GEORGE MASON UNIVERSITY

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

JUNE 30, 2009

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George Mason University

Financial Statements for the Year Ended June 30, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

Institutional Profile

Since it was founded in 1972, George Mason University has grown into a major educational force and earned a reputation as an innovative, entrepreneurial institution. Located in the heart of Northern Virginia's technology corridor near Washington, D.C., George Mason has a growing and diverse student body and an exceptional faculty of enterprising scholars. U.S. News and World Report named Mason the nation's number one university to watch on its list of "Up-and-coming Schools". The list identifies "schools that have recently made the most promising and innovative changes in academics, faculty, students, campus, or facilities." In addition, Mason was named one of the nation's best values among undergraduate institutions by the Princeton Review, and named by Kiplinger Magazine to its national top 100 best values in public colleges list. At the center of the world's political, information, and communications networks, George Mason is the university needed by a region and a world driven by new social, economic, and technological realities.

George Mason's development has been shaped in response to the educational needs of its cosmopolitan constituency. The university has gained national distinction in a range of academic fields, including public policy, information technology, economics, the fine and performing arts, law, conflict resolution, and, most recently, the biosciences. Strong alliances with business, the community, and government benefit George Mason's students and the larger society. Mason prepares its students to succeed in the workforce and meet the needs of the region and the world. Mason professors conduct groundbreaking research in areas such as cancer, climate change, information technology, and the biosciences. Total enrollment is in excess of 30,000, with students studying in 177 degree programs at the undergraduate, master's, doctoral, and professional levels. In the past several years, Mason has added 38 degree programs, including advanced degrees in climate dynamics, information security, and neuroscience, as well as undergraduate degrees in conflict analysis and resolution, global affairs, global and environmental change, and film and video studies. In 2009, Mason will offer Virginia's first Master's Program in Computer Forensics and will launch Northern Virginia's first Master's of Public Health degree program.

George Mason is a distributed university with campuses in Fairfax, Arlington, and Prince William counties. Each campus has a distinctive academic focus that plays a critical role in the economy of its region. At each campus, students and faculty have access to all the university's resources, while duplication of programs and support services is minimized through the use of technology. The university also offers programs on-site in Loudoun County, at the Center for Innovative Technology's Herndon Training Center, at the Smithsonian Institute's Conservation Research Center in Front Royal, Virginia, and on the Internet. In addition, Mason remains committed to international collaborations and has reciprocal agreements with other universities and colleges around the world including the Sino-American 1+2+1 Dual Degree program with several major universities in China, and has established a new partnership with Moscow State University that will result in exchange of both faculty and students.

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

Higher Education Restructuring

The Restructured Higher Education Financial and Administrative Operations Act, as amended, provides the opportunity for all sixteen public colleges and universities in Virginia to become eligible for additional operational authority, provided state goals and management standards are met. George Mason University has recently been granted (effective September 3, 2009) additional operating authority in the areas of information technology and procurement.

Overview of the Financial Statements and Financial Analysis

This unaudited *Management's Discussion and Analysis* (MD&A) is required supplemental information under the Governmental Accounting Standards Board's (GASB) reporting model. This discussion and analysis provides an overview of the financial condition and results of operations of George Mason University for the year ended June 30, 2009. Comparative numbers are included for the year ended June 30, 2008. MD&A includes highly summarized data and therefore should be read in conjunction with the financial statements and footnotes that follow this section. The University's management is responsible for all of the financial information presented, including this discussion and analysis.

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

Financial Highlights

A major transformation at George Mason's Fairfax Campus is taking place. The culture of the institution is changing dramatically with the construction of over $200 million in new facilities that include research buildings, academic buildings, residence halls, a hotel/conference center, retail outlets, and faculty/ staff housing. At the forefront of these additions is a significant increase in the number of residential facilities for students. By 2012, the number of beds at Mason will increase from 4,779 to 6,500, accommodating over 30 percent of the University's projected full-time undergraduate student population.

The University completed, at its Fairfax campus, the construction of a $46 million, 180,000 square foot research building that houses the Volgenau School of Information Technology and Engineering, and fulfills the need for cutting-edge academic research and future information technology and engineering leaders. By combining academic and research space with corporate lease space, the building is unlike any other throughout the Virginia public university system, and builds on the University's strength as an entrepreneurial university working with the business community. The new facility opened in April of 2009.

Also at its Fairfax campus, the University, through its component unit, Mason Housing, Inc., began the construction of Masonvale, a faculty/staff housing community. The community will consist of 155 rental units of mixed stacked flats and town homes. The first units were completed, and the first faculty and staff tenants moved into the community, in early FY 10. The community helps to address faculty and staff recruitment and retention issues.

In light of the Commonwealth's sustained and severe budget crisis, and the resulting series of cuts in support for higher education, the University's Board of Visitors voted to raise annual tuition and fees for the 2009-10 academic year. This decision will help provide the funding necessary for the University to invest in academic excellence, scholarships for students, expanded teaching spaces and research, and fund an increasing share of its operating budget as the percentage funded by the Commonwealth continues to decline. Despite the increase, Mason's tuition and fees will remain lower than nearly half of Virginia's other four-year colleges and universities. The decision reflects the University's commitment to maintaining the highest level of standards and continuing to provide outstanding faculty and facilities.

Statement of Net Assets

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

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

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

A summary of the University’s assets, liabilities, and net assets at June 30, 2009, and June 30, 2008, follows.

Statement of Net Assets*

	June 30, 2009	June 30, 2008**	Change (dollars)	Change (percentage)
Assets:				
Current assets	$145,781	$145,020	$761	1%
Capital assets, net	829,265	584,307	244,958	42%
Other noncurrent assets	160,755	176,366	(15,611)	-9%
Total assets	1,135,801	905,693	230,108	25%
Liabilities:				
Current liabilities	187,738	161,378	26,360	16%
Noncurrent liabilities	507,121	346,591	160,530	46%
Total liabilities	694,859	507,969	186,890	37%
Net assets:				
Invested in capital assets, net of debt	406,716	323,765	82,951	26%
Restricted: nonexpendable	3,456	3,221	235	7%
Restricted: expendable	6,692	41,701	(35,009)	-84%
Unrestricted	24,078	29,037	(4,959)	-17%
Total net assets	$440,942	$397,724	$43,218	11%

* in thousands
** as restated for change in methodology used to calculate net assets category amounts

The University’s financial position remained strong at the end of FY 2009. Total assets were $1.136 billion and net assets (total assets less liabilities of $695 million) amounted to $441 million. For FY 2009, current assets of $145.8 million are $41.9 million lower than current liabilities of $187.7 million. In FY 2008 current assets were $16.4 million lower than current liabilities. This decline in current assets relative to current liabilities is to be expected given the substantial and ongoing construction program, and the resulting large increase in capital asset related payables. Nonetheless, current assets still cover 3.2 months of total operating expenses, including depreciation, which is almost unchanged from last year's 3.3 months of coverage. Capital assets, net of accumulated depreciation of $298.1 million, totaled $829.3 million, which represents an increase of $244.9 million over FY 2008, and reflects the ongoing expansion of facilities at the University.

During FY 2009, the University's total net asset position increased by $43.2 million. The largest increase took place in the net asset category Invested in capital assets, which increased by $82.9 million. This increase was offset by decreases in Restricted expendable net assets of $35.0 million and Unrestricted net assets of $4.9 million. These large decreases resulted from the use for capital projects during FY 2009 of capital appropriations received in FY 2008, and the use for the same purpose of unrestricted assets.

Capital Asset and Debt Administration

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

Note 5 of the Notes to Financial Statements describes the University's rapidly expanding investment in capital assets, with total depreciable capital asset additions of $124.2 million (excluding land, construction in progress, and works of art) and additions to construction in progress of $257.6 million. Depreciation expense increased by $2.1 million over the prior year to $29.5 million.

Capital asset additions in FY 2009 included increases of $105.2 million in buildings, $9.1 million in equipment, $4.8 million in improvements, and $5.1 million in library materials. The building increase included the completion and placing into service of the Academic VI/Research II Building, the expansion and renovation of the PE Building, the Presidents Park Phase 1A renovation, the Commonwealth and Dominion buildings renovation, a section of Student Housing VII, and Student Union Building III. The increase in improvements included the softball field improvements, and the expansion and improvements of the West lot and lots A & K.

Additions to construction in progress during FY 2009 included construction costs for ongoing projects such as the Prince William Biocontainment Lab, Science and Tech I and II Renovation, Prince William Performing Arts Center, Hotel and Conference Center, Parking Deck III, Patriot Center Renovation, Academic V Building, Arlington II Building, Surge Space and Data Center Building, Student Union Building II renovation, the Fairfax Performing Arts Building addition, Housing VII-C, Student Union I Building addition/renovation, Thompson and Pohick Building renovations, Central Plant Improvements, Krasnow Institute Addition, Fenwick Library Addition, West Campus connector and campus entrance, and the Facilities Archive and Carpentry Shop.

Financial stewardship requires the effective management of resources, including the use of long-term debt to finance capital projects. Notes 7, 8 and 9 describe changes in the University's long-term debt. New capital long-term debt with a principal amount of $170.3 million was issued during FY 2009. This increase is the result of $33.6 million in Virginia 9(c) Revenue Bonds issued to finance Student Housing VII ($2.0 million), the Presidents Park Phase I Renovation ($3.1 million), the Presidents Park Phase II Renovation ($3.1 million), the Commonwealth & Dominion Phase II Renovation ($1.5 million) and Student Housing VII-C ($23.9 million) and $136.7 million in VCBA Notes, issued to finance the following projects:

Patriot Center Addition/Renovation ($1.9), Arlington Phase II ($7.9 million) Prince William Performing Arts Center ($18.0 million), Fairfax Surge Space and Fit Out Data Center ($10.7 million), Prince William Regional Biomedical Laboratory ($6.4 million), Student Union I Building Addition/ Renovation ($8.0 million), West Campus Connector/Campus Entrance ($6.0 million), PE Building Addition/Renovation ($2.8 million), PE Building Addition Phase II ($5.2 million), Academic VI/Research II Building ($20.3 million), Parking Deck III ($9.8 million), Parking Deck III Phase II ($13.9 million), Hotel and Conference Center ($25.2 million), and Student Union II Building Renovation ($.6 million). Total long-term debt outstanding, including revenue bonds, notes payable, installment purchases, bond premiums and discounts, and deferred gains and losses on refundings increased by $162.9 million from the end of FY 2008 to the end of FY 2009, to a total of $514.6 million.

Contractual commitments for capital outlay projects under construction at year end decreased from $255.1 million in FY 2008 to $168.4 million in FY 2009. These obligations are for future efforts and therefore have not been accrued as expenses or liabilities on the University's financial statements. This decrease reflects the completion of several buildings during FY 2009 including Academic VI/Research II, the PE Building Addition/Renovation, the renovation of Presidents Park, Phase I, a section of Student Housing VII, and the renovation of the Commonwealth & Dominion Buildings, as well as ongoing construction on the other projects remaining in construction in progress as of year end.

Statement of Revenues, Expenses, and Changes in Net Assets

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

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

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

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

	June 30, 2009	June 30, 2008	Change (dollars)	Change (percentage)
Operating revenues:				
Student tuition and fees, net of allowances	$183,204	$166,106	$17,098	10%
Grants and contracts	107,148	95,204	11,944	13%
Auxiliary enterprises and other	108,497	98,196	10,301	10%
Total operating revenues	398,849	359,506	39,343	11%
Operating expenses:				
Education and general	421,205	403,761	17,444	4%
Depreciation	29,493	27,436	2,057	7%
Scholarships and fellowships	16,329	14,758	1,571	11%
Auxiliary enterprises	86,802	78,094	8,708	11%
Total operating expenses	553,829	524,049	29,780	6%
Operating loss	(154,980)	(164,543)	9,563	-6%
Nonoperating revenues and expenses (net)	149,081	185,175	(36,094)	-19%
Income before other revenues, expenses, gains or losses	(5,899)	20,632	(26,531)	-129%
Capital appropriations, grants, contributions and other expenses	49,117	10,719	38,398	358%
Increase in net assets	43,218	31,351	11,867	38%
Net assets at beginning of year	397,724	366,373	31,351	9%
Net assets at end of year	$440,942	$397,724	$43,218	11%

* in thousands

Operating revenue, consisting mostly of tuition and fees, grants and contracts, and auxiliary enterprises, increased by $39.3 million, or 11%, over the prior year. Student tuition and fees, net of scholarship allowances, increased by $17.1 million, or 10%, over the prior year. Most of this growth is attributable to tuition rate increases at all levels and out-of-state and premium tuition revenue generated for law and graduate programs. Grants and contracts revenue increased by $11.9 million, or 13%, over the prior year. This change is a result of increased focus by academic units to grow sponsored funding including increasing the number of research faculty, bringing in faculty with existing research programs, and increasing the number of proposal submissions. Auxiliary revenue increased by $10.3 million, or 10%, primarily due to increased student enrollment, an increase in the number of students housed on campus, and increased utilization of on campus facilities and programs.

Total operating expenses increased by $29.8 million, or 6%, including an increase of $16.3 million in compensation expenses, consisting of the natural expense classification salaries, wages, and fringe benefits, an increase in the purchase of goods and services of $9.8 million, an increase in depreciation expense of $2.1 million, and an increase in scholarships and fellowships of $1.6 million.

Nonoperating revenues net of nonoperating expenses decreased by $36.1 million, or 19%, due primarily to the $7.8 million decline in the state educational and general appropriation, a $23.6 million decrease in restricted state general fund appropriations, and an increase in interest expense of $3.4 million.

One of the most important numbers to note in the Statement of Revenues, Expenses, and Changes in Net Assets is "Income before other revenues, expenses, gains or losses" since this reflects both the University's operating results and the University's educational and general appropriation from the Commonwealth, which is included in nonoperating revenues. This amount declined by $26.5 million over the previous year (a negative $5.9 million for FY 2009 compared to a positive $20.6 million for FY 2008). This decrease in Income before other revenues, expenses, gains, or losses is primarily a result of a $7.8 million decrease in the state educational and general appropriation, the $23.6 million decrease in restricted state general fund appropriations, and an increase in interest expense of $3.4 million, partially offset by the $9.6 million reduction in the operating loss.

The final category on the Statement of Revenues, Expenses, and changes in Net Assets is called Other revenues, expenses, gain and losses and includes capital appropriations, grants, contributions, capital appropriation reversions and reductions, and other expenses. This category reflects substantial activity to address the State's budget deficit initiated by the Commonwealth near the end of FY 09 to supplant general fund capital appropriations with non-general fund capital appropriations. This category increased by $38.4 million, or 358%, caused by the net effect an increase of $32.6 million in general fund capital appropriation reversions, and reductions, an increase of $58.3 million in non-general fund capital appropriations through the Commonwealth's GOB and VCBA 21st Century programs, an increase of $13.2 million in capital grants and contributions, and a reduction in additions to permanent endowments of $.5 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 loss on the Statement of Revenues, Expenses, and Changes in Net Assets (SRECNA). This difference occurs because SRECNA is prepared on the accrual basis of accounting and includes non-cash items, such as depreciation expense, while the Statement of Cash Flows presents cash inflows and cash outflows without regard to accrual items. The Statement of Cash Flows provides information to assess the ability of the University to generate cash flows sufficient to meet its obligations.

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

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

Statement of Cash Flows*

	June 30, 2009	June 30, 2008	Change (dollars)	Change (percentage)
Cash provided from operations	$394,112	$361,290	$32,822	9%
Cash expended for operations	522,063	498,272	23,791	5%
Net cash used for operations	(127,951)	(136,982)	9,031	-7%
Net cash provided by noncapital financing activities	155,934	186,839	(30,905)	-17%
Net cash provided by (used for) capital financing activities	(26,149)	(1,605)	(24,544)	1,529%
Net cash provided by (used for) investing activities	3,348	2,469	879	36%
Net increase in cash	5,182	50,721	(45,539)	-90%
Cash and cash equivalents, beginning of year	218,903	168,182	50,721	30%
Cash and cash equivalents, end of year	$224,085	$218,903	$5,182	2%

* in thousands

The above summarized Statement of Cash Flows shows that the University generates 75 percent ($394.1 million of $522.1 million) of its operating cash requirements internally with the remainder ($128.0 million) being provided in the form of appropriations from the Commonwealth of Virginia, gifts, and investment earnings. Nonoperating cash was provided by capital appropriations, capital grants, and the sale of revenue bonds, which were used to acquire capital assets.

Operations used $9.0 million less net cash in FY 2009 than in FY 2008 (reflecting an increase in cash provided by operations greater than the increase in cash expended for operations), but Operations still resulted in a net usage of cash of $128.0 million. Cash provided from operating activities increased by $32.8 million in FY 2009. The major sources of the increase in operating cash are Student tuition and fees ($20.4 million increase), Grants and contracts ($3.8 million increase), Auxiliaries ($11.3 million increase), and Other receipts ($2.7 million decrease). Cash expended for operations increased from FY 2008 to FY 2009 by $23.8 million. Major uses of operating cash are payments for salaries, wages, and fringe benefits ($16.8 million increase), payments for supplies and services ($5.2 million increase), and payments for scholarships and fellowships ($1.8 million increase).

Cash provided by non-capital financing activities decreased $30.9 million in FY 2009, primarily due to a net decrease of $31.5 million in state general fund appropriations.

The University used $24.5 million more cash from capital financing activities in FY 2009 than in FY 2008. Primary components of the change in cash from capital financing activities include proceeds from the issuance of capital related debt ($69.7 million increase from FY

2008), proceeds from capital appropriations ($50.6 million increase from FY 2008), capital grants and contributions ($12.2 million increase from FY 2008), an increase in cash outflows for debt service ($5.7 million increase from FY 2008), and purchases of capital assets ($151.3 million increase from FY 2008).

The primary source of cash from investing activities is interest on non-general fund and local cash balances and endowment investment earnings, and the primary use of cash from investing activities is the purchase of endowment investments. During FY 2009, these activities produced $879k more cash than they did in FY 2008.

Economic Outlook-

The University, along with all of Virginia's public institutions of higher learning, has experienced a series of significant budget reductions due to the severe revenue shortfall within the Commonwealth. These cuts are in addition to a previously established trend in Virginia in which the funding of public higher education has been shifting onto the student. As recently as 2001 the Commonwealth provided 61% of the cost of delivering higher education. That number is now below 30%. In addition, the Commonwealth once provided 100% of the funds to operate new buildings, but in recent years the State dropped that support to 50%, and has now decided to provide no support toward building operations.

The University is taking a variety of steps to address the reduced state funding, including tuition increases, enhanced fund raising efforts, and the consideration of possible new revenue generating activities. With respect to tuition and fee increases, Dr. Ernst Volgenau, Rector of the Board of Visitors, said "We take very seriously a decision to raise tuition and fees. State support has decreased and we must maintain the quality of academic programs, facilities, and scholarships". Many of the other colleges and universities throughout the Commonwealth, as well as throughout the country, have also raised tuition and fees.

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

The University's economic future is supported and enhanced by its capital construction program. The capital construction program supports the University's mission by advancing the research agenda, reducing space deficiencies, supporting new university programs, improving the quality of on-campus life through investment in on-campus residence halls, including university life and services functions in all capital projects, and investing in recreation facilities. Included in the more than 20 ongoing construction projects are new academic and research buildings, new student housing, new dining facilities, a hotel and conference center, faculty/staff housing, a biomedical research lab, a library addition/renovation, and a new performing arts center.

The University's economic future is also supported and enhanced by its growing and diversified research program. Dr. Alan Merten, President of George Mason University, has said "Building on the research of our faculty members remains an important priority at Mason. The work of our many scholars allows us to make valuable contributions to our region and nation as well as broadens the educational opportunities of our students."

Listed below are some representative examples of the University's current research activities:

- Researchers at the Volgenau School of Information Technology and Engineering are developing mechanisms to enable commodity systems to detect and regenerate from cyber attacks.

- Researchers in the College of Humanities and Social Science, the Krasnow Institute for Advanced Study, and the College of Science are collaborating on a longitudinal study of healthy adults with increased genetic risk of developing Alzheimer's disease, with the goal of developing early detection measures.

- Researchers from the School of Public Policy are establishing a National Center to conduct research on institutional barriers to intelligent transportation systems.

- Researchers in the Institute of Global Environment and Society are conducting climate research on predictability of the of the Earth's climate.

- Researchers from the College of Science are developing and improving methods for the detection, prevention, and treatment of biological threats and emerging infectious diseases.

The Commonwealth's budget crisis is a profound concern. The series of reductions in support for higher education pose a tremendous challenge to the University's ability to sustain its current operations and threaten its ability to achieve its long-term goals. Nonetheless, management believes that the University will draw upon its creative abilities and innovative spirit to maintain its solid financial foundation and continue to build on its standard of excellence in teaching, research, and public service.

FINANCIAL STATEMENTS

George Mason University
Statement of Net Assets
As of June 30, 2009

	George Mason University	Component Units (Note 11)
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 84,871,520	$ 17,855,545
Short-term investments (Note 2)	13,927,060	46,892,081
Accounts receivable, net of allowance of $961,437 (Note 4)	5,390,416	438,248
Notes receivable, net of allowance of $7,547 (Note 4)	733,564	-
Grants and contracts receivable (restricted)	27,301,843	-
Pledges receivable, net	-	2,177,000
Prepaid expenses	3,663,491	64,201
Inventories	620,452	-
Due from the Commonwealth of Virginia	9,138,980	-
Leasing Commissions	-	355,177
Unamortized bond issuance costs	133,879	84,099
Total Current Assets	145,781,205	67,866,351
Noncurrent assets:		
Cash and cash equivalents (restricted) (Note 2)	150,580,937	-
Appropriations available (restricted)	1,284,909	-
Notes receivable, net of allowance of $59,632 (Note 4)	3,635,767	-
Depreciable capital assets, net of accumulated depreciation (Note 5)	539,271,871	79,845,988
Nondepreciable capital assets (Note 5)	289,993,448	29,947,825
Long-term investments (Note 2)	3,039,133	48,773,797
Pledges, receivable	-	14,665,772
Other assets	-	12,141,411
Unamortized bond issuance costs	2,213,515	1,302,796
Total noncurrent assets	990,019,580	186,677,589
Total assets	1,135,800,785	254,543,940
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses (Note 6)	94,006,665	5,617,634
Advance from Treasurer of Virginia	12,579,484	-
Deferred revenue	33,878,832	785,533
Obligations under securities lending	25,006,918	-
Deposits held in custody for others	401,784	5,460,779
Long-term liabilities - current portion (Notes 7 - 10)	21,864,642	2,001,780
Total current liabilities	187,738,325	13,865,726
Noncurrent liabilities (Notes 7 - 10)	507,120,889	140,942,724
Total liabilities	694,859,214	154,808,450
NET ASSETS		
Invested in capital assets, net of related debt	406,715,432	2,557,353
Restricted: nonexpendable	3,455,778	55,592,491
Restricted: expendable	6,691,971	50,261,959
Unrestricted	24,078,390	(8,676,313)
Total net assets	$ 440,941,571	$ 99,735,490

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

George Mason University
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2009

	George Mason University	Component Units (Note 11)
Operating revenues:		
Student tuition and fees (net of scholarship allowances of $26,621,933)	$ 183,204,087	-
Federal grants and contracts	73,499,700	-
State, local, and nongovernmental grants and contracts	33,647,607	-
Auxiliary enterprises (net of scholarship allowances of $7,533,248)	102,974,231	4,650,159
Other operating revenue	5,523,304	19,342,466
Total operating revenue	398,848,929	23,992,625
Operating expenses (Note 12)		
Instruction	207,125,522	2,687,187
Research	57,818,412	11,164,718
Public service	18,636,933	828,397
Academic support	44,610,567	2,628,190
Student services	19,995,552	26,649
Institutional support	41,784,250	5,071,895
Operation and maintenance of plant	31,233,748	1,987,524
Depreciation and amortization	29,493,178	3,544,681
Scholarships and fellowships	16,328,776	1,895,429
Auxiliary enterprises	86,801,597	2,182,258
Total operating expenses	553,828,535	32,016,928
Operating income (loss)	(154,979,606)	(8,024,303)
Nonoperating revenues (expenses):		
State educational and general appropriation (Note 13)	127,718,566	-
State general fund appropriations - restricted	14,930,929	-
Pell Grant Receipts	11,982,553	-
Investment earnings	(218,351)	(15,726,755)
Interest income	3,091,479	-
Interest expense (Note 14)	(8,415,036)	(5,652,251)
Other	(10,000)	6,809,350
Net nonoperating revenues	149,080,140	(14,569,656)
Income before other revenues, expenses, gains, and losses	(5,899,466)	(22,593,959)
Other revenues, expenses, gains, and losses:		
Capital grants and contributions	20,382,181	-
Capital appropriations	73,469,964	-
Additions to permanent endowments	235,000	2,368,927
Capital appropriation reversions- Item 2-0 T	(618,777)	-
Capital appropriation reductions- Item C 182.10	(42,050,738)	-
Central capital planning appropriation reversion- Item 2-0 Q	(1,999,205)	-
Other	(301,444)	(96,013)
Net other revenues, expenses, gains, and losses	49,116,981	2,272,914
Increase in net assets	43,217,515	(20,321,045)
Net assets beginning of year	397,724,056	120,056,535
Net assets end of year	$ 440,941,571	$ 99,735,490

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

George Mason University
Statement of Cash Flows
For the Year Ended June 30, 2009

Cash flows from operating activities:	
Student tuition and fees	$ 182,926,724
Grants and contracts	100,077,775
Auxiliary enterprises	103,960,154
Perkins loan receipts	285,629
Other receipts	6,861,283
Payments to suppliers	(138,191,572)
Payments to employees	(366,755,987)
Payments for scholarships and fellowships	(16,328,776)
Perkins loan disbursements	(786,000)
Net cash used by operating activities	(127,950,770)
Cash flows from noncapital financing activities	
State appropriations	142,649,495
Cash reversion to state	(10,000)
Advance from Treasurer	994,583
Additions to endowments	235,000
Pell Grant receipts	11,982,553
Agency transactions	81,949
Net cash provided by noncapital financing activities	155,933,580
Cash flows from capital and related financing activities	
Proceeds from capital appropriations available	61,754,378
Capital grants and contributions	20,084,259
Proceeds from issuance of capital related debt	170,329,510
Bond premium paid on capital related debt	7,465,294
Bond issuance costs on capital related debt	(1,127,052)
Principal paid on capital related debt	(14,303,080)
Interest paid on capital related debt	(8,896,291)
Purchases of capital assets	(261,456,217)
Net cash provided by capital and related financing activities	(26,149,199)
Cash flows from investing activities	
Interest on investments	3,582,555
Purchase of investments	(235,000)
Net cash provided by investing activities	3,347,555
Net increase in cash	5,181,166
Cash and cash equivalents - beginning of the year	222,922,482
Less: Securities Lending - Treasurer of Virginia	(4,019,108)
Cash and cash equivalents - beginning of the year (restated)	218,903,374
Cash and cash equivalents - end of the year	$ 224,084,540

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

George Mason University
Statement of Cash Flows
For the Year Ended June 30, 2009

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

Statement of Net Assets		
Cash and cash equivalents	$	235,452,457
Less: Securities lending - Treasurer of Virginia		(11,367,917)
Net cash and cash equivalents	$	224,084,540

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

Operating loss	$	(154,979,606)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense		29,493,178
Changes in assets and liabilities:		
Accounts receivable (net)		728,520
Restricted assets receivable (net)		(8,206,921)
Perkins loan receivable		(395,050)
Perkins loan liability		(105,321)
Inventory		416,841
Prepaid expenses		(268,028)
Due from Commonwealth		1,322,492
Accounts payable and accrued liabilities		485,165
Deferred revenue		2,455,408
Compensated absences		1,102,552
Net cash used by operating activities	$	(127,950,770)

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

NOTES TO FINANCIAL STATEMENTS

George Mason University

Notes to Financial Statements
As of June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

According to Governmental Accounting Standards Board (GASB) Statement 39, *Determining Whether Certain Organizations are Component Units*, the George Mason University Foundation, Inc. (Foundation) and Mason Housing, Inc. (MHI) meet the criteria qualifying them as component units of the University. The Foundation 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, 2009, the Foundation distributed $22,018,845 to, or on behalf of, the University for both restricted and unrestricted purposes. Separate financial information regarding the Foundation may be obtained by writing to the Foundation Business Office at 4400 University Drive, MSN 1A3, Fairfax, VA 22030. MHI was established to build and manage the University's faculty and staff housing. During the year ended June 30, 2009, MHI was in its start-up phase and did not distribute any funds to, or on behalf of, the University. Separate financial information for MHI may be obtained by writing to Mason Housing, Inc., Attn- Thomas Calhoun, 4400 University Drive, MSN 2C1, Fairfax, VA 22030.

B. Basis of Presentation

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

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

C. Basis of Accounting

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

D. Investments

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

E. Capital Assets

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

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

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

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

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

F. Inventory

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

G. Noncurrent Cash and Investments

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

H. Deferred Revenue

Deferred revenue represents monies collected but not earned as of June 30, 2009. This is primarily composed of student tuition collected for courses that will be offered after June 30, 2009.

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, 2009, all unused vacation, overtime, compensatory, recognition and sick leave payable upon termination under University policy. The applicable share of employer related taxes also is included.

J. Federal Financial Assistance Programs

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

K. Net Assets

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

L. Revenue Classifications

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

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

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

M. Scholarship Discounts and Allowances

Student tuition and fees revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the

Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the student's behalf.

N. Prepaid expenses

The University has recorded as a current asset facility rentals and insurance premiums for fiscal year 2010 that were paid in advance as of June 30, 2009.

O. Discounts, Premiums, and Bond Issuance Costs

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

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

GASB Statement 40, *Deposit and Investment Risk Disclosures*, became effective for the period beginning after June 15, 2004. It amends GASB Statement 3, *Deposits with Financial Institutions*. GASB Statement 40 eliminates the custodial credit risk disclosures for Category 1 and 2 deposits and investments. However, this statement does not change the disclosure requirements for Category 3 deposits and investments. The University has no Category 3 deposits for FY 2009, but does have Category 3 investments. The following risk disclosures are required by GASB:

Custodial Credit Risk - the custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the University will not be able to recover the value of investment or collateral securities that are in possession of an outside party. The University has investments that are not registered in the University's name, and which are held by the George Mason University Foundation (GMUF), a separate not-for-profit corporation under the laws of the Commonwealth of Virginia. GMUF was created to receive, hold, invest and administer property, and to make expenditures for the benefit of the University. GMUF holds corporate stocks on behalf of the University in the amount of $693,001, and corporate bonds in the amount of $343,699. The other investments held for the University by GMUF are not subject to custodial credit risk.

Credit Risk - the risk that an issuer or other counterparty to an investment will not fulfill its obligations. GASB Statement Number 40 requires the disclosure of the credit quality ratings of all investments in debt securities subject to credit risk. Credit quality ratings are not required for U.S. government securities or other obligations explicitly guaranteed by the U.S. government. Information with respect to the University deposit exposure to credit risk is discussed below. The corporate bonds, in the amount of $343,699, held for the University by GMUF, are debt securities, and therefore subject to credit risk. Credit risk relative to these bonds is mitigated by GMUF's investment policy guidelines on the credit quality of fixed income investments which states that he percentage of all fixed income assets rated below investment grade by one of the major reporting agencies

(S&P and Moody's) cannot exceed 30%. The other investments held for the University by GMUF are not investments of a type that are subject to credit risk

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

Interest Rate Risk - the risk that changes in interest rates will adversely affect the fair value of an investment. GASB Statement Number 40 requires disclosure of maturities for any investments subject to interest rate risk. GMUF holds money market funds in the amount of $589,776 for the University. These money market funds have a maturity of less than one year. GMUF holds corporate bonds in the amount of $343,699 for the University. These corporate bonds are subject to interest rate risk. The interest rate risk relative to these bonds is mitigated by GMUF's investment policy guidelines on fixed income maturity restrictions, which limit maturities to a weighted average portfolio duration not to exceed 1.5 times the duration of the Lehman aggregate bond index. The other investments held for the University by GMUF are not investments of a type that are subject to interest rate risk.

Foreign Currency Risk - the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The University had no foreign investments or deposits for FY 2009.

A. Cash and Cash Equivalents

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

B. Investments

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

C. Securities Lending Transactions

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

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

	Market Value
Cash and cash equivalents:	
Local funds	$ 14,146,150
Treasurer of Virginia	59,357,453
Treasurer of Virginia (Securities Lending)	11,367,917
Subtotal	84,871,520
Restricted cash and cash equivalents:	
Treasurer of Virginia (State Nonarbitrage Program)	150,580,937
Total	$235,452,457
Investments:	
Short-term:	
Treasurer of Virginia (Securities Lending)	$13,639,001
Money Market Funds & Cash- held by Foundation	288,059
Long-Term:	
Corporate stocks - held by Foundation	693,001
Corporate bonds – held by Foundation	343,699
Mutual Funds- held by Foundation	229,436
Money Market Funds & Cash - held by Foundation	301,717
Real Estate- held by Foundation	89,357
Alternative Investments- held by Foundation	1,381,923
Total	$16,966,193

3. DONOR-RESTRICTED ENDOWMENTS

The University's endowment is managed by the George Mason University Foundation (Foundation). For FY 2009, the net appreciation on the investments of donor-restricted endowments was negative due to an overall investment loss.

Therefore, during FY 2009, no net appreciation of donor-restricted endowments became available for expenditure by the governing board.

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

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

The University's endowment policy seeks to maintain the growth of the present value of existing assets at a rate at least equal to the inflation rate plus the current distribution rate of 5.75% based on a three year rolling average of each endowment's fair value.

4. ACCOUNTS AND NOTES RECEIVABLE

Accounts and notes receivable consisted of the following at June 30, 2009:

Accounts Receivable:	
Student tuition and fees	$5,481,857
Other accounts receivable	869,996
Total accounts receivable	$6,351,853
Less allowance for doubtful accounts	(961,437)
Net accounts receivable	$5,390,416
Notes Receivable:	
Current:	
Perkins loans receivable - current portion	$496,218
State and nursing loans	225,645
Loans to students, faculty and staff	19,248
Less allowance for doubtful accounts	(7,547)
Total current notes receivable	$733,564
Noncurrent:	
Perkins loans receivable - long term portion	$3,672,213
State and nursing loans	$23,186
Less allowance for doubtful accounts	(59,632)
Net non-current notes receivable	$3,635,767

5. CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2009 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Non-depreciable capital assets:				
Land	$15,674,061	-	-	$15,674,061
Construction-in-progress	123,361,172	257,633,104	107,041,066	273,953,210
Works of art and historical treasures	334,757	31,420	-	366,177
Total non-depreciable capital assets	139,369,990	257,664,524	107,041,066	289,993,448
Depreciable Capital Assets:				
Buildings	492,078,080	105,171,416	2,208,188	595,041,308
Improvements	23,548,839	4,818,190	-	28,367,029
Infrastructure assets	30,545,616	-	-	30,545,616
Equipment	98,638,585	9,092,702	2,744,537	104,986,750
Library materials	73,823,722	5,084,647	445,686	78,462,683
Total Depreciable Capital Assets	718,634,842	124,166,955	5,398,411	837,403,386
Less accumulated depreciation:				
Buildings	140,331,955	14,146,943	2,191,911	152,286,987
Improvements	15,512,191	1,175,241	-	16,687,432
Infrastructure assets	12,289,158	948,277	-	13,237,435
Equipment	55,662,778	8,711,007	2,421,548	61,952,237
Library materials	49,901,398	4,511,710	445,684	53,967,424
Total accumulated depreciation	273,697,480	29,493,178	5,059,143	298,131,515
Depreciable capital assets, net	444,937,362	94,673,777	339,268	539,271,871
Total capital assets, net	$584,307,352	$352,338,301	$107,380,334	$829,265,319

6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2009:

Employee salaries, wages and fringe benefits payable	34,607,732
Vendors and suppliers accounts payable	9,795,827
Capital projects accounts and retainage payable	49,603,106
Total accounts payable and accrued expenses	$ 94,006,665

7. NONCURRENT LIABILITIES

Noncurrent liabilities consist of long-term debt, installment purchases, accruals for compensated absences and retirement plans, and other noncurrent liabilities. A summary of changes in noncurrent liabilities for the year ended June 30, 2009 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Non-current Portion
Long-term debt:						
Revenue Bonds	$133,526,100	$33,560,008	$8,642,497	$158,443,611	$7,885,965	$150,557,646
Notes Payable	197,345,000	136,670,000	4,305,000	329,710,000	7,510,000	322,200,000
Installment Purchases	12,934,678	89,510	1,355,583	11,668,605	1,215,402	10,453,203
Bond Discount	(154,074)	-	(16,523)	(137,551)	(16,523)	(121,028)
Bond Premium	8,421,451	7,495,482	687,091	15,229,842	879,150	14,350,692
Deferred amount on refundings	(330,387)	(15,903)	(38,341)	(307,949)	(40,234)	(267,715)
Total Long-term Debt	351,742,768	177,799,097	14,935,307	514,606,558	17,433,760	497,172,798
Accrued Compensated Absences	10,758,276	10,942,187	9,839,635	11,860,828	4,430,882	7,429,946
Loan Funds	2,623,466	-	105,321	2,518,145	-	2,518,145
Total Long-term Liabilities	$365,124,510	$188,741,284	$24,880,263	$528,985,531	$21,864,642	$507,120,889

8. BONDS PAYABLE

A. Revenue Bonds

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

The following schedule describes each of the revenue bonds outstanding:

Bond Title	Year Issued	Original Amount	Interest Rate	Bond Term	Final Payment Due	Balance Outstanding at June 30, 2009
9(c) Revenue Bonds:						
Residence Hall V	2001	$21,780,000	4.0 to 5.0%	23 Years	2024	$7,625,000
Housing Renovations	2001	3,435,000	4.0 to 5.0%	10 Years	2011	870,000
University Center	2002	14,695,852	3.75 to 5.25%	13 Years	2015	8,798,006
Residence Hall V	2002	8,635,000	2.25 to 5.0%	20 Years	2022	6,340,000
Residence Halls IV	2003	5,438,119	3.6 to 8.4%	7 Years	2010	872,902
Commonwealth and Dominion	2004	2,340,000	3.75 to 5.0%	10 Years	2014	1,305,000
9(c) 2004B Refunding	2004	9,939,875	2.0 to 5.0%	16 Years	2020	9,721,095
Student Housing VII	2005	25,800,000	3.75 to 5.0%	25 Years	2030	24,485,000
Student Housing VII RB#2	2006	39,080,000	4.0 to 5.0%	25 Years	2031	38,120,000
Renovate Housing -Dominion	2006	2,420,000	5.0%	10 Years	2016	1,970,000
Housing VIIC & Entrance Road	2007	15,495,000	4.0 to 5.0%	25 Years	2032	15,495,000
Presidents Park Renovation	2007	3,130,000	5.0%	10 Years	2017	2,845,000
Student Housing VII RB#3	2007	2,010,000	4.0 to 5.0%	25 Years	2032	1,965,000
Renovate Commonwealth & Dominion Phase II	2008	1,530,000	3.0 to 5.0%	10 Years	2018	1,530,000
Renovate Presidents Park Phase I	2008	3,095,000	3.0 to 5.0%	10 Years	2018	3,095,000
Student Housing VII	2008	1,955,000	3.0 to 5.0%	25 Years	2033	1,915,000
Student Housing VIIC	2008	23,870,000	3.0 to 5.0%	25 Years	2033	23,870,000
Renovate Presidents Park Phase II	2008	3,120,000	3.0 to 5.0%	20 Years	2028	3,120,000
9(c) 2008B Refunding	2008	740,117	3.0 to 5.0%	4 Years	2012	556,608
Total 9(c)		188,508,963				154,498,611
9(d) Revenue Bonds:						
Refunded Krasnow Institute for Advanced Study *	2003	2,677,686	5.2 to 6.375%	13 Years	2016	2,173,554
Refunded Warehouse	2003	2,182,314	5.2 to 6.375%	13 Years	2016	1,771,446
Total 9(d)		4,860,000				3,945,000
Total Bonds Payable		$193,368,963				$158,443,611

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

Long-term debt as of June 30, 2009 matures as follows:

YEAR	PRINCIPAL	INTEREST	TOTAL
2010	$7,885,965	$7,449,205	$15,335,170
2011	8,004,512	7,093,380	15,097,892
2012	7,904,157	6,716,162	14,620,319
2013	8,081,257	6,330,658	14,411,915
2014	8,476,870	5,936,452	14,413,322
2015-2019	35,186,768	23,936,942	59,123,710
2020-2024	34,314,082	16,029,097	50,343,179
2025-2029	31,485,000	8,349,531	39,834,531
2030-2034	17,105,000	1,595,531	18,700,531
Total	$158,443,611	$83,436,958	$241,880,569

B. Commonwealth Bond Obligations

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

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

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

C. 2009 Defeasance of Debt

In November 2008, the University issued $740,117 of General Obligation Bonds, Series 2008B, with interest rates of 3.0 to 5.0 percent to refund $750,110 of outstanding bonds payable with interest rates of 3.5 to 5.5 percent. The Series 2008B bonds issued to refund the Student Union II Addition, Series 1998, were advance refunded, where the net proceeds of $766,012 (after payment of $4,025 in issuance costs) were used to purchase state and local government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1998 bonds. As a result, the 1998 Student Union II Addition bonds are considered to be defeased and the liability for those bonds has been removed from the noncurrent liabilities line in the Statement of Net Assets. Any related assets in escrow have similarly been excluded.

Although the advance refunding resulted in the recognition of an accounting loss of $15,903 for the year ended June 30, 2009, the University in effect decreased its aggregate debt service payments by $22,232 over the next 4 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of $20,713.

D. Prior Year Bond Defeasance

The Commonwealth of Virginia, on behalf of the University, issued bonds in previous fiscal years for which the proceeds were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on other debt. The bonds representing that debt are therefore considered defeased. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the University's financial statements. On June 30, 2009, $9,830,000 of general obligation bonds outstanding (Series 2001 9(c) bonds) was considered defeased.

9. NOTES PAYABLE

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

The following schedule describes each of the notes outstanding:

