

GEORGE MASON UNIVERSITY

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

JUNE 30, 2011



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MANAGEMENT'S DISCUSSION AND ANALYSIS

George Mason University

Financial Statements for the Year Ended June 30, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Unaudited

Overview of the Financial Statements and Financial Analysis

This unaudited *Management's Discussion and Analysis* (MD&A) is required supplementary information under the Governmental Accounting Standards Board's (GASB) reporting model. This discussion and analysis provides an overview of the financial condition, results of operations, and cash flows of George Mason University for the fiscal year ended June 30, 2011 (FY 2011). Comparative numbers are included for the fiscal year ended June 30, 2010 (FY 2010). MD&A includes highly summarized data and therefore should be read in conjunction with the financial statements and footnotes that follow this section. The University's management is responsible for all of the financial information presented, including this discussion and analysis.

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

Financial Highlights

During FY 2011, the University continued to invest in the development of facilities that will support and enhance the capacity to achieve its strategic goals. A key aspect of this investment is the development of facilities and systems that enhance the quality of teaching and learning, create operating efficiencies, and support the development of diversified revenue streams, all of which are essential for the University's continued movement to an economic model which is less reliant on state appropriations. Several examples of this ongoing investment are set forth below.

Early in FY 2011, the University completed Hampton Roads residence hall. Also during FY 2011, the University made substantial progress on the construction of Housing VIIIA, which is expected to be completed by January, 2012, after which the next phase of Housing VIII will begin. These projects mark additional steps in the ongoing process of changing the nature of the campus by increasing the percentage of students living on campus. This change not only enhances campus life for students but also creates substantial additional revenue in the form of room and board fees and a larger on-campus market for expanding auxiliary enterprise revenues.

Late in FY 2011, the University occupied a new administration building on its Fairfax campus. The move into this building created operating efficiencies and improved communications by locating in one facility many of the administrative functions of the University including Human Resources, Fiscal Services, the Budget Office, the Office of Sponsored Programs, Auxiliary Enterprises, Internal Audit, Risk Management, the Development Office, and others. These offices were previously scattered around at various locations both on and off campus. In addition to creating other operational efficiencies, their co-location reduces the aggregate rent and utilities costs related to these units.

For FY 2011, the University received \$20.1 million of American Recovery and Reinvestment Act (ARRA) State Fiscal Stabilization Funds, which helped to offset the cumulative effect of successive years of cuts in state general fund appropriations. This ARRA funding will not continue in FY 2012.

In light of the loss of ARRA funds for FY 2012, the University's Board of Visitors voted to raise tuition and fees for the 2011-12 academic year. Along with the ongoing pursuit of operational efficiencies and the diversification and enhancement of other revenue streams, this decision by the Board of Visitors will help provide the funding necessary for the University to continue to invest in academic excellence, scholarships for students, expanded instructional, laboratory and research spaces, and fund an increasing share of its operating budget as the percentage funded by the Commonwealth continues to decline.

Statement of Net Assets

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

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

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

future income to be expended or placed in a reserve fund. The final category is “unrestricted net assets.” Unrestricted net assets are available to the University for any lawful purpose of the institution.

A summary of the University’s assets, liabilities, and net assets at June 30, 2011, and June 30, 2010, follows.

Statement of Net Assets*

	June 30, 2011	June 30, 2010**	Dollar Change	Percent Change
Assets:				
Current assets	\$ 147,898	\$ 143,806	4,092	3%
Capital assets, net	1,097,772	1,003,872	93,900	9%
Other noncurrent assets	53,006	67,542	(14,536)	-22%
Total Assets	1,298,676	1,215,220	83,456	7%
Liabilities:				
Current liabilities	140,625	157,800	(17,175)	-11%
Noncurrent liabilities	627,318	548,065	79,253	14%
Total Liabilities	767,943	705,865	62,078	9%
Net Assets:				
Invested in capital assets, net of debt	478,598	466,848	11,750	3%
Restricted: nonexpendable	3,723	3,498	225	6%
Restricted: expendable	3,196	9,001	(5,805)	-64%
Unrestricted	45,216	30,008	15,208	51%
Total Net Assets	\$530,733	\$509,355	\$21,378	4%

*In thousands

**As restated to conform to FY 2011 reclassifications

The University’s financial position remained strong at the end of FY 2011. Total assets were \$1.299 billion and net assets (total assets less liabilities of \$768 million) amounted to \$531 million.

For FY 2011, current assets of \$147.9 million exceed current liabilities of \$140.6 million by \$7.3 million. In FY 2010 current assets were \$13.9 million lower than current liabilities. This increase in current assets relative to current liabilities is to be expected given the completion of numerous construction projects and the consequent reduction in capital asset related payables.

Capital assets, net of accumulated depreciation of \$366.8 million, totaled \$1.098 billion, which represents an increase of \$93.9 million over FY 2010, and reflects the ongoing expansion of facilities at the University.

The \$14.5 million, 22%, reduction in Other noncurrent assets primarily reflects the reduction in restricted bond proceeds used to pay for construction of capital assets. During FY 2011, the University's total net asset position increased by \$21.4 million as a result of total assets increasing more than total liabilities by that amount.

Capital Asset and Debt Administration

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

Note 5 of the Notes to Financial Statements describes the University's rapidly expanding investment in capital assets, with total depreciable capital asset additions of \$225.2 million (excluding land, construction in progress, and works of art) and additions to construction in progress of \$99.9 million. Depreciation expense increased by \$9.3 million over the prior year to \$45.7 million.

Depreciable capital asset additions for FY 2011 included the following:

Asset Category	Amount (in millions)
Buildings	\$201.0
Equipment	\$11.3
Improvements to land	\$0.4
Infrastructure	\$7.1
Library Materials	\$5.4
Total	\$225.2

Completed building projects included Founders Hall on the Arlington Campus, and at the Fairfax campus, the Hampton Roads residence hall, Phase II of the renovation of the Presidents Park residence halls, renovations of Student Union Buildings I and II, an addition to the Krasnow Institute, and an addition/renovation of the Performing Arts building. Increases to buildings also included University Hall, a new administration building on the Fairfax campus, acquired under a capital lease between the University and George Mason University Foundation. Infrastructure additions included \$6.4 million for the west campus connector and campus entrance and \$0.6 million for the Prince William campus loop road.

Major ongoing capital projects include: Housing VIIIA, the Science and Technology building renovation and addition, and the Thompson Hall renovation, all at the Fairfax Campus, a residence hall and a dining facility for the Smithsonian-Mason Conservation Studies Program at Front Royal, and the Point of View facility at Belmont Bay.

Financial stewardship requires the effective management of resources, including the use of long-term debt to finance capital projects. Notes 7, 8 and 9 of the Notes to Financial Statements describe changes in the University's long-term debt. New capital revenue bonds and Virginia College Building Authority (VCBA) notes with a principal amount of \$75.1 million were issued during FY 2011, as follows:

Virginia 9(c) Revenue Bonds were issued to finance the following projects:

Project	Amount (in millions)
Student Housing VIII-A	\$39.4
Smithsonian CRC Housing	\$5.4
Renovate Presidents Park Phase II	\$2.8
Renovate Commons	\$1.3
Total	\$48.9

VCBA Notes were issued to finance the following projects:

Project	Amount (in millions)
Student Union Building I Addition/Renovation	\$5.4
Krasnow Institute Addition	\$5.2
Arlington Phase II – Founders Hall	\$3.6
Refunding of Series 2003A	\$3.0
Student Union Building II Renovation	\$2.9
Smithsonian CRC Dining	\$2.4
Fairfax Aquatic & Fitness Center HVAC	\$2.3
Fieldhouse Life/Safety Code Renovation	\$1.4
Total	\$26.2

Total long-term debt outstanding, including revenue bonds, notes payable, capital leases payable, installment purchases, bond premiums and discounts, and deferred gains and losses on refundings increased by \$81.2 million from the end of FY 2010 to the end of FY 2011, to a total of \$642.2 million.

Contractual commitments for capital outlay projects under construction at year end decreased from \$77.8 million in FY 2010 to \$29.2 million in FY 2011. These obligations are for future efforts and therefore have not been accrued as expenses or liabilities on the University's financial statements. This decrease reflects the completion of multiple projects during FY 2011 as well as ongoing construction on the other projects remaining in construction in progress as of year-end.

Statement of Revenues, Expenses, and Changes in Net Assets

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

Generally speaking, operating revenues are received for providing goods and services to the students and other constituencies of the institution. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the

operating revenues, and to carry out the mission of the institution. Salaries and fringe benefits for faculty and staff are the largest type of operating expense. Nonoperating revenues are revenues received for which goods and services are not provided in exchange as part of a transaction. For example, state appropriations are nonoperating revenues because they are provided by the legislature without the legislature directly receiving commensurate goods and services for those revenues. State appropriations and gifts, included in this category, provide substantial support for paying operating expenses of the University. Therefore, the University, like most public institutions, will expect to report an operating loss.

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

Statement of Revenues, Expenses, and Changes in Net Assets*				
	June 30, 2011	6/30/2010**	Dollar Change	Percent Change
Operating Revenues:				
Student tuition and fees, net of allowances	\$ 250,271	\$ 222,614	27,657	12%
Grants and contracts	100,486	93,181	7,305	8%
Auxiliary enterprises and other	136,053	123,644	12,409	10%
Total operating revenues	486,810	439,439	47,371	11%
Operating Expenses:				
Educational and general	482,754	454,595	28,159	6%
Depreciation	45,732	36,386	9,346	26%
Auxiliary enterprises	98,627	89,174	9,453	11%
Total operating expenses	627,113	580,155	46,958	8%
Operating loss	(140,303)	(140,716)	413	0%
Nonoperating revenues and expenses (net)	128,555	137,837	(9,282)	-7%
Income (loss) before other revenue/expense/gain/loss	(11,748)	(2,879)	(8,869)	308%
Other revenue/expense/gain/loss	33,126	73,570	(40,444)	-55%
Net increase in net assets	21,378	70,691	(49,313)	-70%
Net assets at beginning of year	\$509,355	438,664	70,691	16%
Net assets at end of year	\$530,733	\$509,355	21,378	4%

*in thousands

**as restated to conform with FY 2011 reclassifications

Operating revenue, consisting primarily of tuition and fees, grants and contracts, and auxiliary enterprises, increased by \$47.4 million, or 11%, over the prior year. Student tuition and fees, net of scholarship allowances, increased by \$27.7 million, or 12%, over the prior year. This growth is attributable to increased enrollment, tuition rate increases at all levels and out-of-state and premium tuition revenue generated for law and graduate programs. Grants and contracts revenue increased by \$7.3 million, or 8%, over the prior year. Auxiliary revenue increased by \$12.4 million, or 10%, primarily due to increased student enrollment, an increase

in the number of students housed on campus and increased utilization of on campus facilities and programs, increased mandatory fees, and increased room and board rates.

Total operating expenses increased by \$47.0 million, or 8%, including an increase of \$24.4 million in compensation expenses, consisting of salaries, wages, and fringe benefits, an increase in the purchase of goods and services of \$11.8 million, an increase in depreciation expense of \$9.3 million, and an increase in student aid expense of \$1.5 million.

The net result of the \$47.4 million increase in operating revenue and the \$47.0 million increase in operating expense, discussed in the above two paragraphs, was a \$.4 million reduction in the operating loss.

Nonoperating revenues net of nonoperating expenses decreased by \$9.3 million, or 7%, due primarily to a \$16.6 million decline in unrestricted and restricted (non-capital) state general fund appropriations, a \$13.9 million increase in ARRA State Fiscal Stabilization Funds, a \$3.8 million increase in Pell receipts, a \$.4 million increase in income from investments, interest, and gifts, a \$.5 million increase in Build America Bonds subsidy revenue, and an increase in interest expense of \$11.3 million.

One of the most important numbers to note in the Statement of Revenues, Expenses, and Changes in Net Assets is "Income/(Loss) before other revenues, expenses, gains or losses" since this reflects both the University's operating results and the University's non-capital general fund appropriations from the Commonwealth, which are included in nonoperating revenues. The loss amount increased by \$8.9 million (a larger loss) over the previous year (a loss of \$11.8 million for FY 2011 compared to a loss \$2.9 million for FY 2010). This increase in the loss before other revenues, expenses, gains, or losses is a result of the \$9.3 million reduction in Nonoperating revenues net of nonoperating expenses, set forth in the preceding paragraph, and the \$.4 million reduction in the operating loss discussed above. Although there were both increases and decreases in nonoperating revenues and expenses, the most significant factor in the larger loss in FY 2011 was the \$16.6 million decline in state general fund appropriations.

The final category on the Statement of Revenues, Expenses, and changes in Net Assets is called Other revenues, expenses, gain and losses and includes capital appropriations, capital grants and gifts, and gains/(losses) on the disposal of fixed assets. This category decreased by \$40.4 million, or 55% (a net gain of \$33.1 million for FY 2011 compared to a net gain of \$73.6 million for FY 2010), caused primarily by the combined effect of a decrease of \$15.1 million in capital grants and gifts, and a \$25.7 million decrease in capital appropriations through the Commonwealth's General Obligation Bonds and Virginia College Building Authority 21st Century capital reimbursement programs, a \$.2 million increase in permanent endowments and a \$.2 million reduction in loss on disposal of fixed assets.

Statement of Cash Flows

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

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

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

Statement of Cash Flows*

	June 30, 2011	June 30, 2010	Dollar Change	Percent Change
Cash provided from operations	\$487,751	\$442,104	45,647	10%
Cash expended for operations	582,339	542,526	39,813	7%
Net cash used for operations	(94,588)	(100,422)	5,834	-6%
Net cash provided by noncapital financing activities	150,608	135,848	14,760	11%
Net cash provided by (used for) capital financing activities	(55,890)	(120,974)	65,084	-54%
Net cash provided by (used for) investing activities	1,206	1,523	(317)	-21%
Net (decrease) increase in cash	1,336	(84,025)	85,361	-102%
Cash, beginning of year	140,060	224,085	(84,025)	-37%
Cash, end of year	\$141,396	\$140,060	1,336	1%

* in thousands

The above summarized Statement of Cash Flows shows that the University generated 84 percent (\$487.7 million of \$582.3 million expended) of its operating cash requirements from its own operations with the remainder (\$94.6 million) being provided in the form of appropriations from the Commonwealth of Virginia, gifts, and investment earnings.

Nonoperating cash was provided by capital appropriations from the Commonwealth of Virginia, capital gifts and grants, and the sale of revenue bonds, which were used to acquire capital assets.

Although operations expended \$39.8 million more cash in FY 2011 than in FY 2010, it also generated \$45.6 million more cash in FY 2011 than in FY 2010, resulting in a reduced need for operating cash to be obtained from sources other than operations. Overall operations still

resulted in a net usage of cash of \$94.5 million, but this was \$5.8 million less in net usage of cash than in FY 2010.

The major sources of the \$45.6 million increase in cash provided by operations are student tuition and fees (\$43.1 million increase), grants and contracts (\$12.2 million decrease), auxiliaries (\$14.4 million increase), and other receipts (\$.3 million increase).

The major sources of the \$39.8 million increase in cash used by operations are payments for salaries, wages, and fringe benefits (\$19.4 million increase), payments for supplies and services (\$15.2 million increase), and payments for student aid (\$5.2 million increase).

Cash provided by non-capital financing activities increased \$14.7 million in FY 2011, primarily due to a \$13.9 million increase in ARRA State Fiscal Stabilization funds, a \$12.4 million increase due to the timing of advances from the Treasurer of Virginia, a \$3.8 million increase in Pell Grant receipts, and a \$1.2 million increase in gifts. These increases were offset by a \$16.6 million decrease in state general fund appropriations.

The University's cash flow from capital financing activities increased by \$65.1 million in FY 2011 compared to FY 2010. The primary components of the increase in cash flow from capital financing activities include an increase in the proceeds from the issuance of capital related debt, including premiums, of \$10.2 million, and a cash increase of \$108.6 million from reduced purchases of capital assets. These increases to cash were offset by decreases in cash due to a reduction in capital appropriations \$27.7 million, a reduction in capital grants and contributions of \$8.3 million, an increase in debt service payments of \$17.7 million.

The primary sources of cash from investing activities are interest on non-general fund and local cash balances, interest on unspent bond proceeds, and endowment investment earnings. The primary cash outflow from investing activities is the purchase of endowment investments. During FY 2011, these activities produced \$.3 million less cash than they did in FY 2010 due to smaller balances of unspent bond proceeds earning interest.

Economic Outlook

As part of the Commonwealth of Virginia's statewide system of higher education, the University's economic outlook is closely tied to that of the Commonwealth. The University receives substantial support from the Commonwealth in the form of operating and capital appropriations. The Commonwealth has begun to emerge from an historic revenue downturn, but the economic recovery is fragile and the budget situation remains unsettled. During FY 2011, reductions in state general fund support to the University's operating budget were partially offset by federal stimulus funding. The federal stimulus funding will not continue in FY 2012. Regardless of improvement in the Commonwealth's budget prospects, or the presence or absence of federal stimulus funding, however, the economic reality for the University is the likelihood of a reduced level of state general fund support for many years into the future.

The University's six year strategic plan, set forth in 2008, reflects the need to offset the long-term trend in the reduction of the Commonwealth's funding for higher education by enhancing and developing multiple revenue streams including additional emphasis on lifelong learning opportunities, use of technology to extend distance learning opportunities, expanding the commitment to continuing and professional education, investing in technologies relevant to research, continuing to explore global opportunities, building stronger relationships with alumni

to help grow private giving, leveraging public-private partnerships, and expanding and enhancing auxiliary enterprise services for the growing population of students living on-campus. The University will also continue to assess the optimal combination of tuition and fees and discount levels.

The Commonwealth's budget crisis continues to be a serious concern. The series of reductions in state general fund support for higher education over a relatively few number of years has created a tremendous short-term challenge to the University's ability to sustain its level and quality of operations. Furthermore, state support for higher education is not likely to return to prior levels. Fortunately for the University, the six-year strategic plan adopted in 2008 is moving the University along a path to an operational and financial model less reliant on State support, driven by creativity, flexibility, and innovation, and by which the University will not only survive, but thrive.

FINANCIAL STATEMENTS

George Mason University
Statement of Net Assets
As of June 30, 2011

ASSETS

Current assets:

Cash and cash equivalents (Note 2)	\$	102,646,981
Short-term investments (Note 2)		1,315,285
Accounts receivable, net of allowance of \$888,108 (Note 4)		30,518,703
Notes receivable, net of allowance of \$8,658 (Note 4)		450,511
Prepaid expenses		7,336,632
Inventories		650,757
Due from the Commonwealth of Virginia		4,979,020
Total Current Assets		147,897,889

Noncurrent assets:

Restricted cash and cash equivalents (Note 2)	42,974,628
Restricted cash and cash equivalents in custody of others (Note 2)	63,301
Appropriations available- capital projects (restricted)	77
Notes receivable, net of allowance of \$67,869 (Note 4)	3,433,143
Depreciable capital assets, net of accumulated depreciation (Note 5)	1,007,748,612
Nondepreciable capital assets (Note 5)	90,023,021
Long-term investments (Note 2)	3,788,954
Unamortized bond issuance costs	2,746,008
Total noncurrent assets	1,150,777,744

Total assets	1,298,675,633
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LIABILITIES

Current liabilities:

Accounts payable and accrued expenses (Note 6)	66,134,648
Deferred revenue	37,880,631
Obligations under securities lending	5,604,625
Deposits held in custody for others	453,777
Long-term debt- current portion (Notes 7 - 10)	25,669,284
Accrued compensated absences- current portion (Notes 7 - 10)	4,882,245
Total current liabilities	140,625,210

Noncurrent liabilities (Notes 7 - 10)

Long-term debt	616,525,069
Accrued compensated absences	8,205,429
Other noncurrent liabilities	2,587,241
Total noncurrent liabilities	627,317,739

Total liabilities	767,942,949
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NET ASSETS

Invested in capital assets, net of related debt	478,597,507
Restricted: nonexpendable (Note 19)	3,723,383
Restricted: expendable (Note 19)	3,195,575
Unrestricted	45,216,219

Total net assets	\$ 530,732,684
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The accompanying Notes to Financial Statements are an integral part of this statement.

**George Mason University Component Units
Combined Statements of Financial Position
As of June 30, 2011**

	Total Component Units
Assets	
Cash and cash equivalents	14,949,982
Restricted cash and cash equivalents	6,874,515
Accounts receivable	14,920
Pledges receivable, net	23,392,910
Due from HEI	386,128
Derivative asset	29,258
Other assets	295,928
Prepaid expenses	113,211
Leasing commissions	1,896,350
Beneficial interest in perpetual trusts	10,657,112
Annuity benefit contract	403,559
Deferred loan costs, net	2,563,407
Investments	100,646,996
Property and equipment, net (See University Note 10.B)	158,292,889
Art and antiques	572,567
Total Assets	321,089,732
Liabilities and Net Assets	
Liabilities	
Accounts payable and accrued expenses	10,768,876
Accrued payroll and related expenses	101,256
Unearned rent	3,444,711
Trust liabilities	1,271,621
Other liabilities	211,291
Accrued annuity benefit	403,559
Derivative obligations including interest rate swap liability	11,405,921
Long-term debt including note payable	160,476,585
Amounts held for others	8,456,844
Total Liabilities	196,540,664
Net Assets	
Unrestricted	3,135,118
Temporarily restricted	66,802,803
Permanently restricted	62,724,741
GMUF Arlington Campus, LLC	(5,279,750)
GMUF Mason Administration, LLC	(2,833,844)
Total Net Assets	124,549,068
Total Liabilities and Net Assets	321,089,732

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, 2011

Operating revenues:	
Student tuition and fees (net of scholarship allowances of \$37,236,710)	\$ 250,270,955
Federal grants and contracts	81,489,429
State, local, and nongovernmental grants and contracts	18,996,606
Auxiliary enterprises (net of scholarship allowances of \$11,923,447)	129,198,070
Other operating revenue	6,854,951
Total operating revenue	486,810,011
Operating expenses (Note 12)	
Instruction	225,065,383
Research	60,918,607
Public service	19,143,710
Academic support	49,098,366
Student services	21,988,455
Institutional support	36,419,353
Operation and maintenance of plant	43,282,091
Depreciation and amortization	45,732,013
Student aid	26,838,473
Auxiliary enterprises	98,626,866
Total operating expenses	627,113,317
Operating income (loss)	(140,303,306)
Nonoperating revenues (expenses):	
State educational and general appropriation (Note 13)	90,638,852
State general fund appropriations - restricted	15,006,759
Pell Grant Receipts	23,267,580
Gifts	1,482,920
ARRA State Fiscal Stabilization Fund	20,073,568
ARRA Build America Bonds Subsidy	529,899
Investment income	1,281,320
Interest expense (Note 14)	(23,726,175)
Net nonoperating revenues	128,554,723
Income before other revenues, expenses, gains, and losses	(11,748,583)
Other revenues, expenses, gains, and losses:	
Capital grants and gifts	8,561,132
Capital appropriations	24,762,328
Additions to permanent endowments	225,299
Other	(423,133)
Net other revenues, expenses, gains, and losses	33,125,626
Increase in net assets	21,377,043
Net assets beginning of year	509,355,641
Net assets end of year	\$ 530,732,684

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

**George Mason University Component Units
Combined Statements of Activities
For the Year Ended June 30, 2011**

	Total Component Units
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Operating Revenue	
Contributions	28,163,358
Investment and trust income	11,236,434
Miscellaneous income	89,956
Rental income	15,671,922
Service fees	1,022,811
Total Operating Revenue	<u>56,184,481</u>
 Operating Expenses	
Academic program support	22,833,040
Advertising and promotion	24,194
Depreciation (See University Note 10.B)	4,820,691
Fundraising	205,398
Insurance	252,795
Interest expense	5,724,431
Maintainence	84,027
Management fees	78,367
Office and other administrative expenses	3,029,647
Other program service benefits	3,078,509
Salaries and wages	300,478
Utilities	2,466,522
Total Operating Expenses	<u>42,898,099</u>
 Change in Net Assets before Non-operating items	13,286,382
 Non-operating Items	<u>(3,030,852)</u>
Change in Net Assets	10,255,530
 Beginning Net Assets	<u>114,293,538</u>
 Ending Net Assets	<u><u>124,549,068</u></u>

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, 2011

Cash flows from operating activities:

Student tuition and fees	\$	250,597,051
Grants and contracts		101,315,236
Auxiliary enterprises		129,414,877
Perkins loan receipts		1,147,526
Other receipts		5,276,597
Payments to suppliers		(155,889,550)
Payments to employees		(399,232,174)
Payments for student aid		(26,838,473)
Perkins loan disbursements		(379,399)
Net cash used by operating activities		<u>(94,588,309)</u>

Cash flows from noncapital financing activities

State appropriations		105,645,611
Advance from Treasurer		(107,180)
Additions to endowments		225,299
Federal Direct Loan Program receipts		148,966,791
Federal Direct Loan Program disbursements		(148,966,791)
Pell Grant receipts		23,267,580
Noncapital gifts		1,482,920
ARRA State Fiscal Stabilization Fund receipts		20,073,568
Agency transactions		19,849
Net cash provided by noncapital financing activities		<u>150,607,647</u>

Cash flows from capital and related financing activities

Proceeds from capital appropriations available		25,764,536
Capital grants and contributions		9,647,341
Proceeds from sale of capital assets		169,003
Proceeds from issuance of capital related debt		72,175,000
Bond premium paid on capital related debt		2,217,907
Bond issuance costs on capital related debt		(485,324)
Principal paid on capital related debt		(22,041,052)
Interest paid on capital related debt		(24,270,173)
Purchases of capital assets		(119,067,436)
Net cash provided by capital and related financing activities		<u>(55,890,198)</u>

Cash flows from investing activities

Interest on investments		1,467,728
Purchase of investments		(261,309)
Net cash provided by investing activities		<u>1,206,419</u>

Net increase in cash

1,335,559

Cash and cash equivalents - beginning of the year		151,739,069
Less: Securities Lending - Treasurer of Virginia		(11,679,058)
Cash and cash equivalents - beginning of the year (restated)		<u>140,060,011</u>

Cash and cash equivalents - end of the year		<u>\$ 141,395,570</u>
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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, 2011

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

Statement of Net Assets	
Cash and cash equivalents	\$ 145,684,910
Less: Securities lending - Treasurer of Virginia	(4,289,340)
	<hr/>
Net cash and cash equivalents	<u>\$ 141,395,570</u>

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

Operating loss	\$ (140,303,306)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	45,732,013
Changes in assets and liabilities:	
Accounts receivable (net)	(2,003,702)
Restricted assets receivable (net)	(68,045)
Perkins loan receivable	783,203
Perkins loan liability	(15,076)
Inventory	(25,882)
Prepaid expenses	(1,909,564)
Due from Commonwealth	545,287
Accounts payable and accrued liabilities	(23,800)
Deferred revenue	1,885,497
Compensated absences	815,066
	<hr/>
Net cash used by operating activities	<u>\$ (94,588,309)</u>

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

NOTES TO FINANCIAL STATEMENTS

George Mason University

Notes to Financial Statements As of June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

The George Mason University Foundation, Inc. (GMUF) and Mason Housing, Inc. (MHI) qualify as component units of the University. GMUF was established to receive, hold, invest and administer property, and to make expenditures for the benefit of the University. During the year ended June 30, 2011, GMUF distributed \$26,116,947 to, or on behalf of, the University for both restricted and unrestricted purposes. Separate financial information regarding GMUF may be obtained by writing to the GMUF Business Office at 4400 University Drive, MSN 1A3, Fairfax, VA 22030. MHI was established to build and manage the University's faculty and staff housing. Separate financial information for MHI may be obtained by writing to Mason Housing, Inc., Attn- Thomas Calhoun, 4400 University Drive, MSN 2C1, Fairfax, VA 22030.

B. Basis of Presentation

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

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

C. Basis of Accounting

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

Purchased investments, interest-bearing temporary investments classified with cash, and investments received as gifts are recorded at fair value. All investment income, including changes in the fair value of investments (unrealized gains and losses), is reported as nonoperating revenue in the Statement of Revenues, Expenses, and Changes in Net Assets.

E. Capital Assets

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

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

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

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

F. Inventory

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

G. Noncurrent Cash and Investments

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

H. Deferred Revenue

Deferred revenue represents monies collected but not earned as of June 30, 2011. This is primarily composed of student tuition collected for courses that will be offered after June 30, 2011.

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, 2011, all unused vacation, overtime, compensatory, recognition and sick leave payable upon termination under University policy. The applicable share of employer related payroll taxes also is included.

J. Federal Financial Assistance Programs

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

K. Net Assets

The Statement of Net Assets reports the difference between assets and liabilities as net assets. 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.

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

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

M. Scholarship Discounts and Allowances

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

N. Prepaid Expenses

The University has recorded as a current asset facility rentals, insurance premiums, and interest for fiscal year 2012 that were paid in advance as of June 30, 2011.

O. Discounts, Premiums, and Bond Issuance Costs

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

P. Commonwealth Equipment and Capital Project Reimbursement Programs

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

During Fiscal Year 2011, funding has been provided to the University from three programs:

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

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

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

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

Custodial Credit Risk - the custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the University will not be able to recover the value of investment or collateral securities that are in possession of an outside party. The University has "category 3" investments that are not registered in the University's name, and which are held by the George Mason University Foundation (GMUF), a separate not-for-profit corporation under the laws of the Commonwealth of Virginia. GMUF was created to receive, hold, invest and administer property, and to make expenditures for the benefit of the University. GMUF holds corporate stocks on behalf of the University in the amount of \$1,190,885, and corporate bonds in the amount of \$1,001,170, both of which are subject to custodial credit risk. The other investments held for the University by GMUF are not subject to custodial credit risk.

Credit Risk - the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit quality ratings are not required for U.S. government securities or other obligations explicitly guaranteed by the U.S. government. Information with respect to the University deposit exposure to credit risk is discussed below. The corporate bonds, in the amount of \$1,001,170, held for the University by GMUF, are debt securities, and therefore subject to credit risk. Credit risk relative to these bonds is mitigated by GMUF's investment policy guidelines on the credit quality of fixed income investments which state that the percentage of all fixed income assets rated below investment grade by one of the major reporting agencies (Standard & Poor's and Moody's) cannot exceed 20%. The other investments held for the University by GMUF are not investments of a type that are subject to credit risk.

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

Interest Rate Risk - the risk that changes in interest rates will adversely affect the fair value of an investment. GMUF holds money market funds in the amount of \$77,614 for the University. These money market funds have a maturity of less than one year. GMUF holds corporate bonds in the amount of \$1,001,170 for the University. These corporate bonds are subject to interest rate risk. The interest rate risk relative to these bonds is mitigated by GMUF's investment policy guidelines on fixed income investments, which limit maturities to a weighted average portfolio duration not to exceed 150% of the weighted average portfolio duration of the Barclays Aggregate Bond Index. The other investments held for the University by GMUF are not investments of a type that are subject to interest rate risk.

Foreign Currency Risk - the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The University had no foreign investments but had foreign deposits in the amount of \$820,058 for FY 2011.

A. Cash and Cash Equivalents

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

B. Investments

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

C. Securities Lending Transactions

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 the State Treasury's securities lending program is available on a statewide level in the *Commonwealth of Virginia's Comprehensive Annual Financial Report*. The Commonwealth's policy is to record unrealized gains and losses in the General

Fund in the Commonwealth's basic financial statements. When gains or losses are realized, the actual gains and losses are recorded by the affected agencies.

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

	<u>Market Value</u>
Cash and cash equivalents:	
Local funds	\$ 15,964,716
Treasurer of Virginia	82,392,925
Treasurer of Virginia (Securities Lending)	<u>4,289,340</u>
Subtotal	102,646,981
Restricted cash and cash equivalents:	
Treasurer of Virginia (State Nonarbitrage Program)	42,974,628
Held in custody of others	<u>63,301</u>
Subtotal	<u>43,037,929</u>
 Total Cash and cash equivalents	 <u>\$145,684,910</u>

Investments:

Short-term:	
Treasurer of Virginia (Securities Lending)	<u>\$1,315,285</u>
Long-term:	
Corporate stocks - held by GMUF	1,190,885
Corporate bonds - held by GMUF	1,001,170
Money Market Funds & Cash - held by GMUF	77,614
Certificates of deposit - held by GMUF	629
Real Estate - held by GMUF	519
Alternative investments - held by GMUF	<u>1,518,137</u>
Subtotal Long-term	3,788,954
 Total Investments	 <u>\$5,104,239</u>

3. DONOR-RESTRICTED ENDOWMENTS

The University's endowment is managed by the George Mason University Foundation (GMUF). During FY 2011, \$346,758 of net appreciation of donor-restricted endowments became available for expenditure by the governing board.

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

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

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

4. ACCOUNTS AND NOTES RECEIVABLE

Accounts and notes receivable consisted of the following at June 30, 2011:

Accounts Receivable:

Student tuition and fees	\$7,131,775
Grants and Contracts receivable (restricted)	21,652,541
Other accounts receivable	<u>2,622,495</u>

Total accounts receivable \$31,406,811

Less allowance for doubtful accounts (888,108)

Net accounts receivable \$30,518,703

Notes Receivable:

Current:

Perkins loans receivable	\$428,449
State and nursing loans	12,034
Loans to students	18,686
Less allowance for doubtful accounts	<u>(8,658)</u>

Total current notes receivable \$450,511

Noncurrent:

Perkins loans receivable	\$3,358,494
State and nursing loans	\$142,518
Less allowance for doubtful accounts	<u>(67,869)</u>

Net non-current notes receivable \$3,433,143

5. CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2011 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Non-depreciable capital assets:				
Land	\$19,032,502	-	-	\$19,032,502
Construction-in-progress	155,219,767	99,941,670	185,023,135	70,138,302
Works of art and historical treasures	<u>768,017</u>	<u>84,200</u>	<u>-</u>	<u>852,217</u>
Total non-depreciable capital assets	<u>175,020,286</u>	<u>100,025,870</u>	<u>185,023,135</u>	<u>90,023,021</u>
Depreciable Capital Assets:				
Buildings	878,307,020	200,971,342	479,778	1,078,798,584
Improvements	32,980,822	347,070	-	33,327,892
Infrastructure assets	46,995,526	7,082,503	-	54,078,029
Equipment	104,140,300	11,319,256	5,846,415	109,613,141
Intangibles including computer software	12,281,009	103,716	-	12,384,725
Library materials	<u>83,220,950</u>	<u>5,396,747</u>	<u>2,231,536</u>	<u>86,386,161</u>
Total Depreciable Capital Assets	<u>1,157,925,627</u>	<u>225,220,634</u>	<u>8,557,729</u>	<u>1,374,588,532</u>
Less accumulated depreciation:				
Buildings	172,702,926	29,187,731	479,778	201,410,879
Improvements	17,639,515	1,561,392	-	19,200,907
Infrastructure assets	14,278,363	1,421,324	-	15,699,687
Equipment	57,073,236	8,247,128	5,254,279	60,066,085
Intangibles including computer software	9,207,912	1,028,504	-	10,236,416
Library materials	<u>58,171,549</u>	<u>4,285,933</u>	<u>2,231,536</u>	<u>60,225,946</u>
Total accumulated depreciation	<u>329,073,501</u>	<u>45,732,012</u>	<u>7,965,593</u>	<u>366,839,920</u>
Depreciable capital assets, net	<u>828,852,126</u>	<u>179,488,622</u>	<u>592,136</u>	<u>1,007,748,612</u>
Total capital assets, net	<u>\$1,003,872,412</u>	<u>\$279,514,492</u>	<u>\$185,615,271</u>	<u>\$1,097,771,633</u>

6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2011:

Employee salaries, wages and fringe benefits payable	31,779,068
Vendors and suppliers accounts payable	11,275,884
Interest payable	6,563,696
Capital projects accounts and retainage payable	<u>16,516,000</u>
Total accounts payable and accrued expenses	<u>\$ 66,134,648</u>

7. NONCURRENT LIABILITIES

Noncurrent liabilities consist of long-term debt, accruals for compensated absences and other noncurrent liabilities. A summary of changes in noncurrent liabilities for the year ended June 30, 2011 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Non-current Portion</u>
Long-term debt:						
Revenue Bonds	\$168,507,660	\$48,950,000	\$8,369,511	\$209,088,149	\$8,544,157	\$200,543,992
Notes Payable	355,665,000	26,215,000	15,100,000	366,780,000	13,725,000	353,055,000
Capital Lease Obligation	-	30,065,868	112,746	29,953,122	471,056	29,482,066
Installment Purchases	18,021,363	-	1,588,795	16,432,568	1,656,289	14,776,279
Bond Discount	(121,028)	-	(16,523)	(104,505)	(16,523)	(87,982)
Bond Premium	21,818,378	2,784,921	1,651,077	22,952,222	1,571,798	21,380,424
Deferred amount on refundings	<u>(2,876,377)</u>	<u>(303,413)</u>	<u>(272,587)</u>	<u>(2,907,203)</u>	<u>(282,493)</u>	<u>(2,624,710)</u>
Total Long-term Debt	<u>561,014,996</u>	<u>107,712,376</u>	<u>26,533,019</u>	<u>642,194,353</u>	<u>25,669,284</u>	<u>616,525,069</u>
Accrued Compensated Absences	12,272,608	11,930,422	11,115,356	13,087,674	4,882,245	8,205,429
Other noncurrent liabilities:						
Loan Funds	<u>2,602,317</u>	<u>8,754</u>	<u>23,830</u>	<u>2,587,241</u>	<u>-</u>	<u>2,587,241</u>
Total Long-term Liabilities	<u>\$575,889,921</u>	<u>\$119,651,552</u>	<u>\$37,672,205</u>	<u>\$657,869,268</u>	<u>\$30,551,529</u>	<u>\$627,317,739</u>

8. BONDS PAYABLE

A. Revenue Bonds

George Mason University bonds are issued pursuant to Section 9, Article X of the Constitution of Virginia. Section 9(c) bonds are backed by the full faith, credit, and taxing power of the Commonwealth, and are issued to finance capital projects which, when completed, are expected to generate revenue to repay the debt. Conversely, section 9(d) bonds are exclusively the limited obligations of the

University to be repaid from pledged general revenues and other funds generated by the University. Net proceeds from the sale of revenue bonds are required to be invested in the Virginia State Non-Arbitrage program. The University's participation in the program is deemed to be involuntary as defined by GASB standards.

The following schedule describes each of the revenue bonds outstanding:

<u>Bond Title</u>	<u>Year Issued</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Bond Term</u>	<u>Final Payment Due</u>	<u>Balance Outstanding at June 30, 2011</u>
9 (c) Revenue Bonds:						
University Center	2002	\$14,695,852	3.75 to 5.25%	13 Years	2015	\$6,147,732
Residence Hall V	2002	8,635,000	2.25 to 5.0%	20 Years	2022	820,000
Commonwealth and Dominion	2004	2,340,000	3.75 to 5.0%	10 Years	2014	815,000
9(c) 2004 B Refunding (2001)	2004	9,939,875	2.0 to 5.0%	16 Years	2020	9,676,402
Student Housing VII	2005	25,800,000	3.75 to 5.0%	25 Years	2030	16,435,000
Student Housing VII RB#2	2006	39,080,000	4.0 to 5.0%	25 Years	2031	27,825,000
Renovate Housing Facilities-Dominion	2006	2,420,000	5.00%	10 Years	2016	1,475,000
Housing VIIC & Entrance Road	2007	15,495,000	4.0 to 5.0%	25 Years	2032	14,695,000
Presidents Park Renovation	2007	3,130,000	5.00%	10 Years	2017	2,235,000
Housing VII RB#3	2007	2,010,000	4.0 to 5.0%	25 Years	2032	1,865,000
Renovate Commonwealth & Dominion Ph II	2008	1,530,000	3.0 to 5.0%	10 Years	2018	1,245,000
Renovate Presidents Park Ph I	2008	3,095,000	3.0 to 5.0%	10 Years	2018	2,515,000
Student Housing VII	2008	1,955,000	3.0 to 5.0%	25 Years	2033	1,825,000
Student Housing VIIC	2008	23,870,000	3.0 to 5.0%	25 Years	2033	23,295,000
Renovate Presidents Park Ph II	2008	3,120,000	3.0 to 5.0%	20 Years	2028	3,010,000
9(c) 2008 B Refunding (1998)	2008	740,117	3.0 to 5.0%	4 Years	2012	194,001
Renovate Presidents Park Ph I	2009	1,790,000	3.0 to 5.0%	10 Years	2019	1,620,000
Student Housing VIIC	2009	8,255,000	3.0 to 5.0%	25 Years	2034	8,060,000
Student Housing VIII	2009	7,910,000	4.0 to 5.0%	25 Years	2034	7,910,000
9(c) 2009 C Refunding (2001)	2009	6,266,975	3.0 to 4.0%	15 Years	2024	6,266,975
9(c) 2009 C Refunding (2002)	2009	4,448,039	3.0 to 4.0%	13 Years	2022	4,448,039
9(c) 2009 D Refunding (2005)	2009	6,630,000	2.5 to 5.0%	13 Years	2022	6,630,000
9(c) 2009 D Refunding (2006B)	2009	8,230,000	2.5 to 5.0%	13 Years	2022	8,230,000
Renovate Presidents Park Ph II	2010	2,790,000	2.1 to 5.0%	10 Years	2020	2,790,000
Housing VIII	2010	39,420,000	2.1 to 5.0%	25 Years	2035	39,420,000
Smithsonian CRC - Housing	2010	5,415,000	2.1 to 5.0%	25 Years	2035	5,415,000
Renovate Commons	2010	<u>1,325,000</u>	2.1 to 5.0%	20 Years	2030	<u>1,325,000</u>
Total 9 (c) bonds		<u>250,335,858</u>				<u>206,188,149</u>
9 (d) Revenue Bonds:						
Refunded Krasnow Institute for Advanced Study*	2003	2,677,686	5.2 to 6.375%	13 Years	2016	1,597,796
Refunded Warehouse	2003	<u>2,182,314</u>	5.2 to 6.375%	13 Years	2016	<u>1,302,204</u>
Total 9 (d) bonds		<u>4,860,000</u>				<u>2,900,000</u>
Total Bonds Payable		<u>\$255,195,858</u>				<u>\$209,088,149</u>

