

**GEORGE MASON UNIVERSITY  
FAIRFAX, VIRGINIA**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2002**

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**Auditor of  
Public Accounts**  
**COMMONWEALTH OF VIRGINIA**

## **AUDIT SUMMARY**

Our audit of George Mason University for the year ended June 30, 2002, found:

- the financial statements are presented fairly, in all material respects;
- no internal control matters that we consider material weaknesses;
- no instances of noncompliance with applicable laws and regulations tested that we are required to report; and
- corrective action has been completed with respect to the audit findings reported in the prior year.

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UNIVERSITY OFFICIALS

April 23, 2003

The Honorable Mark R. Warner  
Governor of Virginia

The Honorable Kevin G. Miller  
Chairman, Joint Legislative Audit  
and Review Commission

The Board of Visitors  
George Mason University

We have audited the accounts and records of **George Mason University** as of and for the year ended June 30, 2002 and submit herewith our complete reports on financial statements and compliance and internal control over financial reporting.

#### INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of George Mason University, a component unit of the Commonwealth of Virginia, as of and for the year then ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of George Mason University as of June 30, 2002, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1B, the University has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement 34, *Basic Financial*

*Statements - and Management's Discussion and Analysis - for State and Local Governments, and Statement 35, Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities* as of June 30, 2002.

The Management's Discussion and Analysis on pages 4 through 7 is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

#### INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of George Mason University as of and for the year ended June 30, 2002, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants 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.

#### Compliance

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

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### Status of Prior Findings

The University has taken adequate corrective action with respect to audit findings reported in the prior year.

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

### EXIT CONFERENCE

We discussed this report with management at an exit conference held on March 20, 2003.

AUDITOR OF PUBLIC ACCOUNTS

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

### New Accounting Standards

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis - for State and Local Governments*, which established new financial reporting requirements. In November 1999, GASB issued Statement 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities – an amendment of GASB Statement 34*, which applied the new reporting requirements to public institutions of higher education. As component units of the Commonwealth of Virginia, public institutions implemented GASB Statement 35 at the same time the state government implemented GASB Statement 34 - June 30, 2002.

The new financial reporting standards significantly change the appearance and nature of the required financial information. The seven major changes are: (1) financial statements are presented on an entity-wide basis rather than by fund groups; (2) receipts associated with the summer term are prorated between fiscal years 2002 and 2003 rather than being deferred to the following year; (3) tuition and fees are reported net of discounts and allowances; (4) depreciation expense is now recognized; (5) intra-agency "sales" by auxiliary enterprises and other units are no longer considered revenues to the University; (6) the previous practice of double counting selected revenues and expenses (e.g., recovery of indirect costs on sponsored programs) is eliminated; and (7) the basic financial statements are preceded by this "Management's Discussion and Analysis" section.

### Overview of the Financial Statements and Financial Analysis

Since this is the transition year for the new reporting format and content, only one year of information is presented in these financial statements. Prior year information will be presented for comparative purposes in subsequent years. There are three financial statements presented: The Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. This discussion and analysis of the University's financial statements provides an overview of its financial activities for the year.

### Statement of Net Assets

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

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

Net assets are divided into three major categories. The first category, "invested in capital assets, net of related debt," provides the University's equity in property, plant, and equipment that it owns. The next category is "restricted net assets," which is divided into two subcategories, expendable and nonexpendable. Expendable restricted net assets are available for expenditure by the institution but must be spent as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The University does not have any nonexpendable net assets. The final category is "unrestricted net assets." Unrestricted net assets are available to the University for any lawful purpose of the institution.

Statement of Net Assets as of June 30, 2002 \*

Assets:	
Current assets	\$ 64,825
Capital assets, net	311,259
Other assets	<u>21,100</u>
Total assets	<u>397,184</u>
Liabilities:	
Current liabilities	63,406
Noncurrent liabilities	<u>110,142</u>
Total liabilities	<u>173,548</u>
Net assets:	
Invested in capital assets, net of debt	218,346
Restricted – expendable	12,139
Unrestricted	<u>(6,849)</u>
Total net assets	<u>\$223,636</u>

\* in thousands of dollars

The University's financial position remained strong at the end of fiscal year 2002. Total assets were \$397.2 million, and net assets (total assets less liabilities of \$173.5 million) amounted to \$223.6 million. Capital assets, net of accumulated depreciation of \$162.8 million, totaled \$311.3 million.

Statement of Revenues, Expenses, and Changes in Net Assets

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

Generally speaking, operating revenues are received for providing goods and services to the students and other constituencies of the institution. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Nonoperating revenues are revenues received for which goods and services are not provided. For example, state appropriations are nonoperating revenues because they are provided by the legislature without the legislature directly receiving commensurate goods and services for those revenues.

Statement of Revenues, Expenses and Changes in Net Assets  
For the Year Ended June 30, 2002 \*

Operating revenues:	
Student tuition and fees, net of allowances	\$ 80,587
Grants and contracts	64,113
Auxiliary enterprises and other	<u>64,045</u>
Total operating revenues	208,745
Operating expenses:	
Educational and general	\$ 242,427
Depreciation	17,257
Scholarships and fellowships	10,404
Auxiliary enterprises	<u>47,968</u>
Total operating expenses	318,056
Operating loss	(109,311)
Nonoperating revenues and expenses, net	<u>121,048</u>
Income before other revenues, expenses, gains or losses	<u>11,737</u>
Capital appropriations and gifts	23,081
Loss on disposal of assets	<u>(946)</u>
Net other revenues, expenses, gains and losses	<u>22,135</u>
Net increase in net assets	33,872
Net assets at beginning of year, as restated	<u>189,764</u>
Net assets at end of year	<u>\$ 223,636</u>

\* in thousands of dollars

The key metric in the Statement of Revenues, Expenses, and Changes in Net Assets is “Income before other revenues, expenses, gains and losses” since this includes both operating results and the University’s educational and general operating appropriation from the Commonwealth. This amounted to \$11.7 million for fiscal year 2002. As required by GASB Statements 34 and 35, this net income includes first-time recognition of summer session revenue (\$6.5 million) and depreciation expense (\$17.3 million).

