GEORGE MASON UNIVERSITY

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 2004

APA

Auditor of Public Accounts

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of George Mason University for the year ended June 30, 2004, found:

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

- an internal control matter that we consider to be a reportable condition (see below); however, we do not consider this to be a material weakness;

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

- the University has not taken adequate corrective action with respect to the previously reported finding "Complete Business Impact Analysis, Risk Assessment and Disaster Recovery Plan" Adequate corrective action was taken with respect to audit findings reported in the prior year that are not repeated in this report.

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INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

Complete Executive Business Impact Analysis, Business Continuity Plan, and Information Systems Security Plan

The University has performed vulnerability assessments on different components of its technical environment, however, the University has not performed an executive level business impact analysis, a cost benefit analysis of the resulting risks, nor created an enterprise business continuity/disaster recovery plan and Information Technology (IT) Security Plan. These high level components are necessary to create the guidance, tone, and strategic direction of information security that will be supported by executive management and allow the university to consider the most cost beneficial solutions most appropriate for its environment.

Risks were revealed specific to the different areas in which the assessments were performed but do not address a global security perspective of the University's entire computing environment. A global security perspective will allow a more focused and cost beneficial approach for addressing the most critical vulnerabilities rather than attempting to implement many different disjointed solutions simultaneously.

The University should devote the resources necessary to perform an executive level business impact analysis, a cost benefit analysis, and enterprise business continuity/disaster recovery plan. As a result of these measures, the University should then create an IT Security Plan that will provide the foundation and structure of the overall information security program. The IT Security Plan will not only include the different areas addressed in the SEC 2001.01 Standard but will set the tone for the controls needed to ensure the protection of University assets and data.

Additionally, the University IT Security Plan will provide security control enforcement with executive level support, and a purpose specific to what the University deems most important to its environment. For example all the controls implemented on the internal firewall will be traceable back to a thorough firewall policy that supports the strategic components of an IT Security Plan such as restrictive access, device hardening, auditing measures, and remote administration security. The process of performing a Business Impact Analysis, cost benefit analysis, enterprise Business Continuity Plan and IT Security Plan will allow University executive management to become more aware of the security vulnerabilities not yet addressed, the security measures deemed most important to mitigate the discovered risks, and the ability to establish a focused yet cost beneficial approach to implementing solutions.

University Response:

The University concurs with our finding and their planned corrective action is detailed on pages 40 through 41.

MANAGEMENT’S DISCUSSION AND ANALYSIS
(unaudited)

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 George Mason 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 institution.

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

Statement of Net Assets*

	June 30, 2004	June 30, 2003**
Assets:		
Current assets	$ 87,058	$100,301
Capital assets, net	348,841	327,605
Other assets	41,612	3,071
Total assets	477,511	430,977
Liabilities:		
Current liabilities	79,712	68,573
Noncurrent liabilities	113,633	108,751
Total liabilities	193,345	177,324
Net assets:		
Invested in capital assets, net of debt	279,227	248,489
Restricted-expendable	6,423	6,780
Unrestricted	(1,484)	(1,615)
Total net assets	$284,166	$253,654

* in thousands
** as restated

The University's financial position remained strong at the end of fiscal year 2004. Total assets were $478 million and net assets (total assets less liabilities of $194 million) amounted to $284 million. Current assets of $87 million exceed current liabilities of $80 million by $7 million (eight percent). Capital assets, net of accumulated depreciation of $199 million, totaled $349 million.

The University's net asset position increased in 2004 compared to 2003 by $30 million. Most of this increase was the result of equipment and library additions, and construction of Bull Run Hall at the Prince William campus. Total assets increased in 2004 compared to 2003 by $47 million. Building construction and equipment acquisitions accounted for most of this increase ($37 million). Increases in short term investments to be used for capital projects accounted for the remaining growth.

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, 2004	June 30, 2003**
Operating revenues:		
Student tuition and fees, net of allowances	$111,612	$ 92,457
Grants and contracts	86,860	78,855
Auxiliary enterprises and other	69,982	64,181
Total operating revenues	268,454	235,493
Operating expenses:		
Education and general	272,155	260,487
Depreciation	18,908	17,732
Scholarships and fellowships	11,031	10,761
Auxiliary enterprises	52,534	44,653
Total operating expenses	354,628	333,633
Operating loss	(86,174)	(98,140)
Nonoperating revenues and expenses (net)	94,760	101,459
Income before other revenues, expenses, gains or losses	8,586	3,319
Capital appropriations, gifts, contributions and other expenses	21,926	32,383
Increase in net assets	30,512	35,702
Net assets at beginning of year	253,654	217,952
Net assets at end of year	$284,166	$253,654

* 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 $9 million for fiscal year 2004. This compares to $3 million for fiscal year 2003. The most significant changes were due to increases of $19 million in tuition and fees and $8 million in grants and contracts, offset by $21 million of increased operating costs and a decrease in state appropriations of $7 million. Tuition and fees increased due to a tuition rate increase and increased enrollment; grants and contracts revenue and operating costs increased due to an overall increase in operating activity.

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 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.

Statement of Cash Flows

	June 30, 2004	June 30, 2003
Cash provided from operations	$270,332	$233,951
Cash expended for operations	327,649	315,928
Net cash used for operations	(57,317)	(81,977)
Net cash provided by noncapital financing activities	100,027	106,924
Net cash provided by (used for) capital financing activities	(21,720)	(16,844)
Net cash provided by (used for) investing activities	(709)	11,507
Net increase in cash	20,281	19,610
Cash and cash equivalents, beginning of year	65,968	46,358
Cash and cash equivalents, end of year	$ 86,249	$ 65,968

* in thousands

The above summarized Statement of Cash Flows shows that the University generates 82 percent ($270 million of $328 million) of its operating cash requirements internally with all of the remainder ($58 million) being provided in the form of appropriations from the Commonwealth of Virginia. Nonoperating cash was used to acquire capital assets, which were financed primarily through capital appropriations and the sale of revenue bonds.

Capital Asset and Debt Administration

The University capitalized the costs to construct Liberty Square, a new student apartment complex housing 500 students, in fiscal year 2004. The University issued $13.4 million of new debt to finance the construction of Parking Deck II. 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 offset the decrease in appropriations. In addition, student enrollment increased in 2004 and continues to increase. Research activities continue to demonstrate strong growth. The University is well positioned to continue its overall growth pattern.

GEORGE MASON UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2004

	George Mason University	Component Unit
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 56,977,664	$ 2,681,417
Short-term investments (Note 2)	7,408,591	27,467,219
Accounts receivable, net of allowance of $302,626 (Note 3)	813,995	266,030
Notes receivable, net of allowance of $11,442 (Note 3)	711,119	-
Grants and contracts receivable (restricted)	16,461,953	-
Pledges receivable, net	-	3,214,206
Prepaid expenses	2,279,642	221,581
Inventories	69,576	-
Due from the Commonwealth of Virginia	2,263,240	-
Unamortized bond issuance costs	71,744	14,647
Total current assets	87,057,524	33,865,100
Noncurrent assets:		
Restricted cash and cash equivalents	29,271,087	-
Noncurrent investments	9,077,976	-
Notes receivable, net of allowance of $51,181 (Note 3)	2,403,207	-
Nondepreciable capital assets (Note 4)	44,544,349	45,583,969
Depreciable capital assets, net of accumulated depreciation (Note 4)	304,296,974	4,225,091
Long-term investments	-	46,419,188
Pledges, receivable	-	2,616,993
Other assets	-	829,767
Unamortized bond issuance costs	860,429	515,989
Total noncurrent assets	390,454,022	100,190,997
Total assets	477,511,546	134,056,097
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses (Note 5)	34,782,470	4,254,373
Advance from Treasurer	8,585,000	-
Deferred revenue	18,247,445	36,907
Obligations under securities lending	7,408,591	-
Line of credit (Note 9B)	-	14,073,933
Deposits held in custody for others	87,294	-
Long-term liabilities - current portion (Notes 6 and 9)	10,601,458	909,274
Total current liabilities	79,712,258	19,274,487
Noncurrent liabilities (Note 6 and 9)	113,633,101	40,468,326
Total liabilities	193,345,359	59,742,813
NET ASSETS		
Invested in capital assets, net of related debt	279,227,328	417,560
Restricted: nonexpendable	-	33,856,326
Restricted: expendable	6,423,290	27,623,112
Unrestricted	(1,484,431)	12,416,286
Total net assets	$284,166,187	$74,313,284

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, 2004

	George Mason University	Component Unit
Operating revenues:		
Student tuition and fees (net of scholarship allowances of $13,130,804)	$ 111,611,860	$ -
Federal grants and contracts (Note 1M)	56,235,106	-
State, local, and nongovernmental grants and contracts (Note 1M)	30,624,904	-
Auxiliary enterprises (net of scholarship allowances of $4,304,205)	65,856,835	278,147
Other operating revenue	4,125,059	13,070,831
Total operating revenue	268,453,764	13,348,978
Operating expenses (Note 11):		
Instruction	140,555,627	1,739,892
Research	43,455,368	4,396,551
Public service	8,997,744	-
Academic support	24,651,390	4,876,648
Student services	12,809,623	
Institutional support	23,497,925	1,804,802
Operation and maintenance of plant	18,187,481	-
Depreciation	18,907,718	398,201
Scholarships and fellowships	11,031,363	1,376,237
Auxiliary enterprises	52,534,065	214,942
Total operating expenses	354,628,304	14,807,273
Operating loss	(86,174,540)	(1,458,295)
Nonoperating revenues (expenses):		
State educational and general appropriation (Note 12)	90,593,048	-
Cash reversion to State	(730,695)	-
State general fund appropriations - restricted	9,077,303	-
Interest income	578,772	
Interest expense (Note 13)	(4,757,929)	(153,869)
Other	-	7,859,449
Net nonoperating revenues	94,760,499	7,705,580
Income before other revenues, expenses, gains, and losses	8,585,959	6,247,285
Other revenues, expenses, gains, and losses:		
Capital gifts and contributions	4,120,491	-
Capital appropriations	18,065,039	-
Other	(259,365)	(83,624)
Net other revenues, expenses, gains, and losses	21,926,165	(83,624)
Increase in net assets	30,512,124	6,163,661
Net assets beginning of year	251,002,647	68,149,623
Prior period adjustment (Note 14)	2,651,416	-
Net assets beginning of year - restated	253,654,063	68,149,623
Net assets end of year	$ 284,166,187	$ 74,313,284

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, 2004

Cash flows from operating activities:	
Student tuition and fees	$ 108,405,668
Grants and contracts	88,743,570
Auxiliary enterprises	69,000,139
Other receipts	4,183,019
Payments to employees	(235,293,293)
Payments to suppliers	(81,325,200)
Payments for scholarships and fellowships	(11,031,363)
Net cash used by operating activities	(57,317,460)
Cash flows from noncapital financing activities:	
State appropriations	99,670,351
Direct lending receipts	56,952,333
Direct lending disbursements	(56,952,333)
Cash reversion to state	(730,695)
Advance from treasurer	1,000,000
Agency transactions	87,294
Net cash provided by noncapital financing activities	100,026,950
Cash flows from capital and related financing activities:	
Proceeds from capital appropriations available	18,065,039
Capital gifts and contributions	2,407,437
Proceeds from issuance of capital related debt	13,583,835
Bond premium paid on capital related debt	599,364
Bond issuance costs on capital related debt	(76,090)
Principal paid on capital related debt	(10,052,774)
Interest paid on capital related debt	(4,794,505)
Purchases of capital assets	(41,452,411)
Net cash used by capital and related financing activities	(21,720,105)
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	12,691,187
Purchase of investments	(13,978,274)
Interest on investments	578,772
Net cash used by investing activities	(708,315)
Net increase in cash	20,281,070
Cash and cash equivalents - beginning of the year	65,967,681
Cash and cash equivalents - end of the year	$ 86,248,751

RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating loss	$ (86,174,540)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	18,907,718
Changes in assets and liabilities:	
Accounts receivable (net)	1,284,625
Restricted assets receivable (net)	673,037
Prepaid expenses	(106,890)
Inventory	(2,615)
Due from Commonwealth - vendor payment reimbursements	2,168,413
Perkins loan receivable	(196,369)
Accounts payable and accrued liabilities	4,160,011
Deferred revenue	1,024,147
Perkins loan liability	(24,916)
Compensated absences	969,919
Net cash used by operating activities	$ (57,317,460)

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

GEORGE MASON UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2004

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 is 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, 2004, the Foundation distributed $13,653,043 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. Basis of Presentation

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

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

D. Investments

In accordance with GASB Statement 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, 3 to 5 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, 2004. This is primarily composed of student tuition collected for courses that will be offered after June 30, 2004.

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, 2004, 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. Federal Financial Assistance Programs

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

K. Net Assets

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

L. Revenue Classifications

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

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

M. Scholarship Discounts and Allowances

Student tuition and fees revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenue, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the student's behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental 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 2005 that were paid in advance as of June 30, 2004.

O. Discounts, Premiums, and Bond Issuance Costs

Bonds payable on the Statement of Net Assets is 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

The following information is provided with respect to the credit risk associated with the University's cash and cash equivalents and investments at June 30, 2004.

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's investments as of June 30, 2004 are categorized by levels of credit risk. Category one includes investments which are insured or registered securities or securities held by the University or its agent in the University's name. Category two includes uninsured and unregistered investments with securities held by the broker's or dealer's trust department or safekeeping agent in the University's name. Category three includes uninsured or unregistered investments with securities held by the broker or dealer, or by its trust department or safekeeping agent, but not in the University's name. All of the University's investments are category one.

	Market Value
Cash and cash equivalents:	
Local funds	$ 5,853,082
Cash with the Treasurer	80,395,669
Total	$86,248,751
Investments:	
Funds with trustees	$ 7,499,008
Treasurer of Virginia (SNAP*)	8,987,559
Total	$16,486,567

* State nonarbitrage program

The fair market value of investments held by the Foundation at June 30, 2004 is summarized as follows:

Unrestricted investments:	
Money market	$ 706,093
Mutual funds:	
Equity funds	6,166,286
Bond funds	5,897,092
U.S. government and agency obligations	5,766,429
Corporate stocks	19,119,128
Corporate bonds	9,106,268
Alternative investments	9,314,118
Real estate and other	8,784,538
Total	64,859,952
Restricted investments related to bond proceeds:	
Money market	9,026,455
Total investments	$73,886,407

The Foundation's investment earnings are summarized as follows for the year ended June 30, 2004:

Interest and dividends	$1,637,723
Realized gains	891,288
External management fees	(196,261)
Total	2,332,750
Unrealized gains	3,290,352
Unrealized/realized losses included with change in split interest agreements	218,561
Net investment return	$5,841,663

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, 2004:

Accounts receivable:	
Student tuition and fees	$ 753,664
Other accounts receivable	362,957
Total accounts receivable	1,116,621
Less allowance for doubtful accounts	(302,626)
Net accounts receivable	$ 813,995
Notes receivable:	
Current:	
Perkins loans receivable - current portion	$ 601,456
Loans to students, faculty and staff	121,105
Less allowance for doubtful accounts	(11,442)
Net current notes receivable	$ 711,119
Noncurrent:	
Perkins loans receivable - long term portion	$2,419,032
State and Nursing loans	35,356
Less allowance for doubtful accounts	(51,181)
Net noncurrent notes receivable	$2,403,207

The Foundation's pledges receivable as of June 30, 2004 are as follows:

Due in less than one year	$3,214,206
Due in one to five years	2,640,532
Due in more than five years	212,500
Less discount	(236,039)
Total	$5,831,199

Discount rates range from 2.2% to 5.3%.

