

**GEORGE MASON UNIVERSITY
FAIRFAX, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2003**

APA

**Auditor of
Public Accounts**

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of George Mason University for the year ended June 30, 2003, found:

- the financial statements are presented fairly, in all material respects;
- internal control matters that we consider to be reportable conditions; however, we do not consider these to be material weaknesses; and
- instances of noncompliance with applicable laws and regulations tested that we are required to report.

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Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

July 9, 2004

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Lacey E. Putney
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, 2003, 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, 2003, 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, 2003, 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.

The Management's Discussion and Analysis on pages six through nine 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, 2003, 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 instances of noncompliance that are required to be reported under Government Auditing Standards. Instances of noncompliance, entitled "Complete Documentation of Access Policies and Procedures," and "Complete Business Analysis, Risk Assessment, and Disaster Recovery Plan" are described in the section titled "Internal Control and Compliance Findings and Recommendations."

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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the University's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions, entitled "Improve Financial Statement Preparation Process," "Complete Documentation of Access Policies and Procedures," "Complete Business Analysis, Risk Assessment, and Disaster Recovery Plan," and "Establish Controls for Auditing and Monitoring the Oracle Database" are described in the section titled "Internal Control and Compliance Findings and Recommendations."

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

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 May 5, 2004.

AUDITOR OF PUBLIC ACCOUNTS

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INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Improve Financial Statement Preparation Process

The University did not adequately document the support for its financial statements. As a result, when the individual who prepared the financial statements resigned, the remaining staff had difficulty providing adequate support and explanations to the auditors. University staff had to start over and prepare a revised set of working papers, including year end adjusting entries and financial statements, which caused delays in performance of some of the audit testing.

We recommend University staff prepare adequate documentation to support the financial statements at the time of the original submission to the State Comptroller. This documentation should be sufficient so that in the event there is staff turnover, both remaining staff and auditors can understand and follow the process used.

Complete Documentation of Access Policies and Procedures

The University has not completed formal information technology policies and procedures to provide access security controls for its network environment in accordance with the Commonwealth's ITRM Standard SEC2001-01.1. An Information Security Policy provides direction and guidance for maintaining security controls. It contains management's views and directives toward security. Having inadequate policies and procedures could place the University at risk for fraud, inappropriate access, and unauthorized access to critical systems and data resulting in critical data being unreliable.

We recommend that the University complete documentation of its information security policies and procedures to provide direction on maintaining security controls for the security of its network environment.

Complete Business Impact Analysis, Risk Assessment, and Disaster Recovery Plan

The University has not updated certain components of its information technology security program to reflect its current operating environment, nor its contingency plan. The business impact analysis and risk assessments should identify confidential information resources critical to the University and evaluate potential security threats and risks to those resources.

The contingency plan should encompass all critical information technology systems and provide for the continuation of critical business functions in the event of disruptions. The University may avert many potential contingencies and disasters, or reduce the damage they may cause, if management has a plan to take the appropriate steps early to control the event.

The University has appointed a Privacy and Security Compliance Team (PSCT) to initiate the process for the Business Impact Analysis/Risk Assessment. The PSCT will coordinate a pilot risk assessment process in the Information Technology Unit prior to developing a proposal to extend risk assessment to all computer systems in the University. The team is also preparing disaster recovery plans but will not complete these plans until 2005.

The Commonwealth of Virginia has issued COV ITRM Standard SEC 2001-01.1 defining the minimum requirements for an Institution's information technology security program and contingency planning. We recommend the University refer to this standard for guidance in developing its plan. We

further recommend that the University develop a plan as soon as possible to ensure that it applies adequate and uniform safeguards throughout the technology environment.

Establish Controls for Auditing and Monitoring the Oracle Database

The University does not use the auditing feature of the Oracle database to log access to critical functions within the database. Since the University does not use the auditing feature, it cannot monitor the logs through auditing. Failure to audit and monitor access to critical information could lead to undetected unauthorized database changes that would ordinarily be controlled through the monitoring process.

We recommend that the University develop controls for auditing and monitoring the most critical functions of the Oracle database to detect and control inappropriate access attempts as soon as possible.

MANAGEMENT'S DISCUSSION AND ANALYSIS

“Unaudited”

Overview of the Financial Statements and Financial Analysis

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

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the University as of the end of the fiscal year. This statement is a point of time financial statement. The purpose of the Statement of the Net Assets is to present readers of the financial statements a fiscal snapshot of 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 the property, plant, and equipment that it owns. The next category is “restricted net assets,” which is divided into two subcategories, expendable and nonexpendable. Expendable restricted net assets are available for expenditure by the institution but must be spent as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. 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 and June 30, 2003 (thousands of dollars)

	<u>June 30, 2003</u>	<u>June 30, 2002</u> <i>(as adjusted)</i>
Assets:		
Current assets	\$ 97,251	\$ 64,366
Capital assets, net	328,004	302,781
Other assets	<u>3,071</u>	<u>21,442</u>
Total assets	<u>428,326</u>	<u>388,589</u>
Liabilities:		
Current liabilities	68,573	60,725
Noncurrent liabilities	<u>108,751</u>	<u>109,912</u>
Total liabilities	<u>177,324</u>	<u>170,637</u>

Net Assets:

Invested in capital assets, net of debt	\$ 248,041	\$ 219,750
Restricted-expendable	5,287	38,430
Unrestricted	<u>(2,326)</u>	<u>(40,228)</u>
Total net assets	<u>\$ 251,002</u>	<u>\$ 217,952</u>

The University's financial position remained strong at the end of fiscal year 2003. Total assets were \$428 million, and net assets (total assets less liabilities of \$177 million) amounted to \$251 million. Current assets of \$97 million exceed current liabilities of \$69 million by \$28 million, or 29 percent. Capital assets, net of accumulated depreciation of \$185 million, totaled \$328 million.