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

Long-term debt from Revenue Bonds as of June 30, 2011 matures as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$8,544,157	\$8,856,713	\$17,400,870
2013	10,416,257	8,448,310	18,864,567
2014	10,558,182	7,955,688	18,513,870
2015	11,182,599	7,447,760	18,630,359
2016	10,005,592	6,909,320	16,914,912
2017-2021	46,333,843	28,671,484	75,005,327
2022-2026	46,362,519	19,101,198	65,463,717
2027-2031	47,710,000	9,479,188	57,189,188
2032-2035	<u>17,975,000</u>	<u>1,428,651</u>	<u>19,403,651</u>
Total	<u>\$209,088,149</u>	<u>\$98,298,312</u>	<u>\$307,386,461</u>

B. Prior Year Bond Defeasance

The Commonwealth of Virginia, on behalf of the University, issued bonds in previous fiscal years the proceeds of which 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, 2011, \$4,775,000 of Series 2002, \$6,630,000 of Series 2005, and \$8,230,000 of Series 2006B 9(c) general obligation bonds were considered defeased.

9. NOTES PAYABLE

A. VCBA Notes

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

The following schedule describes each of the notes outstanding:

<u>Bond Title</u>	<u>Year Issued</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Bond Term</u>	<u>Final Payment Due</u>	<u>Balance Outstanding at June 30, 2011</u>
Student Union I Renovation	2002	\$2,460,000	3.0 to 5.0%	9 Years	2012	\$320,000
Parking Deck II	2003	13,455,000	2.5 to 5.0%	21 Years	2025	7,485,000
Fairfax Research I	2004	10,005,000	3.0 to 5.0%	21 Years	2026	8,270,000
Aquatic Fitness Center	2004	6,785,000	3.0 to 5.0%	16 Years	2021	5,000,000
VCBA 2004B Refunding (1997A)	2004	13,470,000	3.0 to 5.0%	12 Years	2017	10,505,000
VCBA 2004B Refunding (1999A)	2004	2,720,000	3.0 to 5.0%	15 Years	2020	2,420,000
Krasnow Institute	2005	4,495,000	3.5 to 5.0%	21 Years	2027	3,900,000
Student Union III	2005	4,890,000	3.5 to 5.0%	21 Years	2027	4,250,000
Student Union III RB#2	2006	5,190,000	3.0 to 5.0%	21 Years	2028	4,690,000
PE Addition/Renovation	2006	6,035,000	3.0 to 5.0%	22 Years	2029	5,660,000
PE Building Addition, Phase II	2006	2,800,000	3.0 to 5.0%	22 Years	2029	2,625,000
Krasnow Institute Addition	2006	1,955,000	3.0 to 5.0%	20 Years	2027	1,695,000
Patriot Center Addition/Renovation	2006	8,200,000	3.0 to 5.0%	21 Years	2028	7,415,000
PW Bio Containment Lab	2006	13,260,000	3.0 to 5.0%	22 Years	2029	12,435,000
PW Performing Arts Center	2006	10,790,000	3.0 to 5.0%	22 Years	2029	10,115,000
Fairfax Surge Space Fit Out	2006	1,515,000	3.0 to 5.0%	21 Years	2028	1,370,000
Fairfax Surge Space Building	2006	6,340,000	3.0 to 5.0%	21 Years	2028	5,735,000
PW Performing Arts Center RB#2	2007	8,565,000	4.5 to 5.0%	20 Years	2028	7,995,000
Student Union I Renovation	2007	5,085,000	4.5 to 5.0%	20 Years	2028	4,745,000
Student Union III RB#3	2007	6,130,000	4.5 to 5.0%	25 Years	2033	5,725,000
PE Addition/Renovation RB#2	2007	8,555,000	4.5 to 5.0%	20 Years	2028	7,985,000
PE Building Addition Phase II, RB#2	2007	3,820,000	4.5 to 5.0%	20 Years	2028	3,565,000
Fairfax Surge Space Bldg RB#2	2007	2,965,000	4.5 to 5.0%	20 Years	2028	2,770,000
Academic VI/Research II	2007	4,945,000	4.5 to 5.0%	20 Years	2028	4,615,000
Parking Deck III	2007	20,750,000	4.5 to 5.0%	25 Years	2033	19,795,000
Softball Field Improvement	2007	1,510,000	5.00%	10 Years	2018	1,135,000
Hotel & Conference Center	2007	18,000,000	4.5 to 5.0%	30 Years	2038	17,405,000
Student Union II Renovation	2007	1,490,000	5.00%	10 Years	2018	1,215,000
VCBA 2007B Refunding (1997A)	2007	3,555,000	4 to 4.25%	10 Years	2018	2,165,000
VCBA 2007B Refunding (2005A)	2007	1,675,000	4.0 to 4.5%	12 Years	2020	1,555,000
Patriot Center Renovation, Phase II	2009	1,860,000	2.1 to 5.0%	20 Years	2029	1,790,000
Arlington Phase II	2009	7,945,000	2.1 to 5.0%	25 Years	2034	7,750,000
PW Performing Arts Center RB#3	2009	17,960,000	2.1 to 5.0%	20 Years	2029	17,335,000
Parking Deck III Phase I	2009	9,790,000	2.1 to 5.0%	25 Years	2034	9,555,000
PE Building Phase I	2009	2,750,000	2.1 to 5.0%	20 Years	2029	2,655,000
Surge Space & Fit-Out	2009	10,730,000	2.1 to 5.0%	20 Years	2029	10,350,000
Academic VI/Research II, RB#2	2009	20,335,000	2.1 to 5.0%	20 Years	2029	19,625,000
PE Building Phase II	2009	5,245,000	2.1 to 5.0%	20 Years	2029	5,065,000
Biomedical Research Lab, RB#2	2009	6,405,000	2.1 to 5.0%	20 Years	2029	6,180,000
Hotel & Conference Center	2009	25,190,000	2.1 to 5.0%	30 Years	2039	24,760,000
Student Union I Addition/Renovation	2009	7,980,000	2.1 to 5.0%	20 Years	2029	7,705,000
Student Union II Renovation	2009	585,000	2.1 to 5.0%	10 Years	2019	525,000
Parking Deck III Phase II	2009	13,885,000	2.1 to 5.0%	25 Years	2034	13,555,000
W. Campus Connector & Campus Entrances	2009	6,010,000	2.1 to 5.0%	20 Years	2029	5,800,000
PW Loop Road and Entrance	2009	575,000	3.0 to 5.0%	7 Years	2017	575,000
Arlington Phase II	2009	5,010,000	3.0 to 5.0%	25 Years	2035	5,010,000
PW Performing Arts Center	2009	3,390,000	3.0 to 5.0%	20 Years	2030	3,390,000
Fairfax Surge Space Fit Out Data Center	2009	1,685,000	2.0 to 5.0%	20 Years	2030	1,635,000
PW Regional Biomedical Laboratory	2009	1,950,000	2.0 to 5.0%	20 Years	2030	1,890,000
Hotel & Conference Center	2009	8,300,000	3.0 to 5.0%	30 Years	2040	8,300,000
Student Union I Addition/Renovation	2009	7,725,000	3.0 to 5.0%	20 Years	2030	7,725,000
Student Union II Renovation	2009	4,830,000	3.0 to 5.0%	20 Years	2030	4,830,000
Arlington Phase II	2010	3,570,000	5.00%	7 Years	2018	3,570,000
Student Union II Renovation	2010	2,935,000	3.75 to 5.5%	20 Years	2031	2,935,000
Student Union I Addition/Renovation	2010	5,390,000	3.75 to 5.5%	20 Years	2031	5,390,000
Smithsonian CRC-Dining	2010	2,395,000	3.75 to 5.6%	25 Years	2036	2,395,000
Krasnow Institute Addition II	2010	5,215,000	2.0 to 5.5%	20 Years	2031	5,215,000
Fieldhouse Life/Safety/Code Renovation	2010	1,395,000	3.75 to 5.5%	20 Years	2031	1,395,000
Repair Aquatic & Fitness Center HVAC	2010	2,325,000	2.0 to 5.0%	10 Years	2021	2,325,000
VCBA 2010B Refunding (2003A)	2010	2,990,000	2.0 to 5.0%	10 Years	2021	2,990,000
Total Notes Payable		<u>\$397,760,000</u>				<u>\$366,780,000</u>

Long-term debt from Notes Payable as of June 30, 2011 matures as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$13,725,000	\$16,697,751	\$30,422,751
2013	14,965,000	16,011,476	30,976,476
2014	15,720,000	15,274,983	30,994,983
2015	16,440,000	14,531,735	30,971,735
2016	17,195,000	13,750,072	30,945,072
2017-2021	88,625,000	56,273,322	144,898,322
2022-2026	94,825,000	35,129,623	129,954,623
2027-2031	72,240,000	14,274,209	86,514,209
2032-2036	24,455,000	4,430,389	28,885,389
2037-2040	<u>8,590,000</u>	<u>621,375</u>	<u>9,211,375</u>
Total	<u>\$366,780,000</u>	<u>\$186,994,935</u>	<u>\$553,774,935</u>

B. 2011 Defeasance of Debt

In November 2010, the University issued \$2,990,000 of VCBA pooled bonds, Series 2010B, with interest rates of 2.0 to 5.0% to refund \$3,130,000 of outstanding notes payable with interest rates of 4.375 to 5.0%. The Series 2010B bonds issued to refund a portion of the Parking Deck II, Series 2003A, were advance refunded, where the net proceeds of \$3,536,277 (after payment of \$20,427 in issuance costs) were used to purchase state and local government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2003A note. As a result, a portion of the 2003A note was then considered to be defeased and a portion of the liability for the note has been removed from the noncurrent liabilities line in the Statement of Net Assets. Any related assets in escrow have similarly been excluded.

Although the advance refunding resulted in the recognition of an accounting loss of \$303,413 for the year ended June 30, 2011, the University in effect reduced its aggregate debt service payments by \$178,976 over the next 10 years and obtained an economic gain (difference between the present value of the old and new debt service payments) of \$148,052.

C. Prior Year Debt Defeasance

The Virginia College Building Authority (VCBA) issued 9(d) VCBA pooled bonds in previous fiscal years the proceeds of which were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on other debt. The notes representing that other debt are therefore considered defeased. Accordingly, the trust account's assets and liabilities for the defeased notes are not included in the University's financial statements. On June 30, 2011, \$1,630,000 of notes from the Series 2005A and \$3,130,000 from the Series 2003A 9(d) VCBA pooled bonds were considered defeased.

10. INSTALLMENT PURCHASES PAYABLE & CAPITAL LEASE OBLIGATION

A. Installment Purchases

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

Principal and interest payments on these commitments for fiscal years subsequent to June 30, 2011 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$1,656,289	\$679,128	\$2,335,417
2013	1,469,242	616,666	2,085,908
2014	1,339,422	560,850	1,900,272
2015	1,267,583	506,252	1,773,835
2016	1,290,031	453,913	1,743,944
2017-2021	7,149,655	1,418,652	8,568,307
2022-2025	<u>2,260,346</u>	<u>289,431</u>	<u>2,549,777</u>
Total	<u>\$16,432,568</u>	<u>\$4,524,892</u>	<u>\$20,957,460</u>

B. Capital Lease

The University has entered into a twenty-five year capital lease with George Mason University Foundation (GMUF) for the provision of a 150,000 square foot administration building at the Fairfax campus.

The University has accounted for the acquisition of the administration building and its furniture and equipment as a capital lease, and therefore has recorded the building and its furniture and equipment as Depreciable capital assets, net, and has also recorded a corresponding lease liability in Long-term debt, both on its Statement of Net Assets as of June 30, 2011.

Due to important uncertainties as of June 30, 2011, GMUF, on its separate audited financial statements, has accounted for the lease as an operating lease rather than a capital lease, and therefore has also recorded the building and its furniture and equipment as Property and equipment, net on its Consolidated Statement of Financial Position, which is reflected in these financial statements in the George Mason University Component Units Combined Statements of Financial Position, and in Note 11, Component Units, in the Combining Statement of Financial Position.

The result of the differing accounting treatments is that the same building and equipment is recorded as depreciable capital assets by both the University and GMUF, and both entities recorded depreciation expense on the same depreciable assets. GMUF intends to adopt capital lease accounting for these assets in Fiscal Year 2012, once the final cost of the building and equipment and related debt balances are known and the lease cash flows are finalized. If GMUF had followed capital lease accounting for Fiscal Year 2011, its Property and equipment, net would have been reduced by approximately \$29.9 million and it would have recorded a lease receivable for at least \$29.9 million. In addition, its depreciation expense would have been lower by \$171 thousand dollars, lease revenue would have been lower by \$316 thousand and interest income would have increased by \$241 thousand dollars resulting in a net increase to net assets of \$96 thousand dollars.

Principal and interest payments on the capital lease for fiscal years subsequent to June 30, 2011 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$471,056	\$2,083,944	\$2,555,000
2013	504,895	2,050,105	2,555,000
2014	541,166	2,013,834	2,555,000
2015	580,043	1,974,957	2,555,000
2016	621,712	1,933,288	2,555,000
2017-2021	3,846,227	8,928,773	12,775,000
2022-2026	5,441,029	7,333,971	12,775,000
2027-2031	7,697,105	5,077,895	12,775,000
2032-2036	<u>10,249,889</u>	<u>1,886,361</u>	<u>12,136,250</u>
Total	<u>\$29,953,122</u>	<u>\$33,283,128</u>	<u>\$63,236,250</u>

During Fiscal Year 2011, the University prepaid interest and principal on the capital lease in the amount of \$2,555,000 which is recorded on the Statement of Net Assets as of June 30 2011 as Prepaid expenses.

11. COMPONENT UNITS

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

Combining Statement of Financial Position As of June 30, 2011

	George Mason University Foundation	Mason Housing, Inc. *	Component Units Total
Assets			
Cash and cash equivalents	\$14,894,269	\$55,713	\$14,949,982
Restricted cash and cash equivalents	848,839	6,025,676	6,874,515
Accounts receivable	-	14,920	14,920
Pledges receivable, net	23,392,910	-	23,392,910
Due from HEI	-	386,128	386,128
Derivative asset	29,258	-	29,258
Other assets	295,928	-	295,928
Prepaid expenses	62,971	50,240	113,211
Leasing commissions	1,896,350	-	1,896,350
Beneficial interest in perpetual trusts	10,657,112	-	10,657,112
Annuity benefit contract	403,559	-	403,559
Deferred loan costs, net	782,523	1,780,884	2,563,407
Investments	100,646,996	-	100,646,996
Property & equipment, net (See University Note 10.B)	128,450,720	29,842,169	158,292,889
Art and antiques	572,567	-	572,567
Total Assets	282,934,002	38,155,730	321,089,732
Liabilities and Net Assets			
Liabilities			
Accounts payable and accrued expenses	10,566,166	202,710	10,768,876
Accrued payroll and related expenses	-	101,256	101,256
Unearned rent	3,444,711	-	3,444,711
Trust liabilities	1,271,621	-	1,271,621
Other liabilities	85,180	126,111	211,291
Accrued annuity benefit	403,559	-	403,559
Derivative obligations including interest rate swap liability	5,042,796	6,363,125	11,405,921
Long-term debt including notes payable	120,716,585	39,760,000	160,476,585
Amounts held for others	8,456,844	-	8,456,844
Total Liabilities	149,987,462	46,553,202	196,540,664
Net Assets			
Unrestricted	11,532,590	(8,397,472)	3,135,118
Temporarily restricted	66,802,803	-	66,802,803
Permanently restricted	62,724,741	-	62,724,741
GMUF Arlington Campus, LLC	(5,279,750)	-	(5,279,750)
GMUF Mason Administration, LLC	(2,833,844)	-	(2,833,844)
Total Net Assets	132,946,540	(8,397,472)	124,549,068
Total Liabilities and Net Assets	\$282,934,002	\$38,155,730	\$321,089,732

* March 31, 2011 year-end

**Combining Statement of Activities
For the Year Ended June 30, 2011**

	George Mason University Foundation	Mason Housing, Inc. *	Component Units Total
Operating Revenue:			
Contributions	\$28,163,358	-	\$28,163,358
Investment and trust income	11,236,434	-	11,236,434
Miscellaneous income	89,956	-	89,956
Rental income	12,841,242	2,830,680	15,671,922
Service fees	1,022,811	-	1,022,811
Total Operating Revenue	53,353,801	2,830,680	56,184,481
Operating Expenses:			
Academic program support	22,833,040	-	22,833,040
Advertising and promotion	-	24,194	24,194
Depreciation (See University Note 10.B)	3,759,121	1,061,570	4,820,691
Fundraising	205,398	-	205,398
Insurance	151,689	101,106	252,795
Interest expense	5,724,431	-	5,724,431
Maintenance	-	84,027	84,027
Management fees	-	78,367	78,367
Office and other administrative expenses	2,862,953	166,694	3,029,647
Other program service benefits	3,078,509	-	3,078,509
Salaries and wages	-	300,478	300,478
Utilities	2,437,901	28,621	2,466,522
Total Operating Expenses	41,053,042	1,845,057	42,898,099
Change in Net Assets before Non-operating items	12,300,759	985,623	13,286,382
Non-operating Items	-	(3,030,852)	(3,030,852)
Change in Net Assets	12,300,759	(2,045,229)	10,255,530
Beginning Net Assets	120,645,781	(6,352,243)	114,293,538
Ending Net Assets – end of year	\$132,946,540	\$(8,397,472)	\$124,549,068

* March 31, 2011 year-end

A. Investments - GMUF

The fair values of investments by type at June 30, 2011 are as follows:

	GMUF
Cash and money market funds	\$3,239,278
Certificates of deposit	303,827
Equities	26,673,466
Fixed income	41,144,377
Commodities	2,228,005
Real estate	250,533
Hedge funds	21,049,966
Managed futures	3,965,606
Private equity and real assets	1,791,938
Total Investments	<u>\$100,646,996</u>

B. Contributions Receivable – GMUF

GMUF's pledges receivable as of June 30, 2011 are as follows:

Due in less than one year	\$3,461,061
Due in one to five years	15,301,327
Due in more than five years	<u>7,139,900</u>
Less discount present value	<u>(2,509,378)</u>
Total	<u>\$23,392,910</u>

Discount rates range from 0.50 percent to 5.69 percent.

As of June 30, 2011, the Foundation received \$6,972,454 of conditional promises to give, primarily matching funds for which the fundraising goals have not yet been achieved. These conditional promises to give are not recognized as assets in the consolidated statement of financial position.

C. Property and Equipment

The following comprises property and equipment (but see University Note 10.B) for the component units at June 30, 2011:

	GMUF	MHI *
Land	\$26,164,774	\$ -
Buildings and building improvements	123,791,206	31,252,397
Furniture and equipment	2,515,226	31,036
Total	<u>152,471,206</u>	<u>31,283,433</u>
Accumulated depreciation and amortization	<u>(24,020,486)</u>	<u>(1,441,264)</u>
Net property and equipment	<u><u>\$128,450,720</u></u>	<u><u>\$29,842,169</u></u>

* March 31, 2011 year-end

D. Long-Term Debt – GMUF

George Mason University Foundation, Inc. Bonds

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

As a security for the payment of the bonds, the Foundation entered into an irrevocable letter of credit with a commercial bank in the initial amount of \$35,593,333. Due to the reduction of the commercial bank's credit rating below investment grade, the Foundation replaced the letter of credit facility with that of another commercial bank on October 7, 2009. The substitute commercial bank simultaneously assumed the related interest rate swap derivative instrument. The letter of credit is renewable annually and expired October 6, 2011. The letter of credit has been extended for one year. As of June 30, 2011, no draws have been taken against the letter of credit; however, the letter of credit amount is contingent upon the principal balance outstanding on the related bonds. As of June 30, 2011 and 2010, the principal balance outstanding on the bonds was \$27,920,000 and \$29,020,000, respectively. The letter of credit amount as of June 30, 2011 and 2010 was \$28,292,267 and \$29,406,922, respectively.

On October 7, 2009, as a result of the substitution of the letter of credit facility with another commercial bank, restrictive covenants related to the bonds included unrestricted liquidity of not less than \$1,100,000 and a property debt service coverage ratio of not less than 1.2 to 1. As of June 30, 2011 and 2010, the Foundation was in compliance with the required restrictive covenants.

Interest incurred on the bonds as well as the related swap agreement during fiscal years 2011 and 2010 totaled \$1,137,358 and \$1,145,465, respectively.

GMUF Arlington Campus, LLC Notes

On August 18, 2006, GMUF Arlington Campus, LLC secured a permanent 10-year \$68.5 million loan by executing a deed of trust on real property located at 3434 North Washington Street with a book value of \$58,810,080 with a financial institution. There are two notes (“A note” and “B note”) under the deed of trust with the A note for \$64,000,000 at a fixed interest rate of 6.24% per annum, two years interest only, with 30 year amortization thereafter, and the B note for \$4,500,000 at a fixed interest rate of 10.50% per annum, two years interest only, with a 30 year amortization thereafter. The resulting blended rate for the two notes is 6.52%. As of June 30, 2011 and 2010, the principal balance outstanding on the notes was \$66,450,594 and \$67,235,598, respectively.

Interest incurred on the notes during fiscal years 2011 and 2010 totaled \$4,457,488 and \$4,506,148, respectively.

GMUF Mason Administration, LLC Bonds

On April 21, 2010 the Fairfax County Development Authority issued its \$36,100,000 Revenue Bond Series 2010A (Tax Exempt – GMUF Mason Administration, LLC Project) and its \$1,900,000 Revenue Bond Series 2010B (Taxable – GMUF Mason Administration, LLC Project) and sold such bonds to a commercial bank pursuant to a Bond Purchase and Loan Agreement dated April 1, 2010. Proceeds are to be used in the acquisition, construction, renovation and equipping of a five-story administration building consisting of approximately 140,000 square feet for classrooms, administrative office and retail space. Under the terms of the Loan Agreement, during the construction period, the commercial bank will make advances to the Foundation upon receipt of required approvals by the construction consultant. Interest-only payments are paid monthly during the construction period on the amount drawn at a floating rate of 64.1% of 1-month LIBOR plus 1.5% on the 2010A proceeds and on the amount drawn at a floating rate of 1 month LIBOR plus 2.0% on the 2010B proceeds. The Series 2010A bond will mature on June 1, 2036. The series 2010B bond will mature December 1, 2013. The building was substantially completed in May 2011, with remaining construction for retail space to be completed in fiscal year 2012.

The Foundation’s loan obligation is limited to that portion of the bond issuance which it draws upon pursuant to the Bond Purchase and Loan Agreement. As of June 30, 2011 and 2010, the outstanding loan balance was \$26,345,991 and \$5,155,725, respectively. The Foundation expects to draw a total of \$34,000,000 of the GMUF Mason Administration, LLC bonds to complete the project.

As part of this transaction, the Foundation simultaneously entered into a forward floating-to-fixed interest rate swap to effectively fix the interest rate on \$32,100,000 tax-exempt notional amount and a second forward floating-to-fixed interest rate swap to effectively fix the interest rate on the \$1,900,000 taxable notional amount with a commercial bank. The swap transactions were effective on June 1, 2011. The termination date is June 1, 2036 for the tax-exempt notional amount and December 1, 2013 for the taxable notional amount. The tax-exempt swap has an option to terminate at no risk at the end of the 13th year.

Interest incurred on the notes and related swaps during fiscal year 2011 was \$129,585. There was no interest expense for fiscal year 2010.

Maturities of bonds and notes payable on all of the aforementioned obligations at June 30, 2011 are as follows:

2012	\$2,741,360
2013	2,894,811
2014	3,040,789
2015	3,195,922
2016	3,394,066
Thereafter	105,449,637
	<u>\$120,716,585</u>

The carrying value of long-term debt approximated the fair value as of June 30, 2011 and 2010, respectively.

E. Derivative Instruments - GMUF

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

In October 2003, the Foundation entered into an interest rate swap agreement with a financial institution against the floating rate bonds in the notional amount of \$22,425,000 at a fixed interest rate of 4.045%, including all costs, on a 20-year amortization schedule. Concurrently, the Foundation entered into a 20-year interest rate cap agreement with the same financial institution in the notional amount of \$12,700,000, at a rate of 10%. The interest rate swap was used as a cash flow hedge to synthetically fix the rate of the bonds and to eliminate changes in the market interest rates. The interest rate swap agreement was assumed by another financial institution in October 2009 in conjunction with the assumption of the letter of credit securing the Fairfax County Economic Development Authority bonds. At June 30, 2011 and 2010, the notional amount on the swap was \$16,800,000 and \$17,725,000 and on the cap was \$11,250,000 and \$11,425,000, respectively.

The fair value of the interest rate swap at June 30, 2011 and 2010, totaled a derivative liability of \$2,225,839 and \$2,425,458, respectively. The interest rate swap has a liability threshold of \$3,000,000. Should the derivative obligation exceed \$3,000,000 the Foundation is required to post collateral in excess of the threshold amount. As of June 30, 2011 and 2010, no collateral amounts were required. The fair value of the interest rate cap totaled a derivative asset of \$29,258 at June 30, 2011 and a derivative liability of \$6,070 at June 30, 2010. The net change in value has been recorded as a gain on derivatives in the consolidated statement of activities. Additionally, all assets or liabilities related to the interest rate swap and interest rate cap convert to zero at contract maturity in 2024.

In October 2006, the Foundation entered into an interest rate swap agreement with a financial institution against the floating rate bonds in the notional amount of \$25,775,000 on a 23-year amortization schedule. The swap was used as a cash flow hedge to stabilize the interest rate for the last five years of the bond issue related to the student housing project and was expected to create positive cash flows over the remaining bond life. At closing on October 19, 2006, the Foundation received \$250,000 up front cash.

Under the swap agreement, beginning in February 2007 the Foundation received the difference between the Bond Market Association (BMA) index and 68.48% of the 5 year LIBOR index from the swap provider. When the BMA index was higher than 68.48% of the 5 year LIBOR index, the Foundation paid the difference to the swap provider. In fiscal years 2010, the swap provider paid \$56,127 to the Foundation which was included as a reduction to interest expense on the consolidated statement of activities. The Foundation received no such payment in fiscal year 2011, due to the termination of the interest rate swap as described below.

Upon mutual agreement by the Foundation and the financial institution, the interest rate swap agreement, and derivative liability of \$229,040 at June 30, 2009, was terminated September 2, 2009. The Foundation received a \$99,201 payment from the financial institution in consideration of the termination. The net change in value has been recorded as a reduction to loss on derivatives in the consolidated statement of activities for fiscal year 2010.

GMUF Mason Administration, LLC Interest Rate Swaps

In March 2010, as part of the GMUF Mason Administration, LLC Project, the Foundation entered into a forward floating-to-fixed interest rate swap to effectively fix the interest rate on the \$32,100,000 tax-exempt notional amount and a second forward floating-to-fixed interest rate swap to effectively fix the interest rate on the \$1,900,000 taxable notional amount with a commercial bank. The swap transactions became effective on June 1, 2011. The termination date is June 1, 2036 for the tax-exempt notional amount and December 1, 2013 for the taxable notional amount. The tax-exempt swap has an option to terminate at no risk at the end of the 13th year. The fair value of the interest rate swaps \$2,816,957 and \$2,662,606 at June 30, 2011 and 2010 respectively. The net change in value has been recorded as a loss on derivatives in the consolidated statement of activities. The combined interest rate swaps have a liability threshold of \$5,000,000. Should the derivative obligations exceed \$5,000,000 the GMUF Mason Administration, LLC is required to post collateral in excess of the threshold amount. As of June 30, 2011 and 2010, no collateral amounts were required.

F. Long-Term Debt – MHI

In October 2008, the Fairfax County Economic Development Agency (EDA) issued \$39,760,000 of variable rate bonds in order to provide financing for the development of the MHI housing units. A third party financial institution (the bank) acquired the bonds and remitted the bond sales proceeds, net of fees and other debt issuance costs to a trustee appointed to receive the funds on behalf of MHI. Concurrently, MHI and EDA entered into a loan agreement, whereby EDA loaned the bond proceeds to MHI on substantially the same terms as the initial bond issuance. These transactions were in accordance with a series of agreements entered into by the three parties in October 2007, with the October 2008 amendments relating primarily to the dates of the closing of the transactions, the amounts loaned and the stated interest rates. In addition, as outlined in the original agreements entered into in October 2007, MHI and the bank entered into a swap agreement which exchanged the variable rate loan borne by MHI with a fixed rate loan split between two tranches. The Organization has determined that the amendments to the original agreements entered into in October 2008 are not substantial and has treated these amendments as a debt modification. Accordingly,

certain fees payable to the bank to amend the original agreements have been added to the deferred financing costs incurred in obtaining this financing.

As a result of the above transactions, the Organization has a note payable with a fixed interest rate of 3.938% plus an initial indexed floating rate spread of 1.100% (aggregate interest rate of 5.038% at March 31, 2011 and 2010) and a maturity date of August 1, 2039. The note is secured by the Organization's property and future rental income. Interest is payable monthly on the note payable, commencing in November 2008. Annual principal payments commence in August 2011.

The note payable contains a financial covenant. For the year ended March 31, 2011, the Organization did not meet this required covenant but has obtained notification from the bank that the event of noncompliance has been waived.

As substantially all of the debt proceeds were used to fund the building and development of the MHI housing units, interest incurred on the note payable and associated letter of credit were capitalized as part of the construction costs while the units were under construction. The total amount of interest capitalized, and the total amount of interest expensed during the year ended March 31, 2010 pertaining to the note payable amounted to \$1,301,536 and \$699,641, respectively. The total amount of interest capitalized and the total amount of interest expensed during the year ended March 31, 2010 pertaining to both the note payable and the amortization of the deferred financing costs amounted to \$1,373,500 and \$738,007, respectively. No additional amounts of interest were capitalized during the year ended March 31, 2011.

The following schedule shows principal payments due under the note payable as of March 31, 2011:

2012	\$35,000
2013	45,000
2014	80,000
2015	140,000
2016	160,000
Thereafter	39,300,000
Total	<u>\$39,760,000</u>

G. Interest Rate Swap Agreements - MHI

In October 2008, the Organization entered into a forward interest rate swap agreement to effectively exchange the variable interest rate on \$39,760,000 of notes payable during the period from October 2008 through August 2039, for a fixed interest rate of 3.938%. The difference paid or received under this agreement is recognized as an adjustment to interest expense.

12. EXPENSES BY NATURAL CLASSIFICATION

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

	<u>Salaries and Wages</u>	<u>Fringe Benefits</u>	<u>Goods and Services</u>	<u>Student Aid</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$163,268,245	\$37,833,391	\$23,963,747	-	-	\$225,065,383
Research	38,422,250	6,514,767	15,981,590	-	-	60,918,607
Academic Support	29,832,594	8,033,140	11,232,632	-	-	49,098,366
Student Services	13,884,698	3,920,865	4,182,892	-	-	21,988,455
Public Service	7,510,216	1,602,508	10,030,986	-	-	19,143,710
Operation and Maintenance of Plant	14,970,754	5,415,702	22,895,635	-	-	43,282,091
Institutional Support	24,249,410	6,670,500	5,499,443	-	-	36,419,353
Depreciation Expense	-	-	-	-	45,732,013	45,732,013
Student Aid	-	-	-	26,838,473	-	26,838,473
Auxiliary Enterprises	<u>30,662,365</u>	<u>8,119,501</u>	<u>59,845,000</u>	<u>-</u>	<u>-</u>	<u>98,626,866</u>
Totals	<u>\$322,800,532</u>	<u>\$78,110,374</u>	<u>\$153,631,925</u>	<u>\$26,838,473</u>	<u>\$45,732,013</u>	<u>\$627,113,317</u>

13. STATE APPROPRIATIONS- CURRENT UNRESTRICTED FUNDS

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

Original Appropriation	\$111,733,347
Adjustments:	
E&G budget reversion	(21,628,705)
Item 271 reduction	(1,939,893)
One-time bonus	3,055,662
VRS reduction, Appropriation Act Part 3	(613,440)
Funds for VIVA Program	<u>31,881</u>
Total	<u>\$90,638,852</u>

14. INTEREST EXPENSE

During fiscal year 2011, the University incurred interest expense totaling \$27,119,361. Of this amount, \$3,393,186 was capitalized as part of the cost of construction and \$23,726,175 was expensed.

15. COMMITMENTS

A. Operating Leases

The University is committed under various operating leases for rental of off-campus facilities. The leases are for one to ten year terms. Facility rental expenses for the fiscal year ended June 30, 2011 were \$5,773,459. The University had, as of June 30, 2011, the following total future minimum rental payments due under the above leases:

<u>Year Ended June 30,</u>	
2012	\$ 4,511,595
2013	4,408,049
2014	2,511,221
2015	1,550,578
2016	<u>978,397</u>
Total	<u>\$13,959,840</u>

B. Construction

Outstanding commitments for capital outlay projects that were under construction at June 30, 2011 were \$29,178,708.

16. RETIREMENT AND PENSION SYSTEMS

A. Virginia Retirement System (VRS)

Substantially all full-time classified salaried employees of George Mason University participate in the defined benefit retirement plan administered by VRS. The VRS is an agent multiple-employer 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, 2011. 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 the retirement plan, which totaled \$11,279,105 for the year ended June 30, 2011. The delayed employee share (employer paid) 4th quarter retirement contributions are included in this amount.

For FY 2011, the employer's retirement contribution rate was 11.58% for plan participants hired before July 1, 2010. Plan participants hired after June 30, 2010 received an employer contribution of 6.58% and were required to contribute 5%. Starting in FY 2012, all participants will be required to contribute 5% to the plan.

Contributions to the plan were calculated using the plan's covered payroll of \$99,588,560 for the year ended June 30, 2011.

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 \$485,320 for the year ended June 30, 2011.

For FY 2011, the VaLORS retirement contribution rate was 18.09% for participants hired prior to July 1, 2010. Participants hired after June 30, 2010 were required to contribute 5% and received an employer contribution of 13.09%.

Contributions to VaLORS were calculated using the plans covered payroll of approximately \$2,701,202 for the year ended June 30, 2011.

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 contribution plus interest and dividends.

For FY 2011, for plan participants hired prior to July 1, 2010, the employer's contribution was 10.4% and the participant was not required to make contributions to the plan. For FY 2011, plan participants hired after June 30, 2010 received an employer contribution of 8.5% and were required to contribute 5%. This plan structure for participants hired after June 30, 2010 is designated in the table below with a 2 following the investment providers' names.

Individual contracts issued under the plan provide for full and immediate vesting of the University's contributions. Total pension costs under these plans were \$15,087,950 for the year ended June 30, 2011. Contributions were calculated using the plan's covered payroll of \$146,089,416 for fiscal year 2011.

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

<u>Faculty Retirement Plan</u>	<u>Retirement Pension Cost</u>	<u>Plan's Covered Payroll</u>	<u>Contribution Percentage</u>
TIAA-CREF*	\$10,445,862	\$100,440,981	10.4%
TIAA-CREF 2	197,992	2,329,320	8.5%
Fidelity Investments	4,170,789	40,103,740	10.4%
Fidelity Investments 2	<u>273,307</u>	<u>3,215,375</u>	8.5%
Total	<u>\$15,087,950</u>	<u>\$146,089,416</u>	

*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 \$10 per pay period. The dollar amount match can change depending on the funding available in the Commonwealth's budget. The Commonwealth's Deferred Compensation Plan is a qualified defined contribution plan under Section 401(a) of the Internal Revenue Code.

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

Employer contributions under these Deferred Compensation Plans were \$805,940 for the fiscal year ended June 30, 2011.

17. POST-RETIREMENT BENEFITS

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

18. RISK MANAGEMENT AND EMPLOYEE HEALTH CARE PLANS

The University is exposed to various risks of loss related to torts; theft, or damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The University participates in insurance plans maintained by the Commonwealth of Virginia. The Department of Human Resource Management administers the Commonwealth employee health care and worker's compensation plans, and the Department of Treasury, Division of Risk Management, administer the risk management insurance plans. Risk management insurance includes property, general liability, faithful performance of duty bond,

automobile, and air and watercraft plans. The University pays premiums to each of these departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth's Comprehensive Annual Financial Report.

19. RESTRICTED NET ASSETS

At June 30, 2011 restricted net assets were restricted for the following purposes:

Restricted, nonexpendable:	
Student aid	\$1,178,383
Instruction	1,620,000
Research	<u>925,000</u>
Total restricted, nonexpendable	<u>\$3,723,383</u>
Restricted, expendable:	
Student aid	\$1,114,408
Instruction	208,960
Research	636,386
Capital projects	<u>1,235,821</u>
Total restricted, expendable	<u>\$3,195,575</u>

20. SUBSEQUENT EVENTS

On August 1, 2011, the University entered into a 30 year lease agreement with George Mason University Foundation Prince William Housing LLC (the Housing LLC), a Virginia Limited Liability Company, the sole member of which is George Mason University Foundation (GMUF), a Virginia nonprofit corporation. The lease is for a 105,858 square foot building which will be financed, constructed, and owned by the Housing LLC and located on the University's Prince William campus. The building will contain a student residence hall, University program space, and retail space. The 30 year lease term is scheduled to commence on August 24, 2012. The Housing LLC will lease the site on which the building will be located pursuant to a ground lease dated August 1, 2011 between the University, as lessor, and the Housing LLC, as lessee.

On August 1, 2011, the University entered into a 30 year lease agreement with George Mason University Foundation Prince William Life Sciences Lab LLC (the Lab LLC), a Virginia Limited Liability Company, the sole member of which is George Mason University Foundation (GMUF), a Virginia nonprofit corporation. The lease is for a 75,671 square foot building which will be financed, constructed, and owned by the Lab LLC and located on the University's Prince William campus. The building will contain laboratory space, office space, and third-party incubator space. The 30 year lease term is scheduled to commence on January 16, 2013. The Lab LLC will lease the site on which the building will be located pursuant to a ground lease dated August 1, 2011 between the University, as lessor, and the Lab LLC, as lessee.

During November 2011, the Commonwealth Treasury Board completed the sale of the General Obligation Bonds, Series 2011A. The University's share of the total principal

amount of the bonds issued is \$42.4 million. The University will use the proceeds of these bonds to finance several student housing construction and renovation projects. Payment on the bonds will be made semi-annually, with an interest rate ranging from 3.0 to 5.0 percent. The final payment will be due in 2036.

Also during November 2011, the University entered into seven promissory notes with the Virginia College Building Authority (VCBA) to participate in the Educational Facilities Revenue Bonds, Series 2011A, issued by the VCBA under its Pooled Bond Program. The total principal amount of these notes is \$8.8 million. The University will use the proceeds for construction of one dining facility and improvements to others. Payment on the notes will be made semi-annually, with an interest rate ranging from 3.0 percent to 5.0 percent. The final payment will be due in 2037.

During the period July 1, 2011 - March 9 2012, the University executed new commitments for two capital outlay projects totaling \$48.9 million.

INDEPENDENT AUDITOR'S REPORT



Commonwealth of Virginia

Auditor of Public Accounts

Walter J. Kucharski
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

March 9, 2012

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgan
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
George Mason University

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of **George Mason University**, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2011, which collectively comprise George Mason University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of George Mason University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component units of George Mason University, which are discussed in Note 11. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of George Mason University is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and aggregate discretely presented component units of George Mason University as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with Government Auditing Standards, we have also issued our report dated March 9, 2012 on our consideration of George Mason University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



AUDITOR OF PUBLIC ACCOUNTS

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