GEORGE MASON UNIVERSITY

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 2005

APA
Auditor of
Public Accounts
COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of George Mason University for the year ended June 30, 2005, found:

- the financial statements are presented fairly, in all material respects, in accordance with generally accepted accounting principles;

- no internal control matters that we consider to be material weaknesses;

- no instances of noncompliance or other matters required to be reported; and

- the University has taken adequate corrective action with respect to the previously reported finding, “Complete Executive Business Impact Analysis, Business Continuity Plan, and Information Systems Security Plan.”

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(unaudited)

Institutional Profile

Since it was founded in 1972, George Mason University has grown into a major educational force and earned a reputation as an innovative, entrepreneurial institution. Just minutes from Washington, D.C., the University has a growing and diverse student body and an exceptional faculty of enterprising scholars. At the center of the world's political, information, and communications networks, George Mason is the university needed by a region and a world driven by new social, economic, and technological realities.

The University's development has been shaped in response to the educational needs of its cosmopolitan constituency. The University has gained national distinction in a range of academic fields, including public policy, information technology, economics, fine and performing arts, law, conflict resolution, and, most recently, the biosciences. Strong alliances with business, the community, and government benefit the University's students and the larger society. Enrollment is nearly 29,000 with students studying in 149 degree programs at the undergraduate, masters, doctoral, and professional levels.

George Mason is a distributed university with three campuses in Fairfax, Arlington, and Prince William counties. Each campus has a distinctive academic focus that plays a critical role in the economy of its region. At each campus, students and faculty have access to all the University's resources, while duplication of programs and support services is minimized through the use of technology. The University also offers programs at the Center for Innovative Technology's Herndon Training Center and on the Internet.

Overview of the Financial Statements and Financial Analysis

There are three financial statements presented: The Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. This discussion and analysis of the University's financial statements provides an overview of its financial activities for the year and compares the current and prior years.

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets 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 the Net Assets is to present readers of the financial statements a fiscal snapshot of the University. The Statement of Net Assets presents end-of-year balances of assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities).

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. Finally, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the University.

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 Non-Expendable. Expendable Restricted Net Assets are available for expenditure by the University, but must be spent as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. Non-Expendable 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 University does not have any nonexpendable net assets. The final category is "unrestricted net assets." Unrestricted net assets are available to the University for any lawful purpose of the University.

Statement of Net Assets

	June 30, 2005	June 30, 2004*	Change in Dollars	Change in Percentage
Assets:				
Current assets	$127,269	$ 87,058	$ 40,211	46%
Capital assets, net	371,342	350,040	21,302	6%
Other assets	44,851	41,612	3,239	8%
Total assets	543,462	478,710	64,752	14%
Liabilities:				
Current liabilities	93,360	80,620	12,740	16%
Noncurrent liabilities	132,780	113,633	19,147	17%
Total liabilities	226,140	194,253	31,887	16%
Net assets:				
Invested in capital assets, net of debt	260,534	280,426	(19,892)	(7%)
Restricted-expendable	52,122	6,423	45,699	711%
Unrestricted	4,666	(2,392)	7,058	(295%)
Total net assets	$317,322	$284,457	$ 32,865	12%

In thousands
*As restated

The University's financial position remained strong at the end of fiscal year 2005. Total assets were $543 million and net assets (total assets less liabilities of $226 million) amounted to $317 million. Current assets of $127 million exceed current liabilities of $93 million by $34 million (27 percent). Capital assets, net of accumulated depreciation of $213 million, totaled $371 million.

The University's net asset position increased in 2005 compared to 2004 by $33 million. Most of this increase was the result of equipment and library additions, construction of Bull Run Hall on the Prince William campus, and an increase in appropriations available for capital projects. Total assets increased in 2005 compared to 2004 by $65 million. Building construction and equipment acquisitions accounted for $21 million of this increase and an increase in appropriations available for capital projects accounted for $12 million. Increases in cash to be used for capital projects accounted for $16 million and a capital gift from Arlington County for construction on the Arlington campus accounted for $3 million. The remaining increase is accounted for by increases in securities lending, prepaid expenses, and notes receivable.

Statement of Revenues, Expenses, and Changes in Net Assets

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

Generally speaking, operating revenues are received for providing goods and services to the students and other constituencies of the institution. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Nonoperating revenues are revenues received for which goods and services are not provided. For example, state appropriations are nonoperating revenues because they are provided by the legislature without the legislature directly receiving commensurate goods and services for those revenues.

Statement of Revenues, Expenses, and Changes in Net Assets

	June 30, 2005	June 30, 2004*	Change in Dollars	Change in Percentage
Operating revenues:				
Student tuition and fees, net of allowances	$122,183	$111,612	$10,571	9%
Grants and contracts	86,537	86,860	(323)	-
Auxiliary enterprises and other	76,607	69,982	6,625	9%
Total operating revenues	285,327	268,454	16,873	6%
Operating expenses:				
Education and general	301,928	273,063	28,865	11%
Depreciation	20,973	19,267	1,706	9%
Scholarships and fellowships	12,805	11,031	1,774	16%
Auxiliary enterprises	52,496	50,976	1,520	3%
Total operating expenses	388,202	354,337	33,865	10%
Operating loss	(102,875)	(85,883)	(16,992)	20%
Nonoperating revenues and expenses, net	108,254	94,760	13,494	14%
Income before other revenues, expenses, gains or losses	5,379	8,877	(3,498)	(39%)
Capital appropriations, gifts, contributions and other expenses	27,486	21,926	5,560	26%
Increase in net assets	32,865	30,803	2,062	7%
Net assets at beginning of year	284,457	253,654	30,803	12%
Net assets at end of year	$317,322	$284,457	$32,865	12%

In thousands
* As restated

The key metric in the Statement of Revenues, Expenses, and Changes in Net Assets is "Income before other revenues, expenses, gains and losses" since this includes both operating results and the University's educational and general operating appropriation from the Commonwealth. This amounted to

$6 million for fiscal year 2005. This compares to $9 million for fiscal year 2004. The most significant changes were due to increases of $10 million in tuition and fees, $7 million in auxiliary enterprises and other operating revenues, and $11 million in state appropriations, offset by $29 million of increased educational and general operating costs and $2 million of increased auxiliary enterprises operating costs.

Statement of Cash Flows

The final statement is the Statement of Cash Flows. This statement presents information about the cash activity of the institution during the year. 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 University. 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.