The University's net asset position increased in 2003 compared to 2002 by \$33 million. Most of this increase, or \$29 million, was the result of capital appropriations to fund the construction of Residence Hall V, Academic IV (Innovation Hall) and Prince William III. Total assets increased in 2003 compared to 2002 by \$40 million. Building construction and equipment acquisitions accounted for most of this increase, or \$25 million. Increases in appropriations to be used for capital projects accounted for the remaining growth.

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 Years Ended June 30, 2002 and June 30, 2003 (thousands of dollars)

	<u>June 30, 2003</u>	<u>June 30, 2002</u> <i>(as adjusted)</i>
Operating revenues:		
Student tuition and fees, net of allowances	\$ 92,457	\$ 80,587
Grants and contracts	78,855	64,576
Auxiliary enterprises and other	<u>64,181</u>	<u>64,045</u>
Total operating revenues	<u>235,493</u>	<u>209,208</u>
Operating expenses:		
Education and general	263,537	240,415
Depreciation	17,732	17,915
Scholarships and fellowships	10,761	10,404
Auxiliary enterprises	<u>44,254</u>	<u>47,968</u>
Total operating expenses	<u>336,284</u>	<u>316,702</u>
Operating loss	(100,791)	(107,494)
Nonoperating revenues and expenses (net)	<u>101,459</u>	<u>121,048</u>
Income (loss) before other revenues, expenses, gains, and losses	668	13,554
Capital appropriations and other expenses	<u>32,383</u>	<u>21,882</u>
Net increase in net assets	33,051	35,436
Net assets at beginning of year	<u>217,952</u>	<u>182,516</u>
Net assets at end of year	<u>\$ 251,003</u>	<u>\$ 217,952</u>

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 \$668 thousand for fiscal year 2003. This compares to \$13.5 million for fiscal year 2002. The most significant change was a cut in state appropriations, from \$113 million in 2002 to \$98 million in 2003.

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.

Statement of Cash Flows
For the Years Ended June 30, 2002 and June 30, 2003 (thousands of dollars)

	<u>June 30, 2003</u>	<u>June 30, 2002</u> <i>(as adjusted)</i>
Cash provided from operations	\$ 233,951	\$ 206,202
Cash expended for operations	<u>315,928</u>	<u>301,042</u>
Net cash used for operations	(81,977)	(94,840)
Net cash provided by noncapital financing activities	106,924	120,079
Net cash provided by (used for) capital financing activities	(16,844)	(12,866)
Net cash provided by (used for) investing activities	<u>11,507</u>	<u>930</u>
Net increase in cash	19,610	13,303
Cash, beginning of year	<u>46,358</u>	<u>33,055</u>
Cash, end of year	<u>\$ 65,968</u>	<u>\$ 46,358</u>

The above summary of the Statement of Cash Flows shows that the University generates 74 percent (\$234 million of \$316 million) of its operating cash requirements internally with all of the remainder (\$82 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 capitalized the costs to construct Innovation Hall, a state-of-the-art classroom building, in fiscal year 2003. Additional information concerning capital assets and debt administration is included in the footnotes to these financial statements.

Economic Outlook

The University's financial position is strong. Increased tuition revenues have offset most of the decrease in appropriations. In addition, student enrollment increased in 2003 and continues to increase. Research activities continue to demonstrate strong growth. The University is well positioned to continue its overall growth pattern.

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FINANCIAL STATEMENTS

GEORGE MASON UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2003

ASSETS

Current assets:	
Cash and cash equivalents (Note 2)	\$ 65,967,681
Short-term investments (Note 2)	9,366,910
Accounts receivable, net of allowance of \$352,910 (Note 3)	1,216,728
Notes receivable (Note 3)	706,143
Grants and contracts receivable (restricted)	17,134,990
Prepaid expenses	2,172,752
Inventories	66,961
Due from the Commonwealth of Virginia	550,186
Unamortized bond issuance costs	<u>68,285</u>
 Total Current Assets	 <u>97,250,636</u>
Noncurrent assets:	
Notes receivable, net of allowance of \$63,723 (Note 3)	2,211,814
Depreciable capital assets, net of accumulated depreciation (Note 4)	278,589,863
Nondepreciable capital assets	49,414,496
Unamortized bond issuance costs	<u>859,543</u>
 Total noncurrent assets	 <u>331,075,716</u>
 Total assets	 <u>428,326,352</u>

LIABILITIES

Current liabilities:	
Accounts payable and accrued expenses (Note 5)	31,671,933
Advance from Treasurer	7,585,000
Deferred revenue	17,223,298
Obligations under securities lending	1,576,021
Long-term liabilities-current portion (Note 6)	<u>10,516,680</u>
 Total current liabilities	 68,572,932
 Noncurrent liabilities (Note 6)	 <u>108,750,773</u>
 Total liabilities	 <u>177,323,705</u>

