GEORGE MASON UNIVERSITY

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

JUNE 30, 2017

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MANAGEMENT’S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Introduction

This unaudited *Management's Discussion and Analysis* (MD&A) is required supplementary information under the Governmental Accounting Standards Board's (GASB) reporting model. This discussion and analysis provides an overview of the financial condition, results of operations, and cash flows of George Mason University for the fiscal year ended June 30, 2017 (FY 2017). Comparative numbers are included for the fiscal year ended June 30, 2016 (FY 2016). MD&A includes highly summarized data and therefore should be read in conjunction with the full financial statements and footnotes that follow this section. The University's management is responsible for all of the financial information presented, including this discussion and analysis.

The University is an agency of the Commonwealth of Virginia and is governed by the University's Board of Visitors. The Commonwealth prepares a separate financial report that incorporates all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The University is a component unit of the Commonwealth and is included in the financial statements of the Commonwealth.

The following summarized financial statements in MD&A include a comparison of FY 2017 and FY 2016.

Financial Highlights

The University's total net position increased by $124.9 million, or 21 percent, compared to an increase of $96.3 million, or 20 percent, for FY 2016. See the Statement of Net Position section for additional information about this change.

Revenue provided by the Commonwealth for equipment and capital projects totaled $51.4 million for FY 2017 as compared to $51.5 million for FY 2016.

During FY 2017, the University continued its ongoing trend to increase operating revenues in excess of increases in operating expenses, which contributed to the increase in net position, as follows:

Increases in Operating Revenues and Expenses and Net Position ($ in millions)

	FY 2017		FY 2016		FY 2015	
Operating Revenues	$26.2	4%	$26.4	4%	$23.1	4%
Operating Expenses	$18.5	2%	$ 7.8	1%	$14.6	2%
Increase in Net Position	$124.9	21%	$96.3	20%	$60.3	9%

The University holds the "Highest Research Activity" (R1) status from the Carnegie Classification of Institutions of Higher Education. In FY 2017 the University was able to sustain grants and contracts revenue at $108.5 million.

During FY 2017, the University continued to invest in the development of facilities to support and enhance the capacity to achieve its strategic goals. A key aspect of this investment is the development of facilities and systems that enhance the quality of teaching and learning, create operating efficiencies, and support the development of diversified revenue streams, all of which are essential for the University's continued movement to an economic model which is less reliant on state appropriations. Examples of this ongoing investment are set forth below.

The University is nearing completion of a $71 million, 165,000 square foot Health Sciences Building, which will be known as the Peterson Family Health Sciences Hall, on the Fairfax, Virginia campus. The Health Sciences Building will serve as the new home of the College of Health and Human Services and will co-locate all six academic departments of the College into one space. The building will include classrooms, offices, a health clinic, wet labs, a nutrition kitchen and an amphitheater.

The University is nearing completion of the Potomac Science Center, a $33 million, 50,000 square foot facility located on a waterfront location in the Belmont Bay section of Prince William County, Virginia. The location is an environmentally unique freshwater tidal basin that has unique flora and fauna. The building is the University's newest research facility and will serve as the home to the College of Science's Potomac Environmental Research and Education Center (PEREC) and its Center for Geospatial Intelligence. PEREC's mission focuses on Potomac River restoration and local sustainability practices, so that the local ecosystem will be healthy for years to come. PEREC's research is translated into award-winning and engaging field programs for K-12 students and the larger community.

The University began the design of a $112 million, 218,000 square foot project to replace Robinson Hall, located on the Fairfax Campus. The project will modernize one of the Fairfax campuses most used buildings and substantially improve the learning and collaborative environment. The building will include classrooms with whiteboards and video screens, collaboration and meeting spaces, informal learning areas outside classrooms, and conference rooms on six floors. Students and student learning are the foundation of the design of the new building. The project will also include a 2,000 square foot addition to, and a 21,000 square foot renovation of, the Harris Theater.

The University also began the design of a $49 million utility infrastructure project to replace critical components of the thermal infrastructure loop system. In addition to replacing the utility system beneath plazas, roadways, sidewalks and softscapes, the project will improve and extend the North Plaza and repair all hardscape and softscape systems in all other effected areas to retain the character of the campus.

During FY 2015, the University implemented GASBS 68- "Accounting and Financial Reporting for Pensions". The requirement to begin reporting the University's share of the net pension liability had an extremely large impact on the University's Unrestricted Net Position turning it negative for both FY 2015 (-87.2 million) and FY 2016 (-25.5 million). As a result of the sustained multi-year increases in operating revenue combined with the successful containment of increases in operating costs discussed above, the University has been able to rebuild Unrestricted Net Position to a positive amount. For FY 2017, despite the increase in the net pension liability to $220.3 million compared to $206.1 million for FY 2016, the University was able to increase Unrestricted Net Position to positive $58.3 million through the successful new revenue generation efforts and efficiency initiatives gained from increased fiscal autonomy from the Commonwealth.

<u>Overview of the Financial Statements and Financial Analysis</u>

The University's financial report includes five financial statements and related notes:

1. The Statement of Net Position for the University
2. The Combined Statements of Financial Position for the Component Units of the University
3. The Statement of Revenues, Expenses, and Changes in Net Position for the University
4. The Combined Statements of Activities for the Component Units of the University
5. The Statement of Cash Flows for the University

The University's financial statements have been prepared in accordance with GASB principles which establish standards for external financial reporting for public colleges and universities. These principles require that the University's financial statements be presented on a consolidated basis to focus on the University as a whole, with resources classified for accounting and reporting purposes into four net position categories. As stated above, these financial statements are summarized in MD&A. Please note that although some of the University's foundations are discretely reported by separate page display in other sections of the University's financial statements, this MD&A excludes them except where specifically noted.

Statement of Net Position

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

From the information presented, readers of the Statement of Net Position 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, and the amount of any deferred outflows of resources and deferred inflows of resources. In addition, the Statement of Net Position provides a picture of the net position (assets plus deferred outflows minus liabilities plus deferred inflows) and their availability for expenditure by the institution. The difference between total assets plus deferred outflows of resources and total liabilities plus deferred inflows of resources, net position is one indicator of the current financial condition of the University, while the change in net position is an indicator of whether the overall condition has improved or worsened during the year.

A deferred outflow of resources is a consumption of net assets by the University that is applicable to a future reporting period. A deferred inflow of resources is an acquisition of net assets by the University that is applicable to a future reporting period.

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

A summary of the University's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at June 30, 2017, and June 30, 2016, follows:

Statement of Net Position *

	June 30, 2017	June 30, 2016	Dollar Change	Percent Change
Assets:				
Current assets	$394,612	$313,906	$80,706	26%
Capital assets, net	1,224,502	1,224,238	264	0%
Other noncurrent assets	12,415	13,177	(762)	-6%
Total Assets	**1,631,529**	**1,551,321**	**80,208**	**5%**
Deferred Outflows of Resources	**51,854**	**40,222**	**11,632**	29%
Total Assets & Deferred Outflows	**1,683,383**	**1,591,543**	**91,840**	**6%**
Liabilities:				
Current liabilities	166,656	166,403	253	0%
Noncurrent liabilities	792,560	818,390	(25,830)	-3%
Total Liabilities	**959,216**	**984,793**	**(25,577)**	**-3%**
Deferred Inflows of Resources	**11,773**	**19,297**	**(7,524)**	-39%
Total Liabilities & Deferred Inflows	**970,989**	**1,004,090**	**(33,101)**	**-3%**
Net Position:				
Net investment in capital assets	640,430	604,684	35,746	6%
Restricted: nonexpendable	7,165	7,164	1	0%
Restricted: expendable	6,540	1,101	5,439	494%
Unrestricted	58,259	(25,496)	83,755	329%
Total Net Position	**$712,394**	**$587,453**	**$124,941**	**21%**

* In thousands

Total assets and deferred outflows of resources were $1.7 billion compared to total liabilities and deferred inflows of resources of $971 million. The difference between these two amounts, total net position, was $712 million.

Total net position increased by $125 million from FY 2016, a 21% increase. This increase was caused by the $124.9 million excess of FY 2017 revenues/gains over FY 2017 expenses/losses, which is discussed further in the Statement of Revenues, Expenses, and Changes in Net Position section below.

For FY 2017 current assets exceeded current liabilities by $228.0 million. In FY 2016 current assets were $147.5 million greater than current liabilities. This increasing differential represents a continuation of improving liquidity that began in FY 2011 and has continued through FY 2017. The current ratio, which is the ratio of current assets to current liabilities, and is a common measure of liquidity, improved to 2.37 compared to 1.89 in FY 2016 and 1.49 in FY 2015.

Capital assets, net of accumulated depreciation of $674.5 million, totaled $1.225 billion, which is an increase of $264 thousand compared to FY 2016 which decreased by $452 thousand. These insignificant changes reflect the slowdown in the growth of equipment and facilities at the University as compared to six and seven years ago during FY 2011 and FY 2010 with increases of $93.9 and $171.1 million, respectively.

The $0.8 million, 6%, decrease in Other noncurrent assets primarily reflects the $1.5 million decrease in restricted bond proceeds used to pay for construction of capital assets, offset by the $.6 million increase in long-term investments and a $.1 million increase in notes receivable.

The University retained a $12.5 million advance from the Treasurer of Virginia which is included as cash in current assets, and as an Advance from the Treasurer of Virginia in current liabilities.

Capital Asset and Debt Administration

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

Note 5 of the Notes to Financial Statements describes the University's investment in capital assets, with total depreciable capital asset additions of $18.9 million (excluding land, construction in progress, and works of art) and additions to construction in progress of $52.8 million. Depreciation expense increased by $1.3 million over the prior year to $62.4 million.

Depreciable capital asset additions for FY 2017 included the following:

Asset Category	Amount (in millions)
Buildings	$3.3
Improvements	2.3
Equipment	10.1
Infrastructure	1.3
Library materials	1.9
Total	$18.9

Major capital projects nearing completion include: the Health Sciences Building at the Fairfax Campus and the Potomac Science Center located in the Belmont Bay area of Fairfax County, Virginia.

Financial stewardship requires the effective management of resources, including the use of long-term debt to finance capital projects. Notes 7, 8 and 9 of the Notes to Financial Statements describe changes in the University's long-term debt. No new capital general obligation bonds or Virginia College Building Authority (VCBA) notes were issued in FY 2017 but refundings were completed as follows:

Virginia 9(c) General Obligation Bonds were refunded on the following projects:

Project	Amount (in millions)
Student Housing, VII-C	$6.2
Housing VIII	6.2
Total	$12.4

VCBA Notes were refunded on the following projects:

Project	Amount (in millions)
Krasnow Institute	$0.4
RAC	4.4
Biomedical Research Lab	5.1
Hylton Performing Arts Center	6.6
Student Union III	3.6
Aquia Building	3.5
Rappahannock River Parking Garage	7.8
Nguyen Engineering Building	0.7
Mason Global Center	14.3
Student Union I	5.7
Founders Hall	3.5
Student Union II	3.1
Total	$58.7

Total long-term debt outstanding, including general obligation bonds, notes payable, capital leases payable, installment purchases, and bond premiums and discounts decreased by $37.7 million from the end of FY 2016 to the end of FY 2017, to a total of $598.8 million, as compared to a decrease of $35.8 million for FY 2016 from the end of FY 2015, to a total of $636.5 million. Deferred gains and losses on refundings are included in deferred inflows and outflows of resources.

Contractual commitments for capital outlay projects under construction at year end decreased from $48.0 million in FY 2016 to $13.3 million in FY 2017. These obligations are for future efforts and therefore have not been accrued as expenses or liabilities on the University's financial statements.

Statement of Revenues, Expenses, and Changes in Net Position

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

Generally speaking, operating revenues are earned for providing goods and services to the students and other constituencies of the institution. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Salaries and fringe benefits for faculty and staff are the largest type of operating expense.

Non-operating revenues are revenues received for which goods and services are not provided in exchange as part of a transaction. For example, state appropriations are non-operating revenues because they are provided by the legislature without the legislature directly receiving commensurate goods and services for those revenues. State appropriations, which are included in non-operating revenues, provide substantial support for paying operating expenses of the University. The University, like most public institutions of higher education, does not cover all operating expenses with operating revenues, and therefore expects to report an operating loss each year.

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

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

	June 30, 2017	June 30, 2016	Dollar Change	Percent Change
Operating Revenues:				
Student tuition and fees, net of allowances	$341,059	$324,929	$16,130	5%
Grants and contracts	108,484	108,434	50	0%
Auxiliary enterprises and other	214,379	204,353	10,026	5%
Total Operating Revenues	**663,922**	**637,716**	**26,206**	**4%**
Operating Expenses:				
Educational and general	582,532	568,822	13,710	2%
Depreciation	62,372	61,091	1,281	2%
Auxiliary enterprises	133,788	130,248	3,540	3%
Total Operating Expenses	**778,692**	**760,161**	**18,531**	**2%**
Operating Income (loss)	**(114,770)**	**(122,445)**	**7,675**	**6%**
Non-operating revenues and expenses (net)	**175,569**	**152,718**	**22,851**	**15%**
Income (loss) before other revenue/expense/gain/loss	**60,799**	**30,273**	**30,526**	**101%**
Other revenue/expense/gain/loss	**64,141**	**66,023**	**(1,882)**	**-3%**
Net increase in net position	**124,940**	**96,296**	**28,644**	**30%**
Net position at beginning of year	$587,453	$491,157	$96,296	20%
Net position at end of year	**$712,393**	**$587,453**	**$124,940**	**21%**

* In thousands

FY 2017 was the third year the University was subject to the requirements of GASBS 68 and GASBS 71. The GASBS implementation required recognition in the financial statements of the University's net pension liability and related adjustments. The net effect of the pension adjustments for FY 2017 was a net position increase of $5.2 million.

Total operating revenues, consisting primarily of tuition and fees, grants and contracts, and auxiliary enterprises, increased by $26.2 million, or 4%, over the prior year. Student tuition and fees, net of scholarship allowances, increased by $16.1 million, or 5%, over the prior year. This increase is attributable to a combination of tuition and fee increases and moderate enrollment growth offset by a small increase in scholarships as a percentage of revenues. The University was able to maintain revenue from grants and contracts from FY 2016 of $108.4 million to FY 2017 at $108.5 million. Auxiliary and other revenue increased by $10.0 million, or 5%. $11.4 million was due to an increased use of on-campus auxiliary facilities and programs, increased mandatory fees, and increased room and board rates. This increase was offset by a reduction in other educational activities of 1.4 million.

Total scholarships and fellowships, which is the sum of scholarship allowances and student aid expense, increased by $8.2 million, or 7.4%, to $117.6 million.

Total operating expenses increased by $18.5 million, or 2%. The causes of this increase included an increase of $11.6 million, or 2.4%, in compensation expenses, consisting of salaries, wages, and fringe benefits; an increase in the purchase of goods and services of $7.2 million, or 4.1%; a decrease in student aid expense of $1.6 million, or 5.4%, and an increase in depreciation expense of $1.3 million, or 2.1%.

As a result of the operating revenues increasing by more than the increase in operating expenses, the operating loss decreased by $7.7 million, or 6%, to $114.8 million compared to a decrease of $18.6 million, or 13%, to $122.4 million for FY 2016.

Nonoperating revenues net of nonoperating expenses increased by $22.8 million, or 15%, due to a $12.4 million increase in the restricted and unrestricted state general fund appropriations, a $2.3 million increase in Pell grants, a $1.6 million increase in investment income, a $0.6 million increase in other non-operating revenue, plus a $6.0 million decrease in interest expense, offset by a $.1 million decrease in gifts.

An important number to note in the Statement of Revenues, Expenses, and Changes in Net Position is "Income/(Loss) before other revenues, expenses, gains or losses" (income before capital items) because this number is a better representation of the true operating results than the Operating Loss line. This number reflects other non-capital revenues used to fund operating expenses. These items are reported separately from other operating results due to GASB's reporting requirements, but from a financial perspective should be combined to understand operating results. In FY 2017 the income before capital items was $60.8 million, which was an increase of $30.5 million compared to the FY 2016 income of $30.3 million. This $30.5 million increase is a result of the $7.7 million reduction in the operating loss discussed above and the $22.8 million increase in nonoperating revenue net of nonoperating expense also discussed above.

The final category on the Statement of Revenues, Expenses, and Changes in Net Position is called Other revenues, expenses, gains and losses and includes capital appropriations, capital grants and gifts, additions to permanent endowment, and gains/(losses) on the disposal of fixed assets. This category decreased by $1.9 million, or 3%, caused by a decrease of $4.8 million in capital appropriations from the Virginia College Building Authority, 21st Century capital reimbursement program and the Commonwealth's General Fund, an increase of $6.1 million in capital grants and gifts, less a decrease of $3.0 million in additions to permanent endowments, and less an increase in loss on disposal of capital assets of $.2 million.

Statement of Cash Flows

The final statement is the Statement of Cash Flows. This statement presents information about the cash activity of the University during the year. Cash flows from operations will always be different from the operating income/(loss) on the Statement of Revenues, Expenses, and Changes in Net Position (SRECNP). This difference occurs because SRECNP is prepared on the accrual basis of accounting and includes non-cash items, such as depreciation expense, while the Statement of Cash Flows presents cash inflows and cash outflows without regard to accrual items. The Statement of Cash Flows provides information to assess the ability of the University to generate cash flows sufficient to meet its obligations.

The statement is divided into five parts. The first deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for non-operating, 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 Position. The fifth section is not presented in this summary presentation.

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

Statement of Cash Flows *

	June 30, 2017	June 30, 2016	Dollar Change	Percent Change
Cash provided by operating activities	$665,175	$638,050	$27,125	4%
Cash used by operating activities	(726,829)	(706,280)	(20,549)	3%
Net cash used by operating activities	**(61,654)**	**(68,230)**	**6,576**	**-10%**
Net cash provided by noncapital financing activities	**193,955**	**181,550**	**12,405**	**7%**
Net cash provided by (used by) capital financing activities	**(59,587)**	**(63,628)**	**4,041**	**-6%**
Net cash provided by (used by) investing activities	**1,766**	**(2,121)**	**3,887**	**-183%**
Net increase (decrease) in cash	**74,480**	**47,571**	**26,909**	57%
Cash, beginning of year	255,694	208,123	47,571	23%
Cash, end of year	**$330,174**	**$255,694**	**$74,480**	29%

* In thousands

The above summarized Statement of Cash Flows shows that during FY 2017 the University generated 91.5 percent ($665.2 million of $726.8 million expended) of its operating cash requirements from its own operations. This continues a consistent annual improvement over the 90.3% in FY 2016 and the 87.8% in FY 2015. The remainder ($61.7 million) was provided from noncapital financing activities, which include non-capital appropriations from the Commonwealth of Virginia, non-capital private gifts, and Pell Grants.

Operating activities used $20.5 million more cash in FY 2017 than in FY 2016, but generated $27.1 million more cash than in FY 2016, resulting in a reduced need for operating cash to be obtained from sources other than operating activities. Overall, operating activities resulted in a net usage of cash of $61.7 million which was $6.6 million less than in FY 2016.

The major sources of the $27.1 million increase in cash provided by operating activities in FY 2017 compared to FY 2016 were student tuition and fees ($16.8 million increase) and auxiliary enterprises ($9.7 million increase).

The major causes of the $20.5 million increase in cash used by operations in FY 2017 compared to FY 2016 were payments to employees for salaries, wages, and fringe benefits ($17.9 million increase), payments for supplies and services ($4.1 million increase) and scholarships and fellowships ($1.6 million decrease).

Cash provided by non-capital financing activities increased $12.4 million in FY 2017 compared to FY 2016, primarily due to a $12.4 million increase in state appropriations.

In order to better understand cash flow from operations it's helpful to combine the two GASB required reporting categories of cash from operating activities and cash from noncapital financing activities. The general fund appropriations from the Commonwealth, Pell grants, and unrestricted gifts are not considered to be exchange transactions and therefore are not included in cash flows from operations in the GASB reporting format. They are, however, used to pay operating expenses, so it is informative to combine the two categories for a more general understanding of cash flows from operations. The FY 2017 net positive cash flow generated by the two categories was $132.3 million (negative $61.7 for cash flows from operating activities and positive $194.0 from cash flows from noncapital financing activities).

From the net positive cash flow produced by this broader view of operations, $58.1 million was used to pay debt service (principal and interest payments), which is required to be reported as a capital financing activity, although it is not financed by the cash flows provided by capital financing activities.

Cash provided by capital financing activities included capital appropriations from the Commonwealth of Virginia, capital gifts and grants, and the sale of bonds. Cash used by capital financing activities included the acquisition of capital assets and making debt principal and interest payments. Although principal and interest payments are considered to be capital financing activities, the cash to make these payments is not provided by capital financing sources but rather from the net positive cash flow provided from the broader view of operating cash flows described above. In addition, the acquisition of capital assets is considered to be a capital financing activity but not all purchases of capital assets are funded by sources of cash included in the capital financing section. Unfinanced capital asset purchases are also paid for from the net positive cash flow provided by the broader view of operating cash flows described above.

The University's net cash used by capital financing activities decreased by $4.0 million in FY 2017 compared to FY 2016. This decrease in cash used was primarily caused by a decrease in interest and principal payments of $4.8 million, offset by a .8 million reduction in proceeds from capital appropriations available.

The primary sources of cash from investing activities are interest on cash balances, interest on unspent bond proceeds, and endowment investment earnings. The primary cash outflow from investing activities is the purchase of investments. During FY 2017, these activities generated $3.9 million more cash than they did in FY 2016. This increased cash was a result of a decrease in the purchase of investments related to a decrease in additions to permanent endowments, which is reported in the cash flows from noncapital financing section and an increase in investment earnings.

Economic Outlook

As part of the Commonwealth of Virginia's statewide system of higher education, the University's economic outlook is closely tied to that of the Commonwealth. The University receives support from the Commonwealth in the form of operating and capital appropriations, and there are pressures on state appropriations. In addition, constraints on federal research funding pose challenges for growing the University's research program. Changes in student demographics and increasing student loan debt are external pressures impacting higher education institutions across the country. Addressing these challenges will require a proactive, innovative response combined with a strategic deployment of resources.

Despite the challenges set forth above, the University approaches the future with a sense of optimism. The University has experienced significant enrollment growth and now serves 36,000 students. The incoming class is the largest, most diverse, and strongest academically in our history. The University is welcoming over 170 new full-time faculty members with diverse areas of expertise that build on our talented faculty. The University's new operational and financial model, developed and put in place over the last several years, has established a financial framework supporting the creation of an enriching and transformative learning experience shaping our students development as engaged citizens and well-rounded scholars prepared to make a positive impact on the world.

Large numbers of persons in Virginia started college and earned credit but have not earned a four-year degree. Degrees fuel Virginia's economy by providing highly qualified workers for a growing skilled labor market. The issues of accessibility, affordability and transferability of earned credits contribute to the degree completion problem. The University is developing the following two programs to address these barriers issues.

Through the ADVANCE Program, the University and Northern Virginia Community College (NOVA) will address the issues of admission and transferability of earned credits for students who choose to start their college education at NOVA with the intent to earn a four-year degree. The average community college student loses 15 credit hours in transfer. The ADVANCE Program will enable the University and NOVA to work together to remove barriers for students by providing a guided program pathway to achievement of their educational goals. ADVANCE students will benefit from a seamless partnership, one point of admissions, one point of financial aid, curricula designed to ensure all credits transfer and one adviser who meets students at the start of their NOVA career and can guide them through graduation at the University.

The University is collaborating with Old Dominion University (ODU) to develop the Online Virginia Network (OVN), an online degree completion initiative targeted to adult populations throughout Virginia. The objectives of OVN include building a network across Virginia universities to support adult degree completion, increasing the number of college degree completers in Virginia, creating accessible and efficient pathways to a bachelor's degree and providing more cost effective programs than traditional degree offerings.

In February 2016, the University received the "Highest Research Activity" (R1) status from the Carnegie Classification of Institutions of Higher Education, reflecting the University's large and growing capacity to perform high impact research. Over the past year the University's research community has identified, and the University has invested in, several areas of multidisciplinary research including Health and Well Being, Cyber and Data Analytics, and Resilient Human, Built, and Environmental Systems. The following two programs illustrate how the investment in multidisciplinary research has already begun to pay off.

The University has been awarded a ten year, $40 million dollar, Center of Excellence grant from the Department of Homeland Security. Under the grant, the University will lead a consortium of universities and law enforcement agencies to investigate patterns of criminal activities and forensics, and develop strategies to predict and disrupt transnational crime. Faculty from six academic areas will collaborate on this award reflecting the commitment to advancing research of consequence made possible by the University's multidisciplinary strengths.

The University has begun a collaboration with Inova and the University of Virginia to establish the Global Genomics and Bioinformatics Research Institute (GGBRI) which will serve as the research centerpiece on the campus of the Inova Center for Personalized Health (ICPH) in Falls Church, Virginia. The global personalized health market is projected to grow rapidly. The ICPH/GGBRI initiative is expected to drive significant growth in the Virginia economy, increase demand for the University's STEM-H students and generate significant growth in the University's biohealth research enterprise.

With these things, and the University's affirmation to continued operational and administrative efficiencies gained through consolidation of units, outsourcing, strategic sourcing, leveraging its Tier 2.5 pilot fiscal autonomy from the Commonwealth, and continued commitment to the development of innovative products/services which students want while keeping core spending low and graduate success high, the University is confident it is well positioned to continue to attract a strong student population and that it will navigate a successful course through the changing landscape ahead.

FINANCIAL STATEMENTS

Statement of Net Position as of June 30, 2017

ASSETS		
Current assets		
Cash and cash equivalents (Note 2)	$	329,135,231
Accounts receivable, net of allowance of $1,764,775 (Note 4)		38,602,392
Notes receivable, net of allowance of $28,388 (Note 4)		496,844
Prepaid expenses		13,915,156
Inventories		1,312,760
Due from the Commonwealth of Virginia		11,150,056
Total Current Assets		**394,612,439**
Noncurrent assets		
Restricted cash and cash equivalents (Note 2)		948,148
Restricted cash and cash equivalents in custody of others (Note 2)		90,521
Notes receivable, net of allowance of $182,224 (Note 4)		3,192,378
Depreciable capital assets, net of accumulated depreciation (Note 5)		1,110,289,290
Nondepreciable capital assets (Note 5)		114,212,360
Long-term investments (Note 2)		8,183,960
Total noncurrent assets		**1,236,916,657**
Total assets		**1,631,529,096**
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources - refundings of debt (Notes 8-9)		18,597,638
Deferred outflows of resources - pension (Note 15)		33,256,619
Total deferred outflows of resources		**51,854,257**
Total assets and deferred outflows of resources		**1,683,383,353**
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses (Note 6)		59,880,566
Advance from Treasurer of Virginia (Note 6)		12,702,676
Unearned revenue		45,955,143
Deposits held in custody for others		1,253,105
Long-term debt-current portion (Notes 7-10)		40,641,870
Accrued compensated absences- current portion (Note 7)		6,222,217
Total current liabilities		**166,655,577**
Noncurrent liabilities		
Long-term debt (Note 7)		558,191,015
Net pension liability (Note 15)		220,270,000
Accrued compensated absences (Note 7)		9,230,069
Other noncurrent liabilities		4,869,361
Total noncurrent liabilities		**792,560,445**
Total liabilities		**959,216,022**
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources - refundings of debt (Note 9)		4,185,596
Deferred inflows of resources - pension (Note 15)		7,588,000
Total deferred inflows of resources		**11,773,596**
Total liabilities and deferred inflows of resources		**970,989,618**
NET POSITION		
Net investment in capital assets		640,430,364
Restricted: nonexpendable (Note 18)		7,165,041
Restricted: expendable (Note 18)		6,539,695
Unrestricted		58,258,635
Total net position	**$**	**712,393,735**

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

Combined Statements of Financial Position as of June 30, 2017

		Total Component Units
ASSETS		
Cash and cash equivalents	$	20,173,140
Security deposits		98,942
Restricted cash and cash equivalents		17,302,094
Accounts receivable, net		339,279
Contributions receivable, net		33,443,899
Prepaids and other assets		3,620,991
Net investment in direct financing lease		78,998,116
Beneficial interest in perpetual trusts		10,902,461
Inventory		18,782
Investments		160,877,374
Property and equipment, net		115,497,322
Deferred tax asset		1,814,447
Total Assets	**$**	**443,086,847**
Liabilities and Net Assets		
LIABILITES		
Accounts payable and accrued expenses		10,961,730
Accrued payroll and related expenses		214,219
Participation rent payable		400,000
Tenant security deposits liability		90,875
Unearned revenue		8,172,157
Other liabilities		1,056,211
Derivative obligations		15,970,168
Long-term debt including loan payable		198,462,081
Amounts held for others		14,675,999
Total Liabilities		**250,003,440**
Net Assets		
Unrestricted		8,797,711
Temporarily restricted		99,058,190
Permanently restricted		87,216,378
GMUF Real Estate LLCs		(1,988,872)
Total Net Assets		**193,083,407**
Total Liabilities and Net Assets	**$**	**443,086,847**

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

Statement of Revenues, Expenses, and Changes in Net Position for the Year Ended June 30, 2017

Operating revenues	
Student tuition and fees, net of scholarship allowances of $67,437,825	$ 341,058,838
Federal grants and contracts	77,543,184
State, local, and nongovernmental grants and contracts	30,941,257
Auxiliary enterprises, net of scholarship allowances of $22,397,835	194,633,729
Other operating revenue	19,745,594
Total operating revenues	**663,922,602**
Operating expenses (Note 11)	
Instruction	284,234,446
Research	67,712,686
Public service	19,292,381
Academic support	62,582,039
Student services	29,392,324
Institutional support	47,809,298
Operation and maintenance of plant	43,695,434
Depreciation and amortization	62,372,010
Student aid	27,813,656
Auxiliary enterprises	133,787,934
Total operating expenses	**778,692,208**
Operating income (loss)	**(114,769,606)**
Nonoperating revenues (expenses)	
State educational and general appropriation (Note 12)	135,810,991
State general fund appropriations - restricted	25,544,722
Pell Grant receipts	30,167,020
Gifts	1,704,572
ARRA Build America Bonds Subsidy	729,991
Investment income	2,362,187
Other nonoperating revenue/(expense)	623,821
Interest expense (Note 13)	(21,374,605)
Net nonoperating revenues	**175,568,699**
Income before other revenues, expenses, gains, and losses	**60,799,093**
Other revenues, expenses, gains, and losses	
Capital grants and gifts	20,623,864
Capital appropriations	43,837,883
Additions to permanent endowments	1,000
Loss on disposal of capital assets	(321,450)
Net other revenues, expenses, gains, and losses	**64,141,297**
Increase in net position	**124,940,390**
Net position beginning of year	587,453,345
Net position end of year	**$ 712,393,735**

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

Combined Statement of Activities for the Year Ended June 30, 2017

	Total Component Units
Operating revenues	
Contributions	$ 61,795,860
Grants	1,403,319
Interest on direct financing lease	4,860,543
Investment and trust return	12,559,500
Miscellaneous and other income	776,274
Rental income, net	19,341,398
Service fees	7,013,343
Total operating revenues	**107,750,237**
Operating expenses	
Academic program support	66,834,557
Advertising and promotion	17,005
Depreciation	4,288,864
Fundraising	306,224
Insurance	195,639
Interest expense	9,223,836
Maintenance	156,296
Management fees	307,642
Office and other administrative expenses	4,950,563
Salaries and wages	4,468,314
Rent, utilities and other	3,640,056
Total operating expenses	**94,388,996**
Change in Net Assets before Non-operating items and Other Changes	**13,361,241**
Non-operating items	(796,545)
Change in Net Assets	12,564,696
Beginning Net Assets	180,518,711
Ending Net Assets	**$ 193,083,407**

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

Statement of Cash Flows for the Year Ended June 30, 2017

Cash flows from operating activities	
Student tuition and fees	$ 342,241,362
Grants and contracts	108,677,235
Auxiliary enterprises	192,987,350
Perkins loan receipts	473,409
Other receipts	20,795,446
Payments to suppliers	(187,985,095)
Payments to employees	(510,248,539)
Payments for scholarships and fellowships	(27,813,656)
Perkins loan disbursements	(781,476)
Net cash used by operating activities	**(61,653,964)**
Cash flows from noncapital financing activities	
State appropriations	161,355,713
Additions to endowments	1,000
Federal Direct Loan Program receipts	152,372,406
Federal Direct Loan Program disbursements	(152,372,406)
Pell Grant receipts	30,167,020
Other net nonoperating revenue/(expense)	623,821
Noncapital gifts	1,704,572
Agency transactions	102,764
Net cash provided by noncapital financing activities	**193,954,890**
Cash flows from capital and related financing activities	
Proceeds from capital appropriations available	45,576,121
Capital grants and contributions	15,228,648
Advance from Treasurer	202,676
Proceeds from sale of capital assets	28,339
Proceeds from issuance of capital related debt	50,268
Principal paid on capital related debt	(34,564,709)
Interest paid on capital related debt	(23,578,245)
Purchases of capital assets	(62,530,420)
Net cash used by capital and related financing activities	**(59,587,322)**
Cash flows from investing	
Interest on investments	1,916,678
Purchase of investments	(150,132)
Net cash used by investing activities	**1,766,546**
Net increase in cash	**74,480,150**
Cash and cash equivalents - beginning of the year	256,722,959
Less: Securities Lending - Treasurer of Virginia	(1,029,209)
Net cash and cash equivalents - beginning of the year	255,693,750
Cash and cash equivalents - end of the year	**$ 330,173,900**

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

Statement of Cash Flows for the Year Ended June 30, 2017

RECONCILIATION OF STATEMENT OF CASH FLOWS, STATEMENT OF NET POSITION

Statement of Net Position		
Cash and cash equivalents	$	330,173,900
Less: Securities lending - Treasurer of Virginia		-
Net cash and cash equivalents	**$**	**330,173,900**

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

Operating loss	$	(114,769,606)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense		62,372,010
Changes in assets, liabilities, deferred outflows and deferred inflows:		
Accounts receivable (net)		165,243
Restricted assets receivable (net)		(1,497,949)
Perkins loan receivable		(219,837)
Deferred outflows of resources- pension		(11,133,835)
Perkins loan liability		(88,230)
Inventory		(138,382)
Prepaid expenses		(2,577,584)
Accounts payable and accrued liabilities		(1,367,221)
Unearned revenue		2,111,497
Net pension liability		14,174,000
Faculty Early Retirement liability		(674,470)
Compensated absences		182,400
Deferred inflows of resources- pension		(8,192,000)
Net cash used by operating activities	**$**	**(61,653,964)**

Noncash investing, capital and financing activities:

The following transactions occurred prior to the Statement of Net Position date:		
Assets acquired through assumption of a liability	$	50,268
Capital assets acquired through gifts		2,027,971
Amortization of bond premium/discount and gain/loss on debt refinancing		(2,933,628)
Loss on disposal of capital assets		(321,450)
VRS and VaLORS Special Revenue Allocation		5,409,000
Capitalized interest accrual		27
Unrealized gain/loss on investments		445,509

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

NOTES TO FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

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

The George Mason University Foundation, Inc. (GMUF), Mason Housing, Inc. (MHI), George Mason University Instructional Foundation (GMUIF), and Mason Korea, LLC (MK) are private, independent organizations whose close relationships with the University require them to be reported as component units of the University. GMUF, MHI, GMUIF, and MK are discretely presented herein by separate page display.