Statement of Cash Flows

	June 30, 2005	June 30, 2004*	Change in dollars	Change in percentage
Cash provided from operations	$291,794	$270,332	$21,462	8%
Cash expended for operations	366,074	327,649	38,425	12%
Net cash used for operations	(74,280)	(57,317)	(16,963)	30%
Net cash provided by noncapital financing activities	111,217	100,027	11,190	11%
Net cash provided by/(used for) capital financing activities	4,332	(21,720)	26,052	(120%)
Net cash provided by investing activities	10,187	578	9,609	1,662%
Net increase in cash	51,456	21,568	29,888	139%
Cash and cash equivalents, beginning of year – restated	95,327	73,759	21,568	29%
Cash and cash equivalents, end of year	$146,783	$ 95,327	$51,456	54%

In thousands
* As restated

The above summarized Statement of Cash Flows shows that the University generates 80 percent ($292 million of $366 million) of its operating cash requirements internally with all of the remainder ($74 million) being provided in the form of $111 million in appropriations from the Commonwealth of Virginia. Nonoperating cash was provided by capital appropriations and the sale of revenue bonds, which were used to acquire capital assets. Cash and cash equivalents at the beginning of the year were restated to reflect assets classified as investments in fiscal year 2004, but reclassified to cash equivalents in fiscal year 2005.

Capital Asset and Debt Administration

The University capitalized the costs to construct the Sandy Creek Parking Deck on the Fairfax campus and Bull Run Hall on the Prince William campus in fiscal year 2005. Additional information concerning capital assets and debt administration is included in the footnotes to these financial statements.

Economic Outlook

The University's financial position is strong. Increased tuition revenues reflect continued enrollment growth and tuition rate increases. The University is undertaking a major building program resulting in a new academic building at the Fairfax campus, a new research building, various renovation projects, and a new mixed-use complex on the Fairfax campus, which will include five multi-story residence buildings supporting a total of 1,030 beds, dining facilities, a fitness center, and retail operations. The University has entered into an agreement to establish a campus in the United Arab Emirates. In addition, the University's administration is discussing the establishment of a campus in Loudoun County with county officials. The University's research program also is growing. The University has been awarded $25 million from the National Institute of Allergy and Infectious Diseases (NAIAD), part of the National Institutes of Health, for construction of a Regional Biocontainment Laboratory at the Prince William Campus, resulting in the largest research award in the University's history. The University is well positioned to continue its overall growth pattern.

GEORGE MASON UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2005

	George Mason University	Component Unit
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 105,765,935	$ 2,466,776
Short-term investments (Note 2)	1,901,021	37,161,729
Accounts receivable, net of allowance of $480,482 (Note 3)	1,787,967	352,638
Notes receivable, net of allowance of $10,300 (Note 3)	535,989	-
Grants and contracts receivable (restricted)	12,468,802	-
Pledges receivable, net	-	2,891,760
Prepaid expenses	2,972,989	124,008
Inventories	86,061	-
Due from the Commonwealth of Virginia	1,672,971	-
Unamortized bond issuance costs	77,361	29,659
Total current assets	127,269,096	43,026,570
Noncurrent assets:		
Restricted cash and cash equivalents (Note 2)	41,017,057	-
Notes receivable, net of allowance of $67,316 (Note 3)	2,949,229	-
Depreciable capital assets, net of accumulated depreciation (Note 4)	335,633,362	29,408,810
Nondepreciable capital assets (Note 4)	35,709,031	42,271,142
Long-term investments	-	40,660,433
Pledges, receivable	-	1,725,555
Other assets	-	854,115
Unamortized bond issuance costs	883,742	516,353
Total noncurrent assets	416,192,422	115,436,408
Total assets	543,461,517	158,462,978
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses (Note 5)	38,701,473	3,597,364
Advance from Treasurer	8,585,000	-
Deferred revenue	22,080,073	45,570
Obligations under securities lending	10,847,269	-
Deposits held in custody for others	78,952	-
Long-term liabilities - current portion (Notes 6 and 10)	13,066,409	960,818
Total current liabilities	93,359,176	4,603,752
Noncurrent liabilities (Notes 6 and 10)	132,780,117	75,462,782
Total liabilities	226,139,293	80,066,534
NET ASSETS		
Invested in capital assets, net of related debt	260,533,675	3,146,102
Restricted: nonexpendable	-	36,724,209
Restricted: expendable	52,122,365	29,395,347
Unrestricted	4,666,184	9,130,786
Total net assets	$ 317,322,224	$ 78,396,444

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, 2005

	George Mason University	Component Unit
Operating revenues:		
Student tuition and fees (net of scholarship allowances of $15,796,633)	$ 122,183,424	$ -
Federal grants and contracts (Note 1M)	55,465,667	-
State, local, and nongovernmental grants and contracts (Note 1M)	31,071,459	-
Auxiliary enterprises (net of scholarship allowances of $4,156,309)	73,139,033	2,974,088
Other operating revenue	3,467,744	16,238,197
Total operating revenue	285,327,327	19,212,285
Operating expenses (Note 11):		
Instruction	156,713,720	1,314,495
Research	45,089,083	5,369,574
Public service	9,856,779	-
Academic support	25,929,904	3,791,749
Student services	15,298,142	-
Institutional support	28,752,411	2,118,884
Operation and maintenance of plant	20,288,611	-
Depreciation and amortization	20,973,216	1,189,101
Scholarships and fellowships	12,805,024	1,741,222
Auxiliary enterprises	52,495,768	972,763
Total operating expenses	388,202,658	16,497,788
Operating income/(loss)	(102,875,331)	2,714,497
Nonoperating revenues/(expenses):		
State educational and general appropriation (Note 12)	100,043,208	-
Cash reversion to State	(787,411)	-
State general fund appropriations - restricted	11,969,082	-
Interest income	1,241,704	-
Interest expense (Note 13)	(4,212,846)	(1,308,012)
Other	-	2,771,517
Net nonoperating revenues	108,253,737	1,463,505
Income before other revenues, expenses, gains, and losses	5,378,406	4,178,002
Other revenues, expenses, gains, and losses:		
Capital gifts and contributions	8,041,145	-
Capital appropriations	19,379,476	-
Other	65,872	(94,842)
Net other revenues, expenses, gains, and losses	27,486,493	(94,842)
Increase in net assets	32,864,899	4,083,160
Net assets beginning of year	284,166,187	74,313,284
Prior period adjustment (Note 14)	291,139	-
Net assets beginning of year - restated	284,457,326	74,313,284
Net assets end of year	$ 317,322,224	$ 78,396,444

