3,269,979	-	3,269,979
Salaries and wages	-	302,921	302,921
Utilities	2,728,678	32,875	2,761,553
Total Operating Expenses	46,860,498	1,824,054	48,684,552
Change in Net Assets before Non-operating items and Other Changes	2,532,911	1,402,771	3,935,682
Non-operating Items	(4,111,771)	(8,063,591)	(12,175,362)
Payments to affiliates	-	(1,066,635)	(1,066,635)
Decline in value of pledged land	(2,468,412)	-	(2,468,412)
Change in Net Assets	(4,047,272)	(7,727,455)	(11,774,727)
Beginning Net Assets	132,946,540	(8,565,097)	124,381,443
Ending Net Assets – end of year	\$128,899,268	\$(16,292,552)	\$112,606,716

* March 31, 2012 year-end

A. Investments - GMUF

Investments, which are reported at fair value, consisted of the following as of June 30, 2012:

	GMUF
Cash and money market funds	\$3,868,712
Certificates of deposit	50,573
Equities	24,230,332
Fixed income	51,173,485
Commodities	2,205,320
Real estate	237,996
Hedge funds	17,370,931
Managed futures	3,605,376
Private equity and real assets	2,218,585
Total Investments	<u>\$104,961,310</u>

B. Contributions Receivable – GMUF

GMUF's pledges receivable as of June 30, 2012 are as follows:

Due in less than one year	\$3,578,832
Due in one to five years	11,618,622
Due in more than five years	<u>6,410,783</u>
Less discount present value	<u>(2,058,342)</u>
Total	<u>\$19,549,895</u>

Discount rates range from 0.23 percent to 5.69 percent.

As of June 30, 2012, the Foundation has \$5,372,244 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.

C. Property and Equipment

The following comprises property and equipment for the component units at June 30, 2012:

	GMUF	MHI *
Land	\$29,121,652	\$ -
Buildings and building improvements	95,634,157	31,267,734
Furniture and equipment	743,404	68,607
Construction in progress	12,218,986	-
Total	137,718,199	31,336,341
Accumulated depreciation and amortization	(27,037,609)	(2,494,405)
Net property and equipment	\$110,680,590	\$28,841,936

* March 31, 2012 year-end

D. Long-Term Debt – GMUF

George Mason University Foundation, Inc. Bonds

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. Additionally, the Foundation simultaneously entered into an interest rate swap with a commercial bank to effectively fix the interest rate of \$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. Due to the reduction of the commercial bank's credit rating below investment grade, the Foundation replaced the letter of credit facility with that of another commercial bank on October 7, 2009. The substitute commercial bank simultaneously assumed the related interest rate swap derivative instrument. The letter of credit is renewable annually and was scheduled to expire October 7, 2012. The letter of credit has been extended to October 7, 2013. As of June 30, 2012 and 2011, no draws had been taken against the letter of credit; however, the letter of credit amount is contingent upon the principal balance outstanding on the related bonds. The letter of credit amount as of June 30, 2012 and 2011 was \$27,101,600 and \$28,292,267, respectively.

On October 7, 2009, as a result of the substitution of the letter of credit facility with another commercial bank, restrictive covenants related to the bonds included unrestricted liquidity of not less than \$1,100,000 and a property debt service coverage ratio of not less than 1.2 to 1. As of June 30, 2012 and 2011, the Foundation was in compliance with the required restrictive covenants.

GMUF Arlington Campus, LLC Notes

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.

GMUF Mason Administration, LLC Bonds

On April 21, 2010 the Fairfax County Development Authority issued its \$36,100,000 Revenue Bond Series 2010A (Tax Exempt – GMUF Mason Administration, LLC Project) and its \$1,900,000 Revenue Bond Series 2010B (Taxable – GMUF Mason Administration, LLC Project) and sold such bonds to a commercial bank pursuant to a Bond Purchase and Loan Agreement dated April 1, 2010. The Series 2010A Bond is subject to mandatory repayment at the option of the commercial bank in December 2023. Proceeds are to be used in the acquisition, construction, renovation and equipping of a five-story administration building consisting of approximately 140,000 square feet for classrooms, administrative office and retail space. The building was substantially completed in May 2011, with remaining construction for retail space to be completed in fiscal year 2013. The Foundation's loan obligation is limited to that portion of the bond issuance which it draws upon pursuant to the Bond Purchase and Loan Agreement.

As part of this transaction, the Foundation simultaneously entered into a forward floating-to-fixed interest rate swap to effectively fix the interest rate on the \$32,100,000 tax-exempt notional amount and a second forward floating-to-fixed interest rate swap to effectively fix the interest rate on the \$1,900,000 taxable notional amount with a commercial bank. The swap transactions were effective on June 1, 2011. The termination date is June 1, 2036 for the tax-exempt notional amount and December 1, 2013 for the taxable notional amount. The tax-exempt swap has an option to terminate at no risk at the end of the 13th year.

Industrial Development Authority of the County of Prince William Bonds – GMUF PW Housing LLC Project

On August 10, 2011, The Industrial Development Authority of the County of Prince William issued its \$14,640,000 Revenue Bond Series 2011A (Tax-Exempt GMUF PW Housing LLC Project) and its \$985,000 Revenue Bond Series 2011B (Taxable GMUF PW Housing LLC Project) pursuant to a Trust Indenture, dated August 1, 2011. Proceeds will be used to finance the acquisition, construction and equipping of a student residence hall consisting of 152 beds in 112 units in approximately 80,858 total square feet of space, university program space of approximately 10,000 square feet, and approximately 15,000 square feet of unimproved "shell space" designated for retail tenants. The Series 2011A and Series 2011B Bonds are special, limited obligations of the Issuer, payable solely from the revenues pledged therefore under the indenture. Neither the Foundation nor the University is liable for payments of the principal or redemption price of interest on the Bonds. The Foundation will lease the property to the University, and the rental payments made by the University will service the bonds' principal and interest payments.

Industrial Development Authority of the County of Prince William Bonds – GMUF PW Life Sciences Lab LLC Project

On August 10, 2011, The Industrial Development Authority of the County of Prince William issued its \$31,065,000 Revenue Bond Series 2011AA (Tax-Exempt GMUF PW Life Sciences Lab LLC Project) and its \$2,145,000 Revenue Bond Series 2011BB (Taxable GMUF PW Life Sciences Lab LLC Project) pursuant to a Trust Indenture dated August 1, 2011. Proceeds will be used to finance the acquisition, construction and equipping of life sciences lab facilities consisting of approximately 58,056 square feet, and the acquisition and construction of approximately 17,615 square feet of unimproved “shell space” designated for commercial laboratory use. The Series 2011AA and Series 2011BB Bonds are special, limited obligations of the Issuer, payable solely from the revenues pledged therefore under the indenture. Neither the Foundation nor the University is liable for payments of the principal or redemption price of interest on the Bonds. The Foundation will lease the property to the University, and the rental payments made by the University will service the bonds’ principal and interest payments.

The bond proceeds for both of the Prince William County Series 2011 Bonds are held by a trustee and invested in money market funds. The trustee reimburses third party vendors for expenditures related to the life science lab and housing projects.

The following represents the Foundation’s bonds and notes payable at June 30, 2012.

	2012
Fairfax County Economic Development Authority Bonds, with variable interest rate maturing at various dates through February 1, 2029	\$26,745,000
GMUF Arlington Campus LLC Notes A with interest rate of 6.24% maturing September 1, 2016	61,313,153
GMUF Arlington Campus LLC Notes B with interest rate of 10.50% maturing September 1, 2016	4,311,081
GMUF Mason Administration, LLC Tax-Exempt Bank Bond, variable rate maturing on June 1, 2036	30,371,821
GMUF Mason Administration, LLC Taxable Bank Bond, variable rate maturing on December 1, 2013	920,220
Prince William County Series 2011A Bonds, serial with interest rates ranging from 4.25% to 5.00%, maturing at various dates from September 1, 2022 to September 1, 2026	1,895,000
Prince William County Series 2011A Bonds, term Interest rate 5.50%, maturing September 1, 2031	3,190,000
Interest rate 5.125%, maturing September 1, 2041	9,555,000
Prince William County Series 2011B Bonds, term Interest rate 2.50%, maturing September 1, 2021	985,000
Prince William County Series 2011AA Bonds, serial with interest rates ranging from 3.00% to 5.00%, maturing at various dates from September 1, 2016 to September 1, 2026	8,010,000
Prince William County Series 2011AA Bonds, term Interest rate 5.50%, maturing September 1, 2031	5,705,000
Interest rate 5.50%, maturing September 1, 2034	4,275,000
Interest rate 5.125%, maturing September 1, 2041	13,075,000
Prince William County Series 2011BB Bonds, term Interest rate 3.00%, maturing September 1, 2016	2,145,000

Notes and bonds payable at face value	172,496,275
Plus: unamortized net premium	742,127
Total long-term debt	<u>\$173,238,402</u>

The term bonds for the Prince William County Series 2011 Bonds are subject to mandatory redemption by operation of sinking fund installments.

Scheduled maturities and sinking fund requirements are as follows:

Fiscal year ending June 30:	
2013	\$2,894,811
2014	3,331,009
2015	3,760,922
2016	3,999,067
2017	64,778,644
Thereafter	<u>93,731,821</u>
	<u>\$172,496,274</u>

Interest expense on notes, bonds and related swaps along with the amortization of deferred financing charges was \$7,049,103 and \$5,724,431, as of June 30, 2012 and June 30, 2011, respectively.

The carrying value of long-term debt approximated the fair value as of June 30, 2012 and 2011, respectively.

E. Derivative Instruments – GMUF

George Mason University Foundation, Inc. Interest Rate Swaps and Cap

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 4.045%, 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%. 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 interest rate swap agreement was assumed by another financial institution in October 2009 in conjunction with the assumption of the letter of credit securing the Fairfax County Economic Development Authority bonds. At June 30, 2012 and 2011, the notional amount on the swap was \$15,800,000 and \$16,800,000 and on the cap was \$11,075,000 and \$11,250,000, respectively.

The fair value of the interest rate swap at June 30, 2012 and 2011 totaled a derivative liability of \$3,104,925 and \$2,225,839, respectively. The interest rate swap has a liability threshold of \$3,000,000. Should the derivative obligation exceed \$3,000,000 the Foundation is required to post collateral in excess of the threshold amount. As of June 30, 2012, \$200,000 was held as collateral by a third party and no collateral amounts were required as of June 30, 2011. The fair value of the interest rate cap totaled a derivative asset of \$29,258 at June 30, 2011. There was no related derivative asset at June 30, 2012. The net change in value has been recorded as gains or losses on derivatives 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.

GMUF Mason Administration, LLC Interest Rate Swaps

In March 2010, as part of the GMUF Mason Administration, LLC Project, the Foundation entered into a forward floating-to-fixed interest rate swap to effectively fix the interest rate on the \$32,100,000 tax-exempt notional amount and a second forward floating-to-fixed interest rate swap to effectively fix the interest rate on the \$1,900,000 taxable notional amount with a commercial bank. The swap transactions became effective on June 1, 2011. The termination date is June 1, 2036 for the tax-exempt notional amount and December 1, 2013 for the taxable notional amount. The tax-exempt swap has an option to terminate at no risk at the end of the 13th year. The fair value of the interest rate swaps were \$6,020,384 and \$2,816,957 at June 30, 2012 and 2011, respectively. The net change in value has been recorded as a loss on derivatives in the consolidated statement of activities. The combined interest rate swaps have a liability threshold of \$5,000,000. Should the derivative obligations exceed \$5,000,000, GMUF Mason Administration, LLC is required to post collateral in excess of the threshold amount. As of June 30, 2012 \$1,200,000 was held as collateral by a third party and no collateral amounts were required as of June 30, 2011.

F. Long-Term Debt – MHI

In October 2008, the Fairfax County Economic Development Agency (EDA) issued \$39,760,000 of variable rate bonds in order to provide financing for the development of the MHI housing units. A third party financial institution (the bank) acquired the bonds and remitted the bond sales proceeds, net of fees and other debt issuance costs to a trustee appointed to receive the funds on behalf of MHI. Concurrently, MHI and EDA entered into a loan agreement, whereby EDA loaned the bond proceeds to MHI on substantially the same terms as the initial bond issuance. These transactions were in accordance with a series of agreements entered into by the three parties in October 2007, with the October 2008 amendments relating primarily to the dates of the closing of the transactions, the amounts loaned and the stated interest rates. In addition, as outlined in the original agreements entered into in October 2007, MHI and the bank entered into a swap agreement which exchanged the variable rate loan borne by MHI with a fixed rate loan split between two tranches. The Organization has determined that the amendments to the original agreements entered into in October 2008 are not substantial and has treated these amendments as a debt modification. Accordingly, certain fees payable to the bank to amend the original agreements have been added to the deferred financing costs incurred in obtaining this financing.

