GEORGE MASON UNIVERSITY

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

JUNE 30, 2015

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MANAGEMENT'S DISCUSSION AND ANALYSIS

George Mason University

Financial Statements for the Year Ended June 30, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS
Unaudited

Introduction

This unaudited *Management's Discussion and Analysis* (MD&A) is required supplementary information under the Governmental Accounting Standards Board's (GASB) reporting model. This discussion and analysis provides an overview of the financial condition, results of operations, and cash flows of George Mason University for the fiscal year ended June 30, 2015 (FY 2015). Comparative numbers are included for the fiscal year ended June 30, 2014 (FY 2014). MD&A includes highly summarized data and therefore should be read in conjunction with the full financial statements and footnotes that follow this section. The University's management is responsible for all of the financial information presented, including this discussion and analysis.

The University is an agency of the Commonwealth of Virginia and is governed by the University's Board of Visitors. The Commonwealth prepares a separate financial report that incorporates all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The University is a component unit of the Commonwealth and is included in the financial statements of the Commonwealth.

During FY 2015 the University implemented GASBS 68, as modified by GASBS 71, which requires the recording of the University's share of the net pension liability of the Commonwealth's defined benefit pension plans (additional discussion below in the Financial Highlights section). The University's full financial statements, which follow MD&A, include a restatement of beginning net position that reduces net position as of July 1, 2014 by $204.9 million compared to previously reported net position as of June 30, 2014. The following summarized financial statements in MD&A include a comparison of FY 2015 and FY 2014. Normally, the prior year in a comparative presentation is restated to conform to current year presentation. FY 2014 amounts have not been restated to conform to FY 2015 presentation due to the lack of information needed to reflect properly the impact of GASBS 68 on FY 2014.

Financial Highlights

The University's total net position decreased by $144.6 million, or 23 percent. Net position before the GASBS 68 beginning net assets adjustment increased by $60.3 million. See the Statement of Net Position section for additional information about this change.

Revenue provided by the Commonwealth for equipment and capital projects, which totaled $50.2 million for FY 2015, continues to be a major factor in the University's net position growth.

Total operating revenues increased by $23.1 million, or 4%.
Total operating expenses increased by $14.6 million, or 2%.

In FY 2015, despite the winding down of the final stimulus funding for research grants, and sequestration causing non-renewal of many existing awards, the University was able to sustain grants and contracts revenue, and even slightly increase it to $110.3 million.

During FY 2015, two of the University's new strategic initiatives, the INTO Program and Mason Korea experienced healthy growth which increased the University's Other Operating Revenue by $9 million compared to FY 2014.

The University continued, during FY 2015, to invest in the development of facilities that will support and enhance the capacity to achieve its strategic goals. A key aspect of this investment is the development of facilities and systems that enhance the quality of teaching and learning, create operating efficiencies, and support the development of diversified revenue streams, all of which are essential for the University's continued movement to an economic model which is less reliant on state appropriations. Three examples of this ongoing investment are set forth below.

The University completed Campus Drive, an $11 million road project, connecting the western side of the Fairfax Campus, located on the western side of State Route 123, with the main portion of the Fairfax Campus, located on the eastern side of State Route 123. The road passes underneath State Route 123, allows travel between both sides of the Fairfax Campus without impacting traffic on State Route 123, and allows new access to the Fairfax Campus from Braddock Road that avoids the need to travel through the intersection of Braddock Road and State Route 123. Campus Drive facilitates pedestrian, bicycle and motor vehicle movement of University faculty, staff and visitors without the need to use the regional roadway system. Both the University and the surrounding community benefit from the completion of Campus Drive.

The University completed Taylor Hall, a $22 million, 68,000 square foot, 295 bed residence hall located in the 11 building Presidents Park area of the Fairfax Campus. With the addition of Taylor Hall, the University's on-campus residence population totals 6,500, making Mason one of the largest residential campuses in Virginia.

The University began capital leasing a $40 million, 75,000 square foot life sciences lab building located on the University's Science and Technology Campus in Prince William County, Virginia. This life sciences lab facility will house the Institute for Advanced Biomedical Research. The Institute is a multi-disciplinary center designed to promote collaboration on research to cure diseases.

As noted above in the Introduction section, during FY 2015, the University implemented GASBS 68- "Accounting and Financial Reporting for Pensions". GASBS 68 requires the liability of the University to its employees for defined benefit pensions (net pension liability) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributable to those employees' past periods of service (total pension liability) less the amount of the pension plan's fiduciary net position. The Virginia Retirement System (VRS) worked with a consultant to perform the actuarial and other technical calculations required by GASBS 68 and, based on that work, provided the University with the information the University needs to properly report its share of the Commonwealth's total net pension liability.

The requirement to begin reporting the University's share of the net pension liability has an extremely large impact on the University's Statement of Net Position. The $187.7 million net pension liability appears as part of the Noncurrent liabilities section in MD&A and as a separate line in the Noncurrent liabilities section of the Statement of Net Position in the full financial statements. Recording this large liability required a restatement of beginning Net Position, which

in turn has absorbed all of Unrestricted Net Position, and resulted in $87.2 million of negative Unrestricted Net Position as of June 30, 2015.

Overview of the Financial Statements and Financial Analysis

The University's financial report includes five financial statements and related notes:

1. The Statement of Net Position for the University
2. The Combined Statements of Financial Position for the Component Units of the University
3. The Statement of Revenues, Expenses, and Changes in Net Position for the University
4. The Combined Statements of Activities for the Component Units of the University
5. The Statement of Cash Flows for the University

The University's financial statements have been prepared in accordance with GASB principles which establish standards for external financial reporting for public colleges and universities. These principles require that the University's financial statements be presented on a consolidated basis to focus on the University as a whole, with resources classified for accounting and reporting purposes into four net position categories. As stated above, these financial statements are summarized in MD&A. Please note that although some of the University's foundations are discretely reported by separate page display in other sections of the University's financial statements, this MD&A excludes them except where specifically noted.

Statement of Net Position

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

From the information presented, readers of the Statement of Net Position 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, and the amount of any deferred

outflows of resources and deferred inflows of resources. In addition, the Statement of Net Position provides a picture of the net position (assets plus deferred outflows minus liabilities plus deferred inflows) and their availability for expenditure by the institution. The difference between total assets plus deferred outflows of resources and total liabilities plus deferred inflows of resources, net position is one indicator of the current financial condition of the University, while the change in net position is an indicator of whether the overall condition has improved or worsened during the year.

A deferred outflow of resource is a consumption of net assets by the University that is applicable to a future reporting period. A deferred inflow of resources is an acquisition of net assets by the University that is applicable to a future reporting period.

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

A summary of the University’s assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at June 30, 2015, and June 30, 2014, follows.

Statement of Net Position*

	June 30, 2015	June 30, 2014	Dollar Change	Percent Change
Assets:				
Current assets	$ 256,038	$ 218,274	$ 37,764	17%
Capital assets, net	1,224,690	1,177,118	47,572	4%
Other noncurrent assets	17,424	37,960	(20,536)	-54%
Total Assets	**1,498,152**	**1,433,352**	**64,800**	**5%**
Deferred Outflows of Resources	**33,498**	**7,596**	**25,902**	341%
Liabilities:				
Current liabilities	171,537	157,745	13,792	9%
Noncurrent liabilities	834,480	647,270	187,210	29%
Total Liabilities	**1,006,017**	**805,015**	**201,002**	**25%**
Deferred Inflows of Resources	**34,476**	**187**	**34,289**	18336%
Net Position:				
Net investment in capital assets	573,467	537,292	36,175	7%
Restricted: nonexpendable	4,129	3,925	204	5%
Restricted: expendable	743	2,673	(1,930)	-72%
Unrestricted	(87,182)	91,856	(179,038)	-195%
Total Net Position	**$ 491,157**	**$ 635,746**	**$ (144,589)**	**-23%**

*In thousands

Total assets and deferred outflows of resources were $1.532 billion compared to total liabilities and deferred inflows of resources of $1.040 billion. The difference between these two amounts, total net position, was $491.2 million. Total net position decreased by $144.6 million from FY 2014, a 23% decrease. This decrease was composed of a $204.9 million decrease in beginning net assets, caused by the FY 2015 implementation of GASBS 68 and GASBS 71, and a $60.3 million increase in ending net assets from the excess of FY 2015 revenues over FY 2015 expenses. The GASBS implementation required, for the first time, recognition in the financial statements of the University's net pension liability and related adjustments resulting in the beginning net position restatement.

For FY 2015, current assets exceeded current liabilities by $84.5 million. In FY 2014 current assets were $60.5 million greater than current liabilities. This increasing differential represents a continuation of improving liquidity that began in FY 2011 and has continued through FY 2015. The current ratio, which is the ratio of current assets to current liabilities, and is a common measure of liquidity, improved to 1.49 for FY 2015 compared to 1.38 in FY 2014 and 1.24 in FY 2013.

Capital assets, net of accumulated depreciation of $566.8 million, totaled $1.225 billion, which is an increase of $47.6 million over FY 2014, and is relatively consistent with the slowdown in the

growth of equipment and facilities at the University that has been ongoing for the last several years. The increases in capital assets, net for fiscal years 2014, 2013, 2012, 2011, and 2010 were $9.4 million, $31.1 million, $38.7 million, $93.9 million, and $171.1 million respectively.

The $20.5 million, 54%, decrease in Other noncurrent assets primarily reflects the $20.4 million decrease in restricted bond proceeds used to pay for construction of capital assets.

The University retained a $12.5 million advance from the Treasurer of Virginia which is normally requested to be repaid by fiscal year end and is included in the increase in cash in current assets, and accounts for the increase in current liabilities.

Capital Asset and Debt Administration

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

Note 5 of the Notes to Financial Statements describes the University's expanding investment in capital assets, with total depreciable capital asset additions of $101.1 million (excluding land, construction in progress, and works of art) and additions to construction in progress of $71.2 million. Depreciation expense increased by $1.0 million over the prior year to $58.9 million.

Depreciable capital asset additions for FY 2015 included the following:

Asset Category	Amount (in millions)
Buildings	$79.6
Equipment	$5.5
Infrastructure	$11.2
Library Materials	$4.8
Total	**$101.1**

Completed building projects included Taylor Hall, the Johnson Center dining renovation, Ike's renovation, Merten Hall renovations and the Prince William Life Sciences lab building, acquired under a capital lease between the university and George Mason University Foundation. Infrastructure additions included the completion of Campus Drive on the Fairfax campus.

Major ongoing capital projects include: the Fenwick Library addition, the Central Plant utility expansion, and Academic VII, all at the Fairfax Campus, the Point of View facility at Belmont Bay and the Potomac Science Center.

Financial stewardship requires the effective management of resources, including the use of long-term debt to finance capital projects. Notes 7, 8 and 9 of the Notes to Financial Statements describe changes in the University's long-term debt. No new capital revenue bonds or Virginia College Building Authority (VCBA) notes were issued in FY 2015 but refundings were completed as follows:

Virginia 9(c) Revenue Bonds were refunded on the following projects:

Project	Amount (in millions)
Housing VII	$14.1
Housing VIIC	$24.3
Presidents Park	$2.0
Total	**$40.4**

VCBA Notes were refunded on the following projects:

Project	Amount (in millions)
Fairfax Aquatic & Fitness Center	$1.4
Freedom Center	$2.3
Fairfax Parking Garage Expansion	$1.4
Student Union III	$4.5
Krasnow Institute	$1.4
RAC	$8.8
Biomedical Research Lab	$4.5
Hylton Performing Arts Center	$7.7
Aquia Building	$4.2
Rappahannock River Parking Garage	$6.6
Nguyen Engineering Building	$2.3
Mason Global Center	$4.1
Student Union I	$2.3
Total	**$51.5**

Total long-term debt outstanding, including revenue bonds, notes payable, capital leases payable, installment purchases, and bond premiums and discounts increased by $2.9 million from the end of FY 2014 to the end of FY 2015, to a total of $672.2 million. Deferred gains and losses on refundings are included in deferred inflows and outflows of resources.

Contractual commitments for capital outlay projects under construction at year end decreased from $49.0 million in FY 2014 to $27.7 million in FY 2015. These obligations are for future efforts and therefore have not been accrued as expenses or liabilities on the University's financial statements.

Statement of Revenues, Expenses, and Changes in Net Position

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

Generally speaking, operating revenues are earned for providing goods and services to the students and other constituencies of the institution. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Salaries and fringe benefits for faculty and staff are the largest type of operating expense.

Nonoperating revenues are revenues received for which goods and services are not provided in exchange as part of a transaction. For example, state appropriations are nonoperating revenues because they are provided by the legislature without the legislature directly receiving commensurate goods and services for those revenues. State appropriations, which are included in nonoperating revenues, provide substantial support for paying operating expenses of the University. The University, like most public institutions of higher education, does not cover all operating expenses with operating revenues, and therefore expects to report an operating loss each year.

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

Statement of Revenues, Expenses, and Changes in Net Position*				
	June 30, 2015	June 30, 2014	Dollar Change	Percent Change
Operating Revenues:				
Student tuition and fees, net of allowances	$ 310,502	$ 302,303	$ 8,199	3%
Grants and contracts	110,335	109,386	949	1%
Auxiliary enterprises and other	190,446	176,514	13,932	8%
Total operating revenues	611,283	588,203	23,080	4%
Operating Expenses:				
Educational and general	565,731	554,864	10,867	2%
Depreciation	58,879	57,880	999	2%
Auxiliary enterprises	127,765	125,044	2,721	2%
Total operating expenses	752,375	737,788	14,587	2%
Operating Income (loss)	(141,092)	(149,585)	8,493	-6%
Nonoperating revenues and expenses (net)	143,142	160,449	(17,307)	-11%
Income (loss) before other revenue/expense/gain/loss	2,050	10,864	(8,814)	81%
Other revenue/expense/gain/loss	58,224	32,853	25,371	77%
Net increase in net position	60,274	43,717	16,557	38%
Net position at beginning of year (FY 15 as restated)	$430,883	$592,029	(161,146)	-27%
Net position at end of year	$ 491,157	$ 635,746	$ (144,589)	-23%

*in thousands

The restatement of FY 2015 beginning net position from $635.8 million to $430.9 million was caused by the FY 2015 implementation of GASBS 68 and GASBS 71. The GASBS implementation required, for the first time, recognition in the financial statements of the University's net pension liability and related adjustments resulting in the beginning net position restatement.

Total operating revenues, consisting primarily of tuition and fees, grants and contracts, and auxiliary enterprises, increased by $23.1 million, or 4%, over the prior year. Student tuition and fees, net of scholarship allowances, increased by $8.2 million, or 3%, over the prior year. This increase is attributable to a combination of tuition and fee increases, moderate enrollment growth, and a small increase in scholarships as a percent of revenues. Revenue from Grants and contracts increased by $949 thousand, or 1%, over the prior year. This relatively small growth is a reflection of the final phasing out of federal stimulus funded grants and the non-renewal of multiple Department of Defense awards caused by sequestration. Auxiliary and other revenue increased by $13.9 million, or 8%. $4.6 million of the increase was due to an increased use of on-campus auxiliary facilities and programs, increased mandatory fees, and increased room and board rates. $9.3 million of the increase was due to other educational and general sales and services including the INTO Program and Mason Korea.

Total scholarships and fellowships, which is the sum of scholarship allowances and student aid expense, increased by $6.9 million, or 7.6%.

Total operating expenses increased by $14.6 million, or 2%. The causes of this increase included an increase of $5.0 million, or 1.1%, in compensation expenses, consisting of salaries, wages, and fringe benefits; an increase in the purchase of goods and services of $7.4 million, or 4.1%; an increase in student aid expense of $1.2 million, or 4.3%, and an increase in depreciation expense of $1.0 million, or 1.7%.

As a result of the operating revenues increasing by more than the increase in operating expenses, the operating loss decreased by $8.5 million, or 6%, to $141.1 million.

Nonoperating revenues net of nonoperating expenses decreased by $17.3 million, or 11%, due primarily to a $21.1 million decrease in restricted and unrestricted state general fund appropriations (this decrease reflects a non-recurring boost of $19.6 million in FY 2014 due to the re-appropriation of the FY 2013 carryforward to FY 2014, discussed further in the next paragraph), a $1.8 million increase in Pell receipts, and a decrease in interest expense of $2.7 million.

An important number to note in the Statement of Revenues, Expenses, and Changes in Net Position is "Income/(Loss) before other revenues, expenses, gains or losses" (income before capital items) because this number is a better representation of the true operating results than the Operating Loss line. This number reflects other non-capital revenues used to fund operating expenses. These items are reported separately from other operating results due to GASB's reporting requirements, but from a financial perspective should be combined to understand operating results. In FY 2015 the income before capital items was $2.1 million, which was a decrease of $8.8 million compared to the FY 2014 income of $10.9 million. The FY 2014 income included the re-appropriation of $19.6 million from the pool of saved funds the University had rolled forward for several years. In FY 2014 the University did not roll forward any of these funds to FY 2015, resulting in a non-recurring boost to FY 2014 income. Without the non-recurring boost to FY 2014 income, the $2.1 million gain for FY 2015 would represent a $10.8 million improvement in income before capital items.

The final category on the Statement of Revenues, Expenses, and Changes in Net Position is called Other revenues, expenses, gains and losses and includes capital appropriations, capital grants and gifts, additions to permanent endowment, and gains/(losses) on the disposal of fixed assets. This category increased by $25.4 million, or 77%, caused primarily by an increase of $24.3 million in capital appropriations from the Virginia College Building Authority 21st Century capital reimbursement program.

Statement of Cash Flows

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

The statement is divided into five parts. The first deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for

nonoperating, non-investing, and noncapital financing purposes such as the state appropriations for educational and general programs and financial aid. The third section reflects the cash flows from capital financing activities and shows the purchases, proceeds, and interest received from these activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section deals with cash flows from investing activities. The fifth section reconciles the net cash used by operating activities to the operational loss reflected on the Statement of Revenues, Expenses, and Changes in Net Position. The fifth section is not presented in this summary presentation.

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

Statement of Cash Flows*

	June 30, 2015	June 30, 2014	Dollar Change	Percent Change
Cash provided by operating activities	$ 610,934	$ 592,215	$ 18,719	3%
Cash used by operating activites	(696,092)	(683,354)	(12,738)	2%
Net cash used by operating activities	**(85,158)**	**(91,139)**	**5,981**	**-7%**
Net cash provided by noncapital financing activities	**180,047**	**186,908**	**(6,861)**	**-4%**
Net cash provided by (used by) capital financing activities	**(76,714)**	**(63,316)**	**(13,398)**	**21%**
Net cash provided by (used by) investing activities	**538**	**431**	**107**	**25%**
Net (decrease) increase in cash	**18,713**	**32,884**	**(14,171)**	-43%
Cash, beginning of year	189,410	156,526	32,884	21%
Cash, end of year	**$ 208,123**	**$ 189,410**	**$ 18,713**	10%

* in thousands

The above summarized Statement of Cash Flows shows that during FY 2015 the University generated 87.8 percent ($610.9 million of $696.1 million expended) of its operating cash requirements from its own operations. This represents a small but consistent improvement over the 86.7% in FY 2014 and 85.7% in FY 2013. The remainder ($85.2 million) was provided from noncapital financing activities, which include non-capital appropriations from the Commonwealth of Virginia, non-capital private gifts, and Pell Grants; and from investing activities, which is its own category in the table above.

Operating activities used $12.7 million more cash in FY 2015 than in FY 2014, but generated $18.7 million more cash than in FY 2014, resulting in a reduced need for operating cash to be obtained from sources other than operating activities. Overall, operating activities resulted in a net usage of cash of $85.2 million which was $5.9 million less than in FY 2014.

The major sources of the $18.7 million increase in cash provided by operating activities in FY 2015 compared to FY 2014 were student tuition and fees ($13.0 million increase) and other receipts, which includes the INTO program and Mason Korea ($11.1 million increase), offset by a decrease in grants & contracts and auxiliaries ($5.1 million decrease).

The major causes of the $12.7 million increase in cash used by operations in FY 2015 compared to FY 2014 were payments to employees for salaries, wages, and fringe benefits ($7.4 million increase) and payments for supplies and services ($4.5 million increase).

Cash provided by non-capital financing activities decreased $6.9 million in FY 2015 compared to FY 2014, primarily due to a $21.0 million decrease in state general fund appropriations, a $12.5 million increase in advance from Treasurer of Virginia, and a $1.8 million increase in Pell grant receipts.

In order to better understand cash flow from operations it's helpful to combine the two GASB required reporting categories of cash from operating activities and cash from noncapital financing activities. The general fund appropriations from the Commonwealth, Pell grants, and unrestricted gifts are not considered to be exchange transactions and therefore are not included in cash flows from operations in the GASB reporting format. They are, however, used to pay operating expenses, so it is informative to combine the two categories for a more general understanding of cash flows from operations. The net positive cash flow generated by the two categories is $94.8 million (negative $85.2 and positive $180.0).

From the net positive cash flow produced by this broader view of operations, $62.0 million was used to pay debt service (principal and interest payments), which is treated as a capital financing activity although it is not financed by the cash flows provided by capital financing activities.

Cash provided by capital financing activities included capital appropriations from the Commonwealth of Virginia, capital gifts and grants, and the sale of revenue bonds. Cash used by capital financing activities included the acquisition of capital assets and making debt principal and interest payments. Although making principal and interest payments are considered to be capital financing activities, the cash to make these payments is not provided by capital financing sources but rather from the net positive cash flow provided from the broader view of operating cash flows described above. In addition, the acquisition of capital assets is considered to be a capital financing activity but not all purchases of capital assets are funded by sources of cash included in the capital financing section. Unfinanced capital asset purchases are also paid for from the net positive cash flow provided by the broader view of operating cash flows described above.

The University's net cash used by capital financing activities increased by $13.4 million in FY 2015 compared to FY 2014. The primary cause of the net increase in cash used by capital financing activities was an increase in the purchase of capital assets of $13.4 million.

The primary sources of cash from investing activities are interest on cash balances, interest on unspent bond proceeds, and endowment investment earnings. The primary cash outflow from investing activities is the purchase of investments. During FY 2015, these activities produced $107 thousand more cash than they did in FY 2014.

Economic Outlook

As part of the Commonwealth of Virginia's statewide system of higher education, the University's economic outlook is closely tied to that of the Commonwealth. The University receives support from the Commonwealth in the form of operating and capital appropriations, and there are pressures on state appropriations. In addition, constraints on federal research funding pose challenges for growing the University's research program. Changes in student demographics and increasing student loan debt are external pressures impacting higher education institutions across the country. Addressing these challenges will require a proactive, innovative response combined with a strategic deployment of resources.

Changes in the external environment, and the University's strategic plan, approved by the Board of Visitors in FY 2014, reinforced the need for a new budgetary and financial model. The new budgetary and financial model will support the implementation of the strategic plan, encourage innovation, enhance the University's ability to adapt more quickly to changing circumstances, and reduce reliance on state general fund appropriations.

During FY 2015, the University continued to expand operations at its campus in Songdo, South Korea. The operation of this campus is being subsidized for five years by the Korean government and a Korean foundation. The development of this campus is a long-term strategic initiative that is expected to expand the University's revenue base and global profile.

With the Mason Global Center, launched during the fall 2014 semester, the University has the capacity to support strong growth in the international student population at its campuses in Virginia. The INTO Mason Program and the Mason Global Center provide international students with a supportive community committed to helping them integrate with ease into American university life while preparing for their degree studies. INTO Mason's unique programs help improve students' academic and English language skills, and enable them to quickly transition to a United States higher education environment.

The University has an online academic division, Mason Online, which allows students to take the same classes offered on campus in an online format while at home, stationed abroad, or traveling. Programs and courses maintain the same academic rigor and integrity as their campus-based counterparts, while offering the flexibility to fit the needs of many students who might otherwise not be able to pursue higher education. The University is actively pursuing several alternatives for enhancement and expansion of its online presence.

The commitment to keeping core spending low and graduate success high positions the University well to continue to attract a strong student population. The University is confident that the strategic plan, combined with a new operational and financial model to support it, and the ongoing development of the new strategic initiatives, will position the University to navigate a successful course through the changing landscape ahead.

FINANCIAL STATEMENTS

George Mason University
Statement of Net Position
As of June 30, 2015

ASSETS	
Current assets:	
Cash and cash equivalents (Note 2)	$ 202,767,761
Short-term investments (Note 2)	166,352
Accounts receivable, net of allowance of $1,343,908 (Note 4)	37,261,556
Notes receivable, net of allowance of $6,928 (Note 4)	597,764
Prepaid expenses	6,486,242
Inventories	1,211,099
Due from the Commonwealth of Virginia	7,547,433
Total Current Assets	**256,038,207**
Noncurrent assets:	
Restricted cash and cash equivalents (Note 2)	9,860,811
Restricted cash and cash equivalents in custody of others (Note 2)	90,474
Notes receivable, net of allowance of $31,777 (Note 4)	2,760,089
Depreciable capital assets, net of accumulated depreciation (Note 5)	1,127,976,438
Nondepreciable capital assets (Note 5)	96,713,218
Long-term investments (Note 2)	4,713,010
Total noncurrent assets	**1,242,114,040**
Total assets	**1,498,152,247**
DEFERRED OUTFLOWS OF RESOURCES	
Deferrred outflows of resources- refundings of debt	14,336,024
Deferrred outflows of resources- pension	19,162,163
Total deferred outflows of resources	**33,498,187**
Total assets and deferred outflows of resources	**1,531,650,434**
LIABILITIES	
Current liabilities:	
Accounts payable and accrued expenses (Note 6)	65,068,935
Advance from Treasurer of Virginia	12,500,000
Unearned revenue	44,043,537
Obligations under securities lending	4,762,475
Deposits held in custody for others	1,203,236
Long-term debt- current portion (Notes 7 - 10)	38,073,442
Accrued compensated absences- current portion (Notes 7 - 10)	5,884,996
Total current liabilities	**171,536,621**
Noncurrent liabilities (Notes 7 - 10)	
Long-term debt	634,157,487
Net pension liability (Notes 16 & 20)	187,663,000
Accrued compensated absences	9,273,771
Other noncurrent liabilities	3,386,129
Total noncurrent liabilities	**834,480,387**
Total liabilities	**1,006,017,008**
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources- refundings of debt	390,596
Deferred inflows of resources- pension	34,086,000
Total deferred inflows of resources	**34,476,596**
Total liabilities and deferred inflows of resources	**1,040,493,604**
NET POSITION	
Net investment in capital assets	573,467,001
Restricted: nonexpendable (Note 19)	4,129,041
Restricted: expendable (Note 19)	742,863
Unrestricted	(87,182,075)
Total net position	**$ 491,156,830**

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

George Mason University Component Units
Combined Statements of Financial Position
As of June 30, 2015

		Total Component Units
Assets		
Cash and cash equivalents	$	21,068,244
Security deposits		90,724
Restricted cash and cash equivalents		6,768,232
Accounts receivable, net		256,815
Contributions receivable, net		28,117,002
Prepaids & Other Assets		1,604,411
Leasing commissions		994,848
Net investment in direct financing lease		81,995,426
Beneficial interest in perpetual trusts		11,228,100
Annuity benefit contract		531,157
Deferred loan costs, net		2,338,018
Inventory		39,780
Investments		140,643,848
Property and equipment, net		121,534,801
Art and antiques		572,567
Total Assets		**417,783,973**
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses		7,686,448
Accrued payroll and related expenses		110,345
Participation rent payable		440,943
Tenant security deposits liability		82,624
Unearned revenue		4,369,954
Trust liabilities		816,976
Other liabilities		27,533
Accrued annuity benefit		531,157
Derivative obligations		19,886,143
Long-term debt including loan payable		209,423,739
Amounts held for others		12,130,500
Total Liabilities		**255,506,362**
Net Assets		
Unrestricted		3,061,944
Temporarily restricted		82,713,417
Permanently restricted		83,411,890
Real Estate LLCs		(6,909,640)
Total Net Assets		**162,277,611**
Total Liabilities and Net Assets	**$**	**417,783,973**

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

George Mason University
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2015

Operating revenues:		
Student tuition and fees (net of scholarship allowances of $52,586,422)	$	310,502,026
Federal grants and contracts		80,103,830
State, local, and nongovernmental grants and contracts		30,231,484
Auxiliary enterprises (net of scholarship allowances of $17,287,956)		172,689,674
Other operating revenue		17,755,796
Total operating revenues		**611,282,810**
Operating expenses (Note 12)		
Instruction		265,698,046
Research		71,786,641
Public service		18,040,872
Academic support		57,624,758
Student services		26,418,545
Institutional support		45,876,983
Operation and maintenance of plant		51,881,543
Depreciation and amortization		58,878,610
Student aid		28,403,265
Auxiliary enterprises		127,765,303
Total operating expenses		**752,374,566**
Operating income (loss)		**(141,091,756)**
Nonoperating revenues (expenses):		
State educational and general appropriation (Note 13)		120,195,657
State general fund appropriations - restricted		19,433,449
Pell Grant Receipts		25,949,843
Gifts		2,714,525
ARRA Build America Bonds Subsidy		742,385
Investment income		612,261
Interest expense (Note 14)		(26,505,981)
Net nonoperating revenues		**143,142,139**
Income before other revenues, expenses, gains, and losses		**2,050,383**
Other revenues, expenses, gains, and losses:		
Capital grants and gifts		12,978,919
Capital appropriations		46,136,962
Additions to permanent endowments		203,715
Loss on Disposal of capital assets		(1,096,339)
Net other revenues, expenses, gains, and losses		**58,223,257**
Increase in net position		**60,273,640**
Net position beginning of year		635,746,190
Restatement of beginning net position (Note 20)		(204,863,000)
Net position beginning of year - restated		430,883,190
Net position end of year	**$**	**491,156,830**

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

George Mason University Component Units
Combined Statements of Activities
For the Year Ended June 30, 2015

		Total Component Units
Operating Revenues		
Contributions	$	57,374,773
Grants		1,887,138
Interest on direct financing lease		3,697,973
Investment and trust return		1,017,324
Miscellaneous & Other income		523,106
Rental income, net		17,940,973
Service fees		2,771,584
Total Operating Revenues		**85,212,871**
Operating Expenses		
Academic program support		44,399,786
Advertising and promotion		95,639
Depreciation		4,548,401
Fundraising		425,079
Insurance		367,954
Interest expense		10,126,624
Maintenance		162,486
Management fees		1,986,805
Office and other administrative expenses		3,466,499
Salaries and wages		1,564,305
Rent, Utilities & Other		2,782,580
Total Operating Expenses		**69,926,158**
Change in Net Assets before Non-operating items and Other Changes		**15,286,713**
Non-operating Items		**(5,449,287)**
Change in Net Assets		**9,837,426**
Beginning Net Assets		**152,440,185**
Ending Net Assets	**$**	**162,277,611**

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, 2015

Cash flows from operating activities:		
Student tuition and fees	$	313,063,490
Grants and contracts		109,712,854
Auxiliary enterprises		171,046,192
Perkins loan receipts		683,321
Other receipts		16,427,743
Payments to suppliers		(189,904,540)
Payments to employees		(477,127,376)
Payments for scholarships and fellowships		(28,403,265)
Perkins loan disbursements		(657,150)
Net cash used by operating activities		**(85,158,731)**
Cash flows from noncapital financing activities		
State appropriations		139,629,106
Advance from Treasurer		12,500,000
Additions to endowments		203,715
Federal Direct Loan Program receipts		160,875,052
Federal Direct Loan Program disbursements		(160,875,052)
Pell Grant receipts		25,949,843
Noncapital gifts		2,714,525
Agency transactions		(950,348)
Net cash provided by noncapital financing activities		**180,046,841**
Cash flows from capital and related financing activities		
Proceeds from capital appropriations available		44,135,682
Capital grants and contributions		11,716,433
Proceeds from sale of capital assets		133,209
Proceeds from issuance of capital related debt		499,926
Principal paid on capital related debt		(34,311,536)
Interest paid on capital related debt		(27,745,235)
Purchases of capital assets		(71,142,488)
Net cash used by capital and related financing activities		**(76,714,009)**
Cash flows from investing activities		
Interest on investments		612,262
Purchase of investments		(73,898)
Net cash provided by investing activities		**538,364**
Net increase in cash		**18,712,465**
Cash and cash equivalents - beginning of the year		197,114,737
Less: Securities Lending - Treasurer of Virginia		(7,704,279)
Net cash and cash equivalents - beginning of the year		**189,410,458**
Cash and cash equivalents - end of the year	**$**	**208,122,923**

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

George Mason University
Statement of Cash Flows
For the Year Ended June 30, 2015

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

Statement of Net Position		
Cash and cash equivalents	$	212,719,046
Less: Securities lending - Treasurer of Virginia		(4,596,123)
Net cash and cash equivalents	**$**	**208,122,923**

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

Operating loss	$	(141,091,756)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense		58,878,610
Pension expense adjustment related to recognition of net pension liability		(2,276,163)
Changes in assets and liabilities:		
Accounts receivable (net)		(1,078,751)
Restricted assets receivable (net)		(1,260,641)
Perkins loan receivable		205,995
Perkins loan liability		(179,824)
Inventory		142,525
Prepaid expenses		(1,136,611)
Accounts payable and accrued liabilities		1,447,601
Unearned revenue		1,256,861
Compensated absences		(66,577)
Net cash used by operating activities	**$**	**(85,158,731)**

Noncash Investing, Capital and Financing Activities:

The following transactions occurred prior to the Statement of Net Position date:		
Assets acquired through assumption of a liability	$	36,916,861
Capital assets acquired through gifts		634,956
Amortization of bond premium/discount and gain/loss on debt refinancing		(1,981,639)
Loss on disposal of capital assets		(1,096,339)
Capitalized interest accrual		1,708,895
Total noncash Investing, Capital and Financing Activities	**$**	**36,182,734**

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

NOTES TO FINANCIAL STATEMENTS

George Mason University

Notes to Financial Statements
As of June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

The George Mason University Foundation, Inc. (GMUF), Mason Housing, Inc. (MHI), George Mason University Instructional Foundation (GMUIF), and Mason Korea, LLC (MK) are private, independent organizations whose close relationships with the University require them to be reported as component units of the University. GMUF, MHI, GMUIF, and MK are discretely presented herein by separate page display.

GMUF was established to receive, hold, invest and administer property, and to make expenditures for the benefit of the University. During the year ended June 30, 2015, GMUF distributed $44,359,476 to, or on behalf of, the University for both restricted and unrestricted purposes. Separate financial information for GMUF may be obtained by writing to the GMUF Business Office at 4400 University Drive, MSN 1A3, Fairfax, VA 22030.

MHI was established to build and manage the University's faculty and staff housing. Separate financial information for MHI may be obtained by writing to Mason Housing, Inc., Attn- Thomas Calhoun, 4400 University Drive, MSN 1E4, Fairfax, VA 22030.

GMUIF was established to transmit educational and public affairs programming to the greater Washington, DC metropolitan area for a program fee under licenses issued by the Federal Communications Commission. During FY 14 the University and GMUIF agreed that GMUIF would establish, and be the sole member of, Mason Global Pathways, LLC. The purpose of Mason Global Pathways LLC is to invest in, and own 50% of, INTO Mason, LLC. INTO Mason, LLC was established to manage a new program to recruit international students and create pathways programs, providing the students the opportunity to become degree seeking students at the University. Separate financial information for GMUIF may be obtained by writing to GMUIF, Attn- CFO, Kelley II - 10716 Kelley Drive, MSN 1D2, Fairfax, VA 22030.

MK was established to develop and operate a campus for the University on the Songdo Global University Campus in Songdo, South Korea. Separate financial information for MK may be obtained by writing to Mason Korea, LLC, Attn-General Accounting, 4400 University Drive, MSN 4B2, Fairfax, VA 22030.

B. Basis of Presentation

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

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

C. Basis of Accounting

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

D. Investments

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

E. Capital Assets

Capital assets include land, buildings, library materials, works of art and historical treasures, equipment, improvements, infrastructure assets such as sidewalks, electrical and computer network cabling systems and intangible assets including computer software. Capital assets generally are defined by the University as assets with an initial cost of $5,000 or more and an estimated useful life in excess of one year. Library materials are valued using published average prices for library acquisitions. Other capital assets are recorded at actual cost or estimated historical cost if purchased or constructed. Donated capital assets are

recorded at the estimated fair market value at the date of donation, with the exception of intra-entity capital asset donations which are recorded at the carrying value of the asset on the transferor's books as of the date of transfer. Expenses for major capital assets and improvements are capitalized as projects are constructed (construction in progress). Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose. The costs of normal maintenance and repairs that do not enhance the use of an asset, or materially extend its useful life, are not capitalized.

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

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

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

F. Inventory

Inventory is composed of three distinct categories of items. The first category includes computers and related items for resale to students, faculty and staff. The second category is natural gas, which is used to power the University's physical plant. The third category consists of the on-hand stock of materials, supplies, and parts for use in maintaining the University's physical plant. All three categories of inventory are valued at cost using the first-in, first-out inventory methodology.

G. Noncurrent Cash and Investments

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

H. Unearned Revenue

Unearned revenue represents monies collected but not earned as of June 30, 2015. This is primarily composed of student tuition collected for courses that will be offered after June 30, 2015.

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, 2015, all unused vacation, overtime, compensatory, recognition and sick leave payable upon termination under University policy. The applicable share of employer related payroll taxes also is included.

J. Federal Financial Assistance Programs

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

K. Net Position

The Statement of Net Position reports the difference between assets plus deferred outflows and liabilities plus deferred inflows as net position. Net position is classified as net investment in capital assets; restricted; and unrestricted. Net investment in capital assets consists of capital assets, net of accumulated depreciation less outstanding debt that is attributable to the acquisition, construction, or improvement of those assets. Net position is reported as restricted when constraints on the net position use are either externally imposed by creditors, grantors, or contributors; or imposed by law. Unrestricted net position consists of net position that does not meet the definitions above.

L. Revenue Classifications

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

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

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

M. Scholarship Discounts and Allowances

Student tuition and fees revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services

provided by the University, and the amount that is paid by students and/or third parties making payments on the student's behalf.

N. Prepaid Expenses

The University has recorded as a current asset certain expenses for fiscal year 2016 that were paid in advance as of June 30, 2015. These prepaid expenses consist primarily of facility rentals and insurance premiums.

O. Discounts, Premiums, and Bond Issuance Costs

Revenue bonds and notes payable on the Statement of Net Position are reported net of related discounts and premiums, which are recognized over the life of the bond. Deferred gains and losses on debt refundings are recorded as deferred inflows of resources and deferred outflows of resources, respectively. The deferred inflows and outflows are recognized as a component of interest expense over the remaining life of the old bond or the life of the new bond, whichever is shorter. Bond issuance costs are expensed.

P. Commonwealth Equipment and Capital Project Reimbursement Programs

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

During Fiscal Year 2015, funding has been provided to the University from two programs:

- 21st Century Program
- Equipment Trust Fund (ETF) Program

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

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

Q. Defined Benefit Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Virginia Retirement System (VRS) State Employee Retirement Plan and the Virginia Law Officers' System (VaLORS) Retirement Plan; and the additions to/deductions from the

VRS State Employee Retirement Plan's and the VaLORS Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

Custodial Credit Risk - the custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the University will not be able to recover the value of investment or collateral securities that are in possession of an outside party. The University has "category 3" investments that are not registered in the University's name, and which are held by the George Mason University Foundation (GMUF), a separate not-for-profit corporation under the laws of the Commonwealth of Virginia. GMUF was created to receive, hold, invest and administer property, and to make expenditures for the benefit of the University. GMUF holds corporate stocks on behalf of the University in the amount of $1,796,251, and corporate bonds in the amount of $1,154,010, both of which are subject to custodial credit risk. The other investments held for the University by GMUF are not subject to custodial credit risk.

Credit Risk - the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit quality ratings are not required for U.S. government securities or other obligations explicitly guaranteed by the U.S. government. Information with respect to the University deposit exposure to credit risk is discussed below. The corporate bonds, in the amount of $1,154,010, held for the University by GMUF, are debt securities, and therefore subject to credit risk. Credit risk relative to these bonds is mitigated by GMUF's endowment investment policy guidelines on the credit quality of fixed income investments which state that the percentage of core fixed income assets rated below investment grade by one of the major reporting agencies (Standard and Poor's and Moody's) cannot exceed 25% of the total core fixed income allocation. The other investments held for the University by GMUF are not investments of a type that are subject to credit risk.

Concentration of Credit Risk - the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments with any one issuer that represent five percent or more of total investments constitute concentration of credit risk. However, investments issued or explicitly guaranteed by the U.S. government, and investments in mutual funds, external investment pools, and other pooled investments are excluded from the requirement. The University's investments are held by GMUF as a share of a larger investment pool managed by GMUF. In order to achieve a prudent level of portfolio diversification, GMUF's endowment investment policy guidelines require that not more than 5% of the portfolio may be invested in the securities of any one issuer, at cost, unless the issue is U.S. Government guaranteed, or an agency of the U.S. Government.

Interest Rate Risk - the risk that changes in interest rates will adversely affect the fair value of an investment. GMUF holds money market funds in the amount of $427,962 for the University. These money market funds have a maturity of less than one year. GMUF holds corporate bonds in the amount of $1,154,010 for the University. These corporate bonds are subject to interest rate risk. The interest rate risk relative to these bonds is mitigated by GMUF's endowment investment policy guidelines on fixed income investments, which state that the weighted average portfolio duration of the core bond portfolio should not exceed 125% of the weighted average portfolio duration of the Barclays Aggregate Bond Index. The other investments held for the University by GMUF are not investments of a type that are subject to interest rate risk.

Foreign Currency Risk - the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The University had no foreign investments or foreign deposits for FY 2015.

A. Cash and Cash Equivalents

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

B. Investments

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

C. Securities Lending Transactions

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

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

	Market Value
Cash and cash equivalents:	
Local funds	$ 15,834,298
Treasurer of Virginia	182,337,340
Treasurer of Virginia (Securities Lending)	4,596,123
Subtotal	202,767,761
Restricted cash and cash equivalents:	
Treasurer of Virginia (State Nonarbitrage Program)	9,860,811
Held in custody of others	90,474
Subtotal	9,951,285
Total Cash and cash equivalents	$212,719,046

Investments:	
Short-term:	
Treasurer of Virginia (Securities Lending)	$166,352
Long-term:	
Corporate stocks	1,796,251
Corporate bonds	1,154,010
Money Market Funds & Cash	427,962
Alternative investments	1,334,787
Subtotal Long-term	4,713,010
Total Investments	$4,879,362

3. DONOR-RESTRICTED ENDOWMENTS

The University's endowment is managed by the George Mason University Foundation (GMUF). During FY 2015, the net appreciation on the investments of donor-restricted endowments was an overall investment gain of $124,994, which became available for expenditure by the governing board.

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

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

The University's endowment policy seeks to maintain the growth of the present value of existing assets at a rate at least equal to the inflation rate plus the current spending rate of 4.0% based on a three year rolling average of each endowment's fair value, net of advisory fees.

4. ACCOUNTS AND NOTES RECEIVABLE

Accounts and notes receivable consisted of the following at June 30, 2015:

Accounts Receivable:	
Student tuition and fees	$9,569,668
Grants and Contracts receivable (restricted)	23,986,995
Due from Foundations	1,318,250
Other accounts receivable	3,730,551
Total accounts receivable	$38,605,464
Less allowance for doubtful accounts	(1,343,908)
Net accounts receivable	$37,261,556
Notes Receivable:	
Current:	
Perkins loans receivable	$583,547
Nurse faculty loan	21,145
Less allowance for doubtful accounts	(6,928)
Net current notes receivable	$597,764
Noncurrent:	
Perkins loans receivable	$2,676,814
Nurse faculty loan	96,995
Local loans to students	18,057
Less allowance for doubtful accounts	(31,777)
Net non-current notes receivable	$2,760,089

5. CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2015 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Non-depreciable capital assets:				
Land	$20,757,367	271,496	-	$21,028,863
Construction-in-progress	68,338,428	71,234,349	64,844,874	74,727,903
Works of art and historical treasures	901,452	55,000	-	956,452
Total non-depreciable capital assets	89,997,247	71,560,845	64,844,874	96,713,218
Depreciable Capital Assets:				
Buildings	1,276,533,714	79,614,268	874,184	1,355,273,798
Improvements	34,495,169	-	-	34,495,169
Infrastructure assets	57,149,220	11,238,039	-	68,387,259
Equipment	118,593,630	5,449,087	3,384,798	120,657,919
Intangibles including computer software	12,926,998	-	902,802	12,024,196
Library materials	100,728,381	4,771,629	1,571,393	103,928,617
Total Depreciable Capital Assets	1,600,427,112	101,073,023	6,733,177	1,694,766,958
Less accumulated depreciation:				
Buildings	312,120,820	41,418,626	257,590	353,281,856
Improvements	23,994,785	1,670,998	-	25,665,783
Infrastructure assets	20,307,636	1,693,403	-	22,001,039
Equipment	72,417,323	8,999,946	2,989,578	78,427,691
Intangibles including computer software	12,453,561	74,670	575,857	11,952,374
Library materials	72,012,204	5,020,967	1,571,394	75,461,777
Total accumulated depreciation	513,306,329	58,878,610	5,394,419	566,790,520
Depreciable capital assets, net	1,087,120,783	42,194,413	1,338,758	1,127,976,438
Total capital assets, net	$1,177,118,030	$113,755,258	$66,183,632	$1,224,689,656

6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2015:

Employee salaries, wages and fringe benefits payable	29,730,995
Vendors and suppliers accounts payable	16,774,344
Interest payable	6,046,396
Capital projects retainage payable	4,595,012
Capital projects and equipment accounts payable	7,922,188
Total accounts payable and accrued expenses	$ 65,068,935

7. NONCURRENT LIABILITIES

Noncurrent liabilities consist of long-term debt, accruals for compensated absences and other noncurrent liabilities. A summary of changes in noncurrent liabilities for the year ended June 30, 2015 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Non-current Portion
Long-term debt:						
Revenue Bonds	$220,955,894	$40,366,836	$54,410,673	$206,912,057	$11,758,201	$195,153,856
Notes Payable	352,680,000	51,450,000	72,475,000	331,655,000	19,390,000	312,265,000
Capital Lease Obligation	52,095,243	36,484,350	6,813,104	81,766,489	1,350,855	80,415,634
Installment Purchases	13,613,502	499,926	1,741,789	12,371,639	1,734,946	10,636,693
Bond Discount	(45,181)	-	(22,709)	(22,472)	(5,558)	(16,914)
Bond Premium	30,003,124	15,032,364	5,487,272	39,548,216	3,844,998	35,703,218
Total Long-term Debt	669,302,582	143,833,476	140,905,129	672,230,929	38,073,442	634,157,487
Accrued Compensated Absences	15,225,344	14,109,450	14,176,027	15,158,767	5,884,996	9,273,771
Net Pension Liability	-	187,663,000	-	187,663,000	-	187,663,000
Other noncurrent liabilities:						
Loan Funds	3,565,953	-	179,824	3,386,129	-	3,386,129
Total Long-term Liabilities	$688,093,879	$345,605,926	$155,260,980	$878,438,825	$43,958,438	$834,480,387

8. BONDS PAYABLE

A. Revenue Bonds

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

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

The following schedule describes each of the revenue bonds outstanding:

Bond Title	Year Issued	Original Amount	Interest Rate	Bond Term	Final Payment Due	Balance Outstanding at June 30, 2015
9 (c) Revenue Bonds:						
Student Housing VII RB#2	2006	39,080,000	4.0 to 5.0%	25 Years	2031	1,350,000
Renovate Housing Facilities-Dominion	2006	2,420,000	5.00%	10 Years	2016	325,000
Housing VIIC & Entrance Road	2007	15,495,000	4.0 to 5.0%	25 Years	2032	1,065,000
Presidents Park Renovation	2007	3,130,000	5.00%	10 Years	2017	820,000
Housing VII RB#3	2007	2,010,000	4.0 to 5.0%	25 Years	2032	135,000
Renovate Commonwealth & Dominion Ph II	2008	1,530,000	3.0 to 5.0%	10 Years	2018	585,000
Renovate Presidents Park Ph I	2008	3,095,000	3.0 to 5.0%	10 Years	2018	1,185,000
Student Housing VII	2008	1,955,000	3.0 to 5.0%	25 Years	2033	185,000
Student Housing VIIC	2008	23,870,000	3.0 to 5.0%	25 Years	2033	2,320,000
Renovate Presidents Park Ph II	2008	3,120,000	3.0 to 5.0%	20 Years	2028	445,000
Renovate Presidents Park Ph I	2009	1,790,000	3.0 to 5.0%	10 Years	2019	885,000
Student Housing VIIC	2009	8,255,000	3.0 to 5.0%	25 Years	2034	7,215,000
Student Housing VIII	2009	7,910,000	4.0 to 5.0%	25 Years	2034	7,260,000
9(c) 2009 C Refunding (2001)	2009	6,266,975	3.0 to 4.0%	15 Years	2024	6,233,601
9(c) 2009 C Refunding (2002)	2009	4,448,039	3.0 to 4.0%	13 Years	2022	3,889,181
9(c) 2009 D Refunding (2005)	2009	6,630,000	2.5 to 5.0%	13 Years	2022	6,630,000
9(c) 2009 D Refunding (2006B)	2009	8,230,000	2.5 to 5.0%	13 Years	2022	8,230,000
Renovate Presidents Park Ph II	2010	2,790,000	2.1 to 5.0%	10 Years	2020	1,645,000
Housing VIII	2010	39,420,000	2.1 to 5.0%	25 Years	2035	35,535,000
Smithsonian CRC – Housing	2010	5,415,000	2.1 to 5.0%	25 Years	2035	4,880,000
Renovate Commons	2010	1,325,000	2.1 to 5.0%	20 Years	2030	1,145,000
Student Housing VII-C	2011	1,045,000	2.0 to 5.0%	25 Years	2036	975,000
Presidential Park Renovation	2011	2,700,000	2.0 to 5.0%	10 Years	2021	1,930,000
Housing VIII	2011	20,230,000	2.0 to 5.0%	25 Years	2036	18,605,000
Smithsonian CRC – Housing	2011	4,070,000	2.0 to 5.0%	25 Years	2036	3,845,000
Renovate Commons	2011	14,350,000	2.0 to 5.0%	20 Years	2031	13,200,000
9(c) 2012 A Refunding (2005)	2012	2,674,040	3.0 to 5.0%	12 Years	2024	2,674,040
9(c) 2013 B Refunding (2005)	2013	10,504,185	3.0 to 5.0%	17 Years	2030	10,504,185
9(c) 2013 B Refunding (2006)	2013	9,186,889	4.0 to 5.0%	13 Years	2026	9,186,889
9(c) 2013 B Refunding (2007)	2013	5,162,482	4.0 to 5.0%	12 Years	2025	5,162,482
Housing VIII	2014	2,235,000	2.0 to 5.0%	20 Years	2034	2,170,000
9(c) 2014 B Refunding (2004B)	2014	6,306,209	2.0 to 5.0%	6 Years	2020	5,709,843
9(c) 2015 B Refunding (2006B)	2015	11,765,000	3.0 to 5.0%	16 Years	2031	11,765,000
9(c) 2015 B Refunding (2007B)	2015	7,670,410	3.0 to 5.0%	17 Years	2032	7,670,410
9(c) 2015 B Refunding (Housing VII 2008B)	2015	1,366,447	3.0 to 5.0%	18 Years	2033	1,366,447
9(c) 2015 B Refunding (Housing VIIC 2008B)	2015	17,565,586	3.0 to 5.0%	18 Years	2033	17,565,586
9(c) 2015 B Refunding (Pres Park II 2008B)	2015	1,999,393	4.0 to 5.0%	13 Years	2028	1,999,393
Total 9 (c) bonds		307,015,655				206,292,057
9 (d) Revenue Bonds:						
Refunded Krasnow Institute for Advanced Study*	2003	2,677,686	5.2 to 6.375%	13 Years	2016	341,598
Refunded Warehouse	2003	2,182,314	5.2 to 6.375%	13 Years	2016	278,402
Total 9 (d) bonds		4,860,000				620,000
Total Bonds Payable		$311,875,655				$206,912,057

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

Long-term debt from Revenue Bonds as of June 30, 2015 matures as follows:

Year	Principal	Interest	BAB Interest Subsidy*	Total Net of Subsidy
2016	11,758,201	8,851,144	(540,200)	20,069,145
2017	11,134,805	8,369,077	(564,877)	18,939,005
2018	11,139,863	7,875,385	(547,783)	18,467,465
2019	10,862,118	7,384,778	(527,908)	17,718,988
2020	11,008,039	6,914,645	(506,225)	17,416,459
2021-2025	55,820,396	27,334,343	(2,200,345)	80,954,394
2026-2030	58,855,125	15,062,618	(1,525,441)	72,392,302
2031-2035	34,678,510	4,105,748	(619,343)	38,164,915
2036-2040	1,655,000	66,200	-	1,721,200
Total	$206,912,057	$85,963,938	$(7,032,122)	$285,843,873

* The University expects the BAB (Build America Bonds) subsidy to occur as displayed. However, the subsidy is subject to intervening Congressional action and thus is not guaranteed.

B. 2015 Defeasance of Debt

In May 2015, the Treasury Board, on behalf of the University, issued $40,366,836 of General Obligation Bonds, Series 2015B to advance refund $41,980,000 of Series 2006B, 2007B and 2008B bonds. As a result, these bonds are considered to be defeased and the liability has been removed from the noncurrent liabilities line in the Statement of Net Position. Any related assets in escrow have similarly been excluded. The resulting net loss of $3,365,073 will be amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. The details of each bond issue refunded are below.

	Bonds Refunded	Interest Rate (Bonds Refunded)	Refunding Bonds Issued	Interest Rate (Refunding Bonds)	Accounting Gain (Loss)	Reduction in Debt Service	Economic Gain
Housing VII, Series 2006B	$12,190,000	4.25%	$11,765,000	3.0 – 5.0%	$(792,780)	$1,160,674	$949,587
Housing VII, Series 2007B	885,000	4.0 – 4.625%	853,761	3.0 – 5.0%	(71,216)	130,931	107,731
Housing VII & Entr Rd, Series 2007B	7,035,000	4.0 – 4.625%	6,816,649	3.0 – 5.0%	(613,117)	990,269	814,958
Housing VII, Series 2008B	1,440,000	5.0%	1,366,447	3.0 – 5.0%	(101,269)	304,546	253,265
Housing VIIC, Series 2008B	18,370,000	5.0%	17,565,586	3.0 – 5.0%	(1,460,065)	3,682,478	3,064,454
Presidents Park, Series 2008B	2,060,000	5.0%	1,999,393	4.0 – 5.0%	(326,626)	137,711	124,595
Total	$41,980,000		$40,366,836		($3,365,073)	$6,406,609	$5,314,590

C. Prior Year Bond Defeasance

The Commonwealth of Virginia, on behalf of the university, issued bonds in previous fiscal years the proceeds of which were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on other debt. The bonds representing that debt are therefore considered defeased. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the university's financial statements. On June 30, 2015,

$29,920,000 of Series 2006B, $13,270,000 of Series 2007B and $21,870,000 of Series 2008B 9(c) general obligation bonds were considered defeased.

9. NOTES PAYABLE

A. VCBA Notes

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

The following schedule describes each of the notes outstanding:

Bond Title	Year Issued	Original Amount	Interest Rate	Bond Term	Final Payment Due	Balance Outstanding at June 30, 2015
Krasnow Institute	2005	4,495,000	3.5 to 5.0%	21 Years	2027	200,000
Student Union III	2005	4,890,000	3.5 to 5.0%	21 Years	2027	220,000
Student Union III RB#2	2006	5,190,000	3.0 to 5.0%	21 Years	2028	1,905,000
PE Addition/Renovation	2006	6,035,000	3.0 to 5.0%	22 Years	2029	2,560,000
PE Building Addition, Phase II	2006	2,800,000	3.0 to 5.0%	22 Years	2029	1,185,000
Krasnow Institute Addition	2006	1,955,000	3.0 to 5.0%	20 Years	2027	600,000
PW Bio Containment Lab	2006	13,260,000	3.0 to 5.0%	22 Years	2029	5,625,000
PW Performing Arts Center	2006	10,790,000	3.0 to 5.0%	22 Years	2029	4,570,000
Fairfax Surge Space Fit Out	2006	1,515,000	3.0 to 5.0%	21 Years	2028	560,000
Fairfax Surge Space Building	2006	6,340,000	3.0 to 5.0%	21 Years	2028	2,325,000
PW Performing Arts Center RB#2	2007	8,565,000	4.5 to 5.0%	20 Years	2028	2,495,000
Student Union I Renovation	2007	5,085,000	4.5 to 5.0%	20 Years	2028	1,485,000
Student Union III RB#3	2007	6,130,000	4.5 to 5.0%	25 Years	2033	3,065,000
PE Addition/Renovation RB#2	2007	8,555,000	4.5 to 5.0%	20 Years	2028	2,495,000
PE Building Addition Phase II, RB#2	2007	3,820,000	4.5 to 5.0%	20 Years	2028	1,110,000
Fairfax Surge Space Bldg RB#2	2007	2,965,000	4.5 to 5.0%	20 Years	2028	865,000
Academic VI/Research II	2007	4,945,000	4.5 to 5.0%	20 Years	2028	1,445,000
Parking Deck III	2007	20,750,000	4.5 to 5.0%	25 Years	2033	10,605,000
Softball Field Improvement	2007	1,510,000	5.00%	10 Years	2018	535,000
Hotel & Conference Center	2007	18,000,000	4.5 to 5.0%	30 Years	2038	11,660,000
Student Union II Renovation	2007	1,490,000	5.00%	10 Years	2018	570,000
VCBA 2007B Refunding (1997A)	2007	3,555,000	4 to 4.25%	10 Years	2018	2,145,000
VCBA 2007B Refunding (2005A)	2007	1,675,000	4.0 to 4.5%	12 Years	2020	1,285,000
Arlington Phase II	2009	7,945,000	2.1 to 5.0%	25 Years	2034	6,905,000
PW Performing Arts Center RB#3	2009	17,960,000	2.1 to 5.0%	20 Years	2029	14,555,000
Parking Deck III Phase I	2009	9,790,000	2.1 to 5.0%	25 Years	2034	8,515,000
PE Building Phase I	2009	2,750,000	2.1 to 5.0%	20 Years	2029	2,225,000
Surge Space & Fit-Out	2009	10,730,000	2.1 to 5.0%	20 Years	2029	8,695,000
Academic VI/Research II, RB#2	2009	20,335,000	2.1 to 5.0%	20 Years	2029	16,480,000
PE Building Phase II	2009	5,245,000	2.1 to 5.0%	20 Years	2029	4,255,000
Biomedical Research Lab, RB#2	2009	6,405,000	2.1 to 5.0%	20 Years	2029	5,195,000
Hotel & Conference Center	2009	25,190,000	2.1 to 5.0%	30 Years	2039	22,850,000
Student Union I Addition/Renovation	2009	7,980,000	2.1 to 5.0%	20 Years	2029	6,475,000
Student Union II Renovation	2009	585,000	2.1 to 5.0%	10 Years	2019	285,000
Parking Deck III Phase II	2009	13,885,000	2.1 to 5.0%	25 Years	2034	12,085,000
W. Campus Connector & Campus Entrances	2009	6,010,000	2.1 to 5.0%	20 Years	2029	4,875,000
PW Loop Road and Entrance	2009	575,000	3.0 to 5.0%	7 Years	2017	210,000
Arlington Phase II	2009	5,010,000	3.0 to 5.0%	25 Years	2035	4,525,000
PW Performing Arts Center	2009	3,390,000	3.0 to 5.0%	20 Years	2030	2,915,000
Fairfax Surge Space Fit Out Data Center	2009	1,685,000	2.0 to 5.0%	20 Years	2030	1,405,000
PW Regional Biomedical Laboratory	2009	1,950,000	2.0 to 5.0%	20 Years	2030	1,625,000
Hotel & Conference Center	2009	8,300,000	3.0 to 5.0%	30 Years	2040	7,725,000
Student Union I Addition/Renovation	2009	7,725,000	3.0 to 5.0%	20 Years	2030	6,640,000
Student Union II Renovation	2009	4,830,000	3.0 to 5.0%	20 Years	2030	4,150,000

Bond Title	Year Issued	Original Amount	Interest Rate	Bond Term	Final Payment Due	Balance Outstanding at June 30, 2015
Arlington Phase II	2010	3,570,000	5.00%	7 Years	2018	1,915,000
Student Union II Renovation	2010	2,935,000	3.75 to 5.5%	20 Years	2031	2,605,000
Student Union I Addition/Renovation	2010	5,390,000	3.75 to 5.5%	20 Years	2031	4,785,000
Smithsonian CRC-Dining	2010	2,395,000	3.75 to 5.6%	25 Years	2036	2,200,000
Krasnow Institute Addition II	2010	5,215,000	2.0 to 5.5%	20 Years	2031	4,470,000
Fieldhouse Life/Safety/Code Renovation	2010	1,395,000	3.75 to 5.5%	20 Years	2031	1,240,000
Repair Aquatic & Fitness Center HVAC	2010	2,325,000	2.0 to 5.0%	10 Years	2021	1,520,000
VCBA 2010B Refunding (2003A)	2010	2,990,000	2.0 to 5.0%	10 Years	2021	2,990,000
Fairfax Campus Dining	2011	6,090,000	5.00%	10 Years	2022	4,960,000
Smithsonian CRC-Dining	2011	2,690,000	3.0 to 5.0%	25 Years	2037	2,028,288
Central Utility Plant	2011	0	3.0 to 5.0%	25 Years	2037	531,712
VCBA 2012A Refunding (2003A)	2012	5,525,000	3.0 to 5.0%	12 Years	2025	4,925,000
VCBA 2012A Refunding (Aquatic Ctr 2004A)	2012	3,130,000	5.00%	8 Years	2021	3,130,000
VCBA 2012A Refunding (Research I 2004A)	2012	6,310,000	2.75 to 5.0%	13 Years	2026	6,310,000
VCBA 2012A Refunding (2005A)	2012	4,260,000	3.0 to 5.0%	12 Years	2025	4,260,000
Fieldhouse Life/Safety/Code Renovation	2012	3,060,000	4.0 to 5.0%	10 Years	2023	888,210
Central Utility Plant	2012	0	4.0 to 5.0%	10 Years	2023	1,891,790
W Campus Connector & Campus Entr	2013	2,135,000	2.0 to 5.0%	10 Years	2024	2,135,000
Ike's Dining	2013	7,830,000	2.0 to 5.0%	20 Years	2034	7,830,000
Johnson Center	2013	2,620,000	2.0 to 5.0%	8 Years	2022	1,521,434
Central Utility Plant	2013	3,065,000	2.0 to 5.0%	20 Years	2034	4,163,566
Renovate Fieldhouse	2013	3,230,000	1.0 to 3.5%	10 Years	2024	3,230,000
VCBA 2013B Refunding (2006A)	2013	7,280,000	1.0 to 4.0%	14 Years	2028	6,835,000
VCBA 2013B Refunding (2009A)	2013	1,845,000	1.0 to 4.0%	15 Years	2029	1,740,000
VCBA 2014B Refunding (1997)	2014	3,720,000	3.0 to 5.0%	2 Years	2017	3,720,000
VCBA 2014B Refunding (1999)	2014	1,345,000	3.0 to 5.0%	5 Years	2020	1,345,000
VCBA 2014B Refunding (2005A)	2014	1,455,000	3.0 to 5.0%	12 Years	2027	1,455,000
VCBA 2014B Refunding (2006A)	2014	16,640,000	3.0 to 5.0%	9 Years	2024	16,640,000
VCBA 2014B Refunding (2007A)	2014	28,290,000	3.0 to 5.0%	11 Years	2026	28,290,000
Total Notes Payable		$449,325,000				$331,655,000

Long-term debt from Notes Payable as of June 30, 2015 matures as follows:

Fiscal Year	Principal	Interest	BAB Interest Subsidy*	Total Net of Subsidy
2016	19,390,000	14,799,754	(205,648)	33,984,106
2017	20,280,000	13,914,773	(213,723)	33,981,050
2018	21,070,000	12,970,966	(221,246)	33,819,720
2019	18,975,000	12,055,098	(221,246)	30,808,852
2020	19,770,000	11,176,035	(214,092)	30,731,943
2021-2025	99,640,000	41,955,093	(856,159)	140,738,934
2026-2030	88,245,000	19,372,773	(435,859)	107,181,914
2031-2035	32,410,000	6,124,053	(56,981)	38,477,072
2036-2040	11,875,000	1,114,910	(1,421)	12,988,489
Total	$331,655,000	$133,483,455	$(2,426,375)	$462,712,080

* The University expects the BAB (Build America Bonds) subsidy to occur as displayed. However, the subsidy is subject to intervening Congressional action and thus is not guaranteed.

B. 2015 Defeasance of Debt

In November 2014, the VCBA, on behalf of the University, issued $51,450,000 of VCBA Pooled Bonds, Series 2014B to advance refund $55,005,000 of Series 2004B, 2005A, 2006A and 2007A bonds. As a result, these bonds are considered to be

defeased and the liability has been removed from the noncurrent liabilities line in the Statement of Net Position. Any related assets in escrow have similarly been excluded. The resulting net loss of $4,141,010 will be amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. The details of each bond issue refunded are below. VCBA Pooled Bonds are reported as Notes Payable by the university.

	Bonds Refunded	Interest Rate (Bonds Refunded)	Refunding Bonds Issued	Interest Rate (Refunding Bonds)	Accounting Gain (Loss)	Reduction in Debt Service	Economic Gain/Loss
Series 2004B, Series 1997 Projects	$3,855,000	5.0%	$3,720,000	3.0 – 5.0%	$(46,493)	$212,150	$207,308
Series 2004B, Series 1999 Projects	1,470,000	4.0 - 5.0%	1,345,000	3.0 – 5.0%	(18,358)	127,980	119,704
Student Union III, Series 2005A	955,000	4.375 - 5.0%	760,000	3.0 – 5.0%	181,615	350,774	291,054
Krasnow Institute, Series 2005A	870,000	4.375 - 5.0%	695,000	3.0 – 5.0%	162,957	315,506	262,063
Krasnow Institute, Series 2006A	785,000	5.0%	725,000	3.0 – 5.0%	(50,934)	86,500	77,541
PE Add/Renovation, Series 2006A	2,230,000	5.0%	2,070,000	3.0 – 5.0%	(215,601)	230,950	207,571
PE Bldg Add, Phase II, Series 2006A	1,030,000	5.0%	950,000	3.0 – 5.0%	(92,003)	114,750	103,001
PW Bio Lab, Series 2006A	4,895,000	5.0%	4,535,000	3.0 – 5.0%	(463,049)	518,100	465,666
PW Perf Arts Center, Series 2006A	3,985,000	5.0%	3,690,000	3.0 – 5.0%	(373,928)	424,400	381,393
Student Union III, Series 2006A	2,005,000	5.0%	1,855,000	3.0 – 5.0%	(161,555)	214,800	193,323
Ffx Surge Space Fit Out, Series 2006A	580,000	5.0%	545,000	3.0 – 5.0%	(56,814)	50,950	46,080
Ffx Surge Space Bldg, Series 2006A	2,450,000	5.0%	2,270,000	3.0 – 5.0%	(200,979)	258,700	232,681
PW Perf Arts Center, Series 2007A	4,175,000	4.5 - 5.0%	3,955,000	3.0 – 5.0%	(361,473)	344,155	303,537
Parking Deck III, Series 2007A	6,975,000	4.5 - 5.0%	6,600,000	3.0 – 5.0%	(698,002)	585,385	515,760
PE Add/Renovation, Series 2007A	4,170,000	4.5 - 5.0%	3,950,000	3.0 – 5.0%	(360,756)	344,105	303,488
Ffx Surge Space Bldg, Series 2007A	1,450,000	4.5 - 5.0%	1,370,000	3.0 – 5.0%	(121,677)	123,765	109,380
Acad VI/Research II, Series 2007A	2,410,000	4.5 - 5.0%	2,280,000	3.0 – 5.0%	(205,683)	202,455	178,467
PE Bldg Add, Phase II, Series 2007A	1,865,000	4.5 - 5.0%	1,765,000	3.0 – 5.0%	(159,267)	157,105	138,091
Hotel & Conf Center, Series 2007A	4,360,000	4.5 - 5.0%	4,125,000	3.0 – 5.0%	(490,927)	366,390	322,950
Student Union I Renov, Series 2007A	2,475,000	4.5 - 5.0%	2,340,000	3.0 – 5.0%	(208,989)	210,585	185,372
Student Union III, Series 2007A	2,015,000	4.5 - 5.0%	1,905,000	3.0 – 5.0%	(199,094)	171,565	151,049
Total	$55,005,000		$51,450,000		($4,141,010)	$5,411,070	$4,795,479

C. Prior Year Debt Defeasance

The Virginia College Building Authority (VCBA) issued 9(d) VCBA pooled bonds in previous fiscal years the proceeds of which were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on other debt. The notes representing that other debt are therefore considered defeased. Accordingly, the trust account's assets and liabilities for the defeased notes are not included in the university's financial statements. On June 30, 2015, $6,660,000 from Series 2005A, $24,140,000 from Series 2006A, $29,895,000 from Series 2007A and $1,500,000 from Series 2009A 9(d) VCBA pooled bonds were considered defeased.

10. INSTALLMENT PURCHASES PAYABLE & CAPITAL LEASE OBLIGATION

A. Installment Purchases

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

Principal and interest payments on these commitments for fiscal years subsequent to June 30, 2015 are as follows:

Fiscal Year	Principal	Interest	Total
2016	1,734,946	172,123	1,907,069
2017	1,725,930	147,244	1,873,174
2018	1,660,520	122,899	1,783,419
2019	1,676,084	98,705	1,774,789
2020	1,661,027	74,290	1,735,317
2021-2025	3,913,132	126,928	4,040,060
Total	$12,371,639	$742,189	$13,113,828

B Capital Leases

During FY 2011, the University entered into a twenty-five year capital lease with George Mason University Foundation (GMUF) for the provision of a 150,000 square foot administration building at the Fairfax campus.

The University has accounted for the acquisition of the administration building and its furniture and equipment as a capital lease, and therefore has recorded the building and its furniture and equipment as Depreciable capital assets, net, and has also recorded a corresponding lease liability in Long-term debt, both on its Statement of Net Position as of June 30, 2015.

During FY 2013, the University began a 30 year capital lease with George Mason University Foundation (GMUF) for the provision of an 80,858 square foot residence hall at the Prince William campus.

The University has accounted for the acquisition of the residence hall as a capital lease, and therefore has recorded the building as a Depreciable capital asset, net, and has also recorded a corresponding lease liability in Long-term debt, both on its Statement of Net Position as of June 30, 2015.

During FY 2014, the University began a 20 year capital lease with George Mason University Foundation (GMUF) for the provision of a 31,879 square foot office building and land in downtown Fairfax, close to the Fairfax campus.

The University has accounted for the acquisition of the office building as a capital lease, and therefore has recorded land as a Nondepreciable capital asset, the building as a Depreciable capital asset, net, and has also recorded a corresponding lease liability in Long-term debt, all on its Statement of Net Position as of June 30, 2015.

During FY 2015, the University began a 29.5 year capital lease with George Mason University Foundation (GMUF) for the provision of a 75,000 square foot lab building at the Prince William campus.

The University has accounted for the acquisition of the lab building as a capital lease, and therefore has recorded the building as a Depreciable capital asset,

net, and has also recorded a corresponding lease liability in Long-term debt, both on its Statement of Net Position as of June 30, 2015.

Payments of principal, interest, and executory costs on the capital leases for fiscal years subsequent to June 30, 2015 are as follows:

Fiscal Year	Principal	Interest	Executory	Totals
2016	1,350,855	4,966,430	334,405	6,651,690
2017	1,459,751	4,881,592	337,231	6,678,574
2018	1,659,103	4,788,629	338,929	6,786,661
2019	1,801,510	4,682,909	342,534	6,826,953
2020	1,935,099	4,570,389	344,470	6,849,958
2021-2025	12,174,716	20,807,059	1,770,874	34,752,649
2026-2030	17,281,123	16,329,328	1,790,618	35,401,069
2031-2035	20,820,748	10,466,540	636,926	31,924,214
2036-2040	16,160,040	4,233,471	635,147	21,028,658
2041-2045	7,123,544	238,798	253,688	7,616,030
Total	$81,766,489	$75,965,145	$6,784,822	$164,516,456

11. COMPONENT UNITS

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

Combining Statement of Financial Position
As of June 30, 2015

	George Mason University Foundation	Mason Housing, Inc. *	GMU Instructional Foundation *	Mason Korea, LLC ^	Component Units Total
Assets					
Cash and cash equivalents	$19,122,213	$37,205	$1,198,013	$710,813	$21,068,244
Security deposits	-	90,474	250	-	90,724
Restricted cash and cash equivalents	1,148,728	5,619,504	-	-	6,768,232
Accounts receivable, net	-	2,371	254,289	155	256,815
Contributions receivable, net	28,117,002	-	-	-	28,117,002
Prepaids and other assets	1,500,532	23,850	63,770	16,259	1,604,411
Leasing commissions	994,848	-	-	-	994,848
Net investment in direct financing lease	81,995,426	-	-	-	81,995,426
Beneficial interest in perpetual trusts	11,228,100	-	-	-	11,228,100
Annuity benefit contract	531,157	-	-	-	531,157
Deferred loan costs, net	945,015	1,393,003	-	-	2,338,018
Inventory	-	-	39,780	-	39,780
Investments	140,643,848	-	-	-	140,643,848
Property and equipment, net	88,590,210	25,762,166	7,182,425	-	121,534,801
Art and antiques	572,567	-	-	-	572,567
Total Assets	375,389,646	32,928,573	8,738,527	727,227	417,783,973
Liabilities and Net Assets					
Liabilities					
Accounts payable and accrued expenses	6,397,848	221,613	772,073	294,914	7,686,448
Accrued payroll and related expenses	-	11,918	72,302	26,125	110,345
Participation rent payable	-	440,943	-	-	440,943
Tenant security deposits liability	-	82,624	-	-	82,624
Unearned revenue	3,537,599	37,688	510,838	283,829	4,369,954
Trust liabilities	816,976	-	-	-	816,976
Other liabilities	20,833	-	6,700	-	27,533
Accrued annuity benefit	531,157	-	-	-	531,157
Derivative obligations	5,914,244	13,971,899	-	-	19,886,143
Long-term debt including loans payable	167,785,933	39,460,000	1,691,878	485,928	209,423,739
Amounts held for others	12,130,500	-	-	-	12,130,500
Total Liabilities	197,135,090	54,226,685	3,053,791	1,090,796	255,506,362
Net Assets					
Unrestricted	19,038,889	(21,298,112)	5,684,736	(363,569)	3,061,944
Temporarily restricted	82,713,417	-	-	-	82,713,417
Permanently restricted	83,411,890	-	-	-	83,411,890
Real Estate LLCs	(6,909,640)	-	-	-	(6,909,640)
Total Net Assets	178,254,556	(21,298,112)	5,684,736	(363,569)	162,277,611
Total Liabilities and Net Assets	$375,389,646	$32,928,573	$8,738,527	$727,227	$417,783,973

** March 31, 2015 year-end*
^ December 31, 2014 year-end

Combining Statement of Activities
For the Year Ended June 30, 2015

	George Mason University Foundation	Mason Housing, Inc. *	GMU Instructional Foundation*	Mason Korea, LLC ^	Component Units Total
Operating Revenue:					
Contributions	$57,321,116	-	-	$53,657	$57,374,773
Grants	-	-	210,870	1,676,268	1,887,138
Interest on direct financing lease	3,697,973	-	-	-	3,697,973
Investment and trust return	1,012,565	-	4,759	-	1,017,324
Miscellaneous and other income	438,062	81,527	695	2,822	523,106
Rental income, net	13,946,465	3,372,748	621,760	-	17,940,973
Service fees	977,400	-	1,026,325	767,859	2,771,584
Total Operating Revenue	77,393,581	3,454,275	1,864,409	2,500,606	85,212,871
Operating Expenses:					
Academic program support	43,934,396	-	-	465,390	44,399,786
Advertising and promotion	-	18,861	14,041	62,737	95,639
Depreciation	3,417,753	1,073,847	56,801	-	4,548,401
Fundraising	425,079	-	-	-	425,079
Insurance	195,381	99,525	12,879	60,169	367,954
Interest expense	8,016,970	2,044,628	65,026	-	10,126,624
Maintenance	-	162,486	-	-	162,486
Management fees and purchased services	-	103,748	263,606	1,619,451	1,986,805
Office and other administrative expenses	3,002,989	100,843	279,493	83,174	3,466,499
Salaries, wages and benefits	-	268,866	817,796	477,643	1,564,305
Rent, utilities & other	2,631,769	34,547	63,042	53,222	2,782,580
Total Operating Expenses	61,624,337	3,907,351	1,572,684	2,821,786	69,926,158
Change in Net Assets before Non-operating items and other changes	15,769,244	(453,076)	291,725	(321,180)	15,286,713
Non-operating items	(83,656)	(5,149,662)	(250,000)	34,031	(5,449,287)
Change in Net Assets	15,685,588	(5,602,738)	41,725	(287,149)	9,837,426
Beginning Net Assets	162,568,968	(15,695,374)	5,643,011	(76,420)	152,440,185
Ending Net Assets – end of year	$178,254,556	$(21,298,112)	$5,684,736	$(363,569)	$162,277,611

** March 31, 2015 year-end*
^ December 31, 2014 year-end

A. Investments

Investments, which are reported at fair value, consisted of the following as of June 30, 2015:

	GMUF
Cash and money market funds	$9,773,000
Equities	36,935,681
Fixed income	61,286,169
Commodities	816,307
Real estate	56,556
Hedge funds	23,256,412
Managed futures	2,604,688
Private equity and real assets	5,915,035
Total Investments	$140,643,848

B. Contributions Receivable – GMUF

GMUF's contributions receivable as of June 30, 2015 are as follows:

Due in less than one year	$5,351,628
Due in one to five years	23,905,145
Due in more than five years	713,552
Less allowance for doubtful accounts	(344,659)
Less discount present value	(1,508,664)
Total	$28,117,002

Discount rates range from 0.15 percent to 5.69 percent.

As of June 30, 2015, the Foundation has $6,407,000 of conditional promises to give, primarily matching funds for which the fundraising goals have not yet been achieved. These conditional promises to give are not recognized as assets in the consolidated statement of financial position.

C. Property and Equipment

The following comprises property and equipment for the component units at June 30, 2015:

	GMUF	MHI *	GMUIF *
Land	$27,125,291	$ -	$6,435,556
Buildings and building improvements	93,397,183	31,267,734	600,000
Furniture and equipment	849,522	187,614	2,353,373
Total	121,371,996	31,455,348	9,388,929
Accumulated depreciation and amortization	(32,781,786)	(5,693,182)	(2,206,504)
Net property and equipment	$88,590,210	$25,762,166	$7,182,425

** March 31, 2015 year-end*

D. Long-Term Debt – GMUF

George Mason University Foundation, Inc. (Potomac Heights and University Park Projects) - Fairfax County Economic Development Authority Bonds

On October 7, 2003, the Foundation issued $35,125,000 of variable rate Fairfax County Economic Development Authority bonds to finance a housing project for the University and to refinance existing properties the Foundation owns and rents to the University. On May 1, 2013, the Foundation refinanced the remaining $25,530,000 of the Fairfax County Economic Development Authority bonds with the same commercial bank. These variable rate bonds mature on May 31, 2018. With the exception of $1,378,750, the interest rate on these bonds is effectively fixed through an interest rate swap (See Note E).

GMUF Mason Administration, LLC (Merten Hall) - Fairfax County Economic Development Authority Bonds

On April 21, 2010 the Fairfax County Development Authority issued its $36,100,000 Revenue Bond Series 2010A (Tax Exempt – GMUF Mason Administration, LLC Project) and its $1,900,000 Revenue Bond Series 2010B (Taxable – GMUF Mason Administration, LLC Project) and sold such bonds to a commercial bank pursuant to a Bond Purchase and Loan Agreement dated April 1, 2010. The Series 2010A Bond is subject to mandatory repayment at the option of the commercial bank in December 2023. Proceeds were used in the acquisition, construction, renovation and equipping of a five-story administration building for classrooms, administrative office and retail space. The building was substantially completed in May 2011, with remaining construction for retail space completed in fiscal year 2014. The Foundation's loan obligation is limited to that portion of the bond issuance which it drew upon pursuant to the Bond Purchase and Loan Agreement.

As part of this transaction, the Foundation simultaneously entered into two forward floating-to-fixed interest rate swaps with a commercial bank to effectively fix the interest rates on the tax-exempt and taxable bonds. See Note E for discussion regarding the interest rate swaps.

GMUF Prince William Housing, LLC (Beacon Hall) - Industrial Development Authority of the County of Prince William Bonds

On August 11, 2011, the Industrial Development Authority of the County of Prince William issued its $14,640,000 Revenue Bond Series 2011A (Tax-Exempt George Mason University Foundation Prince William Housing LLC Project) and its $985,000 Revenue Bond Series 2011B (Taxable George Mason University Foundation Prince William Housing LLC Project). Proceeds were used to finance the acquisition, construction and equipping of a student residence hall, university program space, and unimproved "shell space" designated for retail tenants.

The Series 2011A and Series 2011B Bonds are special, limited obligations of the Issuer, payable solely from the revenues pledged therefore under the indenture. Neither the Foundation nor the University is liable for payments of the principal or redemption price of interest on the Bonds. The Foundation began leasing the property to the University in fiscal year 2013 with a 30 year lease term, and the rental payments made by the University service the bonds' principal and interest payments.

GMUF Prince William Life Sciences Lab, LLC - Industrial Development Authority of the County of Prince William Bonds

On August 11, 2011, the Industrial Development Authority of the County of Prince William issued its $31,065,000 Revenue Bond Series 2011AA (Tax-Exempt George Mason University Foundation Prince William Life Sciences Lab LLC Project) and its $2,145,000 Revenue Bond Series 2011BB (Taxable George Mason University Foundation Prince William Life Sciences Lab LLC Project) pursuant to a Trust Indenture dated August 1, 2011. Proceeds were used to finance the acquisition, construction and equipping of life sciences lab facilities and the acquisition and construction of unimproved "shell space" designated for commercial laboratory use. The project was completed in fiscal year 2015.

The Series 2011AA and Series 2011BB Bonds are special, limited obligations of the Issuer, payable solely from the revenues pledged therefore under the indenture. Neither the Foundation nor the University is liable for payments of the principal or redemption price of interest on the Bonds. The Foundation began leasing the property in fiscal year 2013 to the University with a 29.5 year lease term, and the rental payments made by the University service the bonds' principal and interest payments.

Prior to completion, the unspent bond proceeds were held by a trustee and invested in money market funds. The trustee reimbursed third party vendors for expenditures related to the life science lab and housing projects. There were no deposits held with trustees at June 30, 2015. Deposits held with trustees released for expenditure totaled $1,089,166 for the year ended June 30, 2015.

All of the term bonds for the Industrial Development Authority of the County of Prince William Series 2011 Bonds are subject to mandatory redemption by operation of sinking fund installments.

GMUF Commerce Buildings, LLC - Industrial Development Authority of the Town of Clifton, VA

On May 24, 2013, the Industrial Development Authority of the Town of Clifton, VA issued its $6,500,000 Revenue Bond Series 2013 (GMUF Commerce Buildings, LLC Project) and sold such bonds to a commercial bank pursuant to a Bond Purchase and Loan Agreement dated May 24, 2013. Proceeds were used for the purposes of (a) refinancing $2,260,000 of the Fairfax County Development Authority bonds, (b) renovating existing office buildings owned by the Foundation in the City of Fairfax, Virginia, and (c) paying certain other expenditures associated with the bond issuance, such as deferred loan costs. The project was completed in fiscal year 2014, and the Foundation had drawn a total of $6,232,503 of the loan with the commercial bank. The Foundation's loan obligation is limited to that portion of the bond issuance which it drew upon pursuant to the Bond Purchase and Loan Agreement.

On March 16, 2015, GMU Commerce Buildings, LLC modified its existing loan with the commercial bