GEORGE MASON UNIVERSITY

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 2006

Auditor of
Public Accounts
COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of George Mason University for the year ended June 30, 2006, found:

- the financial statements are presented fairly, in all material respects, in accordance with generally accepted accounting principles;
- an internal control matter that we consider to be a reportable condition; however, we do not consider it to be a material weakness; and
- no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

-TABLE OF CONTENTS-

INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

Improve System Access Policies

George Mason University (University) does not have adequate controls to oversee access to its administrative systems that contain sensitive student and financial information. Without adequate controls, University staff could be granted access beyond what is necessary for their job duties and staff having inappropriate access to sensitive information would go undetected. When access to sensitive information is not appropriately controlled, the University unnecessarily risks disclosure of that information or that the information could be used to conduct or conceal fraudulent activities.

Access to the University's systems is granted through 17 different security officers with no audit trail to determine who has made changes. Information security supervisors do not monitor the access to the systems granted by the security officers. Additionally, the University does not have a policy to ensure that security officers periodically review lists of individuals having access to their department's information and applications to ensure that all individuals with access continue to need that level of access.

We recommend that the University improve its system access policies to provide that access be monitored by information security supervisors, and that data owners periodically review comprehensive lists of staff with access to their data and applications to ensure that unnecessary access is discontinued promptly. With improved system access policies, the University will reduce the risk of inappropriate disclosure of sensitive information and unapproved transactions to its administrative applications.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Institutional Profile

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

The University's development has been shaped in response to the educational needs of its cosmopolitan constituency. The University has gained national distinction in a range of academic fields, including public policy, information technology, economics, the fine and performing arts, law, conflict resolution, and, most recently, the biosciences. Strong alliances with business, the community, and government benefit the University's students and the larger society. Enrollment is nearly 30,000, with students studying in 149 degree programs at the undergraduate, masters, doctoral, and professional levels.

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

Overview of the Financial Statements and Financial Analysis

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

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the University as of the end of the fiscal year. This statement is a point of time financial statement. The purpose of the Statement of the Net Assets is to present readers of the financial statements a fiscal snapshot of the University. The Statement of Net Assets presents end-of-year balances of assets (current and non-current), liabilities (current and non-current), and net assets (assets minus liabilities).

From the information presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the University. They are also able to determine how much the institution owes vendors and creditors. Finally, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the University.

Net assets are divided into three major categories. The first category, "invested in capital assets, net of related debt," provides the University's equity in the property, plant, and equipment that it owns. The next category is "restricted net assets," which is divided into two subcategories, expendable and nonexpendable. Expendable restricted net assets are available for expenditure by the University but must be spent as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. Non-expendable restricted net assets consist of endowments and similar funds where donors or other outside sources have stipulated that, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income to be expended or placed in a reserve fund. The University does not have any nonexpendable net assets. The final category is "unrestricted net assets." Unrestricted net assets are available to the University for any lawful purpose of the University.

Statement of Net Assets*

	June 30, 2006	June 30, 2005**	Change (dollars)	Change (percentage)
Assets:				
Current assets	$144,422	$127,269	$17,153	13%
Capital assets, net	411,656	371,342	40,314	11%
Other assets	10,165	13,831	(3,666)	(27%)
Total assets	566,243	512,442	53,801	10%
Liabilities:				
Current liabilities	94,641	93,360	1,281	1%
Non-current liabilities	163,106	132,780	30,326	23%
Total liabilities	257,747	226,140	31,607	14%
Net assets:				
Invested in capital assets, net of debt	282,709	260,534	22,175	9%
Restricted-expendable	16,675	21,102	(4,427)	(21%)
Unrestricted	9,112	4,666	4,446	95%
Total net assets	$308,496	$286,302	$22,194	8%

* in thousands
**as restated

The University's financial position remained strong at the end of fiscal year 2006. Total assets were $566 million and net assets (total assets less liabilities of $258 million) amounted to $308 million. Current assets of $144 million exceed current liabilities of $95 million by $49 million (thirty four percent). Capital assets, net of accumulated depreciation of $230 million, totaled $412 million. The University's net asset position increased in 2006 compared to 2005 by $22 million. This increase is reflected in net assets invested in capital assets, net of related debt.

Capital Asset and Debt Administration

Note 4 of the Notes to Financial Statements describes the University's rapidly expanding investment in capital assets, with total depreciable capital asset additions of $29.1 million (excluding land and construction-in-progress) and additions to construction-in-progress of $43.8 million.

Capital asset additions in fiscal year 2006 included increases of $5.7 million in buildings, $12.2 million in equipment, $5.5 million in improvements, and $4.8 million in library materials. The building increase included $2.5 million of renovations to student residence halls and $1.1 million in improvements to the Center for the Arts. Additions to infrastructure and improvements of $6.4 million resulted primarily from the University's energy performance contract with Siemens Technologies, Inc. The program is mandated by Governor's Executive Order 54, which directed that state agencies use energy performance contracts to reduce energy consumption.

Additions to construction in progress during fiscal year 2006 included $18.2 million for the new Northeast Sector Complex on the Fairfax campus, which represents the largest construction project in the University's history. When completed in 2010, the $75 million project will add 1,030 beds (Housing VII), dining facilities, a fitness center, a student union, and retail operations. The other additions to construction in progress include $11.8 million for construction of Research I (Mason's first building dedicated solely to research), and $2.1 million for renovations to the Fairfax Aquatic Center. Depreciation expense was $22.4 million ($1.4 million increase from 2005).

Notes 6, 7, and 8 describe changes in the University's long-term debt. Net increases to capital long-term debt were $28.8 million during fiscal year 2006. This increase is primarily the result of $25.8 million in Virginia 9(c) Revenue Bonds issued to finance the Northeast Sector Complex on the Fairfax campus; and $11.1 million in Virginia College Building Authority (VCBA) Notes, issued to finance the following projects: Student Union III portion of the Northeast Sector Complex ($4.9 million), Krasnow Institute addition ($4.5 million), and Child Development Center ($1.7 million).

Contractual commitments for capital outlay increased from $14.6 million in 2005 to $76.2 million in 2006, reflecting the significant growth in current and future construction projects. These contractual commitments include $63.5 million for the Northeast Sector Complex on the Fairfax campus; $4.4 million for the Fairfax Aquatic Center addition; $4.1 million for the Krasnow Institute addition; and $2.3 million for the Dominion Hall renovation project. Capital commitments at the end of fiscal year 2006 do not yet include those for construction of Arlington II, a multistory, multipurpose building on the Arlington Campus that is expected to begin in fiscal year 2007.

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 University. 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 University. Non-operating revenues are revenues received for which goods and services are not provided. For example, state appropriations are non-operating revenues because they are provided by the legislature without the legislature directly receiving commensurate goods and services for those revenues.

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

	June 30, 2006	June 30, 2005**	Change (dollars)	Change (percentage)
Operating revenues:				
Student tuition and fees, net of allowances	$138,804	$122,183	$16,621	14%
Grants and contracts	89,878	86,537	3,341	4%
Auxiliary enterprises and other	82,564	76,607	5,957	8%
Total operating revenues	311,246	285,327	25,919	9%
Operating expenses:				
Education and general	329,454	301,928	27,526	9%
Depreciation	22,418	20,973	1,445	7%
Scholarships and fellowships	13,367	12,805	562	4%
Auxiliary enterprises	63,919	52,496	11,423	22%
Total operating expenses	429,158	388,202	40,956	11%
Operating loss	(117,912)	(102,875)	(15,037)	15%
Non-operating revenues and expenses (net)	124,251	108,254	15,997	15%
Income before other revenues, expenses, gains or losses	6,339	5,379	960	18%
Capital appropriations, gifts, contributions, and other expenses	15,855	21,411	(5,556)	(26%)
Increase in net assets	22,194	26,790	(4,596)	(17%)
Net assets at beginning of year	286,302	259,512	26,790	10%
Net assets at end of year	$308,496	$286,302	$22,194	8%

* in thousands
** as restated

The key metric in the Statement of Revenues, Expenses, and Changes in Net Assets is “income before other revenues, expenses, gains, and losses” since this includes both operating results and the University’s educational and general operating appropriations from the Commonwealth. This amount remained stable in comparison with the prior year ($5.3 million for fiscal year 2005 versus $6.3 million for fiscal year 2006.)

Operating revenue, consisting mostly of tuition and fees, grants and contracts, and auxiliary enterprises, increased by $25.9 million or nine percent from the prior year. Student tuition and fees, net of scholarship allowances, increased by $16.6 million. Most of this growth is attributable to a nine percent increase in tuition and fee rates. The growth is also explained by increased enrollment (three percent increase in headcount), and increases in premium tuition revenue generated for law and graduate programs.

Total operating expenses increased by $40.9 million or 11 percent, including an increase of $30 million in compensation expenses, consisting of the natural expense classification salaries, wages, and fringe benefits. Non-operating revenues net of non-operating expenses increased by $16 million due primarily to the $15.3 million increase in State Educational and General appropriations.

Statement of Cash Flows

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

Statement of Cash Flows*

	June 30, 2006	June 30, 2005**	Change (dollars)	Change (percentage)
Cash provided from operations	$310,478	$291,794	$18,684	6%
Cash expended for operations	411,381	366,074	45,307	12%
Net cash used for operations	(100,903)	(74,280)	(26,623)	36%
Net cash provided by non-capital financing activities	126,580	111,217	15,363	14%
Net cash provided by (used for) capital financing activities	(17,876)	(1,743)	(16,133)	926%
Net cash provided by (used for) investing activities	1,871	1,241	630	51%
Net increase in cash	9,672	36,435	(26,764)	(73%)
Cash and cash equivalents, beginning of year - restated	106,816	70,381	36,434	52%
Cash and cash equivalents, end of year	$116,488	$106,816	$ 9,671	9%

* in thousands
** as restated

The above summarized Statement of Cash Flows shows that the University generates 75 percent ($310 million of $411 million) of its operating cash requirements internally with all of the remainder ($101 million) being provided in the form of appropriations from the Commonwealth of Virginia. Non-operating cash was provided by capital appropriations and the sale of revenue bonds, which were used to acquire capital assets. Cash and cash equivalents at the beginning of the year and net cash used for capital financing activities in fiscal year 2005 were restated to reflect the prior period adjustment related to capital appropriations (see Note 14.)

Cash from operating activities increased by $18.6 million in 2006. The major sources of the increase in operating cash are student tuition and fees ($15.9 million increase) and auxiliary enterprise receipts ($5 million increase). Uses of operating cash also increased from 2005 to 2006 by $45.3 million. Major uses of operating cash are payments for salaries, wages, and fringe benefits ($40.7 million increase) and payments for supplies and services ($3.6 million increase).

Cash provided by non-capital financing activities increased $15.3 million in 2006, primarily due to the increase of $15.8 million in state appropriations for the University's educational and general programs. The University used $16.1 million more cash for capital financing activities in 2006 than in 2005. Primary sources of cash from capital financing activities include proceeds from issuance of capital related debt ($6.7 million increase from 2005), offset by an increase in cash outflows for purchases of capital assets ($18.4 million increase from 2005).

Economic Outlook

The University's financial position is strong. Increased tuition revenues reflect continued enrollment growth and tuition rate increases. The University is undertaking a major building program resulting in a new research building, which opened in July 2006 on the Fairfax campus, and a new Northeast Sector Complex on the Fairfax campus, which will include five multistory buildings supporting a total of 1,030 beds (Housing VII), dining facilities, a fitness center, a new student union, and retail operations. Other construction plans include Arlington II, a multistory, multipurpose building on Arlington Campus that is expected to begin in 2007, a new academic building (Academic V), and a second academic/research building (Academic VI) at the Fairfax campus.

The University began offering classes in Loudoun County during fiscal year 2006, and is discussing the establishment of a campus in Loudoun County with county officials. The University opened a campus in the United Arab Emirates in the fall of 2005.

The University's research program also is growing. In the summer of 2006, the University used new capital appropriations to purchase a $2.2 million parcel of land at the Prince William Campus, which will be the site of a Regional Biocontainment Laboratory. Construction of the biocontainment facility is funded in part by a $25 million award from the National Institute of Allergy and Infectious Diseases (NAIAD), part of the National Institutes of Health, resulting in the largest research award in the University's history. The University is well positioned to continue its overall growth pattern.

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FINANCIAL STATEMENTS

GEORGE MASON UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2006

	George Mason University	Component Unit
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 116,430,978	$ 4,053,025
Short-term investments (Note 2)	6,542,060	41,331,687
Accounts receivable, net of allowance of $492,844 (Note 3)	1,579,653	705,293
Notes receivable, net of allowance of $12,162 (Note 3)	775,643	-
Grants and contracts receivable (restricted)	16,224,715	-
Pledges receivable, net	-	3,445,926
Prepaid expenses	2,347,201	81,423
Inventories	98,555	-
Due from the Commonwealth of Virginia	338,114	-
Beneficial interest in perpetual trusts	-	9,801,879
Unamortized bond issuance costs	84,884	29,659
Total current assets	144,421,803	59,448,892
Non-current assets:		
Restricted cash and cash equivalents (Note 2)	6,668,033	-
Notes receivable, net of allowance of $46,192 (Note 3)	2,413,044	-
Depreciable capital assets, net of accumulated depreciation (Note 4)	341,955,274	29,216,654
Nondepreciable capital assets (Note 4)	69,700,642	74,801,464
Long-term investments	-	43,390,740
Pledges, receivable	-	7,021,971
Other assets	-	3,193,176
Unamortized bond issuance costs	1,084,432	486,695
Total non-current assets	421,821,425	158,110,700
Total assets	566,243,228	217,559,592
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses (Note 5)	35,676,277	5,271,879
Advance from Treasurer	8,085,000	-
Deferred revenue	24,075,829	36,907
Obligations under securities lending	13,152,773	-
Deposits held in custody for others	98,292	-
Long-term liabilities--current portion (Note 6 and 10)	13,553,317	3,819,768
Total current liabilities	94,641,488	9,128,554
Non-current liabilities (Note 6 and 10)	163,105,786	100,819,474
Total liabilities	257,747,274	109,948,028
NET ASSETS		
Invested in capital assets, net of related debt	282,709,057	4,839,003
Restricted: non-expendable	-	50,450,002
Restricted: expendable	16,674,742	40,980,931
Unrestricted	9,112,155	11,341,628
Total net assets	$ 308,495,954	$ 107,611,564

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

GEORGE MASON UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the year ended June 30, 2006

	George Mason University	Component Unit
Operating revenues:		
Student tuition and fees (net of scholarship allowances of $17,455,467)	$ 138,803,617	$ -
Federal grants and contracts	58,577,130	-
State, local, and nongovernmental grants and contracts	31,300,965	-
Auxiliary enterprises (net of scholarship allowances of $4,783,044)	77,142,876	3,654,781
Other operating revenue	5,421,889	26,877,201
Total operating revenue	$ 311,246,477	$ 30,531,982
Operating expenses (Note 11)		
Instruction	174,761,846	1,539,172
Research	45,492,965	5,457,719
Public service	11,307,042	-
Academic support	28,872,678	6,095,735
Student services	16,766,453	-
Institutional support	29,819,416	2,789,816
Operation and maintenance of plant	22,433,446	-
Depreciation and amortization	22,418,421	1,620,013
Scholarships and fellowships	13,366,828	2,071,778
Auxiliary enterprises	63,919,453	1,375,373
Total operating expenses	429,158,548	20,949,606
Operating income/(loss)	(117,912,072)	9,582,376
Non-operating revenues/(expenses):		
State educational and general appropriation (Note 12)	115,396,838	-
Cash reversion to state	(806,589)	-
State general fund appropriations - restricted	12,470,380	-
Interest income	1,870,800	-
Interest expense (Note 13)	(4,680,848)	(1,770,359)
Other	-	11,692,034
Net non-operating revenues	124,250,581	9,921,675
Income before other revenues, expenses, gains, and losses	6,338,509	19,504,051
Other revenues, expenses, gains, and losses:		
Capital gifts and contributions	7,056,546	-
Capital appropriations	9,122,001	-
Other	(323,181)	(90,284)
Net other revenues, expenses, gains, and losses	15,855,366	(90,284)
Increase in net assets	22,193,875	19,413,767
Net assets beginning of year	317,322,224	78,396,444
Prior period adjustment (Note 14)	(31,020,146)	9,801,353
Net assets beginning of year - restated	286,302,078	88,197,797
Net assets end of year	$ 308,495,954	$ 107,611,564

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

GEORGE MASON UNIVERSITY
STATEMENT OF CASH FLOWS
For the year ended June 30, 2006

Cash flows from operating activities:	
Student tuition and fees	$ 140,328,878
Grants and contracts	85,182,519
Auxiliary enterprises	78,818,308
Perkins loan receipts	784,124
Other receipts	5,364,929
Payments to suppliers	(98,889,658)
Payments to employees	(298,627,565)
Payments for scholarships and fellowships	(13,366,828)
Perkins loan disbursements	(497,948)
Net cash used by operating activities	(100,903,241)
Cash flows from noncapital financing activities	
State appropriations	127,867,218
Cash reversion to state	(806,589)
Repayment of advance from Treasurer	(500,000)
Agency transactions	19,340
Net cash provided by noncapital financing activities	126,579,969
Cash flows from capital and related financing activities	
Proceeds from capital appropriations available	9,122,001
Capital gifts and contributions	7,534,918
Proceeds from issuance of capital related debt	37,522,901
Bond premium paid on capital related debt	1,663,648
Bond issuance costs on capital related debt	(295,011)
Principal paid on capital related debt	(9,062,691)
Interest paid on capital related debt	(4,811,122)
Purchases of capital assets	(59,550,472)
Net cash used in capital and related financing activities	(17,875,828)
Cash flows from investing activities	
Interest on investments	1,870,800
Net cash provided by investing activities	1,870,800
Net increase in cash	9,671,700
Cash and cash equivalents - beginning of the year	146,782,992
Prior period adjustment - appropriations available cash equivalent at June 30, 2005	(31,020,146)
Less: Securities Lending - Treasurer of Virginia	(8,946,248)
Cash and cash equivalents - beginning of the year (restated)	106,816,598
Cash and cash equivalents - end of the year	$ 116,488,298

GEORGE MASON UNIVERSITY
STATEMENT OF CASH FLOWS
For the year ended June 30, 2006

RECONCILIATION OF STATEMENT OF CASH FLOWS TO STATEMENT OF NET ASSETS:	
Statement of Net Assets:	
Cash and cash equivalents	$ 116,430,978
Restricted cash and cash equivalents	6,668,033
Less: securities lending - Treasurer of Virginia	(6,610,713)
Net cash and cash equivalents	$ 116,488,298
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating loss	(117,912,072)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	22,418,421
Changes in assets and liabilities:	
Accounts receivable (net)	208,314
Restricted assets receivable (net)	(3,755,912)
Perkins loan receivable	296,531
Perkins loan liability	(10,355)
Inventory	(12,494)
Prepaid expenses	625,788
Accounts payable and accrued liabilities	(5,408,206)
Deferred revenue	1,995,756
Compensated absences	650,988
Net cash used by operating activities	$ (100,903,241)

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

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NOTES TO FINANCIAL STATEMENTS

GEORGE MASON UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

According to Governmental Accounting Standards Board (GASB) Statement 39, *Determining Whether Certain Organizations are Component Units*, the George Mason University Foundation, Inc. (Foundation) meets criteria qualifying it as a component unit of the University. During the year ended June 30, 2006, the Foundation distributed $17,235,095 to or on behalf of the University for both restricted and unrestricted purposes. Separate financial information regarding the Foundation may be obtained by writing to the Foundation Business Office at 4400 University Drive, MSN 1A3, Fairfax, VA 22030.

B. Basis of Presentation

The University's accounting policies conform with generally accepted accounting principles as prescribed by the GASB, including all applicable GASB pronouncements as well as applicable Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The financial statements have been prepared in accordance with GASB Statement 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 is a private, nonprofit organization that reports 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'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 non-operating revenue in the Statement of Revenues, Expenses, and Changes in Net Assets.

E. Capital Assets

Capital assets include land, buildings and other improvements, library materials, equipment and infrastructure assets such as sidewalks, and electrical and computer network cabling systems. Capital assets 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. 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 add to an asset's value or materially extend its useful life are not capitalized.

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

Buildings	25-50 years
Other improvements and infrastructure	10-30 years
Equipment	5-20 years
Library materials	10 years

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

F. Inventory

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

G. Non-current Cash and Investments

Cash and investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital and other non-current assets, are classified as non-current assets in the Statement of Net Assets.

H. Deferred Revenue

Deferred revenue represents monies collected but not earned as of June 30, 2006. This is primarily composed of student tuition collected for courses that will be offered after June 30, 2006.

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, 2006, all unused vacation leave 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.

Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts, and other revenue sources that are defined as non-operating 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. Non-operating expenses include interest on debt related to the purchase of capital assets.

M. Scholarship Discounts and Allowances

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

N. Prepaid expenses

The University has capitalized facility rentals and insurance premiums for fiscal year 2007 that were paid in advance as of June 30, 2006.

O. Discounts, Premiums, and Bond Issuance Costs

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

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

GASB Statement 40, *Deposit and Investment Risk Disclosures*, became effective for the period beginning after June 15, 2004. It amends GASB Statement 3, *Deposits with Financial Institutions*. GASB Statement 40 eliminates the custodial credit risk disclosures for Category 1 and 2 deposits and investments. However, this statement does not change the disclosure requirements for Category 3 deposits and investments. The University has no Category 3 deposits or investments for 2006. The following risk disclosures are required by GASB:

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

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

Interest Rate Risk - the risk that changes in interest rates will adversely affect the fair value of an investment. This statement requires disclosure of the terms of the investments with fair values that are highly sensitive to changes in interest rates. The University does not have an interest rate risk policy, and no investments or deposits that are sensitive to changes in interest rates as of the close of business on June 30, 2006.

Foreign Currency Risk - the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The University has no foreign investments or deposits for 2006.

A. Cash and Cash Equivalents

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

B. Investments

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

Cash and cash equivalents:	Market Value
Local funds	$ 7,737,317
Treasurer of Virginia	93,754,246
Treasurer of Virginia (securities lending)	6,610,713
Treasurer of Virginia (state non-arbitrage program)	14,996,735
Total	123,099,011
Investments:	
Treasurer of Virginia (securities lending)	6,542,060
Total	$ 6,542,060

The fair market value of investments held by the Foundation at June 30, 2006 is summarized as follows:

Unrestricted investments:	
Cash and money market	$ 7,202,833
Mutual funds:	
Equity funds	12,375,155
Bond funds	6,174,110
U.S. government and agency obligations	3,037,068
Corporate stocks	20,424,177
Corporate bonds	11,963,657
Alternative investments	14,455,635
Real estate and other	1,910,476
Total unrestricted	77,543,111
Restricted investments related to bond proceeds:	
Money market	6,397,187
U.S. government and agency obligations	540,376
Corporate bonds	241,753
Total restricted	7,179,316
Total investments	$84,722,427

The Foundation's investment earnings are summarized as follows for the year ended June 30, 2006:

Interest and dividends	$2,309,080
Realized gains	2,676,617
External management fees	(215,327)
Unrealized gains	233,093
Total	5,003,463
Unrealized/realized gains included with change in split interest agreements	
Interest and dividends	152,070
Realized gains	97,539
Total	213,196
Unrealized gains	462,805
Net investment return	$5,466,268

C. Securities Lending Transactions

Investments and cash equivalents held by the Treasurer of Virginia represent the University's allocated share of cash collateral received and reinvested and securities received for the State Treasury's securities lending program. Information related to the credit risk of these investments and securities lending transactions held in the General Account is available on a statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

3. ACCOUNTS AND NOTES RECEIVABLE

Accounts and notes receivable consisted of the following at June 30, 2006:

Accounts receivable:	
Student tuition and fees	$1,276,893
Other accounts receivable	795,604
Total accounts receivable	2,072,497
Less allowance for doubtful accounts	(492,844)
Net accounts receivable	$1,579,653
Notes receivable	
Current:	
Perkins loans receivable – current portion	$720,034
Loans to students, faculty and staff	67,771
Less allowance for doubtful accounts	(12,162)
Total current notes receivable	$775,643
Non-current:	
Perkins loans receivable - long term portion	$2,430,608
State and nursing loans	28,628
Less allowance for doubtful accounts	(46,192)
Net non-current notes receivable	$2,413,044

The Foundation's pledges receivable as of June 30, 2006 are as follows:

Due in less than one year	$3,445,926
Due in one to five years	4,673,024
Due in more than five years	5,144,208
Less discount	(2,795,261)
Total	$10,467,897

Discount rates range from 2.3 percent to 5.11 percent.

As of June 30, 2006, the Foundation received $7,086,665 of conditional promises to give, primarily for the future establishment of endowed chairs. These conditional promises to give are not recognized as assets in the statement of financial position.

4. CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2006 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Non-depreciable capital assets:				
Land	$ 13,485,149	$ -	$ -	$ 13,485,149
Construction-in-progress	22,223,882	43,800,144	9,808,533	56,215,493
Total non-depreciable capital assets	35,709,031	43,800,144	9,808,533	69,700,642
Depreciable capital assets:				
Buildings	375,785,502	5,665,159	51,610	381,399,051
Improvements	16,181,670	5,548,249	-	21,729,919
Infrastructure assets	15,448,994	817,159	-	16,266,153
Equipment	81,679,092	12,212,747	5,478,593	88,413,246
Library materials	59,155,924	4,848,672	285,217	63,719,379
Total depreciable capital assets	548,251,182	29,091,986	5,815,420	571,527,748
Less accumulated depreciation:				
Buildings	108,577,525	9,434,858	51,610	117,960,773
Improvements	11,973,533	779,408		12,752,941
Infrastructure assets	10,087,283	590,822		10,678,105
Equipment	43,257,768	7,804,025	5,126,944	45,934,849
Library materials	38,721,711	3,809,309	285,214	42,245,806
Total accumulated depreciation	212,617,820	22,418,422	5,463,768	229,572,474
Depreciable capital assets, net	335,633,362	6,673,564	351,652	341,955,274
Total capital assets, net	$371,342,393	$50,473,708	$10,160,185	$411,655,916

The following comprises property and equipment for the Foundation at June 30, 2006:

Non-depreciable capital assets:	
Land	$ 19,421,824
Construction-in-progress	54,807,073
Art and antiques	572,567
Total non-depreciable capital assets	74,801,464
Depreciable capital assets:	
Buildings	36,211,283
Buildings and improvements	691,679
Furniture and equipment	518,031
Total depreciable capital assets	37,420,993
Less: Accumulated depreciation and amortization	(8,204,339)
Depreciable capital assets, net	29,216,654
Total capital assets, net	$104,018,118
Unrestricted:	
Real estate, net	$93,883,815
Furniture and equipment, net	51,658
Art and antiques	572,567
Temporarily restricted	
Real estate, net	9,510,078
Total	$104,018,118

5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2006:

Employee salaries, wages and fringe benefits payable	$15,580,813
Vendors and suppliers accounts payable	20,095,464
Total accounts payable and accrued expenses	$35,676,277

6. NON-CURRENT LIABILITIES

Non-current liabilities consist of long-term debt, installment purchases, accruals for compensated absences and retirement plans, and other non-current liabilities. A summary of changes in non-current liabilities for the year ended June 30, 2006 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Non-current Portion
Long-term debt:						
Revenue bonds	$ 64,694,411	$25,800,000	$ 6,358,427	$ 84,135,984	$ 5,823,518	$ 78,312,466
Notes payable	57,220,000	11,160,000	2,370,000	66,010,000	3,015,000	62,995,000
Installment purchases	12,363,232	856,530	334,264	12,885,498	489,990	12,395,508
Bonds premium/interest payable	2,512,165	1,663,648	245,543	3,930,270	243,235	3,687,035
Total long-term debt	136,789,808	39,480,178	9,308,234	166,961,752	9,571,743	157,390,009
Accrued compensated absences	6,525,802	9,431,685	8,780,697	7,176,790	3,981,574	3,195,216
Perkins loan funds	2,530,916	-	10,355	2,520,561	-	2,520,561
Total long-term liabilities	$145,846,526	$48,911,864	$18,099,286	$176,659,103	$13,553,317	$163,105,786

7. BONDS PAYABLE

A. Revenue Bonds

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

In 1995, the University issued $4,355,000 of Section 9(d) bonds with interest rates ranging from 5.20 percent to 6.37 percent to finance the construction of the Krasnow Institute for Advanced Study. The Krasnow Foundation has deposited funds with the George Mason University Foundation, which are used to reimburse the University for the debt service payments the latter is obligated to make.

In August 2004, the University issued Commonwealth of Virginia 9(c) General Obligation Bonds to finance the renovation of Commonwealth and Dominion student housing on the Fairfax campus. The remaining principal amount of $1,955,000 with an interest rate ranging from 3.75 percent to 5.00 percent is to be paid semi-annually. The final payment will be due in 2014.

In November 2004, the Commonwealth's Treasury Board completed the sale of the General Obligation Refunding Bonds, Series 2004B. The Bonds provided debt service savings in the amount of $670,940 by advance refunding the Series 2001, Residence Hall V 9(C) revenue bond. The remaining principal amount of $9,738,856, with an interest rate ranging from 2.0 percent to 5.00 percent, is to be paid semi-annually. The final payment will be due in 2020.

In November 2005, the University issued Commonwealth of Virginia 9(c) General Obligation Bonds to finance the Housing VII project on the Fairfax campus. The principal amount of $25,800,000 with an interest rate ranging from 3.75 percent to 5.00 percent is to be paid semi-annually. The final payment will be due in 2027.

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

Fiscal year	Principal	Interest	Total
2007	$ 5,823,518	$ 2,422,451	$ 8,245,969
2008	6,810,040	3,456,618	10,266,658
2009	6,962,817	3,209,126	10,171,943
2010	5,436,852	2,992,381	8,429,233
2011	4,758,505	2,746,902	7,505,407
2012-2016	21,437,199	10,501,370	31,938,569
2017-2021	14,267,053	6,360,124	20,627,177
2022-2026	12,020,000	2,946,925	14,966,925
2027-2030	6,620,000	760,950	7,380,950
Total	$84,135,984	$35,396,847	$119,532,831

The following schedule describes each of the revenue bonds outstanding:

Bond Title	Year Issued	Original Amount	Interest Rate	Bond Term (Years)	Final Payment Due	Balance Outstanding at June 30, 2006
9(c) revenue bonds:						
Humanities III	1989	$ 9,400,000	6.5 to 6.7%	20	2009	$ 2,298,667
Residence halls III	1989	10,697,600	6.4 to 6.7%	20	2009	2,615,979
Residence halls IV	1990	11,145,000	3.6 to 8.4%	20	2010	3,297,443
Student Union II addition	1992	2,535,000	3.5 to 5.5%	20	2012	1,079,847
University Center	1993	21,460,000	3.75 to 5.25%	20	2015	12,370,192
Arlington parking garage	1998	1,915,000	3.5 to 4.2%	10	2008	455,000
Residence hall V	2002	21,780,000	4.0 to 5.0%	22	2024	9,915,000
Housing renovations	2002	3,435,000	4.0 to 5.0%	20	2022	2,055,000
Residence hall V	2003	8,635,000	2.25 to 5.0 %	20	2024	7,345,000
Commonwealth and Dominion	2005	2,340,000	3.75 to 5.0 %	10	2014	1,955,000
9(c) 2004B refunding	2004	9,939,875	2.00 to 5.00%	15	2020	9,738,856
Student housing VII	2005	25,800,000	3.75 to 5.0 %	25	2027	25,800,000
Total		129,082,475				78,925,984
9(d) revenue bonds:						
Krasnow Institute for Advanced Study	1995	4,355,000	5.2 to 6.375%	20	2016	2,887,686
Warehouse	1995	2,905,000	5.2 to 6.375%	20	2016	2,322,314
Total		7,260,000				5,210,000
Total bonds payable		$136,342,475				$84,135,984

B. Commonwealth Bond Obligations

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

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

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

C. Prior Year Bond Defeasance

The Commonwealth of Virginia, on behalf of the University, issued bonds in previous fiscal years for which the proceeds were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on other debt. The bonds representing that debt are therefore considered defeased. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the University's financial statements. On June 30, 2006, $4,600,000 of bonds outstanding was considered defeased.

8. NOTES PAYABLE

A. VCBA Notes Payable

The University has entered into six promissory notes with the VCBA. The first note payable issued in September 1997 was to finance the construction of the aquatic center located on the Fairfax campus and the Freedom Aquatic Center with adjacent parking lot located on the Prince William campus. The remaining principal amount of $6,540,000 with an interest rate ranging from 3.75 percent to 5.00 percent is to be paid semi-annually as provided in the VCBA's Educational Facilities Revenue Bonds (Public Higher Education Financing, Program), Series 1997A.

The second note payable issued in October 1999 was to finance the construction of the parking garage expansion on the Fairfax campus. The remaining principal amount of $705,000 with an interest rate ranging from 4.50 percent to 6.00 percent is to be paid semi-annually as provided in the VCBA's Educational Facilities Revenue Bonds (Public Higher Education Financing Program), Series 1999A.

In October 2001, the University entered into a third promissory note with the VCBA, for the construction of the Student Union Renovation Project. The remaining principal amount of $1,725,000 with repayment interest rates ranging from 3.0 percent to 5.0 percent is to be paid semi-annually as provided in the VCBA's Educational Facilities Revenue Bonds (Public Higher Education Financing Program), Series 2001A.

In November 2003, the University entered into a fourth promissory note to finance the construction of Parking Deck II on the Fairfax campus. The remaining principal amount of $13,020,000 with an interest rate ranging from 2.50 percent to 5.00 percent is to be paid semi-annually as provided in the VCBA's Educational Facilities Revenue Bonds (Public Higher Education Financing Program), Series 2003A. The University is required to pay the annual debt service on the 9(d) general revenue bonds issued by VCBA for the purchase of the promissory notes.

In October 2004, the University entered into a fifth promissory note to finance the construction of Fairfax Research I Building and renovation of the Fairfax Aquatic Center. The principal amount of $10,005,000 (Research I) and $6,785,000 (Aquatic Center) with an interest rate ranging from 3.00 percent to 5.00 percent is to be paid semi-annually. The final payment will be due in 2026 for Research I and 2021 for the Aquatic Center as provided in the VCBA's Educational Facilities Revenue Bonds (Public Higher Education Financing Program), Series 2004A.

Also in October 2004, VCBA completed the issuance of 2004B bonds, proceeds of which were used to refinance certain prior Institutional Notes: Series 1999, Fairfax Parking Garage Expansion; Series 1997A, Prince William Freedom Aquatic Center; Series 1997A, Fairfax Aquatic Center. The principal amount of $16,070,000 with an interest rate ranging from 3.00 percent to 5.00 percent is to be paid semi-annually as provided in the VCBA's Educational Facilities Revenue Bonds (Public Higher Education Financing Program), Series 2004B.

In October 2005, the University entered into a sixth promissory note to finance the construction of the Child Development Center, Student Union III, and addition to the Krasnow Institute. The principal amount of $1,775,000 (Child Development Center), $4,890,000 (Student Union III) and $4,495,000 (Krasnow Institute Addition) with an interest rate ranging from 3.50 percent to 5.00 percent is to be paid semi-annually. The final payment will be due in 2027 for Student Union III and Krasnow Institute Addition and 2017 for the Child Development Center as provided in the VCBA's Educational Facilities Revenue Bonds (Public Higher Education Financing Program), Series 2005A.

B. Notes Payable

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

Fiscal Year	Principal	Interest	Total
2007	$ 3,015,000	$ 2,490,270	$5,505,270
2008	3,565,000	2,894,758	6,459,758
2009	3,485,000	2,748,394	6,233,394
2010	3,600,000	2,605,000	6,205,000
2011	3,750,000	2,446,675	6,196,675
2012-2016	20,290,000	9,330,938	29,620,938
2017-2021	17,330,000	4,339,894	21,669,894
2022-2026	10,270,000	1,314,601	11,584,601
2027-2030	705,000	15,863	720,863
Total	$66,010,000	$28,186,393	$94,196,393

C. The following schedule describes each of the notes outstanding:

Bond Title	Issue Date	Original Amount	Interest Rate	Bond Term (Years)	Final Payment Due	Balance Outstanding at June 30, 2006
Fairfax Aquatic Center	1997	$10,340,000	3.75 to 5.0%	9	2008	$ 2,230,000
Prince William Freedom Aquatic Center	1997	17,325,000	3.75 to 5.0%	9	2008	3,860,000
Prince William parking	1997	1,915,000	3.75 to 5.0%	20	2017	450,000
Fairfax parking garage expansion	1999	4,100,000	4.5 to 6.0%	10	2009	705,000
Sub 1 renovations	2002	2,460,000	3.0 to 5.0%	10	2012	1,725,000
Parking Deck II	2003	13,455,000	2.5 to 5.0%	22	2025	13,020,000
Fairfax Aquatic Center (renovation)	2004	6,785,000	3.0 to 5.0%	17	2021	6,785,000
Fairfax Research I	2004	10,005,000	3.0 to 5.0%	22	2026	10,005,000
VCBA 2004B refunding	2004	16,190,000	3.0 to 5.0%	15	2019	16,070,000
Krasnow Institute addition	2005	4,495,000	3.50 to 5.0%	22	2027	4,495,000
Child Development Center	2005	1,775,000	3.50 to 5.0%	12	2017	1,775,000
Student Union III	2005	4,890,000	3.50 to 5.0%	22	2027	4,890,000
Total		$93,735,000				$66,010,000

9. INSTALLMENT PURCHASES PAYABLE

The University has entered into various installment purchase contracts to finance the acquisition of photocopiers, office modulars, and other equipment. In April 2005, the University entered into a Master Lease Agreement with the SunTrust Leasing Corporation to finance the acquisition of the equipment necessary for the implementation of the Energy Performance Contract Agreement. The principal amount of $11,635,178 with an interest rate of 3.81 percent is to be paid quarterly. The first payment is due in September 2006.The final payment will be due in 2021. The Master Lease Agreement with the SunTrust Leasing Corporation was included in notes payable in the prior year's financial statements.

In July 2005, the University entered into a new installment purchase agreement for a Veritas Microdissection System at a cost of $209,000. The lease is for five years with an interest rate of 3.20 percent. The final payment is due in 2010. In August 2005, the University entered into a new installment purchase agreement for a LTQ Linear Ion Trap Mass Spectrometer at a cost of $300,600. The lease is for 5 years with an interest rate of 3.44 percent. The final payment is due in 2011. In September 2005, the University entered into a new installment purchase agreement for a server at a cost of $293,630. The lease is for three years with an interest rate of 3.34 percent. The final payment is due in 2009. In October 2005, the University entered into a new installment purchase agreement for a Nanoflow System at a cost of $53,298. The lease is for five years with an interest rate of 3.49 percent. The final payment is due in 2011. The remaining length of the purchase agreements ranges from one to fifteen years and the interest rate ranges up to 4.14 percent. Principal and interest payments on these commitments for fiscal years subsequent to June 30, 2006 are as follows:

Fiscal Year	Principal	Interest	Total
2007	$ 489,990	$1,036,173	$ 1,526,163
2008	1,024,625	456,213	1,480,838
2009	962,066	423,761	1,385,827
2010	807,724	385,585	1,193,309
2011	735,971	356,128	1,092,099
2012-2016	4,012,294	1,342,072	5,354,366
2017-2021	4,852,828	501,539	5,354,367
Total	$12,885,498	$4,501,471	$17,386,969

10. COMPONENT UNIT DEBT

A. Bonds Payable

On October 7, 2003, the Foundation issued $35,125,000 of variable rate Fairfax County Economic Development Authority bonds. $27,700,000 of the bonds 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. Monthly interest and annual principal payments are due, maturing on February 1, 2029. Additionally, the Foundation simultaneously entered into an interest rate swap with a commercial bank to effectively fix the interest rate on $22,425,000 of the bonds.

As a security for the payment of the bonds, the Foundation entered into an irrevocable letter of credit with a commercial bank in the initial amount of $35,593,333 at 12 percent per annum and expiring on October 15, 2008. As of June 30, 2006, no draws have been taken against the letter of credit; however, due to principal payments on the bonds, the letter of credit amount as of June 30, 2006 was reduced to $33,434,933. As of June 30, 2006, the principal balance outstanding on the bonds was $32,995,000.

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. As of June 30, 2006, 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 2006 totaled $1,372,884.

On September 24, 2004, GMUF Arlington Campus, LLC secured a $61 million construction/mini-permanent loan with a consortium of banks and secured by a deed of trust in the property on 3434 North Washington Street and the improvements to be made on the property. The terms of the loan are seven years floating at LIBOR plus 2.25 percent. Concurrently, the GMUF Arlington Campus, LLC entered into a forward swap agreement with a financial institution to synthetically lock the interest rate at 6.96 percent for years three through seven. The loan will require monthly payments of interest only for 24 months and then will be amortized on a 25-year basis thereafter. As of June 30, 2006, $60,184,115 was outstanding on this loan. In fiscal year 2006, interest expense totaling $2,951,906 was capitalized in preparing the real estate for its intended use.

In addition to the $61 million dollar loan, the Foundation entered into a $6 million loan agreement for five years at a floating rate of LIBOR plus 2.25 percent. This second loan is secured by real property owned by the Foundation at a cost of approximately $10.4 million and by $823,000 fixed income marketable securities. The proceeds from that loan have been deposited into an investment account with a financial institution guaranteed to earn income at the rate of LIBOR plus 1.25 percent locking in the negative arbitrage for the Foundation at 1 percent. This loan requires monthly payments of interest only with a principal payment of $1 million due at the end of both year three and year four with the balance due September 2009. In fiscal year 2006, interest expense totaled $397,475.

Bonds payable at June 30, 2006 totaled	$99,179,115
Less: current portion	(1,379,205)
Non-current portion	$97,799,910

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

2006	$ 1,379,205
2007	2,689,547
2008	2,785,659
2009	5,911,880
2010	2,018,585
Thereafter	84,394,239
Total	$99,179,115

B. Derivative Instruments

In October 2003, the Foundation entered into an interest rate swap agreement with a financial institution against the floating rate bonds in the notional amount of $22,425,000 at a fixed interest rate of 4.56 percent, including all costs, on a 20-year amortization schedule. Concurrently, the Foundation entered into a 20-year interest rate cap agreement with the same financial institution in the notional amount of $12,700,000, at a rate of ten percent. At June 30, 2006, the notational amount on the swap was $21,075,000 and on the cap was $12,050,000. 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 market value of the interest rate swap and the interest rate cap at June 30, 2006 totaled a derivative asset of $231,680 and $13,631. The net change in value has been recorded as an unrealized gain on derivative in the 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.

On September 24, 2004, GMUF Arlington Campus, LLC entered into a forward interest rate swap agreement with a financial institution to lock the interest rate at 6.96 percent for years three through seven related to their $61 million construction/mini-permanent loan. The interest rate swap was used as a cash flow hedge to synthetically fix the rate of the loan and to eliminate changes in the market interest rates.

The fair market value of the forward interest rate swap at June 30, 2006 totaled a derivative asset of $2,042,456. The net change in value has been recorded as an unrealized gain on derivative in the statement of activities.

11. EXPENSES BY NATURAL CLASSIFICATION

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

	Salaries and Wages	Fringe Benefits	Goods and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	$128,326,889	$28,240,358	$ 18,194,599	$ -	$ -	$174,761,846
Research	28,433,886	4,855,085	12,203,994	-	-	45,492,965
Academic support	17,969,751	5,659,180	5,243,747	-	-	28,872,678
Student services	10,862,387	2,497,747	3,406,319	-	-	16,766,453
Public service	4,956,808	1,143,171	5,207,063	-	-	11,307,042
Operation and maintenance of plant	7,978,806	2,512,132	11,942,508	-	-	22,433,446
Institutional support	18,845,245	6,898,549	4,075,622	-	-	29,819,416
Depreciation expense	-	-	-	-	22,418,421	22,418,421
Scholarships and fellowships	-	-	-	13,366,828	-	13,366,828
Auxiliary enterprises	17,894,776	4,002,135	42,022,542	-	-	63,919,453
Totals	$235,268,548	$55,808,357	$102,296,394	$13,366,828	$22,418,421	$429,158,548

12. 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 during 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	$108,808,305
Additional one-time funds for special research	(885,875)
Central Adjustments for salary and benefits:	
Group life premium holiday	(438,461)
Retirement rate adjustments	(41,150)
Retiree health credit rate adjustment	(92,303)
Health insurance premium increase	1,106,033
VSDP Rate Adjustment	316,685
Salary increase state employees	1,167,547
Funds for VIVA program	22,544
Lost revenue attributable to military dependents	183,277
General Fund portion for June 30, 2006 payroll	5,250,236
Final appropriation	$115,396,838

13. INTEREST EXPENSE

During 2006, the University incurred interest expense totaling $5,725,801. Of this amount, $1,044,953 was capitalized as part of the cost of construction and $4,680,848 was expensed.

14. PRIOR PERIOD ADJUSTMENT

During 2006, an error was discovered in the amounts reported as capital appropriations available in fiscal years 2002 through 2005. The majority of the error was caused by a misinterpretation of the term, “Appropriations Available”. Total appropriation balances were reported as appropriations available and revenue rather than reporting only the unexpended allotment. The University’s interpretation was that the full amount appropriated should be recognized, as available, but instead annual allotments should be used to recognize revenue since they represent the portion of the appropriation available in the current year for capital project expenditures.

The cumulative effect of this error was an overstatement of the total net assets at June 30, 2005, by $31,020,146. The error involved an overstatement of appropriations available included in restricted cash equivalents reported as non-current assets on the Statement of Net Assets; and an overstatement of capital appropriations revenue on the Statement of Revenues, Expenses, and Changes in Net Assets. Appropriation revenues and appropriations available were overstated by $4,001,889 in 2002, $14,532,041 in 2003, $6,410,849 in 2004, and $6,075,367 in 2005.

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, 2006 were $3,899,644. The University had, as of June 30, 2006, the following total future minimum rental payments due under the above leases:

Year Ended June 30,	
2007	$ 4,448,320
2008	3,780,536
2009	3,699,828
2010	3,288,613
2011	2,589,093
Total	$17,806,390

B. Construction

Outstanding commitments for capital outlay projects that were under construction at June 30, 2006 were $76,224,583.

16. RETIREMENT AND PENSION SYSTEMS

A. Virginia Retirement System (VRS)

Substantially all full-time classified salaried employees of the University participate in the defined benefit retirement plan administered by VRS. 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, 2006. 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 $6,480,075 for the year ended June 30, 2006. The retirement contribution rate was 8.9 percent for fiscal year 2006. Contributions to VRS were calculated using the base salary amount of approximately $72,628,982 for the year ended June 30, 2006.

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 $479,976 for the year ended June 30, 2006. The VaLORS retirement contribution rate was 22.0 percent for fiscal year 2006. Contributions to VaLORS were calculated using the base salary amount of approximately $2,182,701 for the year ended June 30, 2006.

The University's expenses include the amount assessed by the Commonwealth for contributions to the VRS Alternative Severance Option early retirement program, which totaled approximately $1,176,693 for the year ended June 30, 2006. Contributions were determined by formula based on years of service and annual salary.

The University's total payroll was approximately $241,203,692 for fiscal year 2006.

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 $11,660,188 for the year ended June 30, 2006. Contributions were calculated using the base salary of approximately $111,331,770 for fiscal year 2006. The University's total payroll for fiscal year 2006 was approximately $241,203,692. 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*	$ 9,031,155	$ 86,035,737	10.5%
Fidelity Investments	2,629,033	25,296,033	10.4%
Total	$11,660,188	$111,331,770	

*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 $754,071 for the fiscal year ended June 30, 2006.

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 CAFR.

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 CAFR.

19. SUBSEQUENT EVENTS

A. George Mason University

In July 2006, construction of Research I was completed and the building occupied. The $20 million in construction expenses recorded in construction in progress at June 30, 2006, will be reported as depreciable capital assets in fiscal year 2007.

In August 2006, the University used new capital appropriations to purchase a $2.5 million parcel of land at the Prince William Campus, which will be the site of a Regional Biocontainment Laboratory. Construction of the biocontainment facility is funded in part by a $25 million award from the National Institute of Allergy and Infectious Diseases (NAIAD), part of the National Institutes of Health, resulting in the largest research award in the University's history.

In November 2006, the Commonwealth's Treasury Board completed the sale of the General Obligation Bonds, Series 2006B, proceeds of which are being used to finance the construction of Student Housing VII and the renovations of the Dominion Housing Facility. The principal amount for Student Housing VII is $39,080,000 with an interest rate ranging from four percent to five percent. Payments are to be made annually with the final payment due in 2031. The principal amount for the Dominion Housing Facility is $2,420,000 with an interest rate of five percent. Payments are to be made annually with the final payment due in 2016.

In November 2006, the University issued nine Educational Facilities Revenue Bonds, Series 2006A (VCBA Pooled Bond Program). Five of the bonds are being used to finance the construction of Student Union III ($5,190,000), Fairfax Surge Space Building ($6,340,000), Fairfax Surge Space Fit Out ($1,515,000), Prince William Biocontainment Lab ($13,260,000), and the Prince William Performing Arts Center ($10,790,000). Four of the bonds are being used to finance additions and/or renovations to the Patriot Center ($8,200,000), Krasnow Institute (1,955,000), Physical Education Building ($6,035,000), and Physical Education Building Phase II (2,800,000). Payments on all nine of the bonds will be made semi-annually with an interest rate ranging from three to five percent. The final payment for Krasnow Institute will be due in 2026. Final payments for Student Union III, Fairfax Surge Space Building, Fairfax Surge Space Fit Out, and the Patriot Center Addition/ Renovation will be due in 2027. In 2028, the final payments will be due for Prince William Biocontainment Lab, Prince William Performing Arts Center, Physical Education Building Addition/Renovation, and the Physical Education Building Addition Phase II.

B. Component Unit

On August 18, 2006, GMUF Arlington Campus, LLC secured a permanent 10 year $68,500,000 loan by executing a deed of trust with LaSalle Bank National Association. 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 percent 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 percent per annum, two years interest only, with a 30 year amortization thereafter. The resulting blended rate for the two notes is 6.52 percent.

On the same date, GMUF Arlington Campus LLC retired the $61,000,000 floating rate construction/mini-permanent loan with Branch Banking & Trust and the $6,000,000 floating rate loan secured by the Foundation with Branch Banking & Trust. The $61,000,000 loan was synthetically locked by a forward swap. That swap was unwound at the time of payoff netting GMUF Arlington Campus, LLC $1,058,000. This will result in a loss on derivative totaling approximately $985,000 for the year ended June 30, 2007.

On October 3, 2006, the Foundation bid a swap agreement related to the student housing project and the Foundation's refinanced properties. The transaction will generate cash up front, stabilize the interest rate for the last five years of the bond issue related to the student housing and expects to create expected positive cash flows over the remaining bond life. Wachovia Bank won the bid with a quote of $250,000 up front cash and a 68.48 percent of the five-year LIBOR rate swap. Closing is scheduled for October 19, 2006.

Under the swap agreement, beginning in February 2007 the Foundation will receive the difference between the Bond Market Association (BMA) index and 68.48 percent of the five-year LIBOR index from the swap provider. If the BMA index is higher than 68.48 percent of the five-year LIBOR index, the Foundation will pay that to the swap provider.

SUPPLEMENTARY INFORMATION

GEORGE MASON UNIVERSITY
SCHEDULE OF AUXILIARY ENTERPRISES- REVENUES AND EXPENDITURES
For the year ended June 30, 2006

	Administration and Other	All University Card System	Campus Access	Child Development Center	Computer Store
Revenues:					
Sales and services	$ 44,083	$ 9,861	$ 5,097,916	$ 546,675	$ 780,677
Room	-	-	-	-	-
Board	-	-	-	-	-
Fees and fines	-	-	834,318	-	-
Interest	1,377,228	-	-	-	-
Gifts	-	-	-	-	-
Other	-	-	-	-	-
Total revenues	1,421,310	9,861	5,932,234	546,675	780,677
Expenditures:					
Personal services	585,216	130,880	82,449	360,703	146,732
Fringe benefits	159,326	18,720	2,446	73,293	23,492
Contractual services	652,839	194,185	3,387,276	99,423	5,523
Supplies	25,783	22,306	36,973	9,252	6,311
Merchandise for resale	-	-	-	-	536,796
Equipment	25,847	52,466	80,961	-	-
Current charges	4,003,726	911	154,644	16,562	1,338
Scholarships	530,000	-	-	-	-
Total expenditures	5,982,737	419,468	3,744,749	559,232	720,192
Transfers:					
Mandatory:					
Retirement of debt	(237,061)	-	(2,165,944)	-	-
Non-mandatory	1,397,224	595,915	248,546	55,000	-
Total transfers	1,160,163	595,915	(1,917,398)	55,000	-
Net increase/(decrease) for the year	(3,401,263)	186,308	270,087	42,443	60,485
Balance at beginning of year	5,707,504	(417,168)	3,872,902	(63,004)	296,791
Balance at end of year	$ 2,306,241	$ (230,860)	$ 4,142,989	$ (20,561)	$ 357,276