As a result of the above transactions, the Organization has a note payable with a fixed interest rate of 3.938% plus an initial indexed floating rate spread of 1.100% (aggregate interest rate of 5.038% at March 31, 2012 and 2011) and a maturity date of August 1, 2039. The note is secured by the Organization's property and future rental income. Interest is payable monthly on the note payable, commencing in November 2008. Annual principal payments commenced in August 2011. The note payable also contains a financial covenant, requiring the Organization to meet a minimum debt service coverage ratio.

As substantially all of the debt proceeds were used to fund the building and development of the MHI housing units, interest incurred on the note payable and associated letter of credit were capitalized as part of the construction costs while the units were under construction. No amounts of interest were capitalized during the years ended March 31, 2012 and 2011.

The following schedule shows principal payments due under the note payable as of March 31, 2012:

2013	\$45,000
2014	80,000
2015	140,000
2016	160,000
2017	190,000
Thereafter	<u>39,110,000</u>
Total	<u>\$39,725,000</u>

G. Interest Rate Swap Agreements - MHI

In October 2008, the Organization entered into a forward interest rate swap agreement to effectively exchange the variable interest rate on \$39,760,000 of notes payable during the period from October 2008 through August 2039, for a fixed interest rate of 3.938%. The difference paid or received under this agreement is recognized as an adjustment to interest expense.

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>Student Aid</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$174,425,249	\$40,594,826	\$24,442,709	-	-	\$239,462,784
Research	39,442,523	7,167,453	19,315,801	-	-	65,925,777
Academic Support	30,945,902	8,018,293	13,662,185	-	-	52,626,380
Student Services	14,540,632	3,710,893	4,401,674	-	-	22,653,199
Public Service	8,323,889	1,799,783	10,837,113	-	-	20,960,785
Operation and Maintenance	17,253,472	4,945,115	20,309,307	-	-	42,507,894
Institutional Support	26,435,338	8,094,070	6,809,017	-	-	41,338,425
Depreciation Expense	-	-	-	-	51,410,635	51,410,635
Student Aid	-	-	-	26,642,193	-	26,642,193
Auxiliary Enterprises	34,155,314	7,408,625	63,735,973	-	-	105,299,912
Totals	<u>\$345,522,319</u>	<u>\$81,739,058</u>	<u>\$163,513,779</u>	<u>\$26,642,193</u>	<u>\$51,410,635</u>	<u>\$668,827,984</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	\$106,171,504
Adjustments:	
Re-appropriation of FY 2011 E&G budget reversion	21,628,705
FY 2012 E&G budget reversion	(22,007,226)
Item 271 reduction	(2,279,535)
VRS reduction, Appropriation Act Part 3	(697,362)
Central Appropriations Adjustment	1,516,864
Funds for VIVA Program	<u>36,878</u>
Total	<u>\$104,369,828</u>

14. INTEREST EXPENSE

During fiscal year 2012, the University incurred interest expense totaling \$29,038,553. Of this amount, \$3,435,704 was capitalized as part of the cost of construction and \$25,602,849 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 six year terms. Facility rental expenses for the fiscal year ended June 30, 2012 were \$6,076,432. The University had, as of June 30, 2012, the following total future minimum rental payments due under the above leases:

<u>Year Ended June 30,</u>	
2013	\$ 4,746,402
2014	2,756,417
2015	1,798,930
2016	1,601,212
2017	<u>210,757</u>
Total	<u>\$11,113,718</u>

B. Construction

Outstanding commitments for capital outlay projects that were under construction at June 30, 2012 were \$28,919,917.

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-employer 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, 2012. 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 the retirement plan, which totaled \$7,648,359 for the year ended June 30, 2012. The delayed FY 2011 employee share (employer paid) 4th quarter

retirement contributions are excluded from this amount because they were included in the FY 2011 amount.