NET ASSETS

Invested in capital assets, net of related debt	248,040,963
Restricted: expendable	5,287,334
Unrestricted	<u>(2,325,650)</u>
 Total net assets	 <u>\$ 251,002,647</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, 2003

Operating revenues:	
Student tuition and fees net of scholarship allowances of \$10,738,160	\$ 92,457,295
Federal grants and contracts (Note 1M)	50,496,602
State, local, and nongovernmental grants and contracts (Note 1M)	28,358,376
Auxiliary enterprises net of scholarship allowances of \$4,613,080	59,951,882
Other operating revenue	<u>4,228,720</u>
 Total operating revenue	 <u>235,492,875</u>
Operating expenses (Note 10)	
Instruction	138,378,711
Research	45,367,144
Public service	6,264,358
Academic support	22,166,412
Student services	11,939,149
Institutional support	23,249,957
Operation and maintenance of plant	16,171,958
Depreciation	17,732,082
Scholarships and fellowships	10,760,977
Auxiliary enterprises	<u>44,253,688</u>
 Total operating expenses	 <u>336,284,436</u>
Operating loss	<u>(100,791,561)</u>
Nonoperating revenues (expenses):	
State educational and general appropriation (Note 11)	97,639,963
Cash reversion to State	(1,575,022)
State general fund appropriations - restricted	8,358,471
Interest expense (Note 12)	(4,036,702)
Other	<u>1,072,313</u>
 Net nonoperating revenues	 101,459,023
Income before other revenues, expenses, gains, and losses	667,462
Other revenues, expenses, gains, and losses:	
Capital gifts and contributions	4,805,408
Capital appropriations	27,788,284
Other	<u>(210,546)</u>
 Net other revenues, expenses, gains, and losses	 <u>32,383,146</u>
Increase in net assets	33,050,608
Net assets beginning of year	223,636,168
Prior period adjustment (Note 13)	<u>(5,684,129)</u>
Net assets beginning of year - restated	<u>217,952,039</u>
Net assets end of year	<u>\$ 251,002,647</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, 2003

Cash flows from operating activities:	
Student tuition and fees	\$ 94,172,057
Grants and contracts	75,297,306
Auxiliary enterprises	60,507,191
Other receipts	3,974,645
Payments to suppliers	(77,191,742)
Payments to employees	(227,975,435)
Payments for scholarships and fellowships	(10,760,977)
	<u>(81,976,955)</u>
Net cash used by operating activities	
Cash flows from noncapital financing activities:	
State appropriations	105,998,434
Direct lending receipts	49,250,955
Direct lending disbursements	(49,250,955)
Cash reversion to state	(1,575,022)
Advance from treasurer	2,500,000
	<u>106,923,412</u>
Net cash provided by noncapital financing activities	
Cash flows from capital and related financing activities	
Proceeds from capital appropriations available	27,788,284
Capital gifts and contributions	2,696,722
Proceeds from issuance of capital related debt	8,822,000
Bond premium paid on capital related debt	417,453
Bond issuance costs on capital related debt	(39,011)
Principal paid on capital related debt	(9,373,396)
Interest paid on capital related debt	(4,036,909)
Purchases of capital assets	(43,119,130)
	<u>(16,843,987)</u>
Net cash used in capital and related financing activities	
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	19,572,229
Purchase of investments	(9,137,325)
Interest on investments	1,072,313
	<u>11,507,217</u>
Net cash provided by investing activities	
Net increase in cash	19,609,687
Cash and cash equivalents - beginning of the year - restated (Note 13)	<u>46,357,994</u>
Cash and cash equivalents - end of the year	<u><u>\$ 65,967,681</u></u>

GEORGE MASON UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2003

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

Operating loss	\$ (100,791,561)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	17,732,082
Changes in assets and liabilities:	
Accounts receivable (net)	(204,430)
Restricted assets receivables (net)	(4,184,357)
Perkins loan receivable	(103,471)
Perkins loan liability	(11,307)
Inventory	70,636
Prepaid expenses	(221,355)
Accounts payable and accrued liabilities	2,831,067
Deferred revenue	2,961,889
Compensated absences	(56,148)
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Net cash used by operating activities	<u><u>\$ (81,976,955)</u></u>

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

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NOTES TO FINANCIAL STATEMENTS

GEORGE MASON UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2003

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 basic financial statements of the Commonwealth.

The University has no component units as defined by the Governmental Accounting Standards Board (GASB) Statement 14, *The Financial Reporting Entity*. However, the University does have a related party foundation whose summarized financial conditions are stated in note 18. 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 Number 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement Number 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public College and Universities an amendment of GASB Statement Number 34*. The University follows Statement Number 34 requirements for "reporting by special-purpose governments engaged only in business-type activities."

C. Basis of Accounting

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

D. Investments

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

E. Capital Assets

Capital assets include land, buildings and other improvements, library materials, equipment, and infrastructure assets such as sidewalks, 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	25-50 years
Other improvements and infrastructure	10-30 years
Equipment	5-20 years
Library materials	10 years

F. Inventory

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

G. 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, 2003. This is primarily composed of receipts of student tuition collected for courses that will be offered after June 30, 2003.

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, 2003, 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, Direct Lending 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.

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 capitalized facility rentals and insurance premiums for fiscal year 2004 that were paid in advance as of June 30, 2003.

O. Discounts, Premiums, and Bond Issuance Costs

Bonds payable on the Statement of Net Assets are reported net of related discounts and premiums, which are expensed over the life of the bond. Similarly, bond issuance costs are reported as a 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, 2003.

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 Number 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. At June 30, 2003, the University's local funds cash included an overnight repurchase agreement in the amount of \$698,565. This is a category two investment (see 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, 2003, 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. All of the University's investments are category one.

	<u>Market Value</u>
Cash and cash equivalents:	
Local funds	\$ 3,500,667
Cash with the Treasurer	<u>62,467,014</u>
 Total	 <u>\$ 65,967,681</u>

Investments:	
Funds with trustees	\$ 454,792
Treasurer of Virginia (SNAP*)	<u>8,912,118</u>
Total	<u>\$ 9,366,910</u>

* State nonarbitrage program

C. Securities Lending Transactions

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

3. ACCOUNTS AND NOTES RECEIVABLE

Accounts and notes receivable consisted of the following at June 30, 2003:

A. Accounts Receivable

Student tuition and fees	\$ 916,205
Other accounts receivable	<u>653,433</u>
Total accounts receivable	1,569,638
Less allowance for doubtful accounts	<u>(352,910)</u>
Net accounts receivable	<u>\$ 1,216,728</u>

B. Notes Receivable

Current:	
Loans to students, faculty and staff	\$ 37,005
Perkins loans receivable current portion	<u>669,138</u>
Total current notes receivable	<u>\$ 706,143</u>
Noncurrent:	
Perkins loans receivable - long term portion	\$ 2,275,537
Less allowance for doubtful accounts	<u>(63,723)</u>
Net noncurrent notes receivable	<u>\$ 2,211,814</u>

4. CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2003 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
Construction in progress	<u>27,333,785</u>	<u>31,983,546</u>	<u>23,387,984</u>	<u>35,929,347</u>
Total Nondepreciable Capital Assets	<u>40,818,934</u>	<u>31,983,546</u>	<u>23,387,984</u>	<u>49,414,496</u>
Depreciable Capital Assets:				
Buildings	289,780,014	21,277,791	-	311,057,805
Improvements	14,145,355	306,628	-	14,451,983
Infrastructure Assets	14,745,845	-	-	14,745,845
Equipment	67,230,199	8,940,835	4,212,700	71,958,334
Library Materials	<u>47,314,415</u>	<u>4,044,871</u>	<u>-</u>	<u>51,359,286</u>
Total Depreciable Capital Assets	<u>433,215,828</u>	<u>34,570,125</u>	<u>4,212,700</u>	<u>463,573,253</u>
Less Accumulated Depreciation:				
Buildings	83,882,524	7,283,128	-	91,165,652
Improvements	9,694,491	753,302	-	10,447,793
Infrastructure Assets – restated	8,477,209	537,789	-	9,014,998
Equipment	40,206,378	6,092,904	4,002,153	42,297,129
Library Materials	<u>28,992,859</u>	<u>3,064,959</u>	<u>-</u>	<u>32,057,818</u>
Total Accumulated Depreciation	<u>171,253,461</u>	<u>17,732,082</u>	<u>4,002,153</u>	<u>184,983,390</u>
Depreciable Capital Assets, net	<u>261,962,367</u>	<u>16,838,043</u>	<u>210,547</u>	<u>278,589,863</u>
Total Capital Assets, net	<u>\$ 302,781,301</u>	<u>\$ 48,821,589</u>	<u>\$23,598,531</u>	<u>\$ 328,004,359</u>

5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2003:

Employee salaries, wages and fringe benefits payable	\$ 19,371,664
Vendors and suppliers accounts payable	<u>12,300,269</u>

Total accounts payable and accrued expenses \$ 31,671,933

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, 2003, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Noncurrent Portion
Long-term debt:						
Revenue Bonds	\$ 75,937,622	\$ 9,292,944	\$ 7,666,328	\$ 77,564,238	\$ 7,132,294	\$ 70,431,944
Notes Payable	32,000,000	-	1,370,000	30,630,000	1,670,000	28,960,000
Capital Leases	1,198,545	-	1,198,545	-	-	-
Installment Purchases	2,640,117	187,000	1,164,324	1,662,793	1,223,901	438,892
Bonds Premium/Interest Payable	<u>646,025</u>	<u>417,453</u>	<u>69,730</u>	<u>993,748</u>	<u>81,168</u>	<u>912,580</u>
Total Long-term Debt	<u>112,422,309</u>	<u>9,897,397</u>	<u>11,468,927</u>	<u>110,850,779</u>	<u>10,107,363</u>	<u>100,743,416</u>
Accrued Compensated Absences	5,903,534	393,378	449,526	5,847,386	409,317	5,438,069
Perkins Loan Funds (restated)	<u>2,580,595</u>	<u>-</u>	<u>11,307</u>	<u>2,569,288</u>	<u>-</u>	<u>2,569,288</u>
Total Long-term Liabilities	<u>\$ 120,906,438</u>	<u>\$10,290,775</u>	<u>\$ 11,929,760</u>	<u>\$ 119,267,453</u>	<u>\$ 10,516,680</u>	<u>\$108,750,773</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 Number 31 deems this participation to be involuntary. In 1995, the University issued \$4,355,000 of Section 9(d) bonds with interest rates ranging from 5.20 percent to 6.37 percent to finance the construction of the Krasnow Institute for Advanced Study. The Krasnow Foundation has deposited funds with the George Mason University Foundation, which will be used to reimburse the University for the debt service payments the latter is obligated to make. In 2003, the University refinanced these bonds with an outside investment organization to take advantage of the prevailing lower interest rates. The increase in the principal due in the future is offset by the lower interest rate obtained. Additionally, the Commonwealth of the Virginia refinanced two series of bonds in 2003 for the same reasons. In 2003, one additional Section 9(c) bonds was issued for the construction of the Residence Hall V project. This bond was for \$8,635,000. The interest rate on this bond ranges from 2.25 percent to 5.00 percent.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 7,727,936	\$ 3,048,356	\$ 10,776,292
2005	8,317,674	2,854,554	11,172,228
2006	6,574,039	2,253,885	8,827,924
2007	5,937,118	2,356,120	8,293,238
2008	6,170,030	2,173,098	8,343,128
2009-2013	21,277,184	8,070,744	29,347,928
2014-2018	12,890,000	4,075,618	16,965,618
2019-2023	9,260,000	1,665,724	10,925,724
2024	<u>1,590,000</u>	<u>75,525</u>	<u>1,665,525</u>
Totals	79,743,981	<u>\$ 26,573,624</u>	<u>\$ 106,317,605</u>
Less:			
Unamortized Discount	<u>(2,179,743)</u>		
Totals		<u>\$ 77,564,238</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, 2003</u>
9 (c) Revenue Bonds:						
Parking Lot VIII	1984	\$ 840,000	3.6 to 6.3%	20 Years	2004	\$ 84,807
P. E. III Arena	1985	12,750,000	5.0 to 5.9%	20 Years	2005	2,334,009
Parking Lot IX	1985	840,000	5.0 to 5.9%	20 Years	2005	156,581
Residence Halls II	1985	2,000,000	5.0 to 5.9%	20 Years	2005	378,876
Parking Lot X	1986	525,000	3.6 to 4.75%	20 Years	2006	119,486
Residence Halls II	1986	6,030,000	3.6 to 4.75%	20 Years	2006	1,390,333
Security Information Building	1986	305,000	3.6 to 4.75%	20 Years	2006	71,659
Humanities III	1989	9,400,000	6.5 to 6.7%	20 Years	2009	4,188,388
Residence Halls III	1989	10,697,600	6.4 to 6.7%	20 Years	2009	4,766,564
Residence Halls IV	1990	11,145,000	3.6 to 8.4%	20 Years	2010	5,438,118
Parking Structure	1992	5,045,000	4.8 to 6.2%	10 Years	2003	-
Student Union II Addition	1992	2,535,000	3.5 to 5.5%	20 Years	2012	1,515,686
University Center	1993	21,460,000	3.75 to 5.25%	20 Years	2015	14,695,856
Telecommunications	1994	3,770,000	6.0 to 6.6%	10 Years	2005	963,875
Prince William Site and Parking	1995	2,115,000	4.6 to 4.75%	10 Years	2006	735,000
Arlington Parking Garage	1998	1,915,000	3.5 to 4.2%	10 Years	2008	1,055,000
Residence Hall V	2002	21,780,000	4.0 to 5.0%	20 Years	2022	21,780,000
Housing Renovations	2002	3,435,000	4.0 to 5.0%	20 Years	2022	3,110,000
Residence Hall V	2003	<u>8,635,000</u>	2.25 to 5.0 %	20 Years	2024	<u>8,635,000</u>
Total		<u>125,222,600</u>				<u>71,419,238</u>

9 (d) General Revenue Bonds

Krasnow Institute						
for Advanced Study	1995	4,355,000	5.2 to 6.375%	20 Years	2016	3,447,686
Warehouse	1995	<u>2,905,000</u>	5.2 to 6.375%	20 Years	2016	<u>2,697,314</u>
Total		<u>7,260,000</u>				<u>6,145,000</u>
Total Bonds Payable		<u>\$ 132,482,600</u>				<u>\$ 77,564,238</u>

C. 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.

D. Prior Year Bond Defeasance.

The Commonwealth of Virginia, on behalf of the University, issued bonds in previous fiscal years for which the proceeds were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on other debt. The bonds representing that debt are, therefore, considered defeased. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the University's financial statements. On June 30, 2003, \$18,268,499 of bonds outstanding was considered defeased.

8. VCBA NOTES PAYABLE

The University entered into three 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 \$24,435,000 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 \$3,735,000 with an interest rate ranging from 4.50 percent to 6.00 percent is to be paid semi-annually as provided in the VCBA's Educational Facilities Revenue Bonds (Public Higher Education Financing Program), Series 1999A. In 2002, the University entered into a third promissory note with the Virginia College

Building Authority (VCBA), for the construction of the Student Union Renovation Project in the amount of \$2,460,000, with repayment interest rates ranging from 3.00 percent to 5.00 percent. 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.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 1,670,000	\$ 1,353,360	\$ 2,783,360
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	1,980,000	1,135,170	3,155,170
2009-2013	9,805,000	4,269,625	14,074,625
2014-2018	11,080,000	1,663,800	12,743,800
2019-2020	<u>640,000</u>	<u>37,763</u>	<u>677,763</u>
Totals	<u>\$ 30,630,000</u>	<u>\$ 12,280,247</u>	<u>\$ 42,710,247</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, 2003</u>
Fairfax Aquatic Center	1997	\$ 10,340,000	3.75 to 5.0%	20 Years	2017	\$ 8,565,000
Prince William Freedom Aquatic Center	1997	17,325,000	3.75 to 5.0%	20 Years	2017	14,815,000
Prince William Parking	1997	1,915,000	3.75 to 5.0%	20 Years	2017	1,055,000
Fairfax Parking Garage Expansion	1999	4,100,000	4.5 to 6.0%	20 Years	2019	3,735,000
Sub 1 Renovations	2002	<u>2,460,000</u>	3.0 to 5.0%	10 Years	2012	<u>2,460,000</u>
Total		<u>\$ 36,140,000</u>				<u>\$ 30,630,000</u>

9. 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 2003, the University entered into a new installment purchase agreement for a BioMarker at a cost of \$187,000. The lease is for 5 years with an interest rate of 2.618 percent. The final payment is due in 2008. 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, 2003 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$1,223,901	\$ 72,491	\$1,296,391
2005	296,359	12,724	309,084
2006	83,475	2,979	86,454
2007	49,116	904	50,020
2008	<u>9,942</u>	<u>43</u>	<u>9,985</u>
Total	<u>\$1,662,793</u>	<u>\$ 89,141</u>	<u>\$1,751,934</u>

10. 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	\$107,374,210	\$ 19,287,903	\$ 11,716,598	\$ -	\$ -	\$ 138,378,711
Research	25,355,764	3,407,516	16,603,864	-	-	45,367,144
Academic support	13,367,456	3,676,886	5,122,070	-	-	22,166,412
Student services	8,192,981	1,641,028	2,105,140	-	-	11,939,149
Public service	2,351,739	467,511	3,445,108	-	-	6,264,358
Operation & maintenance of plant	4,971,497	1,247,045	9,953,416	-	-	16,171,958
Institutional support	17,610,993	3,699,397	1,939,567	-	-	23,249,957
Depreciation expense	-	-	-	-	17,732,082	17,732,082
Scholarships & fellowships	-	-	-	10,760,977	-	10,760,977
Auxiliary enterprises	<u>14,317,109</u>	<u>2,659,639</u>	<u>27,276,940</u>	<u>-</u>	<u>-</u>	<u>44,253,688</u>
Totals	<u>\$193,541,749</u>	<u>\$ 36,086,925</u>	<u>\$ 78,162,703</u>	<u>\$ 10,760,977</u>	<u>\$ 17,732,082</u>	<u>\$ 336,284,436</u>

11. 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	<u>\$ 104,540,025</u>
Plus:	
Adjustment for one time bonus	3,003,949
Insurance adjustment	<u>14,144</u>
Total additions	<u>3,018,093</u>
Less:	
Benefit adjustments (net)	(364,490)
Budget reduction (10 percent, less prepayment FY02)	<u>(9,553,665)</u>
Total deductions	<u>(9,918,155)</u>
Final appropriation	<u>\$ 97,639,963</u>

12. INTEREST EXPENSE

During 2003, the University incurred interest expense totaling \$5,305,190. Of this amount, \$1,268,487 was capitalized as part of the cost of construction and \$4,036,703 was expensed.

13. PRIOR PERIOD ADJUSTMENT

During 2003, some fiscal year 2002 errors were discovered which totaled \$5,684,129. Of this amount, \$8,477,209 involved infrastructure assets that were not depreciated, \$2,012,040 involved an overstatement of accrued salaries payable and salaries expense and \$252,747 involved an overstatement of cash and cash equivalents. The errors were corrected by restating the amount of accumulated depreciation and beginning net assets. The effects of the errors were to understate the increase in net assets for the year ended June 30, 2002 by \$1,563,416.

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, 2003 were \$2,493,432. The University had, as of June 30, 2003, the following total future minimum rental payments due under the above leases:

Fiscal Years Ended				
<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Total</u>
\$2,580,769	\$2,293,603	\$1,609,574	\$642,537	\$7,126,483

B. Construction

Outstanding commitments for capital outlay projects that were under construction at June 30, 2003 were \$15,044,030.

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 three 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 \$8,573,005 for year ended June 30, 2003. Contributions were calculated using the base salary of approximately \$81,664,478 for fiscal year 2003. The University's total payroll for fiscal year 2003 was approximately \$187,743,386. The following schedule summarizes the cost and participation in the three 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*	\$6,756,173	\$64,338,312	10.5%
Fidelity Investments	1,726,354	16,457,699	10.5%
VALIC**	<u>90,478</u>	<u>868,467</u>	10.6%
	<u>\$8,573,005</u>	<u>\$81,664,478</u>	

*Teachers Insurance and Annuity Association/College Retirement Equities Fund

**Variable Annuity Life Insurance Company

16. 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.

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, 2003, taken from the Foundation's audited financial statements.

Assets	<u>\$100,063,083</u>
Liabilities	\$ 31,913,460
Net Assets	<u>68,149,623</u>
Total Liabilities and Net Assets	<u>\$100,063,083</u>

Revenues totaling \$17,450,840 included \$1,047,754 from the University for rent. Expenses totaled \$15,995,757.

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, administers the risk management insurance plans. Risk management insurance includes property, general liability, faithful performance of duty bond, automobile, and air and watercraft plans. The University pays premiums to each of these departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth's Comprehensive Annual Financial Report.

19. SUBSEQUENT EVENTS

In November 2003, the University entered into a promissory note with the Virginia College Building Authority (VCBA) to finance the construction of Parking Deck II on the Fairfax campus. The principal amount of \$13,455,000 with an interest rate ranging from 2.50 percent to 5.00 percent is to be paid semi-annually as provided in the VCBA's Educational Facilities Revenue Bonds (Public Higher Education Financing Program), Series 2003A. The University is required to pay the annual debt service on the 9(d) general revenue bonds issued by VCBA for the purchase of the promissory notes. The final payment will be due in 2025.

20. PENDING GASB STATEMENT

Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, issued May 2002, will be effective for the fiscal year ending June 30, 2004. This Statement provides additional guidance to determine whether certain organizations for which the University is not financially accountable should be reported as component units. Generally, it requires reporting as a component unit an organization that raises and holds economic resources for the direct benefit of the University. As a result, where in the past, the University presented summary financial information of certain of its foundations in the notes to the financial statements, the University will be required under Statement No. 39 to include selected foundations in the body of its financial statements. The University has identified that the GMU Foundation will be included as a component unit.

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SUPPLEMENTARY INFORMATION

GEORGE MASON UNIVERSITY
SCHEDULE OF AUXILIARY ENTERPRISES - REVENUES AND EXPENDITURES
For the Year Ended June 30, 2003

	Administration	Campus Access	Computer Store	Fairfax Swimming Pool
Revenues:				
Sales and services	\$ 551,456	\$ 4,344,009	\$ 931,513	\$ 767,513
Room	-	-	-	-
Board	-	-	-	-
Fees and fines	-	772,851	-	-
Interest	807,403	-	-	-
Gifts	-	-	-	-
Other	-	-	-	-
Total revenues	1,358,859	5,116,860	931,513	767,513
Expenditures:				
Personal services	828,312	48,067	152,171	764,886
Fringe benefits	154,618	1,683	26,866	92,951
Contractual services	255,855	1,958,481	16,380	211,625
Supplies	27,994	5,577	1,039	94,308
Merchandise for resale	-	-	590,849	1,017
Equipment	35,988	-	-	26,994
Current charges	2,552,906	120,933	3,061	270,110
Scholarships	461,875	-	-	-
Total expenditures	4,317,548	2,134,741	790,366	1,461,891
Transfers:				
Mandatory:				
Retirement of debt	(255,627)	(1,917,486)	-	(802,185)
Non-mandatory	4,996,757	31,677	-	1,467,300
Total transfers	4,741,130	(1,885,809)	-	665,115
Net increase(decrease) for the year	1,782,441	1,096,310	141,147	(29,263)
Balance at beginning of year	(623,092)	(314,497)	(35,584)	109,942
Balance at end of year	\$ 1,159,349	\$ 781,813	\$ 105,563	\$ 80,679

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

Freedom Aquatic Center	Hemlock Overlook& Bull Run	Institute of the Arts	Intercollegiate Athletics	Meal Plan	Patriot Center	Print Services	Recreational Sports Complex
\$ 3,432,597	\$ 1,132,403	\$ 1,685,592	\$ 1,499,659	\$ -	\$ 690,652	\$ 666,107	\$ 165,726
-	-	-	-	-	-	-	-
-	-	-	-	5,430,634	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	117,454	-	-	-	-
1,391,557	-	-	-	-	-	-	-
4,824,154	1,132,403	1,685,592	1,617,113	5,430,634	690,652	666,107	165,726
1,981,110	721,534	1,340,587	3,400,601	-	-	677,178	786,719
258,331	103,067	267,020	777,334	-	-	112,258	136,021
213,492	268,269	1,867,766	1,626,255	5,315,628	65,313	(857,300)	342,459
181,448	73,321	92,403	389,711	-	7,145	234,937	168,435
9,064	-	-	958	-	-	-	-
8,575	2,623	24,070	40,155	-	4,400	27,793	53,558
493,417	69,990	121,701	200,948	-	180,676	348,805	274,361
-	-	-	2,292,797	-	-	-	-
3,145,437	1,238,804	3,713,547	8,728,759	5,315,628	257,534	543,671	1,761,553
(1,396,961)	-	(868,060)	-	-	(1,040,652)	-	(302,175)
23,905	-	3,355,825	7,301,652	(91,100)	941,348	-	1,828,481
(1,373,056)	-	2,487,765	7,301,652	(91,100)	(99,304)	-	1,526,306
305,661	(106,401)	459,810	190,006	23,906	333,814	122,436	(69,521)
(185,144)	(149,158)	(3,042,231)	(833,637)	122,124	1,964,509	(377,207)	1,565,089
\$ 120,517	\$ (255,559)	\$ (2,582,421)	\$ (643,631)	\$ 146,030	\$ 2,298,323	\$ (254,771)	\$ 1,495,568

GEORGE MASON UNIVERSITY
SCHEDULE OF AUXILIARY ENTERPRISES - REVENUES AND EXPENDITURES
For the Year Ended June 30, 2003

	Student Activities and Services	Student Fees	Student Housing
Revenues:			
Sales and services	\$ 1,799,641	\$ -	\$ -
Room	-	-	10,928,972
Board	-	-	-
Fees and fines	-	26,417,283	-
Interest	-	-	-
Gifts	-	-	-
Other	-	-	-
Total revenues	1,799,641	26,417,283	10,928,972
Expenditures:			
Personal services	2,133,019	-	-
Fringe benefits	405,040	-	-
Contractual services	1,611,688	-	5,018,546
Supplies	395,322	-	11,322
Merchandise for resale	-	-	-
Equipment	66,726	-	10,453
Current charges	560,112	-	1,640,759
Scholarships	22,181	-	-
Total expenditures	5,194,088	-	6,681,080
Transfers:			
Mandatory:			
Retirement of debt	-	-	(3,076,589)
Non-mandatory	3,335,300	(26,417,089)	(319,251)
Total transfers	3,335,300	(26,417,089)	(3,395,840)
Net increase(decrease) for the year	(59,147)	194	852,052
Balance at beginning of year	894,389	100,473	(1,756,721)
Balance at end of year	<u>\$ 835,242</u>	<u>\$ 100,667</u>	<u>\$ (904,669)</u>

Student Unions	Telecommunications	Total
\$ 2,340,503	\$ 26,707	\$ 20,034,078
-	-	10,928,972
-	-	5,430,634
-	-	27,190,134
-	-	807,403
-	-	117,454
-	-	1,391,557
<u>2,340,503</u>	<u>26,707</u>	<u>65,900,232</u>
1,076,585	338,059	14,248,828
259,178	65,270	2,659,637
612,694	(971,473)	17,555,678
176,876	21,541	1,881,379
-	-	601,888
71,913	21,614	394,862
885,848	6,225	7,729,852
-	-	2,776,853
<u>3,083,094</u>	<u>(518,764)</u>	<u>47,848,977</u>
(1,708,936)	(440,403)	(11,809,074)
2,926,376	570,241	(48,578)
<u>1,217,440</u>	<u>129,838</u>	<u>(11,857,652)</u>
474,849	675,309	6,193,603
<u>1,437,955</u>	<u>718,069</u>	<u>(404,721)</u>
<u>\$ 1,912,804</u>	<u>\$ 1,393,378</u>	<u>\$ 5,788,882</u>

George Mason University

Fiscal Services
4400 University Drive, MS 4B2
Fairfax, Virginia 22030-4444

Office: (703) 993-2660
Fax: (703) 993-2920

July 9, 2004

Mr. David A. Von Moll
State Comptroller
Virginia Department of Accounts
P. O. Box 1971
Richmond, VA 23218-1971

Re: Corrective Action Workplan

Dear Mr. Von Moll: :

The following comments constitute our response to the Auditor of Public Accounts (APA) audit report for fiscal year ended June 30, 2003.

Improve Financial Statement Preparation Process: The University did not adequately document the support for its financial statements. As a result, when the individual who prepared the financial statements resigned, the remaining staff had to prepare a revised set of working papers.

Corrective Action: The University now has a well-documented process for preparing its financial statements. Traditional adjusting journal entries and working paper references are utilized to document all changes from the books to the financial statements.

Complete Documentation of Access Policies and Procedures: The University has not completed formal information technology policies and procedures to provide access security controls for its network environment in accordance with the Commonwealth's ITRM Standard SEC2001-01.1.

Corrective Action: The University has documented a policy to address firewall management. In addition, the University has documented other information security policies and procedures which were incorporated into a change management procedure that will be applied to firewall and network device maintenance.

Complete Business Impact Analysis, Risk Assessment, and Disaster Recovery Plan: The University has not updated certain components of its information technology security program to reflect its current operating environment, nor its contingency plan.

Corrective Action: The Privacy and Security Compliance Team (PSCT) has coordinated a pilot risk assessment process in the Information Technology Unit (ITU). The risk assessment process will be streamlined based on the outcome of the ITU pilot and pushed to all computer systems in the University beginning October 2004. A disaster recovery site will be established in Bull Run Hall at the Prince William Campus starting in July 2004. The Disaster Recovery Plan will be completed during 2005 using

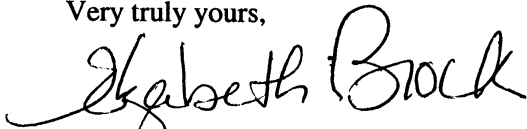
Mr. David A. Von Moll
Re: Corrective Action Workplan
July 9, 2004
Page 2

the results of risk analysis under the supervision of the University Business Continuity Working Group (BCWG). Responsible person: Walt Sevon, Executive Director, TSD.

Establish Controls for Auditing and Monitoring the Oracle Database: The University does not use the auditing feature of the Oracle database to log access to critical functions within the database.

The Database Administrators (DBAs) have turned on the auditing feature on the Oracle preproduction database. The DBAs are analyzing what should be audited, focusing on the security records in the database. Documentation on this process will be developed. The auditing feature will be turned on in the production database by July 23, 2004, completing this issue by August 2004. Responsible person: Walt Sevon, Executive Director, TSD

Very truly yours,



Elizabeth A Brock
Assistant Vice President and Controller

copy to: W. J. Kucharski (2)
 B. S. Wheelan
 R. D. Brown

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GEORGE MASON UNIVERSITY
Fairfax, Virginia

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June 30, 2003

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