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, 2005

Cash flows from operating activities:	
Student tuition and fees	$ 124,410,463
Grants and contracts	90,812,764
Auxiliary enterprises	73,725,288
Other receipts	3,230,619
Perkins loan receipts	485,769
Perkins loan disbursements	(870,117)
Payments to suppliers	(95,321,380)
Payments to employees	(257,948,317)
Payments for scholarships and fellowships	(12,805,024)
Net cash used by operating activities	(74,279,935)
Cash flows from noncapital financing activities:	
State appropriations	112,012,290
Cash reversion to state	(787,411)
Direct lending receipts	40,534,591
Direct lending disbursements	(40,534,591)
Agency transactions	(8,342)
Net cash provided by noncapital financing activities	111,216,537
Cash flows from capital and related financing activities:	
Proceeds from capital appropriations available	19,379,476
Capital gifts and contributions	8,631,414
Proceeds from issuance of capital related debt	30,830,623
Bond premium paid on capital related debt	1,210,017
Bond issuance costs on capital related debt	(106,290)
Principal paid on capital related debt	(10,379,842)
Interest paid on capital related debt	(4,087,805)
Purchases of capital assets	(41,145,882)
Net cash used in capital and related financing activities	4,331,711
Cash flows from investing activities:	
Securities lending liability change	3,438,678
Securities lending investment change	5,507,570
Interest on investments	1,241,704
Net cash provided by investing activities	10,187,952
Net increase in cash	51,456,265
Cash and cash equivalents - beginning of the year	86,248,751
Reclassification of investments to cash equivalents at June 30, 2004	9,077,976
Cash and cash equivalents - beginning of the year (restated)	95,326,727
Cash and cash equivalents - end of the year	$ 146,782,992

GEORGE MASON UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2005

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

Operating loss	$ (102,875,331)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	20,973,216
Changes in assets and liabilities:	
Accounts receivable (net)	(973,972)
Restricted assets receivable (net)	3,993,151
Perkins loan receivable	(370,892)
Perkins loan liability	(13,456)
Inventory	(16,485)
Prepaid expenses	(693,347)
Accounts payable and accrued liabilities	2,156,056
Deferred revenue	3,832,628
Compensated absences	(291,503)
Net cash used by operating activities	$ (74,279,935)

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

GEORGE MASON UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2005

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 basic financial statements of the Commonwealth.

In fiscal year 2004, the University implemented Governmental Accounting Standards Board (GASB) Statement 39, *Determining Whether Certain Organizations are Component Units,* an amendment to GASB Statement 14, *The Financial Reporting Entity*. This statement addresses the condition under which institutions should include associated fundraising and research foundations as component units in their basic financial statements and how such component units should be displayed in the financial statements. This statement was effective for the fiscal year ending June 30, 2004.

Prior to fiscal year 2004, the University had no component units as defined by GASB Statement 14. However, under GASB Statement 39, the George Mason University Foundation, Inc. (Foundation) meets criteria qualifying it as a component unit of the University. The Foundation is a legally separate, tax-exempt organization, acting primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The 48-member board of the Foundation is self-perpetuating and consists of friends and supporters of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

During the year ended June 30, 2005, the Foundation distributed $13,674,095 to or on behalf of the University for both restricted and unrestricted purposes. Separate financial information regarding the Foundation may be obtained by writing to the Foundation Business Office at 4400 University Drive, Mason Hall D201, MSN 1A3, Fairfax, VA 22030.

B. <u>Basis of Presentation</u>

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

The Foundation is a private, nonprofit organization that reports under FASB standards, including FASB Statement 117, *Financial Reporting for Not-for-Profit Organizations.* As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition and presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences.

C. <u>Basis of Accounting</u>

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

D. <u>Investments</u>

In fiscal year 2005, the University implemented GASB Statement 40, *Deposit and Investment Risk Disclosures*, an amendment to GASB Statement 3, *Deposits and Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements.* This statement establishes and modifies disclosure requirements related to investment risks: credit risk, interest rate risk, and foreign currency risk. This statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk. This statement was effective for the fiscal year ending June 30, 2005.

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

E. Capital Assets

Capital assets include land, buildings and other improvements, library materials, equipment and infrastructure assets such as sidewalks, and electrical and computer network cabling systems. Capital assets are generally defined by the University as assets with an initial cost of $2,000 or more and an estimated useful life in excess of one year. Library materials are valued using published average prices for library acquisitions. Other capital assets are recorded at actual cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation. Expenses for major capital assets and improvements are capitalized (construction-in-progress) as projects are constructed. 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 add to an asset's value 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
Other improvements and infrastructure	10-30 years
Equipment	5-20 years
Library materials	10 years

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

F. Inventory

Inventory represents computers and related items for resale to students, faculty, and staff and are valued on a first-in, first-out basis.

G. Noncurrent Cash and Investments

Cash and investments that are externally-restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital and other noncurrent assets, 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, 2005. This is primarily composed of student tuition collected for courses that will be offered after June 30, 2005.

I. <u>Accrued Compensated Absences</u>

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, 2005, all unused vacation and sick leave payable upon termination under University policy. The applicable share of employer related taxes payable on eventual termination payments is also included.

J. <u>Federal Financial Assistance Programs</u>

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

K. <u>Net Assets</u>

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

L. <u>Revenue Classifications</u>

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.

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

M. <u>Scholarship Discounts and Allowances</u>

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. Certain governmental grants, such as Pell grants, and other federal, state, or non-governmental programs are recorded as grants and contracts revenues in the University's financial statements.

N. Prepaid expenses

The University has capitalized facility rentals and insurance premiums for fiscal year 2006 that were paid in advance as of June 30, 2005.

O. Discounts, Premiums, and Bond Issuance Costs

Bonds payable on the Statement of Net Assets are reported net of related discounts and premiums, which are expensed over the life of the bond. Similarly, bond issuance costs are reported as a noncurrent asset that is amortized over the life of the bond on a straight-line basis.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

GASB Statement 40, *Deposit and Investment Risk Disclosures*, became effective for the period beginning after June 15, 2004. It amends GASB Statement 3, *Deposits with Financial Institutions*. GASB Statement 40 eliminates the custodial credit risk disclosures for Category 1 and 2 deposits and investments. However, this statement does not change the disclosure requirements for Category 3 deposits and investments. The University has no Category 3 deposits or investments for 2005. The following risk disclosures are required by GASB.

Credit Risk - the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This statement requires the disclosure of the credit quality ratings of all investments subject to credit risk. Information with respect to the University deposit exposure to credit risk is discussed below.

Concentration of Credit Risk - the risk of loss attributed to the magnitude of a government's investment in a single issuer. This statement requires disclosure of investments with any one issuer that represents five percent or more of total investments. However, investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from the requirement.

Interest Rate Risk - the risk that changes in interest rates will adversely affect the fair value of an investment. This statement requires disclosure of the terms of the investments with fair values that are highly sensitive to changes in interest rates. The University does not have an interest rate risk policy, and no investments or deposits that are sensitive to changes in interest rates as of the close of business on June 30, 2005.

Foreign Currency Risk - the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The University has no foreign investments or deposits for 2005.

A. Cash and Cash Equivalents

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

B. Investments

The investment policy of the University is established by the Board of Visitors and monitored by the Finance and Resource Development Committee of the Board. The University has the following types of cash and cash equivalents and investments:

	Market Value
Cash and cash equivalents:	
Local funds	$ 15,076,687
Treasurer of Virginia	107,271,101
Treasurer of Virginia (Securities Lending)	8,946,248
Treasurer of Virginia (State Non-Arbitrage Program)	15,488,956
Total	$146,782,992
Investments:	
Treasurer of Virginia (Securities Lending)	$ 1,901,021

The fair market value of investments held by the Foundation at June 30, 2005, is summarized as follows:

Unrestricted investments:	
Money market	$ 2,763,371
Mutual funds:	
Equity funds	5,951,462
Bond funds	5,480,101
U.S.government and agency obligations	3,902,390
Corporate stocks	21,310,053
Corporate bonds	9,918,325
Alternative investments	11,289,927
Real estate and other	9,366,110
Total unrestricted	69,981,739
Restricted investments related to bond proceeds:	
Money market	7,122,587
U.S. government and agency obligations	459,173
Corporate bonds	258,663
Total restricted	7,840,423
Total investments	$77,822,162

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 securities lending transactions held in the General Account is available on a statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

3. ACCOUNTS AND NOTES RECEIVABLE

Accounts and notes receivable consisted of the following at June 30, 2005:

Accounts receivable:	
Student tuition and fees	$1,638,553
Other accounts receivable	629,896
Less: Allowance for doubtful accounts	(480,482)
Net accounts receivable	$1,787,967
Notes receivable:	
Current:	
Perkins loans receivable – current portion	$ 475,732
Loans to students, faculty, and staff	70,557
Less: Allowance for doubtful accounts	(10,300)
Total current notes receivable	$ 535,989
Noncurrent:	
Perkins loans receivable - long term portion	$2,984,562
State and nursing loans	31,983
Less: Allowance for doubtful accounts	(67,316)
Net noncurrent notes receivable	$2,949,229

The Foundation's pledges receivable as of June 30, 2005, are as follows:

Due in less than one year	$2,891,760
Due in one to five years	1,775,948
Due in more than five years	115,800
Less: discount	(166,193)
Total	$4,617,315

Discount rates range from 2.2 to 4.0 percent.

As of June 30, 2005, the Foundation received approximately $3,291,000 of conditional promises to give, primarily for the future establishment of endowed chairs. These conditional promises to give are not recognized as assets in the Statement of Financial Position.

4. CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2005, is as follows:

	Beginning Balance *	Additions	Reductions	Ending Balance
Nondepreciable capital assets:				
Land	$ 13,485,149	$ -	$ -	$ 13,485,149
Construction-in-progress	32,617,717	27,505,258	37,899,093	22,223,882
Total nondepreciable capital assets	46,102,866	27,505,258	37,899,093	35,709,031
Depreciable capital assets:				
Buildings	341,561,785	34,223,717	-	375,785,502
Improvements	14,053,833	2,127,837	-	16,181,670
Infrastructure assets	15,143,994	305,000	-	15,448,994
Equipment	77,577,577	11,978,775	7,877,260	81,679,092
Library materials	55,188,513	4,248,225	280,814	59,155,924
Total depreciable capital assets	503,525,702	52,883,554	8,158,074	548,251,182
Less accumulated depreciation:				
Buildings	99,575,112	9,002,413	-	108,577,525
Improvements	11,211,404	762,129	-	11,973,533
Infrastructure assets	9,569,385	517,898	-	10,087,283
Equipment	43,921,642	6,998,443	7,662,317	43,257,768
Library materials	35,310,192	3,692,333	280,814	38,721,711
Total accumulated depreciation	199,587,735	20,973,216	7,943,131	212,617,820
Depreciable capital assets, net	303,937,967	31,910,338	214,943	335,633,362
Total capital assets, net	$350,040,833	$59,415,596	$38,114,036	$371,342,393

The following comprises property and equipment for the Foundation at June 30, 2005:

Nondepreciable capital assets:	
Land	$19,421,824
Construction-in-progress	22,276,751
Art and antiques	572,567
Total nondepreciable capital assets	42,271,142
Depreciable capital assets:	
Buildings	34,844,577
Building improvements	691,682
Furniture and equipment	567,395
Total depreciable capital assets	36,103,654

Less: Accumulated depreciation and amortization	(6,694,844)
Depreciable capital assets, net	29,408,810
Total capital assets, net	$71,679,952

Unrestricted:	
Real estate, net	$61,524,958
Furniture and equipment, net	72,349
Art and antiques	572,567
Temporarily restricted:	
Real estate, net	9,510,078
Total	$71,679,952

5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2005:

Employee salaries, wages, and fringe benefits payable	$23,782,461
Vendors and suppliers accounts payable	14,919,012
Total accounts payable and accrued expenses	$38,701,473

6. NONCURRENT LIABILITIES

Noncurrent liabilities consist of long-term debt, installment purchases, accruals for compensated absences and retirement plans, and other noncurrent liabilities. A summary of changes in noncurrent liabilities for the year ended June 30, 2005, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Noncurrent Portion
Long-term debt:						
Revenue bonds	$ 70,431,946	$ 2,449,875	$ 8,187,410	$ 64,694,411	$ 6,358,488	$ 58,335,923
Notes payable	42,415,000	28,425,178	1,985,000	68,855,178	2,370,000	66,485,178
Installment purchases	541,146	639,401	452,493	728,054	247,470	480,584
Bonds premium/interest payable	1,484,790	1,210,017	182,642	2,512,165	174,970	2,337,195
Total long-term debt	114,872,882	32,724,471	10,807,545	136,789,808	9,150,928	127,638,880
Accrued compensated absences	6,817,305	4,829,093	5,120,596	6,525,802	3,915,481	2,610,321
Perkins loan funds	2,544,372	-	13,456	2,530,916	-	2,530,916
Total long-term liabilities	$124,234,559	$37,553,564	$15,941,597	$145,846,526	$13,066,409	$132,780,117

7. BONDS PAYABLE

A. Revenue Bonds

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

In 1995, the University issued $4,355,000 of Section 9(d) bonds with interest rates ranging from 5.20 to 6.37 percent to finance the construction of the Krasnow Institute for Advanced Study. 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.

In August 2004, the University issued Commonwealth of Virginia 9(c) General Obligation Bonds to finance the renovation of Commonwealth and Dominion student housing on the Fairfax campus. The principal amount of $2,340,000 with an interest rate ranging from 3.75 to 5.00 percent is to be paid semi-annually. The final payment will be due in 2014.

In November 2004, the Commonwealth's Treasury Board completed the sale of the General Obligation Refunding Bonds, Series 2004B. The Bonds provided debt service savings in the amount of $670,940 by advance refunding the Series 2001, Residence Hall V 9 (C) revenue bond. The principal amount of $9,939,875 with an interest rate ranging from 2.0 to 5.0 percent is to be paid semi-annually. The final payment will be due in 2020.

The following schedule describes the total principal and interest on the revenue bonds outstanding:

Fiscal Year	Principal	Interest	Total
2006	$ 6,358,488	$ 2,649,747	$ 9,008,235
2007	5,823,518	2,422,451	8,245,969
2008	6,164,979	2,232,555	8,397,534
2009	6,292,817	2,009,251	8,302,068
2010	4,741,852	1,819,306	6,561,158
2011-2015	19,053,585	6,260,205	25,313,790
2016-2020	9,099,172	2,783,110	11,882,282
2021-2024	7,160,000	803,507	7,963,507
Total	$64,694,411	$20,980,132	$85,674,543

The following schedule describes each of the revenue bonds outstanding:

Bond Title	Year Issued	Original Amount	Interest Rate %	Bond Term (yrs)	Final Payment Due	Balance*
9(c) Revenue bonds:						
Parking lot X	1986	$ 525,000	3.600-4.750	20	2006	$ 42,284
Residence halls II	1986	6,030,000	3.600-4.750	20	2006	483,933
Security information building	1986	305,000	3.600-4.750	20	2006	23,439
Humanities III	1989	9,400,000	6.500-6.700	20	2009	2,970,026
Residence halls III	1989	10,697,600	6.400-6.700	20	2009	3,380,016
Residence halls IV	1990	11,145,000	3.600-8.400	20	2010	4,041,044
Student Union II addition	1992	2,535,000	3.500-5.500	20	2012	1,232,205
University Center	1993	21,460,000	3.750-5.250	20	2015	13,467,608
Prince William site and parking	1995	2,115,000	4.600-4.750	10	2006	255,000
Arlington parking garage	1998	1,915,000	3.500-4.200	10	2008	665,000
Residence hall V	2002	21,780,000	4.000-5.000	22	2024	10,620,000
Housing renovations	2002	3,435,000	4.000-5.000	20	2022	2,420,000
Residence hall V	2003	8,635,000	2.250-5.000	20	2024	7,655,000
Commonwealth and Dominion	2005	2,340,000	3.750-5.000	10	2014	2,160,000
9(c) 2004 B Refunding	2004	9,939,875	2.000-5.000	15	2020	9,738,856
Total		112,257,475				59,154,411
9(d) General revenue bonds:						
Krasnow Institute for Advanced Study	1995	4,355,000	5.200-6.375	20	2016	3,087,686
Warehouse	1995	2,905,000	5.200-6.375	20	2016	2,452,314
Total		7,260,000				5,540,000
Total bonds payable		$119,517,475				$64,694,411

* Outstanding at June 30, 2005

B. Commonwealth Bond Obligations

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

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

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

C. Prior Year Bond Defeasance

The Commonwealth of Virginia, on behalf of the University, issued bonds in previous fiscal years for which the proceeds were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on other debt. The bonds representing that debt are therefore considered defeased. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the University's financial statements. On June 30, 2005, $6,080,000 of bonds outstanding was considered defeased.

8. NOTES PAYABLE

A.. VCBA Notes Payable

The University has entered into five promissory notes with the VCBA. The first note payable issued in September 1997 was to finance the construction of the aquatic center located on the Fairfax campus and the Freedom Aquatic Center with adjacent parking lot located on the Prince William campus. The remaining principal amount of $7,950,000 with an interest rate ranging from 3.75 to 5.00 percent is to be paid semi-annually as provided in the VCBA's Educational Facilities Revenue Bonds (Public Higher Education Financing Program), Series 1997A.

The second note payable issued in October 1999 was to finance the construction of the parking garage expansion on the Fairfax campus. The remaining principal amount of $860,000 with an interest rate ranging from 4.50 to 6.00 percent is to be paid semi-annually as provided in the VCBA's Educational Facilities Revenue Bonds (Public Higher Education Financing Program), Series 1999A.

In October 2001, the University entered into a third promissory note with the VCBA for the construction of the Student Union Renovation Project. The remaining principal amount of $1,975,000 with repayment interest rates ranging from three to five percent is to be paid semi-annually as provided in the VCBA's Educational Facilities Revenue Bonds (Public Higher Education Financing Program), Series 2001A.

In November 2003, the University entered into a fourth promissory note to finance the construction of Parking Deck II on the Fairfax campus. The remaining principal amount of $13,455,000 with an interest rate ranging from 2.50 to 5.00 percent is to be paid semi-annually as provided in the VCBA's Educational Facilities Revenue Bonds (Public Higher Education Financing Program), Series 2003A. The University is required to pay the annual debt service on the 9(d) general revenue bonds issued by VCBA for the purchase of the promissory notes.

In October 2004, the University entered into a fifth promissory note to finance the construction of Fairfax Research I Building and renovation of the Fairfax Aquatic Center. The principal amount of $10,005,000 (Research I) and $6,785,000 (Aquatic Center) with an interest rate ranging from three to five percent is to be paid semi-annually. The final payment will be due in 2026 for Research I and 2021 for the Aquatic Center as provided in the VCBA's Educational Facilities Revenue Bonds (Public Higher Education Financing Program), Series 2004A.

In October 2004, VCBA completed the issuance of 2004B bonds, proceeds of which are being used to refinance certain prior Institutional Notes: Series 1999, Fairfax Parking Garage Expansion; Series 1997A, Prince William Freedom Aquatic Center; Series 1997A, Fairfax Aquatic Center. The principal amount of $16,190,000 with an interest rate ranging from three to five percent is to be paid semi-annually as provided in the VCBA's Educational Facilities Revenue Bonds (Public Higher Education Financing Program), Series 2004B.

B. Notes Payable

In April 2005, the University entered into a Master Lease Agreement with Suntrust Leasing Corporation to finance the acquisition of the equipment necessary for the implementation of the Energy Performance Contract Agreement. The principal amount of $11,635,178 with an interest rate of 3.81 percent is to be paid quarterly. The first payment is due in September 2006. The final payment will be due in 2021.

The following schedule describes the total principal and interest on the notes outstanding:

Fiscal Year	Principal	Interest	Total
2006	$ 2,370,000	$ 2,595,553	$ 4,965,553
2007	3,081,689	3,494,456	6,576,145
2008	3,767,782	2,797,638	6,565,420
2009	3,697,510	2,645,407	6,342,917
2010	3,818,197	2,496,389	6,314,586
2011-2015	20,787,534	9,728,107	30,515,641
2016-2020	21,066,694	4,534,435	25,601,129
2021-2025	9,515,772	1,160,632	10,676,404
2026	750,000	17,813	767,813
Total	$68,855,178	$29,470,430	$98,325,608

The following schedule describes each of the notes outstanding:

Bond Title	Year Issued	Original Amount	Interest Rate %	Bond Term (yrs)	Final Payment Due	Balance Outstanding at June 30, 2005
Fairfax Aquatic Center	1997	$10,340,000	3.75-5.00	9	2008	$ 2,670,000
Prince William Freedom Aquatic Center	1997	17,325,000	3.75-5.00	9	2008	4,620,000
Prince William parking	1997	1,915,000	3.75-5.00	20	2017	660,000
Fairfax parking garage expansion	1999	4,100,000	4.50-6.00	10	2009	860,000
Student Union I Renovations	2001	2,460,000	3.00-5.00	10	2012	1,975,000
Parking Deck II	2003	13,455,000	2.50-5.00	22	2025	13,455,000
Fairfax Aquatic Center (renovation)	2004	6,785,000	3.00-5.00	17	2021	6,785,000
Fairfax Research I	2004	10,005,000	3.00-5.00	22	2026	10,005,000
VCBA 2004B refunding	2004	16,190,000	3.00-5.00	15	2019	16,190,000
Energy performance contract	2005	11,635,178	3.81	16	2021	11,635,178
Total		$94,210,178				$68,855,178

9. INSTALLMENT PURCHASES PAYABLE

George Mason University has entered into various installment purchase contracts to finance the acquisition of photocopiers, office modular, and other equipment. In July 2004, the University entered into a new installment purchase agreement for a Protein Array System at a cost of $44,950. The lease is for five years with an interest rate of 3.15 percent. The final payment is due in 2009. In January 2005, the University entered into a new installment purchase agreement for a FluorChem 5500 with digital thermal printer and software at a cost of $20,450. The lease is for four years with an interest rate of 3.39 percent. The final payment is due in 2008. The remaining length of the purchase agreements ranges from one to four years and the interest rate ranges up to 6.25 percent. Principal and interest payments on these commitments for fiscal years subsequent to June 30, 2005, are as follows:

Fiscal Year	Principal	Interest	Total
2006	$247,470	$17,026	$264,496
2007	217,317	10,745	228,062
2008	177,180	5,586	182,766
2009	86,087	1,667	87,754
Total	$728,054	$35,024	$763,078

10. COMPONENT UNIT DEBT

A. Bonds Payable

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 was used to finance a housing project for the University and the remaining $7,425,000 was used to refinance existing properties the Foundation owns and rents to the University. Monthly interest and annual principal payments are due, maturing on February 1, 2029. Additionally, the Foundation simultaneously entered into an interest rate swap with a commercial bank to effectively fix the interest rate on $22,425,000 of the bonds.

As a security for the payment of the bonds, the Foundation entered into an irrevocable letter of credit with a commercial bank in the initial amount of $35,593,333 at 12 percent per annum and expiring on October 15, 2008. As of June 30, 2005, no draws have been taken against the letter of credit, but due to principal payments on the bonds, the letter of credit amount as of June 30, 2005, is $34,346,933.

Beginning on June 30, 2005, restrictive covenants related to the bond went into effect, including unrestricted liquidity of not less than $6 million and a property debt service coverage ratio of not less than 1.20 to one. As of June 30, 2005, the Foundation met the required restrictive covenants.

Interest incurred on the bonds, as well as the swap agreement during fiscal year 2005 totaled $1,267,903, of which $1,087,626 was expensed and $170,109 was capitalized.

On September 24, 2004, GMUF Arlington Campus, LLC secured a $61 million construction/mini-permanent loan with a consortium of banks and secured by a deed of trust in the property on 3434 North Washington Street and the improvements to be made on the property. The terms of the loan are seven years floating at LIBOR plus 2.25 percent. Concurrently, the GMUF Arlington Campus, LLC entered into a forward swap agreement with a financial institution to synthetically lock the interest rate at 6.96 percent for years three through seven. The loan will be interest only for 24 months and then amortize on a 25-year basis thereafter. As of June 30, 2005, $28,066,283 was outstanding on this loan. In fiscal year 2005, interest expense totaling $925,982 was capitalized in preparing the real estate for its intended use.

In addition to the $61 million loan, the Foundation entered into a $6 million loan agreement for five years at a floating rate of LIBOR plus 2.25 percent. This second loan is secured by previously unencumbered real property owned by the Foundation and by a pledge of $822,000 dollars worth of unrestricted fixed income marketable securities. The proceeds from that loan are being deposited into an investment account with a financial institution guaranteed to earn income at the rate of LIBOR plus 1.25 percent locking in the negative arbitrage for the Foundation at one percent. This loan will be interest only with a principal payment of $1 million due at the end of both years three and four with the balance due at the maturity date. In fiscal year 2005, interest expense totaled $220,386.

Bonds payable at June 30, 2005	$67,961,283
Less: Current portion	(650,000)
Noncurrent portion	$67,311,283

The following are maturities of the bonds payable for the next five years ending June 30:

2006	$ 650,000
2007	1,379,205
2008	2,689,547
2009	2,785,659
2010	5,911,880
Thereafter	54,544,992
Total	$67,961,283

B. Derivative Instruments

In October 2003, the Foundation entered into an interest rate swap agreement with a financial institution against the floating rate bonds in the notional amount of $22,425,000 at a fixed interest rate of 4.56 percent, 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 notational amount of $12,700,000 at a rate of ten percent. 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 Foundation documents its risk management strategy and hedge effectiveness at the inception and during the term of the hedge.

The fair market value of the interest rate swap and the interest rate cap at June 30, 2005, totaled a derivative obligation of $972,200 and a derivative asset of $17,024, respectively, and represents the present value of all future expected payments. The net change in value has been recorded as an unrealized loss on derivative in the Statement of Revenues, Expenses, and Changes in Net Assets. Additionally, at contract maturity in 2024, all assets or liabilities related to the interest rate swap and interest rate cap convert to zero. All assets and liabilities related to the forward interest rate swap convert to zero at contract maturity in 2011.

On September 24, 2004, GMUF Arlington Campus, LLC entered into a forward interest rate swap agreement with a financial institution to lock the interest rate at 6.96 percent for years three through seven related to their $61 million construction/mini-permanent loan (see Note F). The interest rate swap was used as a cash flow hedge to synthetically fix the rate of the loan and to eliminate changes in the market interest rates. The Foundation documents its risk management strategy and hedge effectiveness at the inception and during the term of the hedge.

The fair market value of the forward interest rate swap at June 30, 2005 totaled a derivative obligation of $1,441,170 and represents the present value of all future expected payments. The net change in value has been recorded as an unrealized loss on derivative in the statement of activities. Additionally, all assets and liabilities related to the forward interest rate swap convert to zero at contract maturity in 2011.

11. 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.

	Salaries and Wages	Fringe Benefits	Goods and Services	Scholarships/ Fellowships	Depreciation	Total
Instruction	$114,531,063	$24,734,849	$17,447,808	$ -	$ -	$156,713,720
Research	27,279,545	4,448,887	13,360,651	-	-	45,089,083
Academic support	15,753,218	4,928,889	5,247,797	-	-	25,929,904
Student services	9,893,993	2,267,747	3,136,402	-	-	15,298,142
Public services	4,218,822	952,543	4,685,414	-	-	9,856,779
Operation and maintenance of plant	7,293,894	2,175,362	10,819,355	-	-	20,288,611
Institutional support	17,273,510	6,191,389	5,287,512	-	-	28,752,411
Depreciation expense	-	-	-	-	20,973,216	20,973,216
Scholarships/fellowships	-	-	-	12,805,024	-	12,805,024
Auxiliary enterprises	15,713,199	3,467,949	33,314,620	-	-	52,495,768
Total	$211,957,244	$49,167,615	$93,299,559	$12,805,024	$20,973,216	$388,202,658

12. STATE APPROPRIATIONS – CURRENT UNRESTRICTED FUNDS

The 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	$ 98,247,636
Additional one-time funds for special research	885,875
Central adjustments for salary and benefits:	
Group life premium holiday	(416,270)
Retirement rate adjustments	(39,231)
Retiree health credit rate adjustment	(88,457)
Health insurance premium increase	544,567
VSDP rate adjustment	291,189
Salary increase state employees	369,980
Funds for VIVA program	16,691
Lost revenue attributable to military dependents	231,228
Final appropriation	$100,043,208

13. INTEREST EXPENSE

During 2005, the University incurred interest expense totaling $5,085,011. Of this amount, $872,165 was capitalized as part of the cost of construction and $4,212,846 was expensed.

14. PRIOR PERIOD ADJUSTMENT

During 2005, fiscal year 2004 errors were discovered, the effects of which were to understate the increase in net assets for the year ended June 30, 2004, by $291,139. These errors involved an understatement of operating expenses and accounts payable of $908,371; an overstatement of operating expenses and an understatement of construction in progress of $1,558,517; and an understatement of depreciation expense and accumulated depreciation of $359,007.

15. COMMITMENTS

A. Operating Leases

The University is committed under various operating leases for rental of off-campus facilities. The leases are for one to ten year terms. Facility rental expenses for the fiscal year ended June 30, 2005 were $3,214,084. The University had, as of June 30, 2005, the following total future minimum rental payments due under the above leases:

Year Ended June 30,	
2006	$ 3,713,408
2007	2,219,749
2008	2,101,360
2009	1,993,958
2010	415,874
2011	45,904
Total	$10,490,253

B. Construction

Outstanding commitments for capital outlay projects that were under construction at June 30, 2005 were $14,581,712.

16. RETIREMENT AND PENSION SYSTEMS

A. Virginia Retirement System (VRS)

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

The VRS does not measure assets and pension benefit obligations separately for individual state institutions. Information relating to this plan is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report (CAFR). Because the employees of the University are also employees of the Commonwealth, the Commonwealth of Virginia and not the University has the overall responsibility for contributions to this plan. The CAFR provides disclosure of the Commonwealth's unfunded pension benefit obligation at June 30, 2005. The same report contains historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

The University's expenses include the amount assessed by the Commonwealth for contributions to VRS, which totaled approximately $5,606,991 for the year ended, June 30, 2005. The retirement contribution rate was 8.9 percent for fiscal year 2005. Contributions to VRS were calculated using the base salary amount of approximately $62,973,319 for the year ended June 30, 2005. The University's total payroll was approximately $211,625,620 for fiscal year 2005.

The University's law enforcement officers participate in the Virginia Law Officers' Retirement System (VaLORS). The University's expenses include the amount assessed by the Commonwealth for contributions to VaLORS, which totaled approximately $455,782 for the year ended June 30, 2005. The VaLORS retirement contribution rate was 21.9 percent for fiscal year 2005. Contributions to VaLORS were calculated using the base salary amount of approximately $2,084,885 for the year ended June 30, 2005.

The University's expenses include the amount assessed by the Commonwealth for contributions to the VRS Alternative Severance Option early retirement program, which totaled approximately $496,977 for the year ended June 30, 2005. Contributions were determined by formula based on years of service and annual salary. The University's total payroll was approximately $211,625,620 for fiscal year 2005.

B. Faculty Retirement Plans

Most full-time faculty and certain administrative staff participate in one faculty retirement plan with three investment providers rather than the VRS. These are defined contribution plans where the retirement benefits received are based upon the employer's 10.4 percent contribution plus interest and dividends. The employee is not required to make contributions to the program.

Individual contracts issued under the plan provide for full and immediate vesting of the University's contributions. As with VRS, the employees' contributions are assumed by the employer. Total pension costs under these plans were approximately $9,965,502 for the year ended June 30, 2005. Contributions were calculated using the base salary of approximately $95,822,797 for fiscal year 2005. The University's total payroll was approximately $211,625,620 for fiscal year 2005. The following schedule summarizes the cost and participation in the three optional retirement plans.

Faculty Retirement Plans	Retirement Pension Cost	Plan's Covered Payroll	Contribution Percentage
TIAA-CREF*	$7,809,148	$75,113,294	10.4%
Fidelity Investments	2,110,622	20,270,956	10.4%
VALIC**	45,732	438,547	10.4%
Total	$9,965,502	$95,822,797	

* Teachers Insurance and Annuity Association/College Retirement Equities Fund
**Variable Annuity Life Insurance Company (ended January 1, 2005

C. Deferred Compensation

Employees of the University are employees of the Commonwealth of Virginia. State employees may participate in the Commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the Commonwealth matching up to $20 per pay period. The dollar amount match can change depending on the funding available in the Commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under Section 401 (a) of the Internal Revenue Code. Employer contributions under the Deferred Compensation Plan were approximately $657,759 for the fiscal year ended June 30, 2005.

17. POST-RETIREMENT BENEFITS

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

18. RISK MANAGEMENT AND EMPLOYEE HEALTH CARE PLANS

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

19. SUBSEQUENT EVENTS

In November 2005, the University issued three Educational Facilities Revenue Bonds, Series 2005A (VCBA Pooled Bond Program), to finance the construction of Fairfax Student Union III building, construction of an addition and renovation of Fairfax Krasnow Institute, and construction of the Fairfax Child Development Center building. The principal amount of $4,890,000 (Student Union III); $4,495,000 (Krasnow Institute); and $1,775,000 (Child Development Center) with an interest rate ranging from 3.5 to 5.00 percent is to be paid semi-annually. The final payment will be due in 2027 for Student Union III and Krasnow Institute and 2017 for the Child Development Center.

In November 2005, the Commonwealth’s Treasury Board completed the sale of the General Obligation Bonds, Series 2005A, proceeds of which are being used to finance the construction of Fairfax Housing VII complex. The principal amount of $25,800,000 with an interest rate ranging from 3.75 to 5.00 percent is to be paid semi-annually. The final payment will be due in 2030.

GEORGE MASON UNIVERSITY
SCHEDULE OF AUXILIARY ENTERPRISES- REVENUES AND EXPENDITURES
For the Year Ended June 30, 2005

	Administration	All University Card System	Campus Access	Center for the Arts	Child Development Center
Revenues:					
Sales and services	$ 33,417	$ 33,511	$ 5,105,627	$ 2,236,115	$ 479,178
Room	-	-	-	-	-
Board	-	-	-	-	-
Fees and fines	-	-	918,660	-	-
Interest	693,358	-	-	-	-
Gifts	-	-	-	-	-
Other	-	-	-	-	-
Total revenues	726,775	33,511	6,024,287	2,236,115	479,178
Expenditures:					
Personal services	319,862	167,252	78,426	1,761,244	314,216
Fringe benefits	80,438	27,834	16,609	400,268	57,908
Contractual services	225,688	264,256	2,793,401	2,585,101	94,182
Supplies	21,844	50,072	11,997	90,848	12,805
Merchandise for resale	-	-	-	-	-
Equipment	34,651	171,877	46,975	97,490	420
Current charges	3,244,396	218	91,960	129,015	24,170
Scholarships	-	-	-	-	-
Total expenditures	3,926,879	681,509	3,039,368	5,063,966	503,702
Transfers:					
Mandatory:					
Retirement of debt	(236,106)	-	(1,213,892)	(868,060)	-
Non-mandatory transfers	5,635,032	466,327	193,633	3,788,086	5,000
Total transfers	5,398,926	466,327	(1,020,259)	2,920,026	5,000
Net increase (decrease) for the year	2,198,822	(181,671)	1,964,660	92,175	(19,524)
Balance at beginning of year	3,508,681	(235,497)	1,908,242	(2,112,245)	(43,480)
Balance at end of year	$5,707,504	($417,168)	$3,872,902	($2,020,070)	($63,004)

This schedule is presented on a cash basis of accounting and does not support the basic financial statements.

Computer Store	Fairfax Swimming Pool	Freedom Aquatic Center	Hemlock Overlook and Bull Run	Intercollegiate Athletics	Meal Plan
$ 738,468	$ 898,057	$ 4,173,940	$ 1,065,228	$ 1,429,907	$ -
-	-	-	-	-	-
-	-	-	-	-	6,398,054
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	172,357	-
-	-	1,457,063	-	-	-
738,468	898,057	5,631,003	1,065,228	1,602,264	6,398,054
162,040	791,101	2,418,462	559,193	3,829,822	-
30,521	117,746	365,727	106,214	1,003,387	-
7,581	(281,589)	420,051	172,885	2,056,883	6,258,890
7,260	111,557	203,690	41,565	478,515	-
487,853	-	6,391	-	2,752	-
450	32,548	57,947	25,947	57,890	-
-	278,923	424,160	43,818	91,174	-
-	-	-	-	2,618,191	-
695,705	1,050,287	3,896,428	949,623	10,138,614	6,258,890
-	(759,550)	(1,312,011)	-	-	-
-	1,630,573	107,156	36,000	8,530,484	(150,000)
-	871,023	(1,204,855)	36,000	8,530,484	(150,000)
42,763	718,793	529,721	151,606	(5,866)	(10,836)
254,028	(58,220)	580,533	(385,991)	(522,987)	218,549
$296,791	$660,573	$1,110,254	($234,385)	($528,853)	$207,713

GEORGE MASON UNIVERSITY
SCHEDULE OF AUXILIARY ENTERPRISES- REVENUES AND EXPENDITURES, cont.
For the year ended June 30, 2005

	Patriot Center	Print Services	Recreational Sports Complex	Student Activities and Services	Student Fees
Revenues:					
Sales and services	$ 771,750	$ 497,739	$ 252,329	$ 2,089,206	$ -
Room	-	-	-	-	-
Board	-	-	-	-	-
Fees and fines	-	-	-	-	32,148,944
Interest	-	-	-	-	-
Gifts	-	-	-	-	-
Other	-	-	-	-	-
Total revenues	771,750	497,739	252,329	2,089,206	32,148,944
Expenditures:					
Personal services	-	606,041	725,745	2,416,439	-
Fringe benefits	-	125,867	123,876	509,711	-
Contractual services	168,715	(965,066)	1,641,086	1,727,649	-
Supplies	(2,826)	133,155	205,137	493,093	-
Merchandise for resale	-	-	-	-	-
Equipment	700	31,505	52,384	89,068	-
Current charges	323,650	407,284	259,350	577,028	-
Scholarships	-	-	-	30,304	-
Total expenditures	490,239	338,787	3,007,578	5,843,291	-
Transfers:					
Mandatory:					
Retirement of debt	(1,242,602)	-	-	-	-
Non-mandatory transfers	904,100	-	2,155,471	4,525,566	(32,148,944)
Total transfers	(338,502)	-	2,155,471	4,525,566	(32,148,944)
Net increase(decrease) for the year	(56,992)	158,952	(599,778)	771,481	-
Balance at beginning of year	2,737,703	(139,727)	1,520,621	960,330	100,667
Balance at end of year	$2,680,711	$19,225	$920,843	$1,731,811	$100,667

This schedule is presented on a cash basis of accounting and does not support the basic financial statements.

Student Housing	Student Unions	Telecom-munications	Total
$ -	$ 2,631,952	$ 12,401	$ 22,448,826
13,989,999	-	-	13,989,999
-	-	-	6,398,054
-	-	-	33,067,604
-	-	-	693,358
-	-	-	172,357
-	-	-	1,457,063
13,989,999	2,631,952	12,401	78,227,261
4,340	1,088,549	475,409	15,718,141
-	362,202	115,462	3,443,769
6,255,638	785,323	(1,124,555)	23,086,120
668	393,535	5,290	2,258,206
-	-	-	496,996
4,405	102,663	326,464	1,133,384
2,110,581	889,160	2,943	8,897,831
-	-	-	2,648,495
8,375,632	3,621,432	(198,987)	57,682,942
(5,678,434)	(2,268,516)	(511,730)	(14,090,901)
-	3,809,786	511,730	-
(5,678,434)	1,541,270	-	(14,090,901)
(64,067)	551,790	211,388	6,453,418
(629,029)	2,186,919	1,485,567	11,334,664
($693,096)	$2,738,709	$1,696,955	$17,788,082

Commonwealth of Virginia

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

Walter J. Kucharski, Auditor

April 10, 2006

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable Lacey E. Putney
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 basic financial statements of **George Mason University,** a component unit of the Commonwealth of Virginia, and its discretely presented component unit as of and for the year ended June 30, 2005. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the George Mason University Foundation, which is discussed in Note 1A. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as it relates the amounts included for the component unit of the 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 the University that were audited by other auditors and 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 above present fairly, in all material respects, the financial position of George Mason University and of its discretely presented component unit as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of George Mason University. The Schedule of Auxiliary Enterprises - Revenues and Expenditures is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statement taken as a whole.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

Internal Control over Financial Reporting

In planning and performing our audit, we considered the University's internal controls over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Status of Prior Findings

The University has taken adequate corrective action with respect to audit findings reported in the prior year.

The "Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters" is intended solely for the information and use of the Governor and General Assembly of Virginia, the Board of Visitors, and management, and is not intended to be and should not be used by anyone, other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on May 4, 2006.

AUDITOR OF PUBLIC ACCOUNTS

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