For FY 2012, the employer's retirement contribution rate was 6.58% for all plan participants. In accordance with the Commonwealth's requirements for FY 2012, through March 24, 2012 2.08% was paid to VRS and 4.5% was paid into the General Fund of the Commonwealth. Thereafter the full 6.58% was paid to VRS. Starting in FY 2012, all participants were required to contribute 5% to the plan.

Contributions to the plan were calculated using the plan's covered payroll of \$116,236,464 for the year ended June 30, 2012.

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 \$394,762 for the year ended June 30, 2012.

For FY 2012, the VaLORS retirement contribution rate was 13.09% for all participants. In accordance with the Commonwealth's requirements for FY 2012, through March 24, 2012 5.12% was paid to VRS and 7.97% was paid into the General Fund of the Commonwealth. Thereafter the full 13.09% was paid to VRS. Starting with FY 2012, all participants were required to contribute 5% to the plan.

Contributions to VaLORS were calculated using the plans covered payroll of approximately \$3,015,751 for the year ended June 30, 2012.

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 contribution plus interest and dividends.

For FY 2012, for plan participants hired prior to July 1, 2010, the employer's contribution was 10.4% and the participant was not required to make contributions to the plan. For FY 2012, plan participants hired after June 30, 2010 received an employer contribution of 8.5% and were required to contribute 5%. This plan structure for participants hired after June 30, 2010 is designated in the table below with a 2 following the investment providers' names.

Individual contracts issued under the plan provide for full and immediate vesting of the University's contributions. Total pension costs under these plans were \$15,542,547 for the fiscal year ended June 30, 2012. Contributions were calculated using the plan's covered payroll of \$152,892,665 for Fiscal Year 2012.

The following table summarizes the cost and participation in the optional retirement plans:

<u>Faculty Retirement Plan</u>	<u>Retirement Pension Cost</u>	<u>Plan's Covered Payroll</u>	<u>Contribution Percentage</u>
TIAA-CREF*	\$9,914,230	\$95,329,135	10.4%
TIAA-CREF 2	889,181	10,460,957	8.5%
Fidelity Investments	4,025,441	38,706,162	10.4%
Fidelity Investments 2	<u>713,695</u>	<u>8,396,411</u>	8.5%
Total	<u>\$15,542,547</u>	<u>\$152,892,665</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 Commonwealth's Deferred Compensation Plan is a qualified defined contribution plan under Section 401(a) of the Internal Revenue Code.

Employees may also participate in a University sponsored 403(b) plan or Roth plan, and receive Employer matching contributions on the same basis as the Commonwealth's plan.

Employer contributions under these Deferred Compensation Plans were \$1,079,998 for the fiscal year ended June 30, 2012.

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. RESTRICTED NET ASSETS

At June 30, 2012 restricted net assets were restricted for the following purposes:

Restricted, nonexpendable:	
Student aid	\$1,178,566
Instruction	1,620,000
Research	<u>1,126,760</u>
Total restricted, nonexpendable	<u><u>\$3,925,326</u></u>
Restricted, expendable:	
Instruction	\$ 277,223
Research	<u>3,805,397</u>
Total restricted, expendable	<u><u>\$4,082,620</u></u>

20. SUBSEQUENT EVENT

On October 3, 2012, the University's Board of Visitors approved a resolution authorizing the University's administration to establish a branch campus in Incheon, South Korea. The campus will be part of the Songdo Global University Campus. Undergraduate programs in management and economics are expected to begin in spring 2014.

INDEPENDENT AUDITOR'S REPORT



Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

May 8, 2013

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon, III
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
George Mason University

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

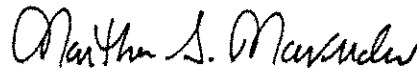
We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of **George Mason University**, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2012, which collectively comprise George Mason University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of George Mason 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 units of George Mason University, which are discussed in Note 11. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of George Mason University is based on the reports 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 units of George Mason University that were audited by other auditors upon whose reports we are relying were 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 reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to previously present fairly, in all material respects, the financial position of the business-type activities and aggregate discretely presented component units of George Mason University as of June 30, 2012, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

In accordance with Government Auditing Standards, we have also issued our report dated May 8, 2013, 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 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.



AUDITOR OF PUBLIC ACCOUNTS

UNIVERSITY OFFICIALS

GEORGE MASON UNIVERSITY

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