As of June 30, 2004, the Foundation received approximately $3,735,000 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 net assets.

4. CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2004, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable capital assets:				
Land	$ 13,485,149	$ -	$ -	$ 13,485,149
Construction in progress	35,929,347	29,340,857	34,211,004	31,059,200
Total nondepreciable capital assets	49,414,496	29,340,857	34,211,004	44,544,349
Depreciable capital assets:				
Buildings	311,057,805	30,503,980	-	341,561,785
Improvements	14,451,983	-	-	14,451,983
Infrastructure assets	14,745,845	-	-	14,745,845
Equipment - restated	71,559,445	10,939,877	4,921,745	77,577,577
Library materials	51,359,286	4,057,873	228,646	55,188,513
Total depreciable capital assets	463,174,364	45,501,730	5,150,391	503,525,703
Less accumulated depreciation:				
Buildings	91,165,652	8,409,460	-	99,575,112
Improvements	10,447,793	783,518	-	11,231,311
Infrastructure assets	9,014,998	534,480	-	9,549,478
Equipment	42,297,129	5,927,886	4,662,379	43,562,636
Library materials	32,057,818	3,481,020	228,646	35,310,192
Total accumulated depreciation	184,983,390	19,136,364	4,891,025	199,228,729
Depreciable capital assets, net	278,190,974	26,365,366	259,366	304,296,974
Total capital assets, net	$327,605,470	$55,706,223	$34,470,370	$348,841,323

The following comprises property and equipment for the Foundation at June 30, 2004:

Land	$18,518,665
Buildings	8,516,787
Building improvements	669,699
Construction in progress	26,492,737
Furniture and equipment	567,395
Art and antiques	572,567
Accumulated depreciation and amortization	(5,528,790)
Net property and equipment	$49,809,060
Unrestricted:	
Real estate, net	$40,822,647
Furniture and equipment, net	125,346
Art and antiques	572,567
Temporarily restricted:	
Real estate, net	8,288,500
Total	$49,809,060

5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2004:

Employee salaries, wages and fringe benefits payable	$20,314,415
Vendors and suppliers accounts payable	14,468,055
Total accounts payable and accrued expenses	$34,782,470

6. NONCURRENT LIABILITIES

Noncurrent liabilities consist of long-term debt, capital leases, and 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, 2004 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Noncurrent Portion
Long-term debt:						
Revenue bonds	$ 77,564,238	$ -	$ 7,132,292	$ 70,431,946	$ 7,806,329	$ 62,625,617
Notes payable	30,630,000	13,455,000	1,670,000	42,415,000	1,740,000	40,675,000
Installment purchases	1,662,793	128,835	1,250,482	541,146	321,535	219,611
Bonds premium /interest payable	993,748	599,364	108,322	1,484,790	103,302	1,381,488
Total long-term debt	110,850,779	14,183,199	10,161,096	114,872,882	9,971,166	104,901,716
Accrued compensated absences	5,847,386	1,472,917	502,998	6,817,305	630,292	6,187,013
Perkins loan funds	2,569,288	-	24,916	2,544,372	-	2,544,372
Total long-term liabilities	$119,267,453	$15,656,116	$10,689,010	$124,234,559	$10,601,458	$113,633,101

7. BONDS PAYABLE

A. Revenue Bonds

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

Fiscal Year	Principal	Interest	Total
2005	$ 7,806,329	$ 2,854,554	$10,660,883
2006	6,153,487	2,573,166	8,726,653
2007	5,613,518	2,356,120	7,969,638
2008	5,949,980	2,173,097	8,123,077
2009	6,050,056	1,976,434	8,026,490
2010-2014	18,698,515	7,203,439	25,901,954
2015-2019	11,115,000	3,478,011	14,593,011
2020-2024	9,045,061	1,229,728	10,274,789
Total	$70,431,946	$23,844,549	$94,276,495

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:						
P. E. III Arena	1985	$ 12,750,000	5.0 - 5.9	20	2005	$ 1,194,810
Parking lot IX	1985	840,000	5.0 - 5.9	20	2005	79,324
Residence halls II	1985	2,000,000	5.0 - 5.9	20	2005	193,351
Parking lot X	1986	525,000	3.6 - 4.75	20	2006	80,133
Residence halls II	1986	6,030,000	3.6 - 4.75	20	2006	942,364
Security information building	1986	305,000	3.6 - 4.75	20	2006	47,108
Humanities III	1989	9,400,000	6.5 - 6.7	20	2009	3,598,921
Residence halls III	1989	10,697,600	6.4 - 6.7	20	2009	4,095,725
Residence halls IV	1990	11,145,000	3.6 - 8.4	20	2010	4,748,466
Student Union II addition	1992	2,535,000	3.5 - 5.5	20	2012	1,375,868
University Center	1993	21,460,000	3.75 - 5.25	20	2015	14,518,827
Telecommunications	1994	3,770,000	6.0 - 6.6	10	2005	492,049
Prince William site and parking	1995	2,115,000	4.6 - 4.75	10	2006	500,000
Arlington parking garage	1998	1,915,000	3.5 - 4.2	10	2008	865,000
Residence hall V	2002	21,780,000	4.0 - 5.0	20	2022	21,130,000
Housing renovations	2002	3,435,000	4.0 - 5.0	20	2022	2,770,000
Residence hall V	2003	8,635,000	2.25 - 5.0	20	2024	7,950,000
Total		119,337,600				64,581,946

9 (d) General revenue bonds:						
Krasnow Institute for Advanced Study	1995	4,355,000	5.2 - 6.375	20	2016	3,272,686
Warehouse	1995	2,905,000	5.2 - 6.375	20	2016	2,577,314
Total		7,260,000				5,850,000
Total bonds payable		$126,597,600				$70,431,946

* Outstanding at June 30, 2004

B. Commonwealth Bond Obligations

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

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

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

C. Prior Year Bond Defeasance

The Commonwealth of Virginia, on behalf of the University, issued bonds in previous fiscal years for which the proceeds were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on other debt. The bonds representing that debt are therefore considered defeased. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the University's financial statements. On June 30, 2004, $8,950,000 of bonds outstanding was considered defeased.

8. VCBA NOTES PAYABLE

The University has entered into four promissory notes with the Virginia College Building Authority (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 $23,145,000 with an interest rate ranging from 3.75 percent 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 $3,595,000 with an interest rate ranging from 4.50 percent 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 2002, the University entered into a third promissory note with the Virginia College Building Authority (VCBA), for the construction of the Student Union Renovation Project. The remaining principal amount of $2,220,000 with repayment interest rates ranging from 3.0 percent to 5.0 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 principal amount of $13,455,000 with an interest rate ranging from 2.50 percent 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.

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

Fiscal Year	Principal	Interest	Total
2005	$ 1,740,000	$ 1,379,943	$ 3,119,943
2006	2,250,000	1,859,458	4,109,458
2007	2,345,000	1,815,959	4,160,959
2008	2,440,000	1,710,633	4,150,633
2009	2,320,000	1,604,207	3,924,207
2010-2014	12,710,000	6,200,138	18,910,138
2015-2019	12,885,000	2,802,525	15,687,525
2020-2024	4,725,000	750,626	5,475,626
2025	1,000,000	23,125	1,023,125
Total	$42,415,000	$18,146,614	$60,561,614

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 6/30/04
Fairfax Aquatic Center	1997	$10,340,000	3.75 - 5.0	20	2017	$ 8,165,000
Prince William Freedom Aquatic Center	1997	17,325,000	3.75 - 5.0	20	2017	14,120,000
Prince William parking	1997	1,915,000	3.75 - 5.0	20	2017	860,000
Fairfax parking garage expansion	1999	4,100,000	4.5 - 6.0	20	2019	3,595,000
Sub 1 renovations	2002	2,460,000	3.0 - 5.0	10	2012	2,220,000
Parking Deck II	2003	13,455,000	2.5 - 5.0	22	2025	13,455,000
Total		$49,595,000				$42,415,000

9. COMPONENT UNIT DEBT

A. Bonds Payable

The Foundation issued $35,125,000 of variable rate Fairfax County Economic Development Authority bonds in October 2003 and used $27,700,000 to finance a housing project for the University. 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 in February 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 security for payment of the bonds, the Foundation entered into an irrevocable letter of credit in the initial amount of $35,593,333 at 12 percent per annum and expiring on October 15, 2008. As of June 30, 2004, no draws have been taken against the letter of credit.

Beginning on June 30, 2005, restrictive covenants related to the bond will go into effect, which include unrestricted liquidity of not less than $6 million and a property debt service coverage ratio of not less than 1.20 to 1.

Cash paid for interest for the bonds, as well as the swap agreement during fiscal year 2004 totaled $794,922, of which $143,449 was expensed and $651,473 was capitalized.

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

2005	$ 600,000
2006	650,000
2007	675,000
2008	700,000
2009	725,000
Thereafter	31,395,000
Total	$34,745,000

B. Lines of Credit

GMUF Arlington Campus, LLC has an $18 million line of credit. As of June 2004, $14,073,933 was outstanding. The line of credit bears interest at a rate of 3.5 percent, is due on demand, and is secured by real estate. In fiscal year 2004, interest expense totaling $478,622 was capitalized in preparing the real estate for its intended use.

C. 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 on the floating portion of the bond issuance, at a rate of ten percent, the cost of which is included in the fixed interest rate quoted above. The interest rate swap was used as a cash flow hedge to synthetically fix the rate on the bonds and 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, 2004, totaled $(147,055) and, $89,305, 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 instruments 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.

10. INSTALLMENT PURCHASES PAYABLE

George Mason University has entered into various installment purchase contracts to finance the acquisition of computer software site licenses, equipment for a fiber optic network, photocopiers, and other equipment. In March 2003, the University entered into a new installment purchase agreement for a Spectromedix Analyzer at a cost of $128,835. The lease is for five years with an interest rate of 2.47 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, 2004 are as follows:

Fiscal Year	Principal	Interest	Total
2005	$321,535	$14,966	$336,501
2006	109,279	4,592	113,871
2007	75,565	1,872	77,437
2008	34,767	351	35,118
Total	$541,146	$21,781	$562,927

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	$104,897,557	$21,796,820	$13,861,250	$ -	$ -	$140,555,627
Research	25,710,981	3,938,246	13,806,141	-	-	43,455,368
Academic support	14,055,283	4,216,514	6,379,593	-	-	24,651,390
Student services	8,524,248	1,860,741	2,424,634	-	-	12,809,623
Public services	3,737,729	778,544	4,481,471	-	-	8,997,744
Operation and maintenance of plant	6,456,291	1,818,885	9,912,305	-	-	18,187,481
Institutional support	16,520,629	4,947,291	2,030,005	-	-	23,497,925
Depreciation expense	-	-	-	-	18,907,718	18,907,718
Scholarships/Fellowships	-	-	-	11,031,363	-	11,031,363
Auxiliary enterprises	14,891,435	3,054,768	34,587,862	-	-	52,534,065
Total	$194,794,153	$42,411,809	$87,483,261	$11,031,363	$18,907,718	$354,628,304

12. STATE APPROPRIATIONS-CURRENT UNRESTRICTED FUNDS

George Mason University receives appropriations from the General Fund of the Commonwealth. The Appropriation Act specifies that any 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	$89,217,746
Salary increase funds	907,253
Benefit adjustments – Increase	1,321,812
Benefit adjustments – Decrease	(867,262)
Insurance adjustment	13,499
Final appropriation	$90,593,048

13. INTEREST EXPENSE

During 2004, the University incurred interest expense totaling $4,961,658. Of this amount, $203,729 was capitalized as part of the cost of construction and $4,757,929 was expensed.

14. PRIOR PERIOD ADJUSTMENT

During 2004, fiscal year 2003 errors were discovered which totaled $2,651,416. These errors involved an overstatement of capitalized equipment and net assets invested in capital assets of $398,889, and a reimbursement due from the Commonwealth for vendor and supplier payments that resulted in an overstatement of operating expenses and an understatement of receivables. The effects of the errors were to understate the increase in net assets for the year ended June 30, 2003, by $3,050,305.

15. COMMITMENTS

A. Operating Leases

George Mason University is committed under various operating leases for rental of off-campus facilities. The leases are for one to five year terms and the University has no automatic renewal options. In most cases, the University expects that, in the normal course of business, similar leases will replace these leases. Facility rental expenses for the fiscal year ended June 30, 2004 were $2,580,769. The University had, as of June 30, 2004, the following total future minimum rental payments due under the above leases:

Year Ended June 30,	
2005	$2,380,965
2006	1,611,746
2007	594,655
Total	$4,587,366

B. Construction

Outstanding commitments for capital outlay projects that were under construction at June 30, 2004 were $7,362,689.

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. Information relating to this plan is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report. 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.

B. Faculty Retirement Plans

Most full-time faculty and certain administrative staff participate in one of three faculty retirement plans 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 $9,180,442 for the year ended June 30, 2004. Contributions were calculated using the base salary of approximately $89,974,318 for fiscal year 2004. The University's total payroll for fiscal year 2004 was approximately $202,864,879. 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*	$7,250,064	$71,426,096	10.2%
Fidelity Investments	1,852,951	17,784,888	10.4%
VALIC**	77,427	763,334	10.1%
Total	$9,180,442	$89,974,318	

* Teachers Insurance and Annuity Association/College Retirement Equities Fund
**Variable Annuity Life Insurance Company

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, administers 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

A. George Mason University

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 percent to 5.00 percent is to be paid semi-annually. The final payment will be due in 2014.

In October 2004, the University issued two Educational Facilities Revenue Bonds, Series 2004A (VCBA Pooled Bond Program), 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 3.00 percent to 5.00 percent is to be paid semi-annually. The final payment will be due in 2026 for Research I and 2021 for the Aquatic Center.

In October 2004, the Virginia College Building Authority 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; and Series 1997A, Fairfax Aquatic Center. The Bonds provided debt service savings in the amount of $1,017,042.

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 following 9 (C) revenue bonds:

Series 1998, Arlington-Parking Garage; Series 2001, Residence Hall V; and Series 2001, Housing Renovations.

B. Component Unit

GMUF Arlington Campus, LLC secured a $61 million construction/mini-perm loan in September 2004, with a consortium of banks and secured by a deed of trust on the property at 3434 North Washington Street and the improvements to be made on the property. The terms of the loan are seven years with interest floating at Libor plus 2.25 percent. Concurrently, the GMUF Arlington Campus, LLC entered into a forward swap agreement with BB&T Capital Markets Group to synthetically lock the interest rate at 6.96 percent for years three through seven. The loan is interest only for 24 months and then amortizes on a 25-year basis thereafter.

In addition to the $61 million dollar loan, the Foundation entered into a $6 million loan agreement for five years with interest floating at Libor plus 2.25 percent. This second loan is initially secured by previously unencumbered real property owned by the Foundation and by a pledge of $2 million dollars worth of unrestricted fixed income marketable securities. The initial term of the loan is 120 days, during which time the Foundation is required to provide documentation as to the value of real property. If the real property value is below $6.66 million, the Foundation will pledge other assets to cover the shortfall. Proceeds from the loan are being deposited into an investment account with a financial institution with guaranteed earnings of Libor plus 1.25 percent, thereby locking in the negative arbitrage for the Foundation at one percent. The loan is interest only with a $1 million principal payment due at the end of both years three and four, with the balance due at the maturity date.

GEORGE MASON UNIVERSITY
SCHEDULE OF AUXILIARY ENTERPRISES- REVENUES AND EXPENDITURES
For the Year Ended June 30, 2004

	Administration	Campus Access	Computer Store	Fairfax Swimming Pool
Revenues:				
Sales and services	$ 429,199	$ 4,443,903	$ 727,173	$ 828,230
Room	-	-	-	-
Board	-	-	-	-
Fees and fines	-	747,923	-	-
Interest	420,820	-	-	-
Gifts	-	-	-	-
Other	-	-	-	-
Total revenues	850,019	5,191,826	727,173	828,230
Expenditures:				
Personal services	727,997	88,209	156,116	747,281
Fringe benefits	168,011	2,166	31,431	100,811
Contractual services	143,128	2,594,229	13,492	383,986
Supplies	159,837	9,023	1,402	113,472
Merchandise for resale	-	-	363,949	3,060
Equipment	30,539	4,918	2,651	87,997
Current charges	2,991,488	118,777	9,667	282,993
Scholarships	412,500	-	-	-
Total expenditures	4,633,500	2,817,322	578,708	1,719,600
Transfers:				
Mandatory:				
Retirement of debt	(243,449)	(1,341,275)	-	(805,650)
Non-mandatory	6,097,285	93,200	-	1,558,121
Total transfers	5,853,836	(1,248,075)	-	752,471
Net increase (decrease) for the year	2,070,355	1,126,429	148,465	(138,899)
Balance at beginning of year	1,159,349	781,813	105,563	80,679
Balance at end of year	$ 3,229,704	$ 1,908,242	$ 254,028	$ (58,220)

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

Freedom Aquatic Center	Hemlock Overlook and Bull Run	Institute of the Arts	Inter-collegiate Athletics	Meal Plan	Patriot Center	Print Services
$ 4,062,778	$ 1,107,916	$ 1,807,961	$ 1,690,138	$ -	$ 965,597	$ 592,972
-	-	-	-	-	-	-
-	-	-	-	6,075,147	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	121,855	-	-	-
1,424,341	-	-	-	-	-	-
5,487,119	1,107,916	1,807,961	1,811,993	6,075,147	965,597	592,972
2,285,077	723,292	1,437,697	3,457,047	-	-	601,648
333,428	119,170	309,330	868,663	-	-	108,213
266,091	248,631	2,272,845	1,879,440	5,911,528	94,903	(784,241)
245,460	71,672	116,239	419,072	-	9,248	163,891
5,467	-	-	3,226	-	-	-
15,379	13,910	56,517	84,002	-	12,430	7,750
536,690	61,673	134,485	207,403	-	215,676	380,667
-	-	-	2,618,874	-	-	-
3,687,592	1,238,348	4,327,113	9,537,727	5,911,528	332,257	477,928
(1,397,858)	-	(868,060)	-	-	(1,232,560)	-
58,347	-	3,857,388	7,846,378	(91,100)	1,038,600	-
(1,339,511)	-	2,989,328	7,846,378	(91,100)	(193,960)	-
460,016	(130,432)	470,176	120,644	72,519	439,380	115,044
120,517	(255,559)	(2,582,421)	(643,631)	146,030	2,298,323	(254,771)
$ 580,533	$ (385,991)	$ (2,112,245)	$ (522,987)	$ 218,549	$ 2,737,703	$ (139,727)

GEORGE MASON UNIVERSITY
SCHEDULE OF AUXILIARY ENTERPRISES- REVENUES AND EXPENDITURES, cont.
For the year ended June 30, 2004

	Recreational Sports Complex	Student Activities and Services	Student Fees	Student Housing
Revenues:				
Sales and services	$ 253,402	$ 2,592,617	$ -	$ -
Room	-	-	-	13,887,054
Board	-	-	-	-
Fees and fines	-	-	29,260,272	-
Interest	-	-	-	-
Gifts	-	-	-	-
Other	-	-	-	-
Total revenues	253,402	2,592,617	29,260,272	13,887,054
Expenditures:				
Personal services	853,357	2,381,211	-	-
Fringe benefits	158,897	434,174	-	-
Contractual services	704,546	1,703,469	-	5,828,620
Supplies	242,897	449,793	-	50,361
Merchandise for resale	-	-	-	-
Equipment	119,866	68,904	-	9,627
Current charges	262,506	600,069	-	1,828,073
Scholarships	-	17,926	-	-
Total expenditures	2,342,069	5,655,546	-	7,716,681
Transfers:				
Mandatory:				
Retirement of debt	-	-	-	(5,894,733)
Non-mandatory	2,113,720	3,188,017	(29,260,272)	-
Total transfers	2,113,720	3,188,017	(29,260,272)	(5,894,733)
Net increase (decrease) for the year	25,053	125,088	-	275,640
Balance at beginning of year	1,495,568	835,242	100,667	(904,669)
Balance at end of year	$ 1,520,621	$ 960,330	$ 100,667	$ (629,029)

Student Unions	Telecom-munications	Total
$ 2,348,043	$ 26,323	$ 21,876,252
-	-	13,887,054
-	-	6,075,147
-	-	30,008,195
-	-	420,820
-	-	121,855
-	-	1,424,341
2,348,043	26,323	73,813,664
1,067,191	364,309	14,890,432
306,866	84,911	3,026,071
752,805	(721,749)	21,291,723
269,531	79,556	2,401,454
-	-	375,702
72,650	236,053	823,193
937,280	3,749	8,571,196
-	-	3,049,300
3,406,323	46,829	54,429,071
(1,406,125)	(510,382)	(13,700,092)
2,738,520	623,077	(138,719)
1,332,395	112,695	(13,838,811)
274,115	92,189	5,545,782
1,912,804	1,393,378	5,788,882
$ 2,186,919	$ 1,485,567	$ 11,334,664

Commonwealth of Virginia

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

Walter J. Kucharski, Auditor

April 21, 2005

The Honorable Mark R. Warner
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 aggregate discretely presented component unit as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the 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 they relate the amounts included for the component unit of the University, are 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 University and of its aggregate discretely presented component unit as of June 30, 2004, 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.

As described in the Notes to Financial Statements, the University has implemented the provisions of Governmental Accounting Standards Board Statement 39, *Determining Whether Certain Organizations are Component Units,* which addresses the conditions under which institutions should include associated foundations as component units and how such component units should be displayed in the financial statements.

The Management's Discussion and Analysis on pages two through five 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 accompanying 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 control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the University's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition, entitled "Complete Executive Business Impact Analysis, Business Continuity Plan, and Information Systems Security Plan" is described in the section titled "Internal Control Findings and Recommendations."

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 error 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

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 not taken adequate corrective action with respect to the previously reported finding "Complete Business Impact Analysis, Risk Assessment and Disaster Recovery Plan." Accordingly, we included this finding in the section entitled "Internal Control and Recommendations" as the finding titled "Complete Executive Business Impact Analysis, Business Continuity Plan, and Information Systems Security Plan." The University has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

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 25, 2005.

AUDITOR OF PUBLIC ACCOUNTS

MSM/kva

GEORGE MASON UNIVERSITY
Fiscal Services
4400 University Drive, MS 4B2, Fairfax, Virginia 22030
Phone: 703-993-2660; Fax: 703-993-2920

May 25, 2005

Mr. David A. Von Moll
State Comptroller
Virginia Department of Accounts
P. O. Box 1971
Richmond, VA 23218-1971

Re: Corrective Action Workplan

Dear Mr. Von Moll:

The following comments constitute our response to the Auditor of Public Accounts (APA) audit report for fiscal year ended June 30, 2004.

Complete Executive Business Impact Analysis, Business Continuity Plan, and Information Systems Security Plan: The university agrees that an Enterprise Risk Management program is needed. During fiscal year 2005, the university has been putting in place the necessary policy and technical infrastructure for such a program. This included forming a university wide Privacy and Security Compliance Team (PSCT) under the leadership of the President's Chief of Staff. The PSCT developed and promulgated an enterprise wide data stewardship policy which makes it clear that no one can access, store or provide sensitive data without authorization from the appropriate data steward. It lays out the authorization chain and the responsibilities for keeping data secure. The university also modified its personnel policies, building into every performance plan the responsibility to keep data and systems secure.

Other preparatory activities included enhancing the central technology infrastructure so that units throughout the university can be comfortable that the perimeter is protected, intrusion detection is in place, logs are being monitored, appropriate authentication and authorization procedures are implemented and a virtual private network is in place for those who work with sensitive data. These actions were needed so that the distributed units could focus on risks in their environment rather than on risks that are the responsibility of central administration.

The university, however, did not want to hold on all risk assessment while these preparatory steps were being taken. Thus it contracted with private firms to conduct risk assessments in distributed units where the university's budget and planning group saw the likelihood of greater risk. Risks identified were either remediated immediately or are in the process of remediation. And, a comprehensive risk assessment was performed in the Information Technology Unit. This risk assessment was followed up with several "table top" business continuity exercises, with representatives from the Safety Office and the Police Department serving as evaluators. They provided the exercise participants with a report that identified strengths, observations, and opportunities for improvement/recommendations.

Recently the President reviewed the activities described above and determined that it was time to put together an executive enterprise risk management group to lead the effort to train each unit in the university in risk assessment and business continuity and to coordinate these assessments. The Senior Vice President was appointed to lead the ERM group. The group has begun meeting and will engage the services of a qualified third party during the upcoming months to assist with development of a comprehensive business contingency plan.

Very truly yours,

Elizabeth A Brock

Elizabeth A Brock
Assistant Vice President and Controller

copy to: W. J. Kucharski (2)
B. S. Wheelan
R. D. Brown

GEORGE MASON UNIVERSITY

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June 30, 2004

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