GMUF was established to receive, hold, invest and administer property, and to make expenditures for the benefit of the University. During the year ended June 30, 2017, GMUF distributed $66,203,172 to, or on behalf of, the University for both restricted and unrestricted purposes. Separate financial information for GMUF may be obtained by writing to the GMUF Business Office at 4400 University Drive, MSN 1A3, Fairfax, VA 22030.

MHI was established to build and manage the University's faculty and staff housing. Separate financial information for MHI may be obtained by writing to Mason Housing, Inc., Attn.: General Accounting, 4400 University Drive, MSN 4B2, Fairfax, VA 22030.

GMUIF was established to transmit educational and public affairs programming to the greater Washington, DC metropolitan area for a program fee under licenses issued by the Federal Communications Commission. During FY 14 the University and GMUIF agreed that GMUIF would establish, and be the sole member of, Mason Global Pathways, LLC. The purpose of Mason Global Pathways LLC is to invest in, and own 50% of, INTO Mason, LLC. INTO Mason, LLC was established to manage a new program to recruit international students and create pathways programs, providing the students the opportunity to become degree seeking students at the University. Separate financial information for GMUIF may be obtained by writing to GMUIF, Attn.: CFO, Kelley II - 10716 Kelley Drive, MSN 1D2, Fairfax, VA 22030.

MK was established to develop and operate a campus for the University on the Incheon Global Campus in Songdo, South Korea. Separate financial information for MK may be obtained by writing to Mason Korea, LLC, Attn.: General Accounting, 4400 University Drive, MSN 4B2, Fairfax, VA 22030.

B. BASIS OF PRESENTATION

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

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

C. BASIS OF ACCOUNTING

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

The University's investments consist of an interest in an internal investment pool managed by GMUF. The internal investment pool functions like an external investment pool. Investments in external investment pools are measured at the net asset value (NAV) per share, or its equivalent, determined by the pool. All investment income, including changes in the value of investments (unrealized gains and losses), is reported as nonoperating revenue in the Statement of Revenues, Expenses, and Changes in Net Position.

E. CAPITAL ASSETS

Capital assets include land, buildings, library materials, works of art and historical treasures, equipment, improvements, infrastructure assets such as sidewalks, electrical and computer network cabling systems and intangible assets including computer software. Capital assets generally are defined by the University as assets with an initial cost of $5,000 or more and an estimated useful life in excess of one year. Commencing with FY 2016, library books and materials are valued at averaged actual cost of purchase for library acquisitions. Prior to FY 2016, library books were valued at published averaged costs. Other capital assets are recorded at actual cost or estimated historical cost if purchased or constructed. Donated capital assets, including library books, are recorded at acquisition value at the date of donation, with the exception of intra-entity capital asset donations which are recorded at the carrying value of the asset on the transferor's books as of the date of transfer. Expenses for major capital assets and improvements are capitalized as projects are constructed (construction in progress). Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose. The costs of normal maintenance and repairs that do not enhance the use of an asset, or materially extend its useful life, are not capitalized.

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

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

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

F. INVENTORY

Inventory is composed of three distinct categories of items. The first category includes computers and related items for resale to students, faculty and staff. The second category is natural gas, which is used to power the University's physical plant. The third category consists of the on-hand stock of materials, supplies, and parts for use in maintaining the University's physical plant. All three categories of inventory are valued at cost using the first-in, first-out inventory methodology.

G. NONCURRENT CASH AND INVESTMENTS

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

H. UNEARNED REVENUE

Unearned revenue represents monies collected but not earned as of June 30, 2017. This is primarily composed of student tuition collected for courses that will be offered after June 30, 2017.

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, 2017, all unused vacation, overtime, compensatory, recognition and sick leave payable upon termination under University policy. The applicable share of employer related payroll taxes also is included.

J. FEDERAL FINANCIAL ASSISTANCE PROGRAMS

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

K. NET POSITION

The Statement of Net Position reports the difference between assets plus deferred outflows and liabilities plus deferred inflows as net position. Net position is classified as net investment in capital assets; restricted; and unrestricted. Net investment in capital assets consists of capital assets, net of accumulated depreciation less outstanding debt that is attributable to the acquisition, construction, or improvement of those assets. Net position is reported as restricted when constraints on the net position use are either externally imposed by creditors, grantors, or contributors; or imposed by law. Unrestricted net position consists of net position that does not meet the definitions above.

L. REVENUE CLASSIFICATIONS

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

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

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and state appropriations. Nonoperating expenses include interest on debt related to the purchase of capital assets.

M. SCHOLARSHIP DISCOUNTS AND ALLOWANCES

Student tuition and fees revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the student's behalf.

N. PREPAID EXPENSES

The University has recorded as a current asset certain expenses for fiscal year 2018 that were paid in advance as of June 30, 2017. These prepaid expenses consist primarily of facility rentals, insurance premiums and technology expenses.

O. DISCOUNTS, PREMIUMS, AND BOND ISSUANCE COSTS

General Obligation Bonds and notes payable on the Statement of Net Position are reported net of related discounts and premiums, which are recognized over the life of the bond. Deferred gains and losses on debt refundings are recorded as deferred inflows of resources and deferred outflows of resources, respectively. The deferred inflows and outflows are recognized as a component of interest expense over the remaining life of the old bond or the life of the new bond, whichever is shorter. Bond issuance costs are expensed.

P. COMMONWEALTH EQUIPMENT AND CAPITAL PROJECT REIMBURSEMENT PROGRAMS

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

During Fiscal Year 2017, funding has been provided to the University from three Reimbursement Programs:

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

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

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

Q. DEFINED BENEFIT PENSIONS

The Virginia Retirement System (VRS) State Employee Retirement Plan and the Virginia Law Officers' System (VaLORS) Retirement Plan are single employer pension plans that are treated like cost-sharing plans. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Virginia Retirement System (VRS) State Employee Retirement Plan and the Virginia Law Officers' System (VaLORS) Retirement Plan; and the additions to/deductions from the VRS State Employee Retirement Plan's and the VaLORS Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

R. DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

Deferred outflows of resources are defined as the consumption of net assets applicable to a future reporting period and increase net position similar to assets. Deferred inflows of resources are defined as the acquisition of net assets applicable to a future reporting period and decrease net position similar to liabilities.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

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

Custodial Credit Risk - the custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the University will not be able to recover the value of investment or collateral securities that are in possession of an outside party. The University's investments consist of an interest in an internal investment pool managed by George Mason University Foundation (GMUF). The investment pool contains corporate stocks and corporate bonds, both of which are subject to custodial credit risk. The other investments held by GMUF in the investment pool are not subject to custodial credit risk.

Credit Risk - the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit quality ratings are not required for U.S. government securities or other obligations explicitly guaranteed by the U.S. government. GMUF's investment pool contains corporate bonds, which are debt securities, and therefore subject to credit risk. Credit risk relative to these bonds is mitigated by GMUF's endowment investment policy guidelines on the credit quality of fixed income investments which state that the percentage of core fixed income assets rated below investment grade by one of the major reporting agencies (Standard and Poor's and Moody's) cannot exceed 25% of the total core fixed income allocation. The other investments held by GMUF in the investment pool are not investments of a type that are subject to credit risk.

Concentration of Credit Risk - the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments with any one issuer that represent five percent or more of total investments constitute concentration of credit risk. However, investments issued or explicitly guaranteed by the U.S. government, and investments in mutual funds, internal investment pools, and other pooled investments are excluded from the requirement. The University's interest in the internal investment pool managed by GMUF is a portion of the total investment pool managed by GMUF. In order to achieve a prudent level of portfolio diversification, GMUF's endowment investment policy guidelines require that not more than 5% of the portfolio may be invested in the securities of any one issuer, at cost, unless the issue is U.S. Government guaranteed, or an agency of the U.S. Government.

Interest Rate Risk - the risk that changes in interest rates will adversely affect the fair value of an investment. GMUF's investment pool contains money market funds. These money market funds have a maturity of less than one year. GMUF's investment pool also contains corporate bonds. These corporate bonds are subject to interest rate risk. The interest rate risk relative to these bonds is mitigated by GMUF's endowment investment policy guidelines on fixed income investments, which state that the weighted average portfolio duration of the core bond portfolio should not exceed 125% of the weighted average portfolio duration of the Barclays Aggregate Bond Index. The other investments held by GMUF in the investment pool are not investments of a type that are subject to interest rate risk.

Foreign Currency Risk - the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The University had no foreign investments or foreign deposits for FY 2017.

A. CASH AND CASH EQUIVALENTS

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

B. INVESTMENTS

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

C. SECURITIES LENDING TRANSACTIONS

As of June 30, 2017, there are no investments and cash equivalents held by the Treasurer of Virginia that represent the Department's allocated share of cash collateral received and reinvested and securities received for the State Treasury's securities lending program. In October 2016, the Department of the Treasury suspended participation in the securities lending program for the Commonwealth's General Account. Participation may resume in the future depending upon market conditions. Information related to the State Treasury's securities lending program is available on a statewide level in the *Commonwealth of Virginia's Comprehensive Annual Financial Report*. The Commonwealth's policy is to record unrealized gains and losses in the General Fund in the Commonwealth's basic financial statements. When gains or losses are realized, the actual gains and losses are recorded by the affected agencies.

D. SUMMARY OF THE UNIVERSITY'S CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents	
Cash and cash equivalents:	
Local cash	$16,494,175
Treasurer of Virginia	312,641,056
Subtotal	329,135,231
Restricted cash and cash equivalents:	
Treasurer of Virginia (State Nonarbitrage Program)	948,148
Held in custody of others	90,521
Subtotal	1,038,669
Total Cash and cash equivalents	$ 330,173,900

Investments	
	Market Value
Long term:	
GMUF Investment Pool	$ 8,183,960
Total Investments	$ 8,183,960

E. FAIR VALUE MEASUREMENT OF INVESTMENTS

The University categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are pricing inputs other than quoted prices in active markets; Level 3 inputs are not readily observable and require significant management estimation. Investments in internal investment pools are measured at the net asset value (NAV) per share, or its equivalent, determined by the pool.

Assets held in the GMUF Investment pool total $8.2 million, of which $1.6 million are measured at NAV.

Additional Disclosures for Investments at NAV:

	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Investments held by GMUF	$1,562,430	N/A	N/A	N/A

3. DONOR-RESTRICTED ENDOWMENTS

The University's endowment is managed by the George Mason University Foundation (GMUF). During FY 2017, the net appreciation on the investments of donor-restricted endowments was an overall investment gain of $594,591, which became available for expenditure by the governing board.

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

The state law regarding the ability to spend net appreciation of donor-restricted endowments is the *Uniform Prudent Management of Institutional Funds Act*, Section 64.2-11 of the Code of Virginia.

The University's endowment policy seeks to maintain the growth of the present value of existing assets at a rate at least equal to the inflation rate plus the current spending rate of 4.0% based on a three year rolling average of each endowment's fair value, net of advisory fees.

4. ACCOUNTS AND NOTES RECEIVABLE

Accounts and notes receivable consisted of the following at June 30, 2017:

Accounts Receivable	
Student tuition and fees	$10,939,291
Grants and Contracts receivable (restricted)	24,453,552
Due from Foundations	1,693,799
Other accounts receivable	3,280,525
Total accounts receivable	$40,367,167
Less allowance for doubtful accounts	(1,764,775)
Net accounts receivable	$ 38,602,392

Notes Receivable	
Current:	
Perkins loans receivable	$514,165
Nurse faculty loan	11,067
Less allowance for doubtful accounts	(28,388)
Net current notes receivable	$496,844
Noncurrent:	
Perkins loan receivable	$3,300,508
Nurse faculty loan	71,044
Local loans to student	3,050
Less allowance for doubtful accounts	(182,224)
Net non-current notes receivable	$3,192,378

5. CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2017 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Non-depreciable capital assets:				
Land	$21,028,863	$1,300,000	$-	$22,328,863
Construction-in-progress	46,568,945	52,803,511	10,016,378	89,356,078
Works of art and historical treasures	2,507,418	20,001	-	2,527,419
Total non-depreciable capital assets	70,105,226	54,123,512	10,016,378	114,212,360
Depreciable capital assets:				
Buildings	1,431,795,708	3,254,942	-	1,435,050,650
Improvements	33,655,169	2,333,115	-	35,988,284
Infrastructure assets	69,586,679	1,289,834	-	70,876,513
Equipment	124,819,420	10,095,096	8,631,441	126,283,075
Intangibles including computer software	12,334,196	43,000	162,533	12,214,663
Library materials	103,475,031	1,862,343	966,335	104,371,039
Total depreciable capital assets	1,775,666,203	18,878,330	9,760,309	1,784,784,224
Less accumulated depreciation:				
Buildings	396,732,590	45,152,348	-	441,884,938
Improvements	26,374,998	1,049,977	-	27,424,975
Infrastructure assets	24,044,618	2,080,033	-	26,124,651
Equipment	84,324,877	9,201,258	8,281,655	85,244,480
Intangibles including computer software	11,976,507	46,356	162,533	11,860,330
Library materials	78,079,857	4,842,038	966,335	81,955,560
Total accumulated depreciation	621,533,447	62,372,010	9,410,523	674,494,934
Depreciable capital assets, net	1,154,132,756	(43,493,680)	349,786	1,110,289,290
Total capital assets, net	$1,224,237,982	$10,629,832	$10,366,164	$1,224,501,650

6. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND ADVANCE FROM TREASURER

Accounts payable and accrued expenses consisted of the following at June 30, 2017:

Accounts Payable and Accrued Expenses	
Employee salaries, wages and fringe benefits payable	$30,121,686
Vendors and suppliers accounts payable	15,042,934
Interest payable	4,754,431
Capital projects retainage payable	2,560,574
Capital projects and equipment accounts payable	7,400,941
Total accounts payable and accrued expenses	$59,880,566

$12,500,000 of the Advance from the Treasurer of Virginia is an anticipation of federal revenues loan which provides cash in advance of receipt of federal reimbursement for approved grants and contracts. The loan is provided without interest and is due November 15, 2017, which is one year from the first takedown under the loan. The loan will be repaid using funds from reimbursements of federal grants and contracts. After repaying the loan in FY 2018, the University intends to apply for another loan in the same amount under the same terms.

The remainder of the Advance from the Treasurer of Virginia is a loan to fund planning expenses for the utilities distribution infrastructure project. Interest is calculated by Treasury at current market interest rates and paid quarterly. The loan will be repaid using proceeds from the sale of 9(d) VCBA Pooled bonds, no later than May 30, 2018.

7. NONCURRENT LIABILITIES

Noncurrent liabilities consist of long-term debt, accruals for compensated absences and other noncurrent liabilities. A summary of changes in noncurrent liabilities for the year ended June 30, 2017 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Non-current Portion
Long-term debt:						
Bonds	$195,153,856	$12,420,000	$23,564,805	$184,009,051	$11,139,863	$172,869,188
Notes Payable	307,055,000	58,690,000	85,335,000	280,410,000	21,070,000	259,340,000
Capital Lease Obligation	80,415,635	-	1,417,518	78,998,117	1,702,901	77,295,216
Installment Purchases	10,655,828	50,268	1,732,386	8,973,710	1,680,853	7,292,857
Bond Discount	(16,914)	-	(16,914)	-	-	-
Bond Premium	43,188,065	11,943,359	8,689,417	46,442,007	5,048,253	41,393,754
Total Long-term debt	636,451,470	83,103,627	120,722,212	598,832,885	40,641,870	558,191,015
Accrued Compensated Absences	15,269,886	14,555,790	14,373,390	15,452,286	6,222,217	9,230,069
Net Pension Liability	206,096,000	14,174,000	-	220,270,000	-	220,270,000
Other noncurrent liabilities:						
Faculty Early Retirement Incentive Liability	2,256,612	-	674,470	1,582,142	-	1,582,142
Loan Funds	3,375,449	-	88,230	3,287,219	-	3,287,219
Total Long-term Liabilities	$863,449,417	$111,833,417	$135,858,302	$839,424,532	$46,864,087	$792,560,445

8. BONDS PAYABLE

A. GENERAL OBLIGATION BONDS

The Commonwealth issues General Obligation Bonds, pursuant to Article X, Section 9c of the Constitution of Virginia. These General Obligation 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.

The following schedule describes each of the bonds outstanding:

Bond Title	Calendar Year Issued	Original Amount	Original Interest Rate	Original Bond Term	Fiscal Year Final Payment Due	Balance Outstanding at June 30, 2017
Renovate Commonwealth & Dominion Ph II	2008	1,530,000	3.0 to 5.0%	10 Years	2018	205,000
Renovate Presidents Park Ph I	2008	3,095,000	3.0 to 5.0%	10 Years	2018	415,000
Student Housing VII	2008	1,955,000	3.0 to 5.0%	25 Years	2018	65,000
Student Housing VIIC	2008	23,870,000	3.0 to 5.0%	25 Years	2018	810,000
Renovate Presidents Park Ph II	2008	3,120,000	3.0 to 5.0%	20 Years	2018	155,000
Renovate Presidents Park Ph I	2009	1,790,000	3.0 to 5.0%	10 Years	2019	465,000
Student Housing VIIC	2009	8,255,000	3.0 to 5.0%	25 Years	2019	535,000
Student Housing VIII	2009	7,910,000	4.0 to 5.0%	25 Years	2019	535,000
9(c) 2009 C Refunding (2001)	2009	6,266,975	3.0 to 4.0%	15 Years	2024	6,163,540
9(c) 2009 C Refunding (2002)	2009	4,448,039	3.0 to 4.0%	13 Years	2022	2,881,942
9(c) 2009 D Refunding (2005)	2009	6,630,000	2.5 to 5.0%	13 Years	2022	5,655,000
9(c) 2009 D Refunding (2006B)	2009	8,230,000	2.5 to 5.0%	13 Years	2022	8,230,000
Renovate Presidents Park Ph II	2010	2,790,000	2.1 to 5.0%	10 Years	2020	1,000,000
Housing VIII	2010	39,420,000	2.1 to 5.0%	25 Years	2035	32,665,000
Smithsonian CRC – Housing	2010	5,415,000	2.1 to 5.0%	25 Years	2035	4,485,000
Renovate Commons	2010	1,325,000	2.1 to 5.0%	20 Years	2030	1,015,000
Student Housing VII-C	2011	1,045,000	2.0 to 5.0%	25 Years	2036	920,000
Presidential Park Renovation	2011	2,700,000	2.0 to 5.0%	10 Years	2021	1,320,000
Housing VIII	2011	20,230,000	2.0 to 5.0%	25 Years	2036	17,440,000
Smithsonian CRC – Housing	2011	4,070,000	2.0 to 5.0%	25 Years	2036	3,595,000
Renovate Commons	2011	14,350,000	2.0 to 5.0%	20 Years	2031	11,930,000
9(c) 2012 A Refunding (2005)	2012	2,674,040	3.0 to 5.0%	12 Years	2024	2,674,040
9(c) 2013 B Refunding (2005)	2013	10,504,185	3.0 to 5.0%	17 Years	2030	9,532,214
9(c) 2013 B Refunding (2006)	2013	9,186,889	4.0 to 5.0%	13 Years	2026	7,821,663
9(c) 2013 B Refunding (2007)	2013	5,162,482	4.0 to 5.0%	12 Years	2025	5,162,482
Housing VIII	2014	2,235,000	2.0 to 5.0%	20 Years	2034	2,015,000
9(c) 2014 B Refunding (2004B)	2014	6,306,209	2.0 to 5.0%	6 Years	2020	3,531,334
9(c) 2015 B Refunding (2006B)	2015	11,765,000	3.0 to 5.0%	16 Years	2031	11,765,000
9(c) 2015 B Refunding (2007B)	2015	7,670,410	3.0 to 5.0%	17 Years	2032	7,670,410
9(c) 2015 B Refunding (Housing VII 2008B)	2015	1,366,447	3.0 to 5.0%	18 Years	2033	1,366,447
9(c) 2015 B Refunding (Housing VIIC 2008B)	2015	17,565,586	3.0 to 5.0%	18 Years	2033	17,565,586
9(c) 2015 B Refunding (Pres Park II 2008B)	2015	1,999,393	4.0 to 5.0%	13 Years	2028	1,999,393
9(c) 2016 B Refunding (2009B)	2016	12,420,000	2.0 to 5.0%	17 Years	2034	12,420,000
Total Bonds Payable		$257,300,655				$184,009,051

Long-term debt from bonds as of June 30, 2017 matures as follows:

Year	Principal	Interest	BAB Interest Subsidy*	Total Net of Subsidy
2018	$11,139,863	$7,740,535	$(547,783)	$18,332,615
2019	10,862,118	7,249,928	(527,908)	17,584,138
2020	11,028,039	6,779,795	(506,225)	17,301,609
2021	11,204,626	6,312,164	(483,434)	17,033,356
2022	11,408,380	5,831,533	(463,203)	16,776,710
2023-2027	56,032,470	21,778,472	(1,961,103)	75,849,839
2028-2032	54,658,555	9,547,950	(1,184,552)	63,021,953
2033-2037	17,675,000	1,513,940	(252,837)	18,936,103
Total	$184,009,051	$66,754,317	$(5,927,045)	$244,836,323

* The University expects the BAB (Build America Bonds) subsidy to occur as displayed. However, the subsidy is subject to intervening Congressional action and thus is not guaranteed.

B. 2017 DEFEASANCE OF DEBT

In November 2016, the Treasury Board, on behalf of the University, issued $12,420,000 of General Obligation Bonds, Series 2016B to advance refund $12,430,000 of Series 2009B bonds. As a result, these bonds are considered to be defeased and the liability has been removed from the noncurrent liabilities line in the Statement of Net Position. Any related assets in escrow have similarly been excluded. The resulting net loss of $156,217 will be amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. The details of each bond issue refunded are below.

Bond Title	Bonds Refunded	Interest Rate (Bonds Refunded)	Refunding Bonds Issued	Interest Rate (Refunding Bonds)	Accounting Gain (Loss)	Reduction in Debt Service	Economic Gain/Loss
Student Housing VII-C	6,195,000	5.0%	6,190,000	2.0 – 5.0%	(70,834)	1,171,504	995,046
Housing VIII	6,235,000	5.0%	6,230,000	2.0 – 5.0%	(85,383)	1,177,683	1,000,433
Total	$12,430,000		$12,420,000		($156,217)	$2,349,187	$1,995,479

C. PRIOR YEAR BOND DEFEASANCE

In previous fiscal years, the Commonwealth of Virginia issued bonds on behalf of the University. 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, 2017, $21,870,000 of Series 2008B and $12,430,000 of Series 2009B 9(c) general obligation bonds were considered defeased and outstanding.

9. NOTES PAYABLE

A. VCBA NOTES

The University participates in the Public Higher Education Financing Program (Pooled Bond Program) created by the Virginia General Assembly in 1996. Through the Pooled Bond Program, the Virginia College Building

Authority (VCBA) issues 9(d) bonds and uses the proceeds to purchase debt obligations (notes) of the University and various other institutions of higher education. The University's general revenue secures these notes.

The following schedule describes each of the notes outstanding:

Note Title	Calendar Year Issued	Original Amount	Original Interest Rate	Original Note Term	Fiscal Year Final Payment Due	Balance Outstanding at June 30, 2017
PW Performing Arts Center RB#2	2007	8,565,000	4.5 to 5.0%	20 Years	2018	415,000
Student Union I Renovation	2007	5,085,000	4.5 to 5.0%	20 Years	2018	245,000
Student Union III RB#3	2007	6,130,000	4.5 to 5.0%	25 Years	2018	200,000
PE Addition/Renovation RB#2	2007	8,555,000	4.5 to 5.0%	20 Years	2018	415,000
PE Building Addition Phase II, RB#2	2007	3,820,000	4.5 to 5.0%	20 Years	2018	185,000
Fairfax Surge Space Bldg RB#2	2007	2,965,000	4.5 to 5.0%	20 Years	2018	145,000
Academic VI/Research II	2007	4,945,000	4.5 to 5.0%	20 Years	2018	240,000
Parking Deck III	2007	20,750,000	4.5 to 5.0%	25 Years	2018	690,000
Softball Field Improvement	2007	1,510,000	5.00%	10 Years	2018	185,000
Hotel & Conference Center	2007	18,000,000	4.5 to 5.0%	30 Years	2018	435,000
Student Union II Renovation	2007	1,490,000	5.00%	10 Years	2018	200,000
VCBA 2007B Refunding (1997A)	2007	3,555,000	4.0 to 4.25%	10 Years	2018	2,145,000
VCBA 2007B Refunding (2005A)	2007	1,675,000	4.0 to 4.5%	12 Years	2020	1,130,000
Arlington Phase II	2009	7,945,000	2.1 to 5.0%	25 Years	2021	805,000
PW Performing Arts Center RB#3	2009	17,960,000	2.1 to 5.0%	20 Years	2021	2,635,000
Parking Deck III Phase I	2009	9,790,000	2.1 to 5.0%	25 Years	2021	995,000
PE Building Phase I	2009	2,750,000	2.1 to 5.0%	20 Years	2021	400,000
Surge Space & Fit-Out	2009	10,730,000	2.1 to 5.0%	20 Years	2021	1,580,000
Academic VI/Research II, RB#2	2009	20,335,000	2.1 to 5.0%	20 Years	2021	2,985,000
PE Building Phase II	2009	5,245,000	2.1 to 5.0%	20 Years	2021	770,000
Biomedical Research Lab, RB#2	2009	6,405,000	2.1 to 5.0%	20 Years	2021	940,000
Hotel & Conference Center	2009	25,190,000	2.1 to 5.0%	30 Years	2021	1,820,000
Student Union I Addition/Renovation	2009	7,980,000	2.1 to 5.0%	20 Years	2021	1,175,000
Student Union II Renovation	2009	585,000	2.1 to 5.0%	10 Years	2019	150,000
Parking Deck III Phase II	2009	13,885,000	2.1 to 5.0%	25 Years	2021	1,405,000
W. Campus Connector & Campus Entrances	2009	6,010,000	2.1 to 5.0%	20 Years	2021	880,000
Arlington Phase II	2009	5,010,000	3.0 to 5.0%	25 Years	2020	475,000
PW Performing Arts Center	2009	3,390,000	3.0 to 5.0%	20 Years	2020	470,000
Fairfax Surge Space Fit Out Data Center	2009	1,685,000	2.0 to 5.0%	20 Years	2020	225,000
PW Regional Biomedical Laboratory	2009	1,950,000	2.0 to 5.0%	20 Years	2020	265,000
Hotel & Conference Center	2009	8,300,000	3.0 to 5.0%	30 Years	2020	570,000
Student Union I Addition/Renovation	2009	7,725,000	3.0 to 5.0%	20 Years	2020	1,065,000
Student Union II Renovation	2009	4,830,000	3.0 to 5.0%	20 Years	2020	665,000
Arlington Phase II	2010	3,570,000	5.00%	7 Years	2018	670,000
Student Union II Renovation	2010	2,935,000	3.75 to 5.5%	20 Years	2031	2,360,000
Student Union I Addition/Renovation	2010	5,390,000	3.75 to 5.5%	20 Years	2031	4,325,000
Smithsonian CRC-Dining	2010	2,395,000	3.75 to 5.6%	25 Years	2036	2,055,000
Krasnow Institute Addition II	2010	5,215,000	2.0 to 5.5%	20 Years	2031	4,040,000
Fieldhouse Life/Safety/Code Renovation	2010	1,395,000	3.75 to 5.5%	20 Years	2031	1,120,000
Repair Aquatic & Fitness Center HVAC	2010	2,325,000	2.0 to 5.0%	10 Years	2021	1,060,000
VCBA 2010B Refunding (2003A)	2010	2,990,000	2.0 to 5.0%	10 Years	2021	2,990,000
Fairfax Campus Dining	2011	6,090,000	5.00%	10 Years	2022	3,715,000
Smithsonian CRC-Dining	2011	2,690,000	3.0 to 5.0%	25 Years	2037	1,913,405
Central Utility Plant	2011	-	3.0 to 5.0%	25 Years	2037	501,595
VCBA 2012A Refunding (2003A)	2012	5,525,000	3.0 to 5.0%	12 Years	2025	3,630,000
VCBA 2012A Refunding (Aquatic Ctr 2004A)	2012	3,130,000	5.00%	8 Years	2021	2,190,000
VCBA 2012A Refunding (Research I 2004A)	2012	6,310,000	2.75 to 5.0%	13 Years	2026	5,395,000
VCBA 2012A Refunding (2005A)	2012	4,260,000	3.0 to 5.0%	12 Years	2025	4,260,000
Fieldhouse Life/Safety/Code Renovation	2012	3,060,000	4.0 to 5.0%	10 Years	2023	698,108
Central Utility Plant	2012	-	4.0 to 5.0%	10 Years	2023	1,486,892
W Campus Connector & Campus Entrances	2013	2,135,000	2.0 to 5.0%	10 Years	2024	1,725,000