Bond Title	Year Issued	Original Amount	Interest Rate	Bond Term	Final Payment Due	Balance Outstanding at June 30, 2009
Fairfax Parking Garage Expansion	1999	$4,100,000	4.5 to 6.0%	10 Years	2010	$190,000
Student Union I Renovation	2002	2,460,000	3.0 to 5.0%	9 Years	2012	915,000
Parking Deck II	2003	13,455,000	2.5 to 5.0%	21 Years	2025	11,630,000
Fairfax Research I	2004	10,005,000	3.0 to 5.0%	21 Years	2026	9,000,000
Aquatic Fitness Center	2004	6,785,000	3.0 to 5.0%	16 Years	2021	5,750,000
VCBA 2004B Refunding (1997A)	2004	13,470,000	3.0 to 5.0%	12 Years	2017	13,385,000
VCBA 2004B Refunding (1999A)	2004	2,720,000	3.0 to 5.0%	15 Years	2020	2,650,000
Krasnow Institute	2005	4,495,000	3.5 to 5.0%	21 Years	2027	4,210,000
Student Union III	2005	4,890,000	3.5 to 5.0%	21 Years	2027	4,585,000
Student Union III RB#2	2006	5,190,000	3.0 to 5.0%	21 Years	2028	5,030,000
PE Addition/Renovation	2006	6,035,000	3.0 to 5.0%	22 Years	2029	6,035,000
PE Bldg Addition, Phase II	2006	2,800,000	3.0 to 5.0%	22 Years	2029	2,800,000
Krasnow Institute Addition	2006	1,955,000	3.0 to 5.0%	20 Years	2027	1,830,000
Patriot Center Addition/Renovation	2006	8,200,000	3.0 to 5.0%	21 Years	2028	7,950,000
PW Bio Containment Lab	2006	13,260,000	3.0 to 5.0%	22 Years	2029	13,260,000
PW Performing Arts Center	2006	10,790,000	3.0 to 5.0%	22 Years	2029	10,790,000
Fairfax Surge Space Fit Out	2006	1,515,000	3.0 to 5.0%	21 Years	2028	1,470,000
Fairfax Surge Space Building	2006	6,340,000	3.0 to 5.0%	21 Years	2028	6,145,000
PW Performing Arts Center RB#2	2007	8,565,000	4.5 to 5.0%	20 Years	2028	8,565,000
Student Union I Renovation	2007	5,085,000	4.5 to 5.0%	20 Years	2028	5,085,000
Student Union III RB#3	2007	6,130,000	4.5 to 5.0%	25 Years	2033	6,000,000
PE Addition/Renovation RB#2	2007	8,555,000	4.5 to 5.0%	20 Years	2028	8,555,000
PE Bldg Addition Phase II, RB#2	2007	3,820,000	4.5 to 5.0%	20 Years	2028	3,820,000
Fairfax Surge Space Bldg RB#2	2007	2,965,000	4.5 to 5.0%	20 Years	2028	2,965,000
Academic VI/Research II	2007	4,945,000	4.5 to 5.0%	20 Years	2028	4,945,000
Parking Deck III	2007	20,750,000	4.5 to 5.0%	25 Years	2033	20,750,000
Softball Field Improvement	2007	1,510,000	5.0%	10 Years	2018	1,390,000
Hotel & Conference Center	2007	18,000,000	4.5 to 5.0%	30 Years	2038	18,000,000
Student Union II Renovation	2007	1,490,000	5.0%	10 Years	2018	1,490,000
VCBA 2007B Refunding (1997A)	2007	3,555,000	4.0 to 4.25%	10 Years	2018	2,175,000
VCBA 2007B Refunding (2005A)	2007	1,675,000	4.0 to 4.5%	12 Years	2020	1,675,000
Patriot Ctr Renovation, Phase II	2009	1,860,000	2.1 to 5.0%	20 Years	2029	1,860,000
Arlington, Phase II	2009	7,945,000	2.1 to 5.0%	25 Years	2034	7,945,000
PW Performing Arts Center RB#3	2009	17,960,000	2.1 to 5.0%	20 Years	2029	17,960,000
Parking Deck III, Phase I	2009	9,790,000	2.1 to 5.0%	25 Years	2034	9,790,000
PE Building, Phase I	2009	2,750,000	2.1 to 5.0%	20 Years	2029	2,750,000
Surge Space & Fit-Out	2009	10,730,000	2.1 to 5.0%	20 Years	2029	10,730,000
Academic VI/Research II, RB#2	2009	20,335,000	2.1 to 5.0%	20 Years	2029	20,335,000
PE Building, Phase II	2009	5,245,000	2.1 to 5.0%	20 Years	2029	5,245,000
Biomedical Research Lab, RB#2	2009	6,405,000	2.1 to 5.0%	20 Years	2029	6,405,000
Hotel & Conference Center	2009	25,190,000	2.1 to 5.0%	30 Years	2039	25,190,000
SUB I Addition/Renovation	2009	7,980,000	2.1 to 5.0%	20 Years	2029	7,980,000
SUB II Renovation	2009	585,000	2.1 to 5.0%	10 Years	2019	585,000
Parking Deck III, Phase II	2009	13,885,000	2.1 to 5.0%	25 Years	2034	13,885,000
West Campus Connector & Campus Entrances	2009	6,010,000	2.1 to 5.0%	20 Years	2029	6,010,000
Total		$342,180,000				$329,710,000

Long-term debt as of June 30, 2009 matures as follows:

Fiscal Year	Principal	Interest	Total
2010	$7,510,000	$15,161,510	$22,671,510
2011	11,860,000	14,751,291	26,611,291
2012	12,385,000	14,201,954	26,586,954
2013	12,645,000	13,591,954	26,236,954
2014	13,285,000	12,974,336	26,259,336
2015-2019	74,145,000	54,977,263	129,122,263
2020-2024	77,730,000	37,098,835	114,828,835
2025-2029	82,370,000	17,891,963	100,261,963
2030-2034	26,455,000	5,857,763	32,312,763
2035-2039	11,325,000	1,318,063	12,643,063
Total	$329,710,000	$187,824,932	$517,534,932

Prior Year Debt Defeasance

The Virginia College Building Authority (VCBA) issued 9(d) VCBA pooled bonds in previous fiscal years for which the proceeds were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on other debt. The 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, 2009, $2,585,000 of notes from the Series 1999 9(d) VCBA pooled bonds, and $1,630,000 of notes from the Series 2005 9(d) VCBA pooled bonds, were considered defeased.

10. INSTALLMENT PURCHASES PAYABLE

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

Principal and interest payments on these commitments for fiscal years subsequent to June 30, 2009 are as follows:

Fiscal Year	Principal	Interest	Total
2010	$1,215,402	$418,876	$1,634,278
2011	1,103,140	376,916	1,480,056
2012	1,095,799	338,035	1,433,834
2013	896,834	300,577	1,197,411
2014	807,596	269,605	1,077,201
2015-2019	4,497,322	857,044	5,354,366
2020-2021	2,052,512	89,234	2,141,746
Total	$11,668,605	$2,650,287	$14,318,892

11. COMPONENT UNITS

The component units' Combining Statement of Net Assets and Combining Statement of Revenues, Expenses, and Changes in Net Assets on the following pages, and subsequent footnotes, comply with the Governmental Accounting Standards Board (GASB) presentation format. Both George Mason University Foundation (Foundation) and Mason Housing, Inc. (MHI) follow the Financial Accounting Standards Board (FASB) presentation format in their individually published financial statements. Consequently, reclassifications have been made to convert their statements to the GASB format.

Combining Statement of Net Assets
As of June 30, 2009

	George Mason University Foundation	Mason Housing, Inc. *	Component Units Total
ASSETS			
Current Assets:			
Cash and cash equivalents	$7,762,058	$10,093,487	$17,855,545
Short-term investments	26,212,967	20,679,114	46,892,081
Accounts receivable, net of allowance	438,248	-	438,248
Pledges receivable, net of allowance	2,177,000	-	2,177,000
Prepaid expenses	53,726	10,475	64,201
Leasing commissions	355,177	-	355,177
Unamortized bond issuance costs	61,931	22,168	84,099
Total Current Assets	37,061,107	30,805,244	67,866,351
Noncurrent assets:			
Depreciable capital assets, net of accumulated depreciation	79,845,988	-	79,845,988
Nondepreciable capital assets	20,218,311	9,729,514	29,947,825
Long-term investments	48,773,797	-	48,773,797
Pledges receivable	14,665,772	-	14,665,772
Other assets	12,141,411	-	12,141,411
Unamortized bond issuance costs	652,535	650,261	1,302,796
Total noncurrent assets	176,297,814	10,379,775	186,677,589
Total assets	213,358,921	41,185,019	254,543,940
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	4,011,289	1,606,345	5,617,634
Deferred revenue	785,533	-	785,533
Deposits held in custody for others	5,460,779	-	5,460,779
Long-term liabilities – current portion	2,001,780	-	2,001,780
Total current liabilities	12,259,381	1,606,345	13,865,726
Noncurrent liabilities	101,182,724	39,760,000	140,942,724
Total liabilities	113,442,105	41,366,345	154,808,450
NET ASSETS			
Invested in capital, net of related debt	2,713,254	(155,901)	2,557,353
Restricted: nonexpendable	55,592,491	-	55,592,491
Restricted: expendable	50,261,959	-	50,261,959
Unrestricted	(8,650,888)	(25,425)	(8,676,313)
Total net assets	$99,916,816	$(181,326)	$99,735,490

** March 31, 2009 year-end*

Combining Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2009

	George Mason University Foundation	Mason Housing, Inc. *	Component Units Total
Operating Revenues:			
Auxiliary enterprises	$4,650,159	-	$4,650,159
Other operating revenue	19,342,466	-	19,342,466
Total operating revenue	23,992,625	-	23,992,625
Operating expenses:			
Instruction	2,687,187	-	2,687,187
Research	11,164,718	-	11,164,718
Public service	828,397	-	828,397
Academic support	2,628,190	-	2,628,190
Student services	26,649	-	26,649
Institutional support	5,071,895	-	5,071,895
Operation and maintenance of plant	1,987,524	-	1,987,524
Depreciation and amortization	3,544,681	-	3,544,681
Scholarships and fellowships	1,895,429	-	1,895,429
Auxiliary enterprises	2,114,381	67,877	2,182,258
Total operating expenses	31,949,051	67,877	32,016,928
Operating income (loss)	(7,956,426)	(67,877)	(8,024,303)
Nonoperating revenues (expenses)			
Investment earnings	(15,677,326)	(49,429)	(15,726,755)
Interest expense	(5,603,315)	(48,936)	(5,652,251)
Other	6,824,434	(15,084)	6,809,350
Net nonoperating revenues	(14,456,207)	(113,449)	(14,569,656)
Income before other revenues, expenses, gains, and losses	(22,412,633)	(181,326)	(22,593,959)
Other revenues, expenses, gains, and losses			
Additions to permanent endowments	2,368,927	-	2,368,927
Other	(96,013)	-	(96,013)
Net other revenues, expenses, gains, and losses	2,272,914	-	2,272,914
Increase (decrease) in net assets	(20,139,719)	(181,326)	(20,321,045)
Net assets - beginning of year	120,056,535	-	120,056,535
Net assets – end of year	$99,916,816	$(181,326)	$99,735,490

** March 31, 2009 year-end*

A. Investments – George Mason University Foundation

Effective July 1, 2008, the Foundation adopted Statement of Financial Accounting Standards (“SFAS”) No. 157, “Fair Value Measurements”. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and enhances disclosure requirements for fair value measurements. SFAS 157 maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available.