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

Fairfax Swimming Pool	Freedom Aquatic Center	Hemlock Overlook and Bull Run	Center for the Arts	Intercollegiate Athletics	Meal Plan	Patriot Center
$ 929,497	$ 4,515,235	$ 1,092,912	$ 2,310,960	$ 1,697,022	$ (35)	$ 2,128,328
-	-	-	-	-	-	-
-	-	-	-	-	7,450,522	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	273,314	-	-
-	1,245,176	-	-	-	-	-
929,497	5,760,411	1,092,912	2,310,960	1,970,337	7,450,487	2,128,328
832,762	2,589,795	624,176	1,986,469	4,585,987	-	-
142,537	428,237	119,688	467,071	1,135,336	-	-
145,246	410,071	198,561	2,863,708	2,525,673	7,325,946	(73,256)
116,205	255,900	61,445	67,753	474,295	-	17,804
-	-	-	-	3,733	-	-
95,507	93,341	1,638	21,952	84,137	-	11,416
294,814	584,834	69,981	165,171	263,972	835	292,607
-	-	-	-	2,806,363	-	-
1,627,071	4,362,177	1,075,490	5,572,124	11,879,496	7,326,781	248,570
(973,434)	(1,421,770)	-	(868,060)	-	-	-
1,889,734	87,124	30,000	4,070,911	9,338,178	(223,270)	(269,412)
916,300	(1,334,646)	30,000	3,202,851	9,338,178	(223,270)	(269,412)
218,726	63,588	47,422	(58,313)	(570,982)	(99,564)	1,610,345
660,573	1,110,254	(234,385)	(2,020,070)	(528,853)	207,713	2,680,711
$ 879,299	$ 1,173,842	$ (186,963)	$ (2,078,383)	$ (1,099,835)	$ 108,149	$ 4,291,056

GEORGE MASON UNIVERSITY
SCHEDULE OF AUXILIARY ENTERPRISES- REVENUES AND EXPENDITURES cont.
For the year ended June 30, 2006

	Print Services	Recreational Sports Complex	Student Activities and Services	Student Fees	Student Housing
Revenues:					
Sales and services	$ 468,100	$ 253,305	$ 2,271,716	$ (35,447)	$ 29,229
Room	-	-	3,801	-	15,091,384
Board	-	-	-	-	-
Fees and fines	-	-	-	33,891,906	-
Interest	-	-	-	-	-
Gifts	-	67	-	-	-
Other	-	-	-	-	216,934
Total revenues	468,100	253,372	2,275,517	33,856,459	15,337,546
Expenditures:					
Personal services	636,527	736,840	3,071,399	-	10,209
Fringe benefits	150,629	137,103	689,905	-	45
Contractual services	(915,886)	1,679,572	2,363,288	-	2,928,554
Supplies	138,383	224,583	764,549	-	1,270
Merchandise for resale	-	-	-	-	-
Equipment	25,187	181,345	155,191	-	24,948
Current charges	485,629	296,663	721,526	-	2,065,071
Scholarships	-	-	24,036	-	-
Total expenditures	520,469	3,256,106	7,789,894	-	5,030,096
Transfers:					
Mandatory:					
Retirement of debt	-	-	-	-	(5,502,473)
Non-mandatory	(2,727)	3,462,862	5,103,408	(33,850,059)	-
Total transfers	(2,727)	3,462,862	5,103,408	(33,850,059)	(5,502,473)
Net increase/(decrease) for the year	(55,096)	460,128	(410,969)	6,400	4,804,977
Balance at beginning of year	19,225	920,843	1,731,811	100,667	(693,096)
Balance at end of year	$ (35,871)	$ 1,380,971	$ 1,320,842	$ 107,067	$ 4,111,881

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

Student Unions	Telecom-munications	Total
$ 2,556,716	$ 8,211	$ 24,704,960
-	-	15,095,185
-	-	7,450,522
-	70	34,726,293
-	-	1,377,228
-	-	273,381
-	-	1,462,110
2,556,716	8,281	85,089,678
1,183,654	585,342	18,149,141
405,143	152,384	4,105,355
566,801	(966,447)	23,391,078
329,232	7,817	2,559,861
-	-	540,529
216,296	366,301	1,436,532
999,489	6,284	10,424,054
-	-	3,360,399
3,700,615	151,682	63,966,950
(2,273,173)	-	(13,441,915)
5,140,409	72,303	(2,853,854)
2,867,236	72,303	(16,295,769)
1,723,338	(71,098)	4,826,960
2,738,709	1,696,955	17,788,082
$ 4,462,047	$ 1,625,857	$ 22,615,042

Commonwealth of Virginia

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

Walter J. Kucharski, Auditor

March 30, 2007

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
George Mason University

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of **George Mason University**, a component unit of the Commonwealth of Virginia, and it's discretely presented component unit as of and for the year ended June 30, 2006. These financial statements are the responsibility of the University's management. We did not audit the financial statements of the George Mason University Foundation, which is discussed in Note 1A. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as it relates the amounts included for the component unit of the University, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the component unit of the University that were audited by other auditors and upon whose reports we are relying were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the George Mason University and of its discretely presented component unit as of June 30, 2006, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

AND ON COMPLIANCE AND OTHER MATTERS

Internal Control over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the University's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition entitled "Improve System Access Policies" is described in the section titled "Internal Control and Compliance Findings and Recommendations."

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

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

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

EXIT CONFERENCE

We discussed this report with management at an exit conference held on May 2, 2007.

[redacted]

AUDITOR OF PUBLIC ACCOUNTS

AWP/sks

GEORGE MASON UNIVERSITY

Senior Vice President

4400 University Drive, MS 3B2, Fairfax, Virginia 22030
Phone: 703-993-8750; Fax: 703-993-8772

May 9, 2007

Mr. Walter J. Kucharski
Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

Dear Mr. Kucharski:

We have reviewed the internal control finding and recommendation resulting from the fiscal year 2006 audit by the Auditor of Public Accounts (APA) and discussed during the exit conference held May 2, 2007.

George Mason University acknowledges and concurs with the internal control finding. The following contains the APA finding and management's response to the concerns and issues raised.

APA Finding: Improve System Access Policies

The University does not have adequate controls to oversee access to its administrative systems that contain sensitive student and financial information. Without adequate controls, University staff could be granted access beyond what is necessary for their job duties and staff having inappropriate access to sensitive information would go undetected. When access to sensitive information is not appropriately controlled, the University unnecessarily risks disclosure of that information or that the information could be used to conduct or conceal fraudulent activities.

Access to the University's systems is granted through 17 different security officers with no audit trail to determine who has made changes. Information security supervisors do not monitor the access to the systems granted by the security officers. Additionally, the University does not have a policy to ensure that security officers periodically review lists of individuals having access to their department's information and applications to ensure that all individuals with access continue to need that level of access.

We recommend that the University improve its system access policies to provide that access be monitored by information security supervisors, and that data owners periodically review comprehensive lists of staff with access to their data and applications to ensure that unnecessary access is discontinued promptly. With improved system access policies, the University will reduce the risk of inappropriate disclosure of sensitive information and unapproved transactions to its administrative applications.

Management's Response

The University will develop a process within its administrative system that will generate a report listing the users who make security changes and the actions they take. The report will allow responsible parties to detect any access changes that are made by a security officer in an area outside of his or her area of responsibility.

The University will implement a policy that will require access to the systems granted by the security officers be monitored. The policy also will require security officers to review lists of individuals having system access in their area of responsibility and ensure that such access is appropriate and continues to be required. Where access is no longer required (e.g., termination, change of job duties), the policy will require the security officers to promptly discontinue such access.

Sincerely,

Maurice W. Scherrens

Maurice W. Scherrens