Note Title	Calendar Year Issued	Original Amount	Original Interest Rate	Original Note Term	Fiscal Year Final Payment Due	Balance Outstanding at June 30, 2017
Ike's Dining	2013	7,830,000	2.0 to 5.0%	20 Years	2034	7,250,000
Johnson Center	2013	2,620,000	2.0 to 5.0%	8 Years	2022	1,129,462
Central Utility Plant	2013	3,065,000	2.0 to 5.0%	20 Years	2034	3,655,538
Renovate Fieldhouse	2013	3,230,000	1.0 to 3.5%	10 Years	2024	2,570,000
VCBA 2013B Refunding (2006A)	2013	7,280,000	1.0 to 4.0%	14 Years	2028	5,930,000
VCBA 2013B Refunding (2009A)	2013	1,845,000	1.0 to 4.0%	15 Years	2029	1,530,000
VCBA 2014B Refunding (1999)	2014	1,345,000	3.0 to 5.0%	5 Years	2020	815,000
VCBA 2014B Refunding (2005A)	2014	1,455,000	3.0 to 5.0%	12 Years	2027	1,035,000
VCBA 2014B Refunding (2006A)	2014	16,640,000	3.0 to 5.0%	9 Years	2024	16,640,000
VCBA 2014B Refunding (2007A)	2014	28,290,000	3.0 to 5.0%	11 Years	2026	28,290,000
VCBA 2015B Refunding (Arl Ph II 2009A)	2015	5,595,000	3.0 to 5.0%	18 Years	2034	5,595,000
VCBA 2015B Refunding (PW Perf Arts 2009A)	2015	10,375,000	3.0 to 5.0%	13 Years	2029	10,375,000
VCBA 2015B Refunding (Parking Deck Ph I 2009A)	2015	6,520,000	3.0 to 5.0%	18 Years	2034	6,520,000
VCBA 2015B Refunding (PE Bldg Ph I 2009A)	2015	1,580,000	3.0 to 5.0%	13 Years	2029	1,580,000
VCBA 2015B Refunding (Surge Spce/Fit Out 2009A)	2015	6,185,000	3.0 to 5.0%	13 Years	2029	6,185,000
VCBA 2015B Refunding (Acad VI/Res II 2009A)	2015	11,750,000	3.0 to 5.0%	13 Years	2029	11,750,000
VCBA 2015B Refunding (PE Bldg Ph II 2009A)	2015	3,020,000	3.0 to 5.0%	13 Years	2029	3,020,000
VCBA 2015B Refunding (Biomed Rsch Lab 2009A)	2015	3,685,000	3.0 to 5.0%	13 Years	2029	3,685,000
VCBA 2015B Refunding (Hotel & Conf Ctr 2009A)	2015	15,790,000	3.0 to 5.0%	23 Years	2039	15,790,000
VCBA 2015B Refunding (SUB I Add/Renov 2009A)	2015	4,600,000	3.0 to 5.0%	13 Years	2029	4,600,000
VCBA 2015B Refunding (Park Deck III Ph II 2009A)	2015	9,275,000	3.0 to 5.0%	18 Years	2034	9,275,000
VCBA 2015B Refunding (W Campus Connect 2009A)	2015	3,460,000	3.0 to 5.0%	13 Years	2029	3,460,000
VCBA 2016A Refunding (Krasnow 2006A)	2016	390,000	3.0%	10 Years	2027	390,000
VCBA 2016A Refunding (PE Add/Renov 2006A)	2016	1,750,000	3.0 to 5.0%	12 Years	2029	1,750,000
VCBA 2016A Refunding (PE Bldg Add, Ph II 2006A)	2016	805,000	3.0 to 5.0%	12 Years	2029	805,000
VCBA 2016A Refunding (PW Bio Lab 2006A)	2016	3,825,000	3.0 to 5.0%	12 Years	2029	3,825,000
VCBA 2016A Refunding (PW Perf Arts Ctr 2006A)	2016	3,105,000	3.0 to 5.0%	12 Years	2029	3,105,000
VCBA 2016A Refunding (Student Union III 2006A)	2016	1,315,000	3.0 to 5.0%	11 Years	2028	1,315,000
VCBA 2016A Refunding (Surge Space Fit Out 2006A)	2016	390,000	3.0 to 5.0%	11 Years	2028	390,000
VCBA 2016A Refunding (Surge Space Bldg 2006A)	2016	1,595,000	3.0 to 5.0%	11 Years	2028	1,595,000
VCBA 2016A Refunding (PW Perf Arts Ctr 2007A)	2016	1,285,000	3.0 to 5.0%	11 Years	2028	1,285,000
VCBA 2016A Refunding (Parking Deck III 2007A)	2016	7,795,000	3.0 to 5.0%	16 Years	2033	7,795,000
VCBA 2016A Refunding (PE Bldg Ph I 2007A)	2016	1,285,000	3.0 to 5.0%	11 Years	2028	1,285,000
VCBA 2016A Refunding (Surge Space Bldg 2007A)	2016	450,000	3.0 to 5.0%	11 Years	2028	450,000
VCBA 2016A Refunding (Acad VI/Res II 2007A)	2016	745,000	3.0 to 5.0%	11 Years	2028	745,000
VCBA 2016A Refunding (PE Bldg Add, Ph II 2007A)	2016	575,000	3.0 to 5.0%	11 Years	2028	575,000
VCBA 2016A Refunding (Hotel & Conf Ctr 2007A)	2016	8,345,000	3.0 to 5.0%	21 Years	2038	8,345,000
VCBA 2016A Refunding (SUB I Renov 2007A)	2016	765,000	3.0 to 5.0%	11 Years	2028	765,000
VCBA 2016A Refunding (Student Union III 2007A)	2016	2,255,000	3.0 to 5.0%	16 Years	2033	2,255,000
VCBA 2016A Refunding (Arl Ph II 2009B)	2016	3,520,000	3.0 to 5.0%	18 Years	2035	3,520,000
VCBA 2016A Refunding (PW Perf Arts Ctr 2009B)	2016	2,195,000	3.0 to 5.0%	13 Years	2030	2,195,000
VCBA 2016A Refunding (Surge Space Fit Out 2009B)	2016	1,020,000	3.0 to 5.0%	13 Years	2030	1,020,000
VCBA 2016A Refunding (Biomed Rsch Lab 2009B)	2016	1,225,000	3.0 to 5.0%	13 Years	2030	1,225,000
VCBA 2016A Refunding (Hotel & Conf Ctr 2009B)	2016	5,955,000	3.0 to 5.0%	23 Years	2040	5,955,000
VCBA 2016A Refunding (SUB I Add/Renov 2009B)	2016	4,980,000	3.0 to 5.0%	13 Years	2030	4,980,000
VCBA 2016A Refunding (SUB II Renov 2009B)	2016	3,120,000	3.0 to 5.0%	13 Years	2030	3,120,000
Total Notes Payable		$528,285,000				$280,410,000

Long-term debt from Notes Payable as of June 30, 2017 matures as follows:

Year	Principal	Interest	BAB Interest Subsidy*	Total Net of Subsidy
2018	21,070,000	11,849,554	(221,246)	32,698,308
2019	18,975,000	10,933,685	(221,246)	29,687,439
2020	19,770,000	10,054,623	(214,092)	29,610,531
2021	19,900,000	9,145,768	(199,099)	28,846,669
2022	19,925,000	8,193,833	(184,941)	27,933,892
2023-2027	100,410,000	27,021,988	(706,059)	126,725,929
2028-2032	58,745,000	8,375,272	(238,271)	66,882,001
2033-2037	18,235,000	1,676,225	(22,050)	19,889,175
2038-2042	3,380,000	117,131	-	3,497,131
Total	$280,410,000	$87,368,079	$(2,007,004)	$365,771,075

* The University expects the BAB (Build America Bonds) subsidy to occur as displayed. However, the subsidy is subject to intervening Congressional action and thus is not guaranteed.

B. 2017 DEFEASANCE OF DEBT

In July 2016, the VCBA, on behalf of the University, issued $58,690,000 of VCBA Pooled Bonds, Series 2016A to advance refund $65,055,000 of Series 2006A, 2007A and 2009B bonds. As a result, these bonds are considered to be defeased and the liability has been removed from the noncurrent liabilities line in the Statement of Net Position. Any related assets in escrow have similarly been excluded. The resulting net loss of $1,769,030 will be amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. The details of each bond issue refunded are below. VCBA Pooled Bonds are reported as Notes Payable by the University.

Bond Title	Bonds Refunded	Interest Rate (Bonds Refunded)	Refunding Bonds Issued	Interest Rate (Refunding Bonds)	Accounting Gain (Loss)	Reduction in Debt Service	Economic Gain/Loss
2006A:							
Krasnow Institute	$420,000	3.0 - 3.5%	$390,000	3.0%	($406)	$55,195	$49,273
PE Addition/Renovation	2,055,000	3.0 - 3.5%	1,750,000	3.0 – 5.0%	(2,471)	313,172	263,040
PE Building Addition, Ph II	950,000	3.0 - 3.5%	805,000	3.0 – 5.0%	2,714	148,420	124,983
PW Biocontainment Lab	4,515,000	3.0 - 3.5%	3,825,000	3.0 – 5.0%	17,926	716,066	601,802
PW Performing Arts Center	3,665,000	3.0 - 3.5%	3,105,000	3.0 – 5.0%	14,539	580,340	487,783
Student Union III	1,450,000	3.0 - 3.5%	1,315,000	3.0 – 5.0%	(49,108)	149,007	128,991
Fairfax Surge Space Fit Out	425,000	3.0 - 3.5%	390,000	3.0 – 5.0%	(18,278)	39,625	34,203
Fairfax Surge Space Building	1,770,000	3.0 - 3.5%	1,595,000	3.0 – 5.0%	(47,050)	197,324	170,595
Total 2006A	$15,250,000		$13,175,000		($82,134)	$2,199,149	$1,860,670
2007A:							
PW Performing Arts Center	1,310,000	4.5%	1,285,000	3.0 – 5.0%	(183,170)	117,845	105,865
Parking Deck III	8,630,000	4.5%	7,795,000	3.0 – 5.0%	(539,374)	1,738,559	1,425,531
PE Building, Ph I	1,310,000	4.5%	1,285,000	3.0 – 5.0%	(183,211)	117,845	105,865
Fairfax Surge Space	455,000	4.5%	450,000	3.0 – 5.0%	(68,251)	35,599	32,301
Academic VI/Research II	760,000	4.5%	745,000	3.0 – 5.0%	(105,850)	69,073	61,982
PE Building Addition, Ph II	585,000	4.5%	575,000	3.0 – 5.0%	(83,609)	50,512	45,513
Hotel & Conference Center	10,425,000	4.5%	8,345,000	3.0 – 5.0%	1,138,085	5,081,635	3,957,455
Student Union I Renovation	780,000	4.5%	765,000	3.0 – 5.0%	(108,942)	70,365	63,179
Student Union III	2,495,000	4.5%	2,255,000	3.0 – 5.0%	(156,765)	500,616	410,581
Total 2007A	$26,750,000		$23,500,000		($291,087)	$7,782,049	$6,208,272

Bond Title	Bonds Refunded	Interest Rate (Bonds Refunded)	Refunding Bonds Issued	Interest Rate (Refunding Bonds)	Accounting Gain (Loss)	Reduction in Debt Service	Economic Gain/Loss
2009B:							
Arlington Phase II	3,770,000	4.25 - 5.0%	3,520,000	3.0 – 5.0%	(135,070)	784,373	651,480
PW Performing Arts Center	2,170,000	4.25 - 5.0%	2,195,000	3.0 – 5.0%	(298,305)	111,991	104,666
Surge Space Fit Out Data Center	1,045,000	4.25 - 5.0%	1,020,000	3.0 – 5.0%	(99,005)	103,845	94,006
Biomedical Research Lab	1,205,000	4.25 - 5.0%	1,225,000	3.0 – 5.0%	(171,696)	54,115	51,307
Hotel & Conference Center	6,820,000	4.25 - 5.0%	5,955,000	3.0 – 5.0%	367,066	2,651,315	2,103,632
Student Union I Add/Renov	4,950,000	4.25 - 5.0%	4,980,000	3.0 – 5.0%	(647,091)	291,914	271,296
Student Union II Renovation	3,095,000	4.25 - 5.0%	3,120,000	3.0 – 5.0%	(411,708)	173,272	161,900
Total 2009B	$23,055,000		$22,015,000		($1,395,809)	$4,170,825	$3,438,287
Total	$65,055,000		$58,690,000		($1,769,030)	$14,152,023	$11,507,229

C. PRIOR YEAR DEBT DEFEASANCE

In previous fiscal years, the Virginia College Building Authority (VCBA) issued 9(d) VCBA pooled bonds. The proceeds were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on other debt. The notes representing that other debt are therefore considered defeased. Accordingly, the trust account's assets and liabilities for the defeased notes are not included in the University's financial statements. On June 30, 2017, $56,645,000 from Series 2007A, $88,385,000 from Series 2009A and $23,055,000 from Series 2009B 9(d) VCBA pooled bonds were considered defeased and outstanding.

10. INSTALLMENT PURCHASES PAYABLE & CAPITAL LEASE OBLIGATIONS

A. INSTALLMENT PURCHASES PAYABLE

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

Principal and interest payments on these commitments for fiscal years subsequent to June 30, 2017 are as follows:

Year	Principal	Interest	Total
2018	$1,680,853	$123,683	$1,804,536
2019	1,696,710	99,194	1,795,904
2020	1,679,094	74,481	1,753,575
2021	1,638,651	50,578	1,689,229
2022	662,685	31,973	694,658
2023-2027	1,615,717	44,424	1,660,141
Total	$8,973,710	$424,333	$9,398,043

B. CAPITAL LEASE OBLIGATIONS

During FY 2011, the University entered into a twenty-five year capital lease with George Mason University Foundation (GMUF) for the provision of a 150,000 square foot administration building at the Fairfax campus. The University has accounted for the acquisition of the administration building and its furniture and equipment as a capital lease, and therefore has recorded the building and its furniture and equipment as Depreciable capital assets, net, and has also recorded a corresponding lease liability in Long-term debt, both of which are on its Statement of Net Position as of June 30, 2017.

During FY 2013, the University began a 30 year capital lease with George Mason University Foundation (GMUF) for the provision of an 80,858 square foot residence hall at the Prince William campus.

The University has accounted for the acquisition of the residence hall as a capital lease, and therefore has recorded the building as a Depreciable capital asset, net, and has also recorded a corresponding lease liability in Long-term debt, both on its Statement of Net Position as of June 30, 2017.

During FY 2014, the University began a 20 year capital lease with George Mason University Foundation (GMUF) for the provision of a 31,879 square foot office building and land in downtown Fairfax, close to the Fairfax campus.

The University has accounted for the acquisition of the office building as a capital lease, and therefore has recorded land as a Nondepreciable capital asset, the building as a Depreciable capital asset, net, and has also recorded a corresponding lease liability in Long-term debt, all on its Statement of Net Position as of June 30, 2017.

During FY 2015, the University began a 29.5 year capital lease with George Mason University Foundation (GMUF) for the provision of a 75,000 square foot lab building at the Prince William campus.

The University has accounted for the acquisition of the lab building as a capital lease, and therefore has recorded the building as a Depreciable capital asset, net, and has also recorded a corresponding lease liability in Long-term debt, both on its Statement of Net Position as of June 30, 2017.

Payments of principal, interest, and executory costs on the capital leases for fiscal years subsequent to June 30, 2017 are as follows:

Fiscal Year	Principal	Interest	Executory	Total
2018	$1,702,901	$4,714,176	$338,929	$6,756,006
2019	1,850,436	4,605,140	342,534	6,798,110
2020	1,923,941	4,550,457	344,470	6,818,868
2021	2,107,699	4,424,707	350,238	6,882,644
2022	2,231,936	4,295,424	349,835	6,877,195
2023-2027	14,042,211	19,108,546	1,802,998	34,953,755
2028-2032	18,600,234	14,012,384	1,313,447	33,926,065
2033-2037	20,302,895	7,666,536	635,967	28,605,398
2038-2042	16,235,864	2,171,821	634,769	19,042,454
Total	$78,998,117	$65,549,191	$6,113,187	$150,660,495

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 Position 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	Student Aid	Depreciation & Amortization	Total
Instruction	$196,599,040	$57,416,743	$30,218,663	-	-	$284,234,446
Research	41,198,959	8,775,426	17,738,301	-	-	67,712,686
Academic Support	36,565,540	12,880,818	13,135,681	-	-	62,582,039
Student Services	17,260,841	5,950,753	6,180,730	-	-	29,392,324
Public Service	8,188,178	2,029,661	9,074,542	-	-	19,292,381
Operation and Maintenance	16,456,821	6,898,469	20,340,144	-	-	43,695,434
Institutional Support	31,499,062	11,703,675	4,606,561	-	-	47,809,298
Depreciation & Amortization	-	-	-	-	62,372,010	62,372,010
Student Aid	-	-	-	27,813,656	-	27,813,656
Auxiliary Enterprises	38,836,074	11,998,554	82,953,306	-	-	133,787,934
Totals	$386,604,515	$117,654,099	$184,247,928	$27,813,656	$62,372,010	$778,692,208

12. STATE APPROPRIATIONS- CURRENT UNRESTICTED FUNDS

George Mason University receives appropriations from the General Fund of the Commonwealth. The Appropriation Act specifies that such unexpended appropriations shall revert, as specifically provided by the General Assembly, at the end of a biennium. For years ending at the middle of a biennium, unexpended appropriations that have not been approved for re-appropriation 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:

General Fund Appropriations	
Original Appropriation	$134,542,756
Central Appropriations Distributions:	
State Employee Retirement Adjustments	(393,404)
State Employee Health Insurance Adjustments	1,273,286
State Employee Sickness/Disability Adjustments	(5,391)
State Employee Group Life Adjustments	145,281
Other Central Appropriations Adjustments	(29,076)
VIVA	43,539
Virginia Degree Completion Network	234,000
Total	$135,810,991

13. INTEREST EXPENSE

During fiscal year 2017, the University incurred interest charges totaling $21,374,632. Of this amount, $27 was capitalized as part of the cost of construction and $21,374,605 was expensed.

14. COMMITMENTS

A. OPERATING LEASES

The University is committed under various operating leases for rental of off-campus facilities. The future lease terms are for periods of one to nine years. Facility rental expenses for the fiscal year ended June 30, 2017 were $5,558,788. The University had, as of June 30, 2017, the following total future minimum rental payments due under the above leases:

Year Ended June 30	Total
2018	$5,589,364
2019	5,090,614
2020	4,237,996
2021	4,192,931
2022	4,266,103
2023-2027	16,695,112
Total	$40,072,120

B. CONSTRUCTION

Outstanding commitments for capital outlay projects that were under construction at June 30, 2017 were $13,315,303.

15. RETIREMENT AND PENSION SYSTEMS

A. VIRGINIA RETIREMENT SYSTEM (VRS) STATE EMPLOYEE DEFINED BENEFIT RETIREMENT PLAN AND VIRGINIA LAW OFFICERS SYSTEM (VaLORS) DEFINED BENEFIT RETIREMENT PLAN

Plan Description

All full-time, salaried permanent employees of state agencies are automatically covered by the VRS State Employee Retirement Plan or the VaLORS Retirement Plan upon employment. These plans are administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees in the VRS State Employee Retirement Plan – Plan 1, Plan 2, and, Hybrid and two different benefit structures for covered employees in the VaLORS Retirement Plan – Plan 1 and Plan 2. Each of these benefit structures has different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE

<table>
<tr><th>PLAN 1</th><th>PLAN 2</th><th>HYBRID RETIREMENT PLAN</th></tr>
<tr>
<td>About Plan 1
Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</td>
<td>About Plan 2
Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</td>
<td>About the Hybrid Retirement Plan
The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members")
• The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.
• The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.
• In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.</td>
</tr>
<tr>
<td>Eligible Members
Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

Hybrid Opt-In Election
VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the</td>
<td>Eligible Members
Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

Hybrid Opt-In Election
Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to</td>
<td>Eligible Members
Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:
• State employees*
• Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014

*Non-Eligible Members
Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:
• Members of the Virginia Law Officers' Retirement System (VaLORS)

Those employees eligible for an optional retirement plan (ORP) must</td>
</tr>
</table>

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
Retirement Contributions State employees, excluding state elected officials, and optional retirement plan participants, contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	**Retirement Contributions** State employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.	**Retirement Contributions** A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.
Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	**Creditable Service** Same as Plan 1.	**Creditable Service** **<u>Defined Benefit Component:</u>** Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. **<u>Defined Contributions Component:</u>** Under the defined contribution component, creditable service is used

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
		to determine vesting for the employer contribution portion of the plan.
Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.	**Vesting** Same as Plan 1.	**Vesting** **<u>Defined Benefit Component:</u>** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component. **<u>Defined Contributions Component:</u>** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement	**Calculating the Benefit** See definition under Plan 1.	**Calculating the Benefit** **<u>Defined Benefit Component:</u>** See definition under Plan 1 **<u>Defined Contribution Component:</u>**

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.		The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier **VRS:** The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. **VaLORS:** The retirement multiplier for VaLORS employees is 1.70% or 2.00%.	**Service Retirement Multiplier** **VRS:** Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. **VaLORS:** The retirement multiplier for VaLORS employees is 2.00%.	**Service Retirement Multiplier** **Defined Benefit Component:** **VRS:** The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. **VaLORS:** Not applicable. **Defined Contribution Component:** Not applicable.
Normal Retirement Age **VRS:** Age 65. **VaLORS:** Age 60.	**Normal Retirement Age** **VRS:** Normal Social Security retirement age. **VaLORS:** Same as Plan 1.	**Normal Retirement Age** **Defined Benefit Component:** **VRS:** Same as Plan 2. **VaLORS:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility **VRS:** Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.	**Earliest Unreduced Retirement Eligibility** **VRS:** Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.	**Earliest Unreduced Retirement Eligibility** **Defined Benefit Component:** **VRS:** Normal Social Security retirement age and have at least five

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
VaLORS: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	**VaLORS:** Same as Plan 1.	years (60 months) of creditable service or when their age and service equal 90. **VaLORS:** Not applicable. **__Defined Contribution Component:__** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Reduced Retirement Eligibility **VRS:** Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service. **VaLORS:** 50 with at least five years of creditable service.	**Earliest Reduced Retirement Eligibility** **VRS:** Age 60 with at least five years (60 months) of creditable service. **VaLORS:** Same as Plan 1.	**Earliest Reduced Retirement Eligibility** **__Defined Benefit Component:__** **VRS:** Age Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. **VaLORS:** Not applicable. **__Defined Contribution Component:__** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%. **__Eligibility:__** For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year	**Cost-of-Living Adjustment (COLA) in Retirement** The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%. **__Eligibility:__** Same as Plan 1	**Cost-of-Living Adjustment (COLA) in Retirement** **__Defined Benefit Component:__** Same as Plan 2. **__Defined Contribution Component:__** Not applicable. **__Eligibility:__** Same as Plan 1 and Plan 2.

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
following the unreduced retirement eligibility date. **Exceptions to COLA Effective Dates:** The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.	**Exceptions to COLA Effective Dates:** Same as Plan 1	**Exceptions to COLA Effective Dates:** Same as Plan 1 and Plan 2.
Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before	**Disability Coverage** Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before	**Disability Coverage** State employees (including Plan 1 and Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VSDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
becoming eligible for non-work-related disability benefits.	becoming eligible for non-work related disability benefits.	
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	**Purchase of Prior Service** Same as Plan 1.	**Purchase of Prior Service** **<u>Defined Benefit Component:</u>** Same as Plan 1, with the following exceptions: • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost. **<u>Defined Contribution Component:</u>** Not applicable.

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, the 5.00% member contribution was paid by the employer. Beginning July 1, 2012 state employees were required to pay the 5.00% member contribution and the employer was required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. Each state agency's contractually required contribution rate for the year ended June 30, 2017 was 13.49% of covered employee compensation for employees in the VRS State Employee Retirement Plan. For employees in the VaLORS Retirement Plan, the contribution rate was 21.05% of covered employee compensation. These rates were based on actuarially determined rates from an actuarial valuation as of June 30, 2015. The contribution rate for the VRS State Employee Retirement Plan also reflects the transfer in June 2016 of $162,406,273 as an accelerated payback of the deferred contribution in the 2010-12 biennium. The contribution rate for the VaLORS Retirement Plan also reflects the transfer in June 2016 of $16,491,559 as an accelerated payback of the deferred contribution in the 2010-12 biennium. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the University to the VRS State Employee Retirement Plan were $16,643,486 and $17,646,376 for the years ended June 30, 2017 and June 30, 2016, respectively. Contributions from the University to the VaLORS Retirement Plan were $529,133 and $485,408 for the years ended June 30, 2017 and June 30, 2016, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the University reported a liability of $214,498,000 for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability and a liability of $5,772,000 for its proportionate share of the VaLORS Retirement Plan Net Pension Liability. The Net Pension Liability was measured as of June 30, 2016 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The University's proportion of the Net Pension Liability was based on the University's actuarially determined employer contributions to the pension plan for the year ended June 30, 2016 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2016, the University's proportion of the VRS State Employee Retirement Plan was 3.25453% as compared to 3.27716% at June 30, 2015. At June 30, 2016, the University's proportion of the VaLORS Retirement Plan was 0.74563% as compared to 0.76698% at June 30, 2015.

For the year ended June 30, 2017, the University recognized pension expense of $17,720,000 for the VRS State Employee Retirement Plan and $277,000 for the VaLORS Retirement Plan. Since there was a change in proportionate share between June 30, 2015 and June 30, 2016, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2017, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$944,000	$5,856,000
Net difference between projected and actual earnings on pension plan investments	13,910,000	-
Change in assumptions	-	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,230,000	1,732,000
Employer contributions subsequent to measurement date	17,172,619	-
Total	$33,256,619	$7,588,000

$17,172,619 reported as deferred outflows of resources related to pensions resulting from the University's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the Fiscal Year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year Ended June 30	
FY 2018	($1,330,000)
FY 2019	($2,289,000)
FY 2020	$6,426,000
FY 2021	$5,689,000
FY 2022	$-

Actuarial Assumptions

The total pension liability for the VRS State Employee Retirement Plan was based on an actuarial valuation as of June 30, 2015, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

Inflation	2.5 percent
Salary increases, including inflation	3.5 percent – 5.35 percent
Investment rate of return	7.0 percent, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates:

Pre-Retirement:
RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 2 years and females were set back 3 years.

Post-Retirement:
RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with females set back 1 year.

Post-Disablement:
RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of withdrawals for less than 10 years of service
- Decrease in rates of male disability retirement
- Reduce rates of salary increase by 0.25% per year

The total pension liability for the VaLORS Retirement Plan was based on an actuarial valuation as of June 30, 2015, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

Inflation	2.5 percent
Salary increases, including inflation	3.5 percent – 4.75 percent
Investment rate of return	7.0 percent, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates:

Pre-Retirement:
RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 5 years and females were set back 3 years.

Post-Retirement:
RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with females set back 1 year.

Post-Disablement:
RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Update mortality table
- Adjustments to the rates of service retirement
- Decrease in rates of withdrawals for females under 10 years of service
- Increase in rates of disability
- Decrease service related disability rate from 60% to 50%

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, less that system's fiduciary net position. As of June 30, 2016, NPL amounts for the VRS State Employee Retirement Plan and the VaLORS Retirement Plan are as follows (amounts expressed in thousands):

	State Employee Retirement Plan	VaLORS Retirement Plan
Total Pension Liability	$ 22,958,593	$ 1,985,618
Plan Fiduciary Net Position	16,367,842	1,211,446
Employers' Net Pension Liability (Asset)	$ 6,590,751	$ 774,172
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.29%	61.01%

The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in accordance with the requirements of GASB Statement No. 67 in the System's notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S. Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	100.00%		5.83%
	Inflation		2.50%
	* Expected arithmetic nominal return		8.33%

* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the University for the VRS State Employee Retirement Plan and the VaLORS Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the University's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the University's proportionate share of the VRS State Employee Retirement Plan net pension liability using the discount rate of 7.00%, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
University's proportionate share of the VRS State Employee Retirement Plan Net Pension Liability	$301,868,000	$214,498,000	$141,146,000

The following presents the University's proportionate share of the VaLORS Retirement Plan net pension liability using the discount rate of 7.00%, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
University's proportionate share of the VaLORS Retirement Plan Net Pension Liability	$7,725,000	$5,772,000	$4,163,000

Pension Plan Fiduciary Net Position

Detailed information about the VRS State Employee Retirement Plan's Fiduciary Net Position or the VaLORS Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2016-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the Pension Plan

As of June 30, 2017, the University had a payable to VRS in the amount of $1,061,083. Of this amount, $1,005,613 was for the VRS State Employee Retirement Plan and $55,470 was for VaLORS. These amounts represent current legally required contributions to the pension plan not yet remitted to VRS in accordance with the payment terms.

The University's employer pension contribution amounts for each month are calculated based on employee salaries as of the first business day of each month multiplied by the legally required contribution rate and paid to VRS no later than the 10th of the following month.

B. HYBRID RETIREMENT PLAN – DEFINED CONTRIBUTION COMPONENT

The University's expenses also include the amount assessed by the Commonwealth for the employer's required contributions to the defined contribution component of the Hybrid retirement plan.

During FY 2017, the employer's required retirement contribution rate was 1% for the defined contribution component of the Hybrid Plan. These contributions totaled $274,201 for the year ended June 30, 2017. All participants were required to contribute 1% to the defined contribution portion of the Hybrid Plan.

During FY 2017, participants were permitted to make voluntary contributions of up to 4% to the Hybrid plan which the University is required to match with an employer contribution of up to 2.5%. The employer matching contribution totaled $217,588 for the year ended June 30, 2017.
Contributions to the Hybrid plan were calculated using plan's covered payroll of $27,420,140 for the year ended June 30, 2017.

C. FACULTY RETIREMENT PLANS

Most full-time faculty and certain administrative staff participate in one faculty retirement plan with two investment providers rather than the VRS. These are defined contribution plans where the retirement benefits received are based upon the employer's contribution plus interest and dividends.

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

Individual contracts issued under the plan provide for full and immediate vesting of the University's contributions. Total pension expense under these plans was $16,872,493 for the fiscal year ended June 30, 2017 based on total covered payroll of $174,779,412. The University's outstanding liability for accrued pension expense as of June 30, 2017 was $614,543. The change in the accrued liability amount from the prior year end was an increase of $42,619, which accounts for the difference between the pension contributions made to plan trustees, as set forth in the table below, and the pension expense amount stated above. FY 2017 pension contributions were calculated using the plan's covered payroll of $174,275,667 for Fiscal Year 2017.

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

Faculty Retirement Plan	Pension Contributions Made to Plan Trustees	Plan's Covered Payroll	Contribution Percentage
TIAA-CREF*	$7,911,742	$76,074,443	10.4%
TIAA-CREF 2	2,868,081	33,742,134	8.5%
Fidelity Investments	3,125,622	30,054,056	10.4%
Fidelity Investments 2	2,924,428	34,405,034	8.5%
Total	$16,829,873	$174,275,667	

*Teachers Insurance and Annuity Association/College Retirement Equities Fund

D. DEFERRED COMPENSATION

Employees of the University are employees of the Commonwealth of Virginia. State employees may participate in the Commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the Commonwealth matching up to $20 per pay period. The dollar amount match can change depending on the funding available in the Commonwealth's budget. The Commonwealth's Deferred Compensation Plan is a qualified defined contribution plan under Section 401(a) of the Internal Revenue Code.

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

Employer contributions under these Deferred Compensation Plans were $1,242,466 for the fiscal year ended June 30, 2017.

16. POST-RETIREMENT BENEFITS

The University participates in postemployment benefit programs that are sponsored by the Commonwealth and administered by the Virginia Retirement System. These programs include the Group Life Insurance Program, Virginia Sickness and Disability Program, Retiree Health Insurance Credit Program, and Line of Duty Act Program.

The Group Life Insurance Program provides members basic group life insurance upon employment. In addition to benefits provided to active members during employment, the Virginia Sickness and Disability Program provides inactive members with long-term disability and long-term care benefits. The Retiree Health Insurance Credit Program provides members health insurance credits to offset the monthly health insurance premiums for retirees who have at least 15 years of service. The Line of Duty Act Program provides death and health insurance reimbursement benefits to eligible state employees, such as campus police, who die or become disabled as a result of the performance of their duties as a public safety officer. The University is required to contribute to the costs of participating in these programs.

The University also participates in the Pre-Medicare Retiree Healthcare Plan, which is sponsored by the Commonwealth and administered by the Department of Human Resources Management. The plan provides the option for retirees who are not yet eligible to participate in Medicare to participate in the Commonwealth's healthcare plan for its active employees. The University does not pay a portion of the retirees' healthcare premium; however, since both active employees and retirees are included in the same pool for purposes of determining health insurance rates, this generally results in a higher rate for active employees. Therefore, the University effectively subsidizes the costs of the participating retirees' healthcare through payment of the employer's portion of premiums for active employees.

Additional information related to all of these plans is available at the state-wide level in the Commonwealth's Comprehensive Annual Financial Report.

17. 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.

18. RESTRICTED NET POSITION

At June 30, 2017 restricted net position included the following purpose restrictions:

Restricted, nonexpendable	
Student aid	$1,406,281
Instruction	4,631,000
Research	1,127,760
Total restricted, nonexpendable	$7,165,041

Restricted, expendable	
Instruction	$1,185,225
Research	204,147
Capital	5,150,323
Total restricted, expendable	$6,539,695

19. COMPONENT UNITS

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

Combining Statement of Financial Position
As of June 30, 2017

	George Mason University Foundation (GMUF)	Mason Housing, Inc. * (MHI)	GMU Instructional Foundation * (GMUIF)	Mason Korea, LLC ^ (MK)	Total Component Units
Assets					
Cash and cash equivalents	$16,866,514	$87,148	$1,457,759	$1,761,719	$20,173,140
Security deposits	-	98,692	250	-	98,942
Restricted cash and cash equivalents	11,773,811	5,528,283	-	-	17,302,094
Accounts receivable, net	-	908	244,115	94,256	339,279
Contributions receivable, net	33,443,899	-	-	-	33,443,899
Prepaids and other assets	3,570,595	2,742	25,182	22,472	3,620,991
Net investment in direct financing lease	78,998,116	-	-	-	78,998,116
Beneficial interest in perpetual trusts	10,902,461	-	-	-	10,902,461
Inventory	-	-	18,782	-	18,782
Investments	160,877,374	-	-	-	160,877,374
Property and equipment, net	84,493,784	23,883,878	7,102,135	17,525	115,497,322
Deferred tax asset	1,814,447	-	-	-	1,814,447
Total Assets	402,741,001	29,601,651	8,848,223	1,895,972	443,086,847
Liabilities and Net Assets					
Liabilities					
Accounts payable and accrued expenses	9,640,304	177,267	842,257	301,902	10,961,730
Accrued payroll and related expenses	-	4,756	-	209,463	214,219
Participation rent payable	-	400,000	-	-	400,000
Tenant security deposits liability	-	90,875	-	-	90,875
Unearned revenue	7,638,194	37,137	222,909	273,917	8,172,157
Other liabilities	1,053,611	-	2,600	-	1,056,211
Derivative obligations	4,722,777	11,247,391	-	-	15,970,168
Long-term debt including loan payable	158,552,359	37,872,819	1,414,553	622,350	198,462,081
Amounts held for others	14,675,999	-	-	-	14,675,999
Total Liabilities	196,283,244	49,830,245	2,482,319	1,407,632	250,003,440
Net Assets					
Unrestricted	22,172,061	(20,228,594)	6,365,904	488,340	8,797,711
Temporarily restricted	99,058,190	-	-	-	99,058,190
Permanently restricted	87,216,378	-	-	-	87,216,378
Real Estate LLCs	(1,988,872)	-	-	-	(1,988,872)
Total Net Assets	206,457,757	(20,228,594)	6,365,904	488,340	193,083,407
Total Liabilities and Net Assets	$402,741,001	$29,601,651	$8,848,223	$1,895,972	$443,086,847

* March 31, 2017 year-end
^ December 31, 2016 year-end

Combining Statement of Activities For the Year Ended June 30, 2017	George Mason University Foundation (GMUF)	Mason Housing, Inc. * (MHI)	GMU Instructional Foundation * (GMUIF)	Mason Korea, LLC ^ (MK)	Total Component Units
Operating Revenue					
Contributions	$61,526,860	$-	$-	$269,000	$61,795,860
Grants	-	-	285,644	1,117,675	1,403,319
Interest on direct financing lease	4,860,543	-	-	-	4,860,543
Investment and trust return	12,553,318	-	6,182	-	12,559,500
Miscellaneous and other income	697,862	78,412	-	-	776,274
Rental income, net	14,773,781	3,566,574	1,001,043	-	19,341,398
Service fees	1,132,332	-	825,630	5,055,381	7,013,343
Total Operating Revenue	95,544,696	3,644,986	2,118,499	6,442,056	107,750,237
Operating Expenses					
Academic program support	65,896,948	-	-	937,609	66,834,557
Advertising and promotion	-	17,005	-	-	17,005
Depreciation	3,114,495	1,106,523	67,846	-	4,288,864
Fundraising	306,224	-	-	-	306,224
Insurance	99,380	81,900	14,359	-	195,639
Interest expense	7,050,198	2,099,751	73,887	-	9,223,836
Maintenance	-	156,296	-	-	156,296
Management fees	-	109,886	56,717	141,039	307,642
Office and other administrative expenses	4,378,301	119,700	161,683	290,879	4,950,563
Salaries and wages	-	311,054	844,508	3,312,752	4,468,314
Rent, utilities and other	2,756,861	22,691	603,269	257,235	3,640,056
Total Operating Expenses	83,602,407	4,024,806	1,822,269	4,939,514	94,388,996
Change in net assets before non-operating items and other changes	11,942,289	(379,820)	296,230	1,502,542	13,361,241
Non-operating items	(3,933,325)	3,217,179	-	(80,399)	(796,545)
Change in Net Assets	8,008,964	2,837,359	296,230	1,422,143	12,564,696
Beginning Net Assets	198,448,793	(23,065,953)	6,069,674	(933,803)	180,518,711
Ending Net Assets	$206,457,757	$(20,228,594)	$6,365,904	$488,340	$193,083,407

* March 31, 2017 year-end and ^ December 31, 2016 year-end

A. INVESTMENTS

Investments, which are reported at fair value, consisted of the following as of June 30, 2017:

	GMUF
Cash and money market funds	$3,081,078
Equities	45,981,087
Fixed income	89,426,927
Commodities	18,952
Real estate	36,982
Liquid alternatives	2,551,503
Hedge funds	10,641,479
Managed futures	2,353,585
Private equity and real assets	6,785,781
Total	$160,877,374

B. CONTRIBUTIONS RECEIVABLE

Contributions receivable as of June 30, 2017 are as follows:

	GMUF
Due in less than one year	$14,782,247
Due in one to five years	15,511,734
Due in more than five years	5,049,897
	35,343,878
Less allowance for doubtful accounts	(350,525)
Less discount present value	(1,549,454)
Total	$33,443,899

Discount rates range from 0.46 percent to 4.64 percent.

As of June 30, 2017, the Foundation has $23,022,500 of conditional promises to give, primarily matching funds for which the fundraising goals have not yet been achieved. These conditional promises to give are not recognized as assets in the consolidated statement of financial position.

C. FAIR VALUE MEASUREMENT- GEORGE MASON UNIVERSITY FOUNDATION

FASB ASC 820, Fair Value Measurements and Disclosures, provides the framework for measuring fair value and expands disclosures about fair value measurements.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

> Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.
>
> Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. The nature of these securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed.
>
> Level 3 – Securities that have little to no pricing observability as of the report date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the entity.

The Foundation considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the entity's perceived risk of that instrument.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

- *Cash and cash equivalents*: Carrying value of cash equivalents such as money market funds approximates the fair value due to the short maturity of these investments.

- *Equities:* Investments in equity securities valued at the quoted prices in an active market are classified within Level 1 of the fair value hierarchy.

- *Fixed income:* This class includes fixed income mutual funds, corporate bonds, municipal bonds and US government and agency securities. When quoted prices are available in an active market, fixed income securities are classified within Level 1 of the fair value hierarchy. Quoted prices in inactive markets are classified within Level 2. If quoted market prices are not available or accessible, then fair values are estimated using pricing models or discounted cash flow models. The fair values of corporate debt securities estimated using pricing models or matrix pricing based on observable prices of corporate debt securities that trade in inactive markets are generally classified within Level 2 of the fair value hierarchy.

- *Commodities and real estate*: These classes include investments in commodity and real estate mutual funds which are valued at the quoted prices in an active market and are classified within Level 1 of the fair value hierarchy.

- *Liquid Alternatives*: This class includes mutual funds, which have alternative type strategies which are valued at the quoted market prices in an active market and are classified within Level 1 of the fair value hierarchy.

- *Hedge funds, managed futures, private equity and real assets*: Investments in these classes are valued at the NAV provided by the underlying investment managers based on the shares held by the Foundation at year end. Valuations provided by alternative investment fund managers include estimates, appraisals, assumptions and methods that are reviewed by management. When necessary, the Foundation adjusts NAV for contributions, distributions, or general market conditions subsequent to the latest NAV valuation date when calculating fair value. Because the Foundation uses NAV as a practical expedient for fair value for the hedge funds, managed futures, private equity and real assets, these investments are excluded from the fair value hierarchy.

- *Beneficial interest in perpetual trusts*: Beneficial interests in perpetual trusts held by others are valued using the fair value of the assets in the trust as a practical expedient unless facts and circumstances indicate that the fair value of the assets in the trust differs from the fair value of the beneficial interests. Perpetual trusts held by others are classified within Level 3 of the fair value hierarchy. The underlying assets are primarily comprised of cash equivalents, equities and fixed income securities.

- *Derivative obligations and assets*: Interest rate swaps and caps are valued using pricing models (such as discounted cash flows) based on observable market data such as prices of instruments with similar maturities and characteristics, interest rate yield curves, and measures of interest rate volatility. Interest rate swaps and caps are reflected on the consolidated statement of financial position as derivate assets and derivative obligations. These derivatives are classified within Level 2 of the fair value hierarchy.

The valuation methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date and that difference may be material to the Foundation's financial statements.

The following table presents the Foundation's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2017:

	Level 1	Level 2	Level 3	Reported at NAV	Total
Financial Assets:					
Cash and cash equivalents	$3,081,078	$-	$-	$-	$3,081,078
Equities:					
Domestic large cap	20,048,478	-	-	-	20,048,478
Domestic small/mid cap	5,213,352	-	-	-	5,213,352
International (developed countries)	17,031,191	-	-	-	17,031,191
International (emerging markets)	3,688,066	-	-	-	3,688,066
Fixed income:					
Short-term bonds	60,248,719	-	-	-	60,248,719
Intermediate bonds	15,023,704	-	-	-	15,023,704
Long-term bonds	5,817,244	-	-	-	5,817,244
Multi-sector bonds	91,635	-	-	-	91,635
World bonds	5,721,114	-	-	-	5,721,114
Bank loans	2,524,511	-	-	-	2,524,511
Commodities	18,952	-	-	-	18,952
Real estate	36,982	-	-	-	36,982
Liquid alternatives	2,551,503	-	-	-	2,551,503
Hedge funds	-	-	-	10,641,479	10,641,479
Managed futures	-	-	-	2,353,585	2,353,585
Private equity and real assets	-	-	-	6,785,781	6,785,781
Investments	141,096,529	-	-	19,780,845	160,877,374
Beneficial interests in perpetual trusts	-	-	10,902,461	-	10,902,461
Derivative asset	-	366	-	-	366
Total financial assets	$141,096,529	$366	$10,902,461	$19,780,845	$171,780,201
Financial Liabilities:					
Derivative obligations	$-	$4,722,777	$-	$-	$4,722,777
Total financial liabilities	$-	$4,722,777	$-	$-	$4,722,777

D. PROPERTY AND EQUIPMENT

The following comprises property and equipment for the component units at June 30, 2017:

	GMUF	MHI *	GMUIF *	MK ^
Land	$27,109,091	$-	$6,435,556	$-
Land improvements	-	52,926	-	-
Buildings and building improvements	93,393,116	31,267,734	600,000	-
Furniture, fixtures and equipment	2,742,764	450,584	1,438,534	22,474
Total	123,244,971	31,771,244	8,474,090	22,474
Accumulated depreciation and amortization	(38,751,187)	(7,887,366)	(1,371,955)	(4,949)
Net property and equipment	$84,493,784	$23,883,878	$7,102,135	$17,525

* March 31, 2017 year-end and ^ December 31, 2016 year-end

E. LONG-TERM DEBT – GEORGE MASON UNIVERSITY FOUNDATION

George Mason University Foundation, Inc. (Potomac Heights and University Park Projects) - Fairfax County Economic Development Authority Bonds

On October 7, 2003, the Foundation issued $35,125,000 of variable rate Fairfax County Economic Development Authority bonds to finance a housing project for the University and to refinance existing properties the Foundation owns and rents to the University. On May 1, 2013, the Foundation refinanced the remaining $25,520,000 of the Fairfax County Economic Development Authority bonds with the same commercial bank. These variable rate bonds mature on May 31, 2018. With the exception of $522,500, the interest rate on these bonds is effectively fixed through an interest rate swap (See Note F).

On November 7, 2016, the commercial bank agreed to release the lien of the deed of trust from the University Park Projects.

GMUF Mason Administration, LLC (Merten Hall) - Fairfax County Economic Development Authority Bonds

On April 21, 2010 the Fairfax County Development Authority issued its $36,100,000 Revenue Bond Series 2010A (Tax Exempt – GMUF Mason Administration, LLC Project) and its $1,900,000 Revenue Bond Series 2010B (Taxable – GMUF Mason Administration, LLC Project) and sold such bonds to a commercial bank pursuant to a Bond Purchase and Loan Agreement dated April 1, 2010. The Foundation borrowed only $32,100,000 of the Revenue Bond Series 2010A and the entire $1,900,000 of the Revenue Bond Series 2010B.

The Series 2010A Bond is subject to mandatory repayment at the option of the commercial bank on December 1, 2023. On November 4, 2016, the Foundation executed a loan modification agreement in which the commercial bank shall not exercise the mandatory prepayment option but the Foundation is now obligated to prepay the Series 2010A Bonds on June 1, 2024.

Proceeds were used in the acquisition, construction, renovation and equipping of a five-story administration building for classrooms, administrative office and retail space. The building was substantially completed in May 2011, with remaining construction for retail space completed in fiscal year 2014. The Foundation's loan obligation is limited to that portion of the bond issuance which it drew upon pursuant to the Bond Purchase and Loan Agreement.

As part of this transaction, the Foundation simultaneously entered into two forward floating-to-fixed interest rate swaps with a commercial bank to effectively fix the interest rates on the tax-exempt and taxable bonds. See Note F for discussion regarding the interest rate swaps.

GMUF Prince William Housing, LLC (Beacon Hall) - Industrial Development Authority of the County of Prince William Bonds

On August 11, 2011, the Industrial Development Authority of the County of Prince William issued its $14,640,000 Revenue Bond Series 2011A (Tax-Exempt George Mason University Foundation Prince William Housing LLC Project) and its $985,000 Revenue Bond Series 2011B (Taxable George Mason University Foundation Prince William Housing LLC Project). Proceeds were used to finance the acquisition, construction and equipping of a student residence hall, University program space, and unimproved "shell space" designated for retail tenants.

The Series 2011A and Series 2011B Bonds are special, limited obligations of the Issuer, payable solely from the revenues pledged therefore under the indenture. Neither the Foundation nor the University is liable for payments of the principal or redemption price of interest on the Bonds. The Foundation began leasing the property to the University in fiscal year 2013 with a 30 year lease term, and the lease payments made by the University service the bonds' principal and interest payments.

GMUF Prince William Life Sciences Lab, LLC - Industrial Development Authority of the County of Prince William Bonds

On August 11, 2011, the Industrial Development Authority of the County of Prince William issued its $31,065,000 Revenue Bond Series 2011AA (Tax-Exempt George Mason University Foundation Prince William Life Sciences Lab LLC Project) and its $2,145,000 Revenue Bond Series 2011BB (Taxable George Mason University Foundation Prince William Life Sciences Lab LLC Project) pursuant to a Trust Indenture dated August 1, 2011. Proceeds were used to finance the acquisition, construction and equipping of life sciences lab facilities and the acquisition and construction of unimproved "shell space" designated for commercial laboratory use. The project was completed in fiscal year 2015.

The Series 2011AA and Series 2011BB Bonds are special, limited obligations of the Issuer, payable solely from the revenues pledged therefore under the indenture. Neither the Foundation nor the University is liable for payments of the principal or redemption price of interest on the Bonds. The Foundation began leasing the property in fiscal year 2013 to the University with a 29.5 year lease term, and the lease payments made by the University service the bonds' principal and interest payments. The Series 2011BB Bonds matured on September 1, 2016.

During fiscal year 2017, the Industrial Development Authority of the County of Prince William issued its $35,330,000 Revenue Bond Series 2017 ("Series 2017 Bonds") pursuant to a Trust Indenture dated February 1, 2017. Proceeds were used by GMUF to execute an advanced refunding and to legally defease the Series 2011AA Bonds. As a result, the Series 2011AA Bonds are deemed extinguished for accounting purposes resulting in a loss of $3,933,325 during fiscal year 2017. GMUF entered into this advanced refunding to eliminate the private business use restrictions on the Life Sciences Lab, allowing GMUF more flexibility in utilizing the space and to take advantage of historically low long-term interest rates. The University's lease payments fund the debt service of the Series 2017 Bonds.

All of the term bonds for the Industrial Development Authority of the County of Prince William Series 2017 Bonds are subject to mandatory redemption by operation of sinking fund installments.

GMUF Commerce Buildings, LLC - Industrial Development Authority of the Town of Clifton, VA

On May 24, 2013, the Industrial Development Authority of the Town of Clifton, VA issued its $6,500,000 Revenue Bond Series 2013 (GMUF Commerce Buildings, LLC Project) and sold such bonds to a commercial bank pursuant to a Bond Purchase and Loan Agreement dated May 24, 2013. Proceeds were used for the purposes of (a) refinancing $2,260,000 of the Fairfax County Development Authority bonds, (b) renovating existing office buildings owned by the Foundation in the City of Fairfax, Virginia, and (c) paying certain other expenditures associated with the bond issuance, such as debt issuance costs. The project was completed in fiscal year 2014, and the Foundation had drawn a total of $6,232,503 of the loan with the commercial bank. The Foundation's loan obligation is limited to that portion of the bond issuance which it drew upon pursuant to the Bond Purchase and Loan Agreement.

On March 16, 2015, GMU Commerce Buildings, LLC modified its existing loan with the commercial bank resulting in a taxable loan of $5,720,000 at a fixed rate of 3.63%, maturing March 1, 2030. The Foundation leases the property to the University with a 15 year lease term and the rental payments made by the University service the notes' principal and interest payments as well as operating costs.

GMUF Arlington Campus, LLC Notes

On August 18, 2006, GMUF Arlington Campus, LLC secured a permanent 10-year $68.5 million loan by executing a deed of trust on real property located at 3434 North Washington Street, Arlington, VA, with a financial institution.

During fiscal year 2016, GMUF Arlington Campus, LLC extinguished its existing loan and terminated a related letter of credit. Effective June 1, 2016, GMUF Arlington Campus, LLC negotiated a new loan of $60 million with another commercial bank at a fixed rate of 4.05%, maturing June 1, 2033.

The following represents the Foundation's bonds and notes payable at June 30, 2017.

	2017
Fairfax County Economic Development Authority Bonds (FCEDA)	
George Mason University Foundation, Inc. Bonds, variable rates maturing on May 31, 2018	$17,372,500
GMUF Mason Administration, LLC Tax-Exempt Revenue Bond, variable rate maturing on June 1, 2024	28,968,403
Industrial Development Authority of the County of Prince William (IDA-PW)	
Prince William County Series 2011A Bonds, serial with interest rates ranging from 4.25% to 5.00%, maturing at various dates from September 1, 2022 to September 1, 2026	$1,895,000
Prince William County Series 2011A Bonds, term interest rate 5.50%, maturing September 1, 2031	3,190,000
interest rate 5.125%, maturing September 1, 2041	9,555,000
Prince William County Series 2011B Bonds, term interest rate 3.375%, maturing September 1, 2021	840,000
Prince William County Series 2017 Bonds, serial with interest rates ranging from 1.206% to 4.424%, maturing at various dates from October 1, 2017 to October 1, 2036	25,015,000
Prince William County Series 2017 Bonds, term interest rate 4.524%, maturing October 1, 2041	10,315,000
Bank Notes	
GMUF Arlington Campus, LLC Note with interest rate of 4.05% maturing June 1, 2033	57,508,273
GMUF Commerce Buildings, LLC Notes with interest rate of 3.63% maturing March 1, 2030	5,004,823
Notes and bonds payable at face value	159,663,999
Plus: Unamortized net premium	69,336
Less: Debt issuance costs, net	(1,180,977)
Total long-term debt	$158,552,358

Scheduled maturities and sinking fund requirements are as follows:

Year Ended June 30	Total
2018	$22,103,863
2019	5,126,987
2020	5,336,883
2021	5,613,187
2022	5,834,415
Thereafter	115,648,664
Total	$159,663,999

Interest expense on notes, bonds and related swaps along with the amortization of deferred financing charges was $7,050,198 for the year ended June 30, 2017.