Statement of Cash Flows

The final statement is the Statement of Cash Flows. This statement presents information about the cash activity of the institution during the year. The statement is divided into five parts. The first deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, non-investing, and noncapital financing purposes such as the state appropriations for educational and general programs and financial aid. The third section reflects the cash flows from capital financing activities and shows the purchases, proceeds, and interest received from these activities. This

section deals with the cash used for the acquisition and construction of capital and related items. The fourth section deals with cash flows from investing activities. The fifth section reconciles the net cash used by operating activities to the operational loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

Cash Flows for the Year Ended June 30, 2002 \*

Cash provided from operations	\$206,202
Cash used for operations	<u>301,042</u>
Net cash used by operations	<u>(94,840)</u>
Net cash provided by noncapital financing activities	120,079
Net cash provided by capital and related financing activities	1,441
Net cash used by investing activities	<u>(16,124)</u>
Net increase in cash	13,556
Cash, beginning of year	<u>33,055</u>
Cash, end of year	<u>\$ 46,611</u>

\* in thousands of dollars

The above summary of the Statement of Cash Flows shows that the University generates approximately 69 percent (\$206.2 million of \$301.0 million) of its operating cash requirements internally with the remainder (\$120.0 million) being provided in the form of appropriations from the Commonwealth of Virginia. Nonoperating cash was used to acquire capital assets, which were financed primarily through the sale of revenue bonds.

Capital Asset and Debt Administration

The University did not place any significant capital assets into service in fiscal 2002. This is a reflection of the building moratorium that was imposed the previous year. However, a new state-of-the-art academic facility is now under construction as is a new residence hall. Additional information concerning capital assets and debt administration is included in the footnotes to these financial statements.

Economic Outlook

The University is aware of only one significant condition that is expected to have a significant effect on the financial position and results of operations during subsequent fiscal years. This condition is a Commonwealth-imposed budget reduction of 10.1 percent on the University's educational and general programs in fiscal year 2003 with another reduction projected for the second year of the biennium. The University is taking action to compensate for these budget cuts by reducing expenses and increasing revenues. It is projected that these steps will allow the University to continue to offer the quality programs required by new and rising college students.

GEORGE MASON UNIVERSITY  
STATEMENT OF NET ASSETS  
As of JUNE 30, 2002

ASSETS

Current assets:	
Cash and cash equivalents (Note 2)	\$ 28,070,895
Short-term investments (Note 2)	19,600,603
Accounts receivable, net of allowance of \$266,153 (Note 3)	1,012,299
Notes receivable (Note 3)	758,421
Grants and contracts receivable (Note 3)	13,156,949
Advance payments from agency funds	627,612
Prepaid expenses	1,323,785
Inventories	137,598
Due from the Commonwealth of Virginia	72,747
Unamortized bond issuance costs	<u>63,955</u>
 Total current assets	 <u>64,824,864</u>
Noncurrent assets:	
Restricted cash and cash equivalents (Note 2)	18,539,846
Notes receivable, net of allowance of \$397,165 (Note 3)	1,715,816
Depreciable capital assets, net (Note 4)	255,693,731
Net cash used by noncapital financing activities	55,564,779
Unamortized bond issuance costs	<u>845,561</u>
 Total noncurrent assets	 <u>332,359,733</u>
 Total assets	 <u>397,184,597</u>

LIABILITIES

Current liabilities:	
Accounts payable and accrued expenses (Note 5)	36,666,031
Deferred revenue	14,071,722
Obligations under securities lending	1,374,810
Deposits held in custody for others	213,617
Long-term liabilities - Current portion (Note 6)	<u>11,080,110</u>
 Total current liabilities	 63,406,290
 Noncurrent liabilities (Note 6)	 <u>110,142,139</u>
 Total liabilities	 <u>173,548,429</u>

NET ASSETS

Invested in capital assets, net of related debt	218,346,464
Restricted: Expendable	12,139,049
Unrestricted	<u>(6,849,345)</u>
 Total net assets	 <u>\$ 223,636,168</u>

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, 2002

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Operating revenues:	
Student tuition and fees, net of scholarship allowances of \$9,015,367	\$ 80,587,440
Federal grants and contracts (Note 11)	42,116,962
State, local, and nongovernmental grants and contracts (Note 11)	21,996,299
Auxiliary enterprises, net of scholarship allowances of \$4,009,331	57,808,946
Other operating revenue	<u>6,235,816</u>
 Total operating revenue	 <u>208,745,463</u>
Operating expenses (Note 12):	
Instruction	125,356,889
Research	36,205,877
Public service	4,149,393
Academic support	20,701,032
Student services	11,078,198
Institutional support	29,858,657
Operation and maintenance of plant	15,076,963
Depreciation	17,256,737
Scholarships and fellowships	10,404,332
Net cash used by noncapital financing activities	<u>47,968,345</u>
 Total operating expenses	 <u>318,056,423</u>
 Operating loss	 (109,310,960)
Nonoperating revenues:	
State educational and general appropriation - unrestricted (Note 13)	112,855,516
State General Fund appropriations - restricted	7,823,836
Other	<u>368,827</u>
 Net nonoperating revenues	 121,048,179
 Income before other revenues, expenses, gains, and losses	 11,737,219
Other revenues, expenses, gains, and losses:	
Capital gifts and contributions	4,049,622
Capital appropriations	19,031,736
Loss on disposal of assets	<u>(946,176)</u>
 Net other revenues, expenses, gains, and losses	 <u>22,135,182</u>
 Increase in net assets	 33,872,401
 Net assets, Beginning of year (as restated)	 <u>189,763,767</u>
 Net assets, End of year	 <u><u>\$ 223,636,168</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, 2002