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 or 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.

Investments were recorded at fair value as of June 30, 2009 based on the following level of hierarchy:

	Level 1	Level 2	Level 3	Total
Cash and Money market funds	$1,362,921	$ -	$ -	$1,362,921
Certificates of deposit	6,811,449	-	-	6,811,449
Mutual funds:				
Equity funds	5,693,980	-	-	5,693,980
Bond funds	1,462,320	-	-	1,462,320
U.S. government and agency obligations	-	463,488	-	463,488
Corporate stocks	11,793,714	-	-	11,793,714
Corporate bonds	13,186,160	443,197	2,263,416	15,892,773
Alternative investments	-	-	30,188,636	30,188,636
Real estate and other	-	-	1,317,483	1,317,483
	$40,310,544	$906,685	$33,769,535	$74,986,764

The table below sets forth a summary of changes in fair value of the Foundation's level 3 assets for the year ended June 30, 2009.

	Level 3 Assets Year Ended June 30, 2009		
	Alternative Investments	Corporate Bonds	Real Estate and Other
Balance, beginning of year	$38,459,863	$ -	$2,075,716
Interest and dividends	(3,304)	13,757	(76,521)
Realized gains/(losses)	-	(13,205)	5,062
Unrealized gains/(losses) relating to instruments still held at the reporting date	(6,643,258)	267,848	(1,102,915)
External management fees	(18,932)	(4,997)	-
Purchases, sales, issuances and settlements (net)	(1,605,733)	2,000,013	416,141
Balance, end of year	$30,188,636	$2,263,416	$1,317,483

Investment earnings are summarized as follows for the years ended June 30, 2009 and 2008:

	2009	2008
Interest and dividends	$1,495,255	$2,561,399
Realized (losses)/gains	(6,762,598)	549,604
External management fees	(105,454)	(251,181)
Unrealized (losses)	(9,602,362)	(5,242,376)
	$(14,975,159)	$(2,382,554)

Realized/unrealized gains (losses) included with change in split interest agreements:

	2009	2008
Interest and dividends	$74,595	$99,853
Realized (losses)/gains	(909,565)	37,611
External management fees	(263)	(8,294)
Unrealized gains/(losses)	133,064	(315,104)
	$(702,169)	$(185,934)
Net investment return	$(15,677,326)	$(2,568,488)

B. Investments – Mason Housing, Inc.

The fair market value of investments held by the MHI at March 31, 2009 is summarized as follows:

U.S. government and agency obligations	20,679,114
Total Investments	$20,679,114

MHI's investment earnings are summarized as follows for the year ended March 31, 2009:

Unrealized loss	$(49,429)
Net investment return	$(49,429)

C. Contributions Receivable – George Mason University Foundation

The Foundation's pledges receivable as of June 30, 2009 are as follows:

Due in less than one year	$2,177,000
Due in one to five years	6,681,230
Due in more than five years	10,335,850
Less discount present value	(2,351,308)
Total	$16,842,772

Discount rates range from 0.98 percent to 5.04 percent.

As of June 30, 2009, the Foundation received $10,507,445 of conditional promises to give. These conditional promises to give are not recognized as assets in the consolidated statement of financial position.

D. Property and Equipment

The following comprises property and equipment for the component units at June 30, 2009:

	Foundation	MHI *
Land	$19,520,986	-
Buildings	92,271,851	-
Building improvements	4,208,703	-
Furniture and equipment	802,550	-
Construction in Progress	124,758	9,729,514
Total	116,928,848	9,729,514
Accumulated depreciation and amortization	(17,437,116)	-
Net property and equipment	$99,491,732	$9,729,514

** March 31, 2009 year-end*

E. Long-Term Debt – George Mason University Foundation

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

As a security for the payment of the bonds, the Foundation entered into an irrevocable letter of credit with a commercial bank in the initial amount of $35,593,333 at 12% per annum and expiring on October 15, 2009. As of June 30, 2009, $14,460,000 in draws has been taken against the letter of credit regarding tendered bonds. These bonds are held as bank bonds at June 30, 2009. Due to principal payments on the bonds, the letter of credit amount as of June 30, 2009 and 2008, was reduced to $30,496,267 and $31,509,600. As of June 30, 2009 and 2008, the principal balance outstanding on the bonds was $30,095,000 and $31,095,000.

Beginning on June 30, 2005, restrictive covenants related to the bond went into effect, including unrestricted liquidity of not less than $6,000,000 and a property debt service coverage ratio of not less than 1.20 to 1. On March 30, 2009, the unrestricted liquidity covenant was reduced to $3,800,000. As of June 30, 2009 and 2008, the Foundation was in compliance with the required restrictive covenants.

Interest incurred on the bonds as well as the related swap agreement during fiscal year 2009 and 2008 totaled $1,158,201 and $1,268,948, respectively.

On August 18, 2006, GMUF Arlington Campus, LLC secured a permanent 10-year $68.5 million loan by executing a deed of trust on real property located at 3434 North Washington Street with a book value of $58,810,080 with a financial institution.

There are two notes (“A note” and “B note”) under the deed of trust with the A note for $64,000,000 at a fixed interest rate of 6.24% per annum, two years interest only, with 30 year amortization thereafter, and the B note for $4,500,000 at a fixed interest rate of 10.50% per annum, two years interest only, with a 30 year amortization thereafter. The resulting blended rate for the two notes is 6.52%.

On February 16, 2007, GMUF Arlington Campus, LLC secured an additional seven-year $1,300,000 collateral loan, secured by real property with a financial institution. The note has a fixed interest rate of 6.3%. As of June 30, 2009 and 2008, the principal balance outstanding on the note was zero and $1,200,000.

In fiscal year 2009 and 2008, interest expense on all GMUF Arlington Campus, LLC loans totaled $4,608,095 and $4,621,166, respectively.

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

2010	$1,809,922
2011	1,885,004
2012	2,001,360
2013	2,119,811
2014	2,230,789
Thereafter	88,018,626
Total	$98,065,512

Derivative Instruments

In October 2003, the Foundation entered into an interest rate swap agreement with a financial institution against the floating rate bonds in the notional amount of $22,425,000 at a fixed interest rate of 4.045%, 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%. At June 30, 2009 and 2008, the notational amount on the swap was $18,625,000 and $19,475,000 and on the cap was $11,600,000 and $11,750,000. The interest rate swap was used as a cash flow hedge to synthetically fix the rate of the bonds and to eliminate changes in the market interest rates.

The fair value of the interest rate swap at June 30, 2009 and 2008, totaled a derivative liability of $1,361,210 and $809,341 and the interest rate cap at June 30, 2009 and 2008, totaled a derivative asset of $49,451 and $21,824. The net change in value has been recorded as an unrealized loss on derivative in the consolidated statement of activities. Additionally, all assets or liabilities related to the interest rate swap and interest rate cap convert to zero at contract maturity in 2024.

In October 2006, the Foundation entered into an interest rate swap agreement with a financial institution against the floating rate bonds in the notional amount of $25,775,000 on a 23-year amortization schedule. At June 30, 2009 and 2008, the notational amount on the swap was $24,350,000 and $25,075,000. The swap was used as a cash flow hedge to stabilize the interest rate for the last five years of the bond issue related to the student housing project and expects to create positive cash flows over the remaining bond life. At closing on October 19, 2006, the Foundation received $250,000 up front cash. Under the swap agreement, beginning in February 2007 the Foundation will received the difference between the Bond Market Association (BMA) index and 68.48% of the 5 year LIBOR index from the swap provider. If the BMA index is higher than 68.48% of the 5 year LIBOR index, the Foundation paid the difference to the swap provider. In fiscal years 2009 and 2008, the swap provider paid $184,571 and $10,978 to the Foundation which is included in interest expense on the consolidated statement of activities.

The fair value of the interest rate swap at June 30, 2009 and 2008, totaled a derivative liability of $229,040 and $143,569. The net change in value has been recorded as an unrealized loss on derivative in the consolidated statement of activities. Additionally, all assets or liabilities related to the interest rate swap and interest rate cap convert to zero at contract maturity in 2029.

F. Long Term Debt – Mason Housing, Inc.

On October 1, 2008, MHI entered into a Loan Agreement with Fairfax County Economic Development Authority. Pursuant to the Loan Agreement, Fairfax County Economic Development Authority agreed to issue $39,760,000 of variable rate bonds and lend the bond proceeds to MHI to finance the costs related to the Mason Faculty/Staff Housing Project. Interest is accrued and paid monthly, the bonds mature annually beginning August 1, 2011 and the final maturity is on August 1, 2039. As a security for the payment of the bonds, MHI granted the commercial bank a first priority lien and security interest in the Project. As of March 31, 2009, MHI was in compliance with the required restrictive covenants. Interest incurred on the bonds during fiscal year 2009 totaled $681,038.

The following are maturities of the long-term debt for the next five years ending March 31:

2010	$ -
2011	-
2012	35,000
2013	45,000
2014	80,000
Thereafter	39,600,000
Total	$39,760,000

12. EXPENSES BY NATURAL CLASSIFICATION

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

	Salaries and Wages	Fringe Benefits	Goods and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	$153,447,302	$34,547,852	$19,130,368	-	-	$207,125,522
Research	35,053,385	6,395,026	16,370,001	-	-	57,818,412
Academic Support	27,176,967	9,007,409	8,426,191	-	-	44,610,567
Student Services	12,992,806	3,378,174	3,624,572	-	-	19,995,552
Public Service	6,620,946	1,545,221	10,470,766	-	-	18,636,933
Operation and Maintenance of Plant	9,153,993	3,065,255	19,014,500	-	-	31,233,748
Institutional Support	25,704,203	10,182,078	5,897,969	-	-	41,784,250
Depreciation Expense	-	-	-	-	29,493,178	29,493,178
Scholarships and Fellowships	-	-	-	16,328,776	-	16,328,776
Auxiliary Enterprises	24,123,590	6,039,580	56,638,427	-	-	86,801,597
Totals	$294,273,192	$74,160,595	$139,572,794	$16,328,776	$29,493,178	$553,828,535

13. STATE APPROPRIATIONS – CURRENT UNRESTRICTED FUNDS

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

Original Appropriation	$ 138,863,610
Central Adjustments:	
Central adjustment for budget reduction	(9,720,453)
Central adjustment for miscellaneous E&G reduction	(139,693)
Central adjustment for FY 08 interest earnings	2,240,467
Central adjustment for FY 08 SPCC rebate	101,105
Central Adjustments for Salary and Benefits:	
Group life contribution reduction	(169,461)
Retirement contribution rate adjustment	32,173
Retiree health credit contribution reduction	(18,829)
Health insurance premium contribution reduction	(639,948)
Disability contribution reduction	(56,488)
Workers compensation premium increase	30,145
Funds for Real Estate Surcharge	254
Funds for Belmont Bay	25,000
Funds for VIVA Program	29,259

Final Appropriation	130,577,141
Reversal of prior year accruals and cash reversion	(2,858,575)
Final Appropriation, net of prior year accruals and reversion	$ 127,718,566

14. INTEREST EXPENSE

During 2009, the University incurred interest expense totaling $16,648,685. Of this amount, $8,233,649 was capitalized as part of the cost of construction and $8,415,036 was expensed.

15. COMMITMENTS

A. Operating Leases

The University is committed under various operating leases for rental of off-campus facilities. The leases are for one to ten year terms. Facility rental expenses for the fiscal year ended June 30, 2009 were $4,942,191. The University had, as of June 30, 2009, the following total future minimum rental payments due under the above leases:

Year Ended June 30,	
2010	$ 4,958,831
2011	4,855,192
2012	2,607,468
2013	2,523,974
2014	757,079
Total	$15,702,544

B. Construction

Outstanding commitments for capital outlay projects that were under construction at June 30, 2009 were $168,381,038.

16. RETIREMENT AND PENSION SYSTEMS

A. Virginia Retirement System (VRS)

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

The VRS does not measure assets and pension benefit obligations separately for individual state institutions. Information relating to this plan is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report (CAFR). Because the employees of the University are also employees of the Commonwealth, the Commonwealth of Virginia and not the University has the overall responsibility for contributions to this plan. The CAFR provides disclosure of the Commonwealth's unfunded pension benefit obligation at June 30, 2009. The same report contains historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

The University's expenses include the amount assessed by the Commonwealth for contributions to VRS, which totaled approximately $10,253,154 for the year ended June 30, 2009. The retirement contribution rate was 11.2% for fiscal year 2009. Contributions to VRS were calculated using the base salary amount of approximately $91,497,207 for the year ended June 30, 2009.

The University's law enforcement officers participate in the Virginia Law Officers' Retirement System (VaLORS). The University's expenses include the amount assessed by the Commonwealth for contributions to VaLORS, which totaled approximately $508,430 for the year ended June 30, 2009. The VaLORS retirement contribution rate was 16.8% for fiscal year 2009. Contributions to VaLORS were calculated using the base salary amount of approximately $3,025,366 for the year ended June 30, 2009.

The University's total payroll was approximately $295,897,952 for fiscal year 2009.

B. Faculty Retirement Plans

Most full-time faculty and certain administrative staff participate in one faculty retirement plan with two investment providers rather than the VRS. These are defined contribution plans where the retirement benefits received are based upon the employer's 10.4 percent contribution plus interest and dividends. The employee is not required to make contributions to the program. Individual contracts issued under the plan provide for full and immediate vesting of the University's contributions. As with VRS, the employees' contributions are assumed by the employer. Total pension costs under these plans were approximately $14,629,942 for the year ended June 30, 2009. Contributions were calculated using the base salary of approximately $140,672,519 for fiscal year 2009. The University's total payroll for fiscal year 2009 was approximately $295,897,952. The following schedule summarizes the cost and participation in the optional retirement plans.

Faculty Retirement Plans	Retirement Pension Cost	Plan's Covered Payroll	Contribution Percentage
TIAA-CREF*	$10,426,704	$100,256,769	10.4%
Fidelity Investments	4,203,238	40,415,750	10.4%
Total	$14,629,942	$140,672,519	

*Teachers Insurance and Annuity Association/College Retirement Equities Fund

C. Deferred Compensation

Employees of the University are employees of the Commonwealth of Virginia. State employees may participate in the Commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the Commonwealth matching up to $20 per pay period. The dollar amount match can change depending on the funding available in the Commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under Section 401(a) of the Internal Revenue Code. Employer contributions under the Deferred Compensation Plan were approximately $982,666 for the fiscal year ended June 30, 2009.

17. POST-RETIREMENT BENEFITS

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

18. RISK MANAGEMENT AND EMPLOYEE HEALTH CARE PLANS

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

19. SUBSEQUENT EVENTS

During the period July 2009 – April 2010, the University executed new commitments for six capital outlay projects totaling $65.6 million.

In August 2009, the University entered into an installment purchase agreement in the amount of $6.6 million with GreenCampusCorp LLC through the Commonwealth Treasury Board for the purchase of energy efficiency equipment. The interest rate is 5%. The final payment is due in 2024.

In September 2009, the State announced an additional general fund budget reduction for the University for FY10 in the amount of $17.6 million (15%), over and above the initial FY10 cut of $11.2 million (8%). The additional FY10 cut is to be partially offset by new, one-time, FY10 American Recovery and Reinvestment Act (ARRA) funding of $6.2 million, and a one-time, FY 10 only, decrease of $2.4 million in the general fund reduction, reducing the additional FY10 cut to $9.0 million (7.7%).

In October 2009, the Commonwealth Treasury Board completed the sale of the General Obligation Bonds, Series 2009B. The University's share of the total principal amount of the bonds issued is $17.9 million. The University will use the proceeds of these bonds to finance several student housing construction and renovation projects. Payment on the bonds will be made semi-annually, with an interest rate ranging from 3 to 5 percent. The final payment will be due in 2034.

In November 2009, the University entered into eight promissory notes with the Virginia College Building Authority (VCBA) to participate in the Educational Facilities Revenue Bonds, Series 2009B, issued by the VCBA under its Pooled Bond Program. The total principal amount of these notes is $33.5 million. The University will use the proceeds of these notes to finance several construction and renovation projects including five new buildings, two additions/renovations, and other campus improvements. Payment on the notes will be made semi-annually, with an interest rate ranging from 2 percent to 5 percent. The final payment will be due in 2038.

In January 2010, the George Mason University Foundation transferred to the University land and buildings with a total value of $4.1 million. The property is known as Point of View and is located in Mason Neck, Virginia. The University plans to use the property in support of its Institute for Conflict Analysis and Resolution (ICAR).

INDEPENDENT AUDITOR’S REPORT

Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

April 19, 2010

The Honorable Robert F. McDonnell
Governor of Virginia

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

Board of Visitors
George Mason University

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of **George Mason University**, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2009, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of University management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component units of the University, which are discussed in Note 1. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and aggregate discretely presented component units of the University as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with Government Auditing Standards, we have also issued our report dated April 19, 2010, on our consideration of George Mason University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

[redacted]

AUDITOR OF PUBLIC ACCOUNTS

UNIVERSITY OFFICIALS