The carrying value of long-term debt approximated the fair value as of June 30, 2017. The Foundation estimated the fair value of bonds payable using valuations provided by an independent financial institution.

For certain debt issuances, on a periodic basis, the Foundation is required to comply with administrative reporting and debt covenant calculations. As of June 30, 2017, the Foundation was in compliance with its required debt covenant calculations.

F. DERIVATIVE INSTRUMENTS – GEORGE MASON UNIVERSITY FOUNDATION

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

In October 2003, the Foundation entered into an interest rate swap agreement with a financial institution against the floating rate bonds in the notional amount of $22,425,000 at a fixed interest rate of 4.045%, including all costs, on a 20-year amortization schedule. Concurrently, the Foundation entered into a 20-year interest rate cap agreement with the same financial institution in the notional amount of $12,700,000, at a rate of 10%. The interest rate swap was used as a cash flow hedge to synthetically fix the rate of the bonds and to eliminate changes in the market interest rates. With the refinancing of the Fairfax County Economic Development Authority bonds (see Note E), the interest rate swap was amended on April 30, 2013 resulting in a notional amount of $20,818,750 at a fixed interest rate of 3.032% and a termination date of February 1, 2029. The interest rate cap agreement remained in place.

At June 30, 2017, the notional amount on the swap was $16,850,000 and on the cap was $9,975,000.

The fair value of the interest rate swap at June 30, 2017 totaled a derivative liability of $1,601,047. The net change in value has been recorded as a gain on derivatives in the consolidated statement of activities. The interest rate swap has a liability threshold of $3,500,000. Should the derivative obligation exceed $3,500,000, the Foundation is required to post collateral in excess of the threshold amount. As of June 30, 2017, no collateral balance was required. The fair value of the interest rate cap totaled a derivative asset of $366 at June 30, 2017, and is a component of prepaids and other assets. All assets or liabilities related to the interest rate swap and interest rate cap convert to zero at contract maturity.

GMUF Mason Administration, LLC Interest Rate Swaps

In March 2010, as part of the GMUF Mason Administration, LLC Project, the Foundation entered into a forward floating-to-fixed interest rate swap to effectively fix the interest rate on the $32,100,000 tax-exempt notional amount at a fixed interest rate of 4.675% and a second forward floating-to-fixed interest rate swap to effectively fix the interest rate on the $1,900,000 taxable notional amount at a fixed interest rate of 4.5% with a commercial bank. The swap transactions became effective on June 1, 2011. The termination date is June 1, 2036 for the tax-exempt notional amount and the taxable swap was terminated on December 1, 2013. At June 30, 2017, the notional amount on the tax-exempt swap was $29,005,000.

The fair value of the interest rate swaps at June 30, 2017 totaled a derivative liability of $3,121,730. The net change in value has been recorded as gains or losses on derivatives in the consolidated statement of activities. The remaining interest rate swap has a liability threshold of $5,000,000. Should the derivative obligations exceed $5,000,000, GMUF Mason Administration, LLC is required to post collateral in excess of the threshold amount. As of June 30, 2017, no collateral was required.

G. LONG-TERM DEBT – MASON HOUSING, INC

In October 2008, the Fairfax County Economic Development Agency (EDA) issued $39,760,000 of variable rate bonds (the Bonds) in order to provide financing for the development of the Organization. Bank of America (the bond purchaser) purchased these bonds and the proceeds received from the purchase were deposited to U.S. Bank National Association (the Trustee). Concurrently, the Organization entered into a loan agreement with EDA to borrow the proceeds received from the sale of the Bonds. EDA entered into a trust indenture with the Trustee to secure the repayment of the bonds by the assignment of its rights under the loan agreement. In addition, the Organization entered into two interest rate swap agreements with Bank of America which exchanged the variable rate borne by the Organization with a fixed rate.

Principal payments are due annually on August 1 from 2011 to 2039. The Bonds bear interest at a variable rate, not to exceed 12%, which is determined by the remarketing agent, Bank of America Securities LLC, on a weekly index floating rate and flexible rate basis. The Bonds bear interest at an index floating rate, which is 1.10% plus the Securities Industries and Financial Market Association (SIFMA) through October 1, 2016. On November 1, 2016, the agreement was amended to change the interest to 1.15% plus 70% of the London Interbank Offered Rate (LIBOR) monthly floating rate through January 1, 2018. Commencing February 1, 2018, the Organization may select an interest rate, as defined, pursuant to the terms of the trust indenture. The interest rate on the Bonds as of March 31, 2017 was 1.15%. The Bonds are secured by a Trust Indenture dated October 1, 2008. The trust indenture was supplemented on October 1, 2013 to reflect the Bonds as directly held by the bond purchaser.

In October 2008, an interest rate swap agreement was entered into on a notional amount of $38,400,000. The swap went into effect December 1, 2008, and is set to expire on August 1, 2039. Per the agreement, the Organization pays a fixed rate of 3.97% and Bank of America pays a variable rate of the one-month LIBOR-BBA for each month (.98333% at March 31, 2017).

In October 2008, an interest rate swap agreement was entered into on a notional amount of $1,360,000. The swap went into effect December 1, 2008, and is set to expire on August 1, 2039. Per the agreement, the Organization pays a fixed rate of 3.035% and Bank of America pays a variable rate of the one-month LIBOR-BBA for each month (.98333% at March 31, 2017).

The loan payable is secured by the Organization's building and improvements and future rental income. Interest is payable monthly on the loan payable, commencing in November 2008. Annual principal payments commenced in August 2011. Pursuant to the master covenant agreement with the bond purchaser, the Organization is required to maintain a debt service coverage ratio of at least 1.20.

During the year ended March 31, 2017, interest expense of $2,022,011 was incurred and included in interest expense on the statements of activities and changes in unrestricted net deficit. As of March 31, 2017, the outstanding principal balance was $39,110,000. As of March 31, 2017, accrued interest payable was $167,492.

Debt issuance costs on the above note are being amortized using an imputed rate of 5.34% at March 31, 2017;

Aggregate maturities of the loan payable over the next five years and thereafter is as follows:

Year Ended March 31	Total
2018	$245,000
2019	320,000
2020	410,000
2021	495,000
2022	595,000
Thereafter	37,045,000
Total	$39,110,000

H. LONG-TERM DEBT – GMU INSTRUCTIONAL FOUNDATION

GMUIF has a note payable with a bank, in the original amount of $2,850,000 that commenced on March 1, 2010; collateralized by a deed of trust on 50 acres of land owned by GMUIF. The note bears interest at a fixed rate of 5.75% per annum with monthly payments of principal and interest of $18,483. The note matures on March 1, 2025.

The minimum five years payments for the years ending March 31 are as follow:

Year Ended March 31	Total
2018	$149,524
2019	157,158
2020	165,182
2021	173,616
2022	182,481
Thereafter	586,592
Total	$1,414,553

I. LONG-TERM DEBT – MASON KOREA

During 2013, Mason Korea entered into an operation support agreement with the Incheon Global Campus Foundation (IGCF). As part of the agreement, IGCF agreed to provide Mason Korea with an interest-free loan for ten years. The total amount should not exceed $10,000,000 during the ten year period and the repayment period of the loan shall be ten years from the end of the year when the revenues arising from the operation of Mason Korea equals or exceeds expenses. No more than 50% of the amount in which operational revenues exceeds expenses in any given year will be applied to repay the loan. As such Mason Korea does not have fixed principal payments, as the repayment terms are contingent on future income. As of December 31, 2016, the notes payable balance was $622,350 as reported in the statements of financial position.

Mason Korea entered into a Korean government subsidy agreement in 2013 with Incheon Free Economic Zone (IFEZ). In the agreement, IFEZ agreed to provide Mason Korea with a government subsidy of $1,000,000 for each subsidy period for 4 years from August 15, 2013. In return, Mason Korea shall use the funds to operate its education programs as approved by the Ministry of Education. No interest is charged on the subsidy and any interest earned on the subsidy funds shall be returned to IFEZ at the end of the support period.

J. SUBSEQUENT EVENTS – COMPONENT UNITS

In December 2017, the Fairfax County Development Authority issued its $16,795,000 Refunding Revenue Notes Series 2017A (Tax Exempt – GMUF Potomac Heights, LLC) and its $1,380,000 Refunding Revenue Note Series 2017B (Taxable – GMUF Potomac Heights, LLC) and sold such notes to a commercial bank pursuant to a Note Purchase Agreement dated December 1, 2017. Proceeds were used for (a) refinancing $16,597,500 of Student Housing Refunding Revenue Bonds (George Mason University Foundation, Inc. Project), Series 2013 (2013 Bonds) issued by the Fairfax County Development Authority, (b) funding swap breakage costs in connection with the 2013 Bonds, and (c) paying certain other expenditures associated with the bond issuance, such as debt issuance costs. The Series 2017A fully amortizing notes are at a fixed rate of 2.41% with a final maturity on November 1, 2027. The Series 2017B fully amortizing notes are at a fixed rate of 2.05% with a final maturity on November 1, 2018. The Foundation began leasing the student housing building to the University under a 10-year lease through December 31, 2027, and the lease payments made by the University service the notes' principal and interest payments.

In February 2018, Mason Housing, Inc. received the Notice of the Extension, delivered in accordance with Section 2.02 (b) (v) of the Trust Indenture dated as of October 1, 2008, between Fairfax County Economic Development Authority (the "Issuer") and U.S. Bank Nation Association (the "Trustee"), as supplemented, including by the First Amendment date as of June 30, 2011, the Second Supplement dated as of October 1, 2013, and the Third Supplemented dated as of November 1, 2016, each between the Issuer and the Trustee (collectively, the "Indenture"), the Index Floating Rate on the above-captioned Bonds shall be LIBOR Index (i.e., 70% of the LIBOR Monthly Floating Rate) plus 1.15% through the last day of the Bank-Held Index Floating Rate Period, which was extended to January 31, 2022.

On May 17, 2017, GMUIF and F Corporation entered into agreements with a telecommunications company to lease to it certain broadcast spectrum channels to which GMUIF and F Corporation hold a license granted by the Federal Communications Commission.

GMUIF has made a residential lease agreement that commenced on September 8, 2017 and expires on August 31, 2018.

In August 2017, the Capitol Connection and F Corporation, components of GMUIF terminated its television businesses. All customers were refunded their unused portion of Television programming subscriber fees; all majorities of the fixed assets belonging to both Capitol Connection and F Corporation relating to the television business were disposed of.

Subsequent to year-end, the GMUIF, received a cash distribution of $313,441 from INTO Mason, Inc.; the funding is to repay the initial investment of $250,000.

In March 2018, Mason Korea paid off the remaining balance of its $622,350 loan from Incheon Global Campus Foundation (IGCF).

20. SUBSEQUENT EVENTS

During September 2017, the University completed construction of the Potomac Science Center, a 50,000 square foot facility located on a waterfront location in the Belmont Bay section of Prince William County, Virginia.

In September 2017, the University executed a settlement agreement of $1,175,000 for deficiencies with the Hylton Performing Arts Center's HVAC system.

In December 2017, the University entered into a promissory note with the Virginia College Building Authority (VCBA) to participate in the Educational Facilities Revenue Bonds, Series 2017A, issued by the VCBA under its Pooled Bond Program. The total par amount of the note issued is $3,240,000. The University will use the proceeds to finance the Utilities Distribution Infrastructure Project. Payments on the note will be made semi-annually, with the coupons ranging from 2.125 to 5 percent. The final payment will be due in 2038.

The Peterson Family Health Sciences Hall was completed in January 2018. This building will serve as the new home of the College of Health and Human Services. It includes classrooms, offices, a health clinic, wet labs, a nutrition kitchen and an amphitheater.

REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information (RSI)
Cost-Sharing Employer Plans – VRS State Employee Retirement Plan
and VaLORS Retirement Plan
For the Fiscal Year Ended June 30, 2017

Schedule of Employer's Share of Net Pension Liability
VRS State Employee Retirement Plan
For the Years Ended June 30, 2017, 2016 and 2015*

	2017	2016	2015
Employer's Proportion of the Net Pension Liability (Asset)	3.25%	3.28%	3.27%
Employer's Proportionate Share of the Net Pension Liability (Asset)	$214,498,000	$200,645,000	$182,878,000
Employer's Covered Payroll	$126,225,866	$124,140,373	$126,146,921
Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	169.93%	161.63%	144.97%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.29%	72.81%	74.28%

Schedule in intended to show information for 10 years. Since 2017 is the third year for this presentation, only two additional years of data are available. However, additional years will be included as they become available.

* The amounts presented have a measurement date of the previous fiscal year end.

Schedule of Employer's Share of Net Pension Liability VaLORS Retirement Plan For the Years Ended June 30, 2017, 2016 and 2015*			
	2017	**2016**	**2015**
Employer's Proportion of the Net Pension Liability (Asset)	0.7456%	0.7670%	0.7099%
Employer's Proportionate Share of the Net Pension Liability (Asset)	$5,772,000	$5,451,000	$4,785,000
Employer's Covered Payroll	$2,577,844	$2,595,671	$2,502,219
Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	223.91%	210.00%	191.23%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	61.01%	62.64%	63.05%

Schedule in intended to show information for 10 years. Since 2017 is the third year for this presentation, only two additional years of data are available. However, additional years will be included as they become available.

* The amounts presented have a measurement date of the previous fiscal year end.

Schedule of Employer Contributions VRS State Employee Retirement Plan For the Years Ended June 30, 2008 through 2017					
Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2017	$16,643,486	$16,643,486	$0	$123,376,471	13.49%
2016	17,646,376	17,646,376	0	126,225,866	13.98%
2015	15,306,508	15,306,508	0	124,140,373	12.33%
2014	11,050,470	11,050,470	0	126,146,921	8.76%
2013	10,404,379	10,404,379	0	118,771,449	8.76%
2012	3,663,572	3,663,572	0	114,127,310	3.21%
2011	2,149,857	2,149,857	0	100,932,263	2.13%
2010	4,819,167	4,819,167	0	97,458,101	4.94%
2009	5,686,241	5,686,241	0	91,271,931	6.23%
2008	5,340,431	5,340,431	0	86,836,284	6.15%

Schedule of Employer Contributions VaLORS Retirement Plan For the Years Ended June 30, 2008 through 2017					
Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2017	$529,133	$529,133	$0	$2,513,696	21.05%
2016	485,408	485,408	0	2,577,844	18.83%
2015	458,655	458,655	0	2,595,671	17.67%
2014	370,328	370,328	0	2,502,219	14.80%
2013	445,945	445,945	0	3,013,140	14.80%
2012	213,333	213,333	0	3,013,181	7.08%
2011	136,739	136,739	0	2,670,676	5.12%
2010	328,465	328,465	0	2,883,746	11.39%
2009	377,114	377,114	0	2,650,137	14.23%
2008	419,767	419,767	0	2,646,700	15.86%

Notes to Required Supplementary Information
For the Year Ended June 30, 2017

Changes of benefit terms – There have been no actuarially significant changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is still a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2016 are not material.

Changes of assumptions – The following changes in actuarial assumptions were made for the VRS - State Employee Retirement Plan effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of withdrawals for less than 10 years of service
- Decrease in rates of male disability retirement
- Reduce rates of salary increase by 0.25% per year

The following changes in actuarial assumptions were made for the VaLORS Retirement Plan effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

- Update mortality table
- Adjustments to the rates of service retirement
- Decrease in rates of withdrawals for females under 10 years of service
- Increase in rates of disability
- Decrease service related disability rate from 60% to 50%

INDEPENDENT AUDITOR'S REPORT

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

April 5, 2018

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Robert D. Orrock, Sr.
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
George Mason University

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of **George Mason University** (University), a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units of the University, which are discussed in Note 1 and Note 19. Those financial statements were audited by other

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auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of 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 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinions.

Opinion

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 the business-type activities and aggregate discretely presented component units of the University as of June 30, 2017, and the respective changes in financial position and cash flows, where applicable thereof, for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1 through 11, and the Schedule of Employer's Share of Net Pension Liability, the Schedule of Employer Contributions, and the Notes to Requirement Supplementary Information on pages 67 through 70 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the

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

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated April 5, 2018, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the University's internal control over financial reporting and compliance.

Marthew S. Marcader

AUDITOR OF PUBLIC ACCOUNTS

ZLB/clj

UNIVERSITY OFFICIALS

GEORGE MASON UNIVERSITY

Fairfax, Virginia
As of June 30, 2017

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