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Cash flows from operating activities:	
Student tuition and fees	\$ 75,802,200
Collection of loans to students and employees	829,497
Disbursements of loans to students and employees	(521,611)
Grants and contracts	64,620,807
Auxiliary enterprises	58,987,517
Sales and services of educational activities	439,351
Other receipts	5,522,037
Payments to suppliers	(79,664,521)
Payments to employees	(210,640,562)
Payments for scholarships and fellowships	(10,215,138)
	<hr/>
Net cash used by operating activities	(94,840,423)
Cash flows from noncapital financing activities:	
State appropriations	120,117,794
Federal direct lending program - receipts	40,040,041
Federal direct lending program - disbursements	(40,004,578)
Agency transactions	(74,025)
	<hr/>
Net cash used by noncapital financing activities	120,079,232
Cash flows from capital and related financing activities:	
Proceeds from capital appropriations available	19,031,736
Change in bond discounts and issuance costs	(54,372)
Payments of capital debt	(12,183,602)
Issuances of capital debt	27,675,000
Net increase in capital assets	(30,027,639)
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Net cash used by capital and related financing activities	4,441,123
Cash flow from investing activities:	
Interest on investments	930,385
Increase in short term investments	(17,054,339)
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Net cash used in investing activities	(16,123,954)
Net increase in cash	13,555,978
Cash and cash equivalents - Beginning of the year	<hr/> 33,054,763
Cash and cash equivalents - End of the year	<hr/> <u>\$ 46,610,741</u>

GEORGE MASON UNIVERSITY  
STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2002

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RECONCILIATION OF NET OPERATING LOSS TO NET CASH

USED BY OPERATING ACTIVITIES:

Operating loss	\$ (109,310,960)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	17,256,737
Changes in assets and liabilities:	
Accounts receivable, net	33,928
Restricted assets receivables, net	(1,774,428)
Inventory	22,416
Prepaid expenses	(635,673)
Due from the commonwealth	148,744
Accounts payable and accrued liabilities	1,335,938
Other payables, net	512,076
Deferred revenue	(2,825,165)
Compensated absences	395,964
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Net cash used by operating activities	<u>\$ (94,840,423)</u>

Noncash investing, noncapital financing, and capital and related financing transactions:

Gift of capital assets	\$ 1,725,235
Principal and interest on capital lease paid by state agency on behalf of the University	\$ 2,324,387

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

GEORGE MASON UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
AS OF JUNE 30, 2002

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. For financial reporting purposes, George Mason University includes all funds and account groups over which the University exercises or has the ability to exercise oversight authority. A separate report is prepared for the Commonwealth of Virginia that includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The University is a component unit of the Commonwealth of Virginia and is included in the basic financial statements of the Commonwealth.

The University has no component units as defined by the Governmental Accounting Standards Board (GASB) Statement 4, *The Financial Reporting Entity*. However, the University does have a related party foundation whose summarized financial condition is stated in note 17. This organization is a separate legal entity from the University; the University exercises no control over it. For this reason, the University's related party is not included in these financial statements.

B. Basis of Presentation

The University's accounting policies conform with generally accepted accounting principles as prescribed by the GASB, including all applicable GASB pronouncements as well as applicable Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The financial statements have been prepared in accordance with GASB Statement 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public College and Universities an amendment of GASB Statement 34*. These new statements are effective for the Commonwealth and all of its component units for the fiscal year ended June 30, 2002. The University follows Statement 34 requirements for "reporting by special-purpose governments engaged only in business-type activities." The change in financial statement presentation provides a comprehensive entity-wide look at the University's financial activities, and replaces the fund-group perspective previously required.

C. Basis of Accounting

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

D. Investments

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

E. Capital Assets

Capital assets include land, buildings and other improvements, library materials, equipment, and infrastructure assets such as sidewalks, steam tunnels, and electrical and computer network cabling systems. Capital assets are generally defined by the University as assets with an initial cost of \$2,000 or more and an estimated useful life in excess of one year. Library materials are valued using published average prices for library acquisitions. Such assets are recorded at actual cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation. Expenses for major capital assets and improvements are capitalized (construction in progress) as projects are constructed. Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose. The costs of normal maintenance and repairs that do not add to an asset's value or materially extend its useful life are not capitalized.

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

Buildings	40 years
Other improvements and infrastructure	20 years
Equipment	5-20 years
Library materials	10 years

F. Inventories

Inventories of expendable supplies held for consumption are valued at moving average. Inventories of computers and related items for resale to students, faculty and staff are valued on a first-in, first-out basis.

G. Noncurrent Cash and Investments

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

H. Deferred Revenue

Deferred revenue represents monies collected but not earned as of June 30, 2002. This is primarily composed of receipts of student tuition collected for courses that will be offered after June 30, 2002.

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, 2002, all unused vacation leave and the amount of sick leave payable upon termination under the Commonwealth of Virginia's sick leave pay out policy. The applicable share of employer related taxes payable on eventual termination payments is also included.

J. Federal Financial Assistance Programs

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

K. Net Assets

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

In connection with the implementation of GASB Statements 34 and 35 and as a result of an adjustment to capitalize equipment previously excluded from the financial statements, the following adjustment was made to reflect the cumulative effect of this accounting change:

Fund balances reported at June 30, 2001	\$343,875,921
Accumulated depreciation on capital assets at June 30, 2001, not previously recorded	(152,978,744)
Equipment purchased prior to July 1, 2002	1,598,243
Reclassification of federal contribution to the Perkins loan program as a liability	<u>(2,731,653)</u>
Net asset balance at July 1, 2001	<u>\$189,763,767</u>

L. Revenue Classifications

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

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

M. Scholarship Discounts and Allowances

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

N. Prepaid expenses

The University has recorded as a prepaid asset facility rentals and insurance premiums for fiscal year 2003 that were paid in advance as of June 30, 2002.

O. Cash and Cash Equivalents

For purposes of the statements of net assets and cash flows, the University considers cash with the Treasurer, cash on hand, and cash deposits including certificates of deposits and temporary investments with original maturities of three months or less to be cash equivalents. Funds invested through the State Non-Arbitrage Program are considered cash equivalents.

P. Discounts, Premiums, and Bond Issuance Costs

Bonds payable on the Statement of Net Assets are reported net of related discounts and premiums, which are expensed over the life of the bond. Similarly, bond issuance costs

are reported as a noncurrent asset that is amortized over the life of the bond on a straight-line basis.

## 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

The following information is provided with respect to the credit risk associated with the University's cash and cash equivalents and investments at June 30, 2002.

### A. Cash and Cash Equivalents

Pursuant to Section 2.2-1800, et seq., Code of Virginia, the Treasurer of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds, maintains all state funds of the University. Cash deposits held by the University are maintained in accounts that are collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400, et seq., Code of Virginia. In accordance with the GASB Statement 9 definition of cash and cash equivalents, cash represents cash with the Treasurer, cash on hand, and cash deposits including certificates of deposits and temporary investments with original maturities of three months or less. Cash with the Treasurer includes \$10,832,113 of Capital Appropriations Available that is expected to be reappropriated in fiscal year 2003. At June 30, 2002, the University's local funds included an overnight repurchase agreement - a cash equivalent - in the amount of \$780,617. This is a category two investment (see definition below).

### B. Investments

The investment policy of the University is established by the Board of Visitors and monitored by the Finance and Resource Development Committee of the Board. The University's investments as of June 30, 2002 are categorized by levels of credit risk as follows: Category one includes investments which are insured or registered securities, or securities held by the University or its agent in the University's name. Category two includes uninsured and unregistered investments with securities held by the broker's or dealer's trust department or safekeeping agent in the University's name. Category three includes uninsured or unregistered investments with securities held by the broker or dealer, or by its trust department or safekeeping agent, but not in the University's name. The University's investments in securities of government agencies are categorized as category two investments. All other investments are category one; there are no investments in category three.

	<u>Market Value</u>
Cash and cash equivalents:	
Local funds	\$ 1,754,223
Cash with Trustee	1,634,832
Cash with the Treasurer	<u>43,221,686</u>
 Total	 <u>\$46,610,741</u>

Investments:	
Funds with trustees	\$ 1,945,750
Treasurer of Virginia	16,674,704
George Mason University Foundation	275,000
Government agencies (FNMA)	<u>705,149</u>
Total	<u>\$19,600,603</u>

C. Securities Lending Transactions

Collateral held for securities lending and the securities lending transactions reported on the financial statements represent the University's allocated share of cash received for securities lending transactions held in the General Account of the Commonwealth. Information related to the credit risk of these investments and securities lending transactions held in the General Account is available on a statewide level in the Commonwealth of Virginia's *Comprehensive Annual Financial Report*.

3. ACCOUNTS AND NOTES RECEIVABLE

Accounts and notes receivable consisted of the following at June 30, 2002:

Student tuition and fees	\$ 635,702
Loans to students, faculty, and staff	2,871,402
Federal, state, and nongovernmental grants and contracts	13,156,949
Other accounts receivable	<u>642,750</u>
Total receivables	17,306,803
Less allowance for doubtful accounts	<u>(663,318)</u>
Net accounts and loans receivable	<u>\$16,643,485</u>

4. CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2002, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Nondepreciable capital assets:				
Land	\$ 13,485,149	\$ -	\$ -	\$ 13,485,149
Infrastructure assets	14,745,845	-	-	14,745,845
Construction in progress	<u>6,599,352</u>	<u>25,141,194</u>	<u>4,406,761</u>	<u>27,333,785</u>
Total nondepreciable capital assets	<u>34,830,346</u>	<u>25,141,194</u>	<u>4,406,761</u>	<u>55,564,779</u>

Depreciable capital assets:				
Buildings	289,319,432	460,582	-	289,780,014
Improvements	13,751,658	393,697	-	14,145,355
Equipment	65,253,986	10,116,618	8,140,405	67,230,199
Library materials	<u>43,237,878</u>	<u>4,341,537</u>	<u>265,000</u>	<u>47,314,415</u>
Total depreciable capital assets	<u>411,562,954</u>	<u>15,312,434</u>	<u>8,405,405</u>	<u>418,469,983</u>
Less accumulated depreciation:				
Buildings	76,599,395	7,283,129	-	83,882,524
Improvements	8,951,143	743,348	-	9,694,491
Equipment	40,987,872	6,412,735	7,194,229	40,206,378
Library materials	<u>26,440,334</u>	<u>2,817,525</u>	<u>265,000</u>	<u>28,992,859</u>
Total accumulated depreciation	<u>152,978,744</u>	<u>17,256,737</u>	<u>7,459,229</u>	<u>162,776,252</u>
Depreciable capital assets, Net	<u>258,584,210</u>	<u>(1,944,303)</u>	<u>946,176</u>	<u>255,693,731</u>
Total capital assets, Net	<u>\$293,414,556</u>	<u>\$23,196,891</u>	<u>\$5,352,937</u>	<u>\$311,258,510</u>

#### 5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2002:

Employee salaries, wages and fringe benefits payable	\$19,674,318
Vendors and suppliers accounts payable	11,067,061
Loan payable to primary government	5,000,000
Other	<u>924,652</u>
Total accounts payable and accrued expenses	<u>\$36,666,031</u>

#### 6. NONCURRENT LIABILITIES

Noncurrent liabilities consist of long-term debt, capital leases, and installment purchases, accruals for compensated absences and retirement plans, and other noncurrent liabilities. A summary of changes in noncurrent liabilities for the year ended June 30, 2002, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Noncurrent Portion</u>
Long-term debt:						
Revenue bonds	\$ 58,714,790	\$25,215,000	\$ 7,992,168	\$ 75,937,622	\$ 6,820,136	\$ 69,117,486
Notes payable	30,860,000	2,460,000	1,320,000	32,000,000	1,370,000	30,630,000
Capital leases	3,522,932	-	2,324,387	1,198,545	1,198,545	-
Installment purchases	<u>4,299,689</u>	<u>136,345</u>	<u>1,795,917</u>	<u>2,640,117</u>	<u>1,137,803</u>	<u>1,502,314</u>
Total long-term debt	<u>97,397,411</u>	<u>27,811,345</u>	<u>13,432,472</u>	<u>111,776,284</u>	<u>10,526,484</u>	<u>101,249,800</u>

Accrued compensated absences	5,507,570	1,067,678	671,714	5,903,534	449,526	5,454,008
Temporary Construction Loan	1,075,000	-	1,075,000	-	-	-
Perkins Loan Funds	2,732,519	78,887	-	2,811,406	-	2,811,406
Advance from the Treasurer	85,000	-	-	85,000	42,500	42,500
Bonds premium/Interest payable	<u>133,952</u>	<u>573,071</u>	<u>60,998</u>	<u>646,025</u>	<u>61,600</u>	<u>584,425</u>
Total long-term liabilities	<u>\$106,931,452</u>	<u>\$29,530,981</u>	<u>\$15,240,184</u>	<u>\$121,222,249</u>	<u>\$11,080,110</u>	<u>\$110,142,139</u>

## 7. BONDS PAYABLE

### A. Revenue Bonds

George Mason University bonds are issued pursuant to Section 9, Article X of the Constitution of Virginia. Section 9(c) bonds are backed by the full faith, credit, and taxing power of the Commonwealth, and are issued to finance capital projects which, when completed, are expected to generate revenue to repay the debt. Conversely, section 9(d) bonds are exclusively the limited obligations of the University to be repaid from pledged general revenues and other funds generated by the University. Net proceeds from the sale of revenue bonds are required to be invested in the Virginia State Non-Arbitrage program. GASB Statement 31 deems this participation to be involuntary. In 1995, the University issued \$4,355,000 of Section 9(d) bonds with interest rates ranging from 5.20 to 6.37 percent to finance the construction of the Krasnow Institute for Advanced Study. The Krasnow Foundation has deposited funds with the George Mason University Foundation, which will be used to reimburse the University for the debt service payments the latter is obligated to make. In 2002, two Section 9(c) bonds were issued for the construction of the Residence Hall V and the Housing Renovation project. These bonds were for \$21,780,000 and \$3,435,000 respectively. The interest rate on these bonds range from 4.0 to 5.0 percent.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 7,494,717	\$ 3,300,587	\$ 10,795,304
2004	7,784,125	3,013,678	10,797,803
2005	7,995,116	2,717,182	10,712,298
2006	6,264,875	2,410,900	8,675,775
2007	5,611,961	2,198,506	7,810,467
2008-2012	21,846,213	8,186,778	30,032,991
2013-2017	12,085,000	3,980,394	16,065,394
2018-2022	6,600,000	1,735,575	8,335,575
2023-2024	<u>3,110,000</u>	<u>223,250</u>	<u>3,333,250</u>
Total	78,792,007	27,766,850	106,558,857
Less: Unamortized discount	<u>(2,854,385)</u>	-	-
Total	<u>\$75,937,622</u>	<u>\$27,766,850</u>	<u>\$103,704,472</u>

B. The following schedule describes each of the 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, 2002</u>
<u>9(c) Revenue bonds</u>						
Residence hall I	1983	\$ 7,950,000	5.0 - 5.6%	20 Years	2002	\$ -
Field house	1983	4,905,000	5.0 - 5.6%	20 Years	2002	-
University Union	1983	6,750,000	5.0 - 5.6%	20 Years	2002	-
Parking lot VIII	1984	840,000	3.6 - 6.3%	20 Years	2004	155,387
P.E. III arena	1985	12,750,000	5.0 - 5.9%	20 Years	2005	3,327,110
Parking lot IX	1985	840,000	5.0 - 5.9%	20 Years	2005	223,774
Residence hall II	1985	2,000,000	5.0 - 5.9%	20 Years	2005	537,156
Parking lot X	1986	525,000	3.6 - 4.75%	20 Years	2006	160,208
Residence hall II	1986	6,030,000	3.6 - 4.75%	20 Years	2006	1,881,904
Security information building	1986	305,000	3.6 - 4.75%	20 Years	2006	95,103
Humanities III	1989	9,400,000	6.5 - 6.7%	20 Years	2009	4,740,935
Residence hall III	1989	10,697,600	6.4 - 6.7%	20 Years	2009	5,395,386
Residence hall IV	1990	11,145,000	3.6 - 8.4%	20 Years	2010	6,390,129
Parking structure	1992	5,045,000	4.8 - 6.2%	10 Years	2003	630,000
Student Union II addition	1992	2,535,000	3.5 - 5.5%	20 Years	2012	1,645,530
University center	1993	21,460,000	3.75 - 5.25%	20 Years	2015	16,105,000
Telecommunications	1994	3,770,000	6.0 - 6.6%	10 Years	2005	1,370,000
Prince William site and parking	1995	2,115,000	4.6 - 4.75%	10 Years	2006	960,000
Arlington parking garage	1998	1,915,000	3.5 - 4.2%	10 Years	2008	1,235,000
Residence hall V	2002	21,780,000	4.0 - 5.0%	20 Years	2022	21,780,000
Housing renovations	2002	<u>3,435,000</u>	4.0 - 5.0%	20 Years	2022	<u>3,435,000</u>
Total		<u>136,192,600</u>				<u>70,067,622</u>
<u>9(d) General revenue bonds</u>						
Krasnow Institute						
for Advanced Study	1995	4,355,000	5.2 - 6.375%	20 Years	2016	3,515,000
Warehouse	1995	<u>2,905,000</u>	5.2 - 6.375%	20 Years	2016	<u>2,355,000</u>
Total		<u>7,260,000</u>				<u>5,870,000</u>
Total bonds payable		<u>\$143,452,600</u>				<u>\$75,937,622</u>

C. Changes in Bonds Payable

During the year ended June 30, 2002, the following changes occurred in bonds payable:

	<u>Balance Outstanding at June 30, 2001</u>	<u>Principal Additions</u>	<u>Principal Reductions</u>	<u>Balance Outstanding at June 30, 2002</u>
9(c) Revenue bonds	\$52,579,790	\$25,215,000	\$7,727,168	\$70,067,622
9(d) Revenue bonds	<u>6,135,000</u>	-	<u>265,000</u>	<u>5,870,000</u>
Total bonds payable	<u>\$58,714,790</u>	<u>\$25,215,000</u>	<u>\$7,992,168</u>	<u>\$75,937,622</u>

D. Commonwealth Bond Obligations

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

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

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

Prior Year Bond Defeasance

The Commonwealth of Virginia, on behalf of the University, issued bonds in previous fiscal years for which the proceeds were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on other debt. The bonds representing that debt are therefore considered defeased. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the University's financial statements. On June 30, 2002, \$14,060,935 of bonds outstanding was considered defeased.

8. VCBA NOTES PAYABLE

The University entered into two promissory notes with the Virginia College Building Authority (VCBA). The first note payable issued in September 1997 was to finance the construction of the aquatic center located on the Fairfax campus and the Freedom Aquatic Center with adjacent parking lot located on the Prince William campus. The remaining principal amount of \$25,670,000 with an interest rate ranging from 3.75 percent to 5.00 percent is to be paid semi-annually as provided in the VCBA's Educational Facilities Revenue Bonds (Public Higher Education Financing Program), Series 1997A. The second note payable issued in October 1999 was to finance the construction of the parking garage expansion on the Fairfax campus. The remaining principal amount of \$3,870,000 with an interest rate ranging from 4.50 percent to 6.00 percent is to be paid semi-annually as provided in the VCBA's Educational Facilities Revenue Bonds (Public Higher Education Financing Program), Series 1999A. The University is required to pay the annual debt service on the 9(d) general revenue bonds issued by VCBA for the purchase of the promissory notes. The final principal payments are due in September 2017 and September 2019, respectively. In 2002, the University entered into one promissory note with the Virginia College Building Authority (VCBA), Series 2002A, for the construction of the Student Union Renovation Project in the amount of \$2,460,000 with repayment interest rates ranging from 3.0 to 5.0 percent. The final payment on this note is due in September 2011.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 1,370,000	\$ 1,418,622	\$ 2,788,622
2004	1,670,000	1,353,360	3,023,360
2005	1,740,000	1,293,568	3,033,568
2006	1,815,000	1,304,640	3,119,640
2007	1,900,000	1,222,321	3,122,321
2008-2012	9,885,000	4,752,158	14,637,158
2013-2017	10,535,000	2,243,900	12,778,900
2018-2022	<u>3,085,000</u>	<u>110,300</u>	<u>3,195,300</u>
Total	<u>\$32,000,000</u>	<u>\$13,698,869</u>	<u>\$45,698,869</u>

<u>Bond Title</u>	<u>Issue Date</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Bond Term</u>	<u>Final Payment Due</u>	<u>Balance Outstanding at June 30, 2002</u>
Fairfax Aquatic Center	1997	\$10,340,000	3.75 - 5.0%	20 Years	2017	\$ 8,950,000
Prince William Freedom Aquatic Center	1997	17,325,000	3.75 - 5.0%	20 Years	2017	15,480,000
Prince William parking	1997	1,915,000	3.75 - 5.0%	20 Years	2017	1,240,000
Fairfax Parking Garage expansion	1999	4,100,000	4.5 - 6.0%	20 Years	2019	3,870,000
Sub 1 renovations	2002	<u>2,460,000</u>	3.0 - 5.0%	10 Years	2012	<u>2,460,000</u>
Total		<u>\$36,140,000</u>				<u>\$32,000,000</u>

#### 9. CAPITAL LEASES PAYABLE

George Mason University participates in the equipment trust fund program through the Virginia College Building Authority. The fund created by the Commonwealth of Virginia allows colleges and universities to acquire new equipment through capital leases with the Authority. The University makes annual payments to repay its portion of the bonds issued by the Commonwealth. Principal and interest payments on these leases for fiscal years subsequent to June 30, 2002 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$1,198,545	\$56,931	<u>\$1,255,476</u>

#### 10. INSTALLMENT PURCHASES PAYABLE

George Mason University has entered into various installment purchase contracts to finance the acquisition of computer software site licenses, equipment for a fiber optic network, photocopiers, and other equipment. In 2002, the University entered into a new installment purchase agreement for a Mass Spectrometer Detector at a cost of \$136,345. The lease is for five years with an interest rate of 4.136 percent. The final payment is due in 2007. The remaining length of the purchase agreements ranges from one to five years and the interest rate ranges up to 6.25 percent. Principal and interest payments on these commitments for fiscal years subsequent to June 30, 2002 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$1,137,803	\$136,729	\$1,274,532
2004	1,187,728	68,721	1,256,449
2005	259,232	9,913	269,145
2006	45,362	1,151	46,513
2007	<u>9,992</u>	<u>86</u>	<u>10,077</u>
Total	<u>\$2,640,117</u>	<u>\$216,600</u>	<u>\$2,856,716</u>

#### 11. GRANTS AND CONTRACTS REVENUE

Grants and contracts include federal financial aid programs such as Pell grants and Supplemental Educational Opportunity Grants (SEOG), and Commonwealth programs such as the undergraduate and merit scholars programs. In accordance with GASB Statements 34 and 35 these revenues are reported solely as grants and contracts revenue and not in tuition and fees as well.

#### 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>Scholarships and Fellowships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 95,873,930	\$17,854,602	\$11,628,357	\$ -	\$ -	\$125,356,889
Research	20,555,122	3,091,079	12,559,676	-	-	36,205,877
Public service	1,629,389	242,462	2,277,542	-	-	4,149,393
Libraries	5,284,689	1,149,569	2,192,116	-	-	8,626,374
Academic support	8,004,267	2,594,654	1,475,737	-	-	12,074,658
Student services	7,475,000	1,577,012	2,026,186	-	-	11,078,198
Institutional support	17,774,111	4,673,099	7,411,447	-	-	29,858,657
Operation and maintenance of plant	5,487,194	1,467,363	8,122,406	-	-	15,076,963
Depreciation expense	-	-	-	-	17,256,737	17,256,737
Scholarships and fellowships	-	-	-	10,404,332	-	10,404,332
Auxiliary enterprises	<u>14,198,978</u>	<u>2,673,181</u>	<u>31,096,186</u>	<u>-</u>	<u>-</u>	<u>47,968,345</u>
Total	<u>\$176,282,680</u>	<u>\$35,323,021</u>	<u>\$78,789,653</u>	<u>\$10,404,332</u>	<u>\$17,256,737</u>	<u>\$318,056,423</u>

#### 13. STATE APPROPRIATIONS

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	\$116,896,540
Additions:	766,520
Benefit adjustments	
Virtual Library of Virginia	<u>130,054</u>
Total additions	<u>896,574</u>
Reductions:	
Budget reduction (2%)	2,354,632
Budget reduction (1%)	1,177,317
Prepayment of fiscal year 2003 reduction	800,000
Benefit adjustments	<u>605,649</u>
Total reductions	<u>4,937,598</u>
Final appropriation	<u><u>\$112,855,516</u></u>

14. COMMITMENTS

A. Operating Leases

George Mason University is committed under various operating leases for rental of off-campus facilities. The leases are for one to five year terms and the University has no automatic renewal options. In most cases, the University expects that, in the normal course of business, similar leases will replace these leases. Facility rental expenses for the fiscal year ended June 30, 2002, were \$1,958,256. The University had, as of June 30, 2002, the following total future minimum rental payments due under the above leases:

Year Ending, <u>June 30,</u>	<u>Payments</u>
2003	\$2,493,432
2004	2,499,168
2005	2,222,427
2006	1,585,615
2007	<u>642,537</u>
Total	<u><u>\$9,443,179</u></u>

B. Construction

Outstanding commitments for capital outlay projects that were under construction at June 30, 2002 were \$26,760,982.

15. 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. Information relating to this plan is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report. Because the employees of the University are also employees of the Commonwealth, the Commonwealth of Virginia and not the University has the overall responsibility for contributions to this plan.

B. Faculty Retirement Plans

Most full-time faculty and certain administrative staff participate in one of six faculty retirement plans rather than the VRS. These are fixed-contribution programs where the retirement benefits received are based upon the employer's 10.4 percent contribution plus interest and dividends. The employee is not required to make contributions to the program. Individual contracts issued under the plan provide for full and immediate vesting of the University's contributions. As with VRS, the employees' contributions are assumed by the employer. Total pension costs under these plans were approximately \$7,937,621 and contributions were calculated using the base salary of approximately \$75,651,567. The University's total payroll for fiscal year 2002 was approximately \$176,690,472. The following schedule summarizes the cost and participation in the six optional retirement plans.

<u>Faculty Retirement Plans</u>	<u>Retirement Pension Cost</u>	<u>Plan's Covered Payroll</u>	<u>Contribution Percentage</u>
TIAA-CREF *	\$6,220,831	\$59,367,641	10.5%
Fidelity Investments	1,417,774	13,431,566	10.5%
T. Rowe Price	151,895	1,454,162	10.4%
VALIC **	104,093	984,469	10.6%
Great West Life	32,994	317,247	10.4%
Metropolitan Life	<u>10,034</u>	<u>96,482</u>	10.4%
Total	<u>\$7,937,621</u>	<u>\$75,651,567</u>	

\* Teachers Insurance and Annuity Association/College Retirement Equities Fund

\*\* Variable Annuity Life Insurance Company

16. POST-EMPLOYMENT 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.

17. GEORGE MASON UNIVERSITY FOUNDATION, INC.

The George Mason University Foundation, Inc. is a separately managed and incorporated private 501(c)(3) tax-exempt not-for-profit organization operated exclusively to receive support for the benefit of the University. Gifts to the foundation support faculty recruitment and retention, academic and athletic scholarships, resources for libraries, laboratory equipment, and operating support for academic departments.

The University's financial statements do not include the assets, liabilities, and net assets of the George Mason University Foundation, Inc. The following table summarizes the financial position of the Foundation at June 30, 2002, taken from the Foundation's audited financial statements.

Assets	<u>\$94,571,948</u>
Liabilities	\$27,877,408
Net assets	<u>66,694,540</u>
Total liabilities and net assets	<u>\$94,571,948</u>

Revenues totaling \$11,368,829 included \$1,047,755 from the University for rent. Expenses totaled \$16,727,556.

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 state employee health care and worker's compensation plans are administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, medical malpractice, 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 of Virginia's Comprehensive Annual Financial Report.

19. SUBSEQUENT EVENTS

On March 19, 2003, the Treasury Board of the Commonwealth of Virginia approved the University's financing plan for the issuance of up to \$6,000,000 of Series 2003 General Revenue Pledge Refunding Bonds to finance expenses related to advance refunding Series 1995 Revenue bonds currently outstanding. These bonds are expected to close on April 16, 2003.

GEORGE MASON UNIVERSITY  
SCHEDULE OF AUXILIARY ENTERPRISES - REVENUES AND EXPENDITURES  
For the year ended June 30, 2002

	Administration	Campus Access	Computer Store	Fairfax Swimming Pool	Freedom Aquatic and Fitness Center
<b>Revenues:</b>					
Sales and services	\$ 651,971	\$ 3,754,205	\$ 760,090	\$ 760,268	\$ 3,183,121
Room	-	-	-	-	-
Board	-	-	-	-	-
Fees and fines	-	508,508	-	-	-
Interest	700,233	-	-	-	-
Gifts	-	-	-	-	-
Other	-	-	-	-	1,391,568
<b>Total revenues</b>	<b>1,352,204</b>	<b>4,262,713</b>	<b>760,090</b>	<b>760,268</b>	<b>4,574,689</b>
<b>Expenditures:</b>					
Personal services	789,268	22,462	158,187	759,288	1,932,660
Fringe benefits	132,268	3,271	30,280	96,444	270,921
Contractual services	12,669	1,771,445	11,926	148,226	241,930
Supplies	39,182	5,579	(8,366)	191,144	247,435
Merchandise for resale	-	-	378,427	-	-
Equipment	8,489	-	-	33,938	25,649
Current charges	2,662,184	140,670	21,527	230,444	487,709
Scholarships	410,750	-	-	-	-
Miscellaneous	7,168	17	-	-	7,854
<b>Total expenditures</b>	<b>4,061,978</b>	<b>1,943,444</b>	<b>591,981</b>	<b>1,459,484</b>	<b>3,214,158</b>
<b>Transfers:</b>					
<b>Mandatory:</b>					
Retirement of debt	(255,740)	(2,009,464)	-	(807,579)	(1,399,373)
<b>Non-mandatory:</b>					
Student fees	2,662,166	5,000	-	1,533,200	16,503
Plant funds	-	(63,347)	-	-	-
Intrafund	292,116	-	-	-	-
<b>Total transfers</b>	<b>2,698,542</b>	<b>(2,067,811)</b>	<b>-</b>	<b>725,621</b>	<b>(1,382,870)</b>
<b>Net increase(decrease) for the year</b>	<b>(11,232)</b>	<b>251,458</b>	<b>168,109</b>	<b>26,406</b>	<b>(22,339)</b>
<b>Balance at beginning of year</b>	<b>(611,860)</b>	<b>(565,955)</b>	<b>(203,693)</b>	<b>83,536</b>	<b>(162,805)</b>
<b>Balance at end of year</b>	<b>\$ (623,092)</b>	<b>\$ (314,497)</b>	<b>\$ (35,584)</b>	<b>\$ 109,942</b>	<b>\$ (185,144)</b>

Hemlock							
Overlook and Bull Run Marina	Institute of the Arts	Intercollegiate Athletics	Meal Plan	Patriot Center	Print Services	Recreational Sports Complex	
\$ 1,287,255	\$ 1,637,849	\$ 1,212,537	\$ -	\$ 631,362	\$ 668,601	\$ 113,347	
-	-	-	-	-	-	-	-
-	-	-	5,060,638	-	-	-	-
-	-	-	-	-	-	-	-
-	-	283,935	-	-	-	-	-
-	-	-	-	-	-	-	-
1,287,255	1,637,849	1,496,472	5,060,638	631,362	668,601	113,347	
727,531	1,558,024	3,417,658	-	-	705,091	842,341	
96,408	291,361	793,910	-	-	117,653	151,885	
283,602	2,160,797	1,599,460	4,904,277	66,849	(793,907)	245,816	
85,765	108,449	414,922	-	49,172	235,881	177,633	
-	-	-	-	-	-	-	-
4,222	1,760	(23,685)	-	8,384	26,633	113,256	
72,258	128,895	86,352	-	215,781	264,702	217,635	
-	-	2,151,138	-	-	-	-	-
-	750	9,529	-	175	(24)	701	
1,269,786	4,250,036	8,449,284	4,904,277	340,361	556,029	1,749,267	
-	(758,556)	-	-	(1,278,386)	-	(472,184)	
-	3,129,700	6,548,116	-	1,783,200	-	2,419,300	
-	-	-	-	-	-	(17,410)	
-	-	881,963	(308,800)	(631,362)	-	(219,518)	
-	2,371,144	7,430,079	(308,800)	(126,548)	-	1,710,188	
17,469	(241,043)	477,267	(152,439)	164,453	112,572	74,268	
(166,627)	(2,801,188)	(1,310,904)	274,563	1,800,056	(489,779)	1,490,821	
\$ (149,158)	\$ (3,042,231)	\$ (833,637)	\$ 122,124	\$ 1,964,509	\$ (377,207)	\$ 1,565,089	

GEORGE MASON UNIVERSITY  
SCHEDULE OF AUXILIARY ENTERPRISES - REVENUES AND EXPENDITURES, continued  
For the year ended June 30, 2002

	Student Activities	Student Fees	Student Housing	Student Services	Student Unions
<b>Revenues:</b>					
Sales and services	\$ 1,124,612	\$ -	\$ -	\$ 683,602	\$ 2,141,191
Room	-	-	11,016,470	-	-
Board	-	-	-	-	-
Fees and fines	-	25,419,145	-	-	-
Interest	-	-	-	-	-
Gifts	-	-	-	-	-
Other	-	-	-	-	-
<b>Total revenues</b>	<b>1,124,612</b>	<b>25,419,145</b>	<b>11,016,470</b>	<b>683,602</b>	<b>2,141,191</b>
<b>Expenditures:</b>					
Personal services	1,199,752	-	-	708,878	1,053,065
Fringe benefits	210,304	-	-	158,410	254,771
Contractual services	1,490,253	-	4,446,635	66,264	657,368
Supplies	251,137	-	25,487	107,200	217,318
Merchandise for resale	-	-	-	-	-
Equipment	32,846	-	15,630	-	30,509
Current charges	77,275	-	1,520,276	439,695	547,880
Scholarships	-	-	337,186	-	-
Miscellaneous	32,707	-	25,072	-	77
<b>Total expenditures</b>	<b>3,294,274</b>	<b>-</b>	<b>6,370,286</b>	<b>1,480,447</b>	<b>2,760,988</b>
<b>Transfers:</b>					
<b>Mandatory:</b>					
Retirement of debt	-	-	(3,265,551)	-	(2,592,602)
<b>Non-mandatory:</b>					
Student fees	2,408,286	(25,313,082)	-	882,231	3,345,338
Plant funds	-	-	-	(2,331)	(24,471)
Intrafund	(2,977)	308	-	-	-
<b>Total transfers</b>	<b>2,405,309</b>	<b>(25,312,774)</b>	<b>(3,265,551)</b>	<b>879,900</b>	<b>728,265</b>
<b>Net increase(decrease) for the year</b>	<b>235,647</b>	<b>106,371</b>	<b>1,380,633</b>	<b>83,055</b>	<b>108,468</b>
<b>Balance at beginning of year</b>	<b>369,143</b>	<b>(5,898)</b>	<b>(3,137,354)</b>	<b>206,544</b>	<b>1,329,487</b>
<b>Balance at end of year</b>	<b>\$ 604,790</b>	<b>\$ 100,473</b>	<b>\$ (1,756,721)</b>	<b>\$ 289,599</b>	<b>\$ 1,437,955</b>

	Telecom- munications	Other	Total
\$	71,618	\$ 1,132,082	19,813,711
	-	-	11,016,470
	-	-	5,060,638
	-	-	25,927,653
	-	-	700,233
	-	-	283,935
	-	-	1,391,568
	71,618	1,132,082	64,194,208
	271,102	(6,699)	14,138,608
	60,780	4,515	2,673,181
	(882,881)	-	16,430,729
	19,284	-	2,167,222
	-	-	378,427
	34,996	-	312,627
	(6,597)	-	7,106,686
	-	-	2,899,074
	861	-	84,887
	(502,455)	(2,184)	46,191,441
	(563,232)	-	(13,402,666)
	578,900	6,143	5,001
	-	-	(107,559)
	-	(14,400)	(2,669)
	15,668	(8,257)	(13,507,895)
	589,741	1,126,009	4,494,873
	128,328	15,484	(3,758,101)
\$	718,069	\$ 1,141,493	\$ 736,772

GEORGE MASON UNIVERSITY  
Fairfax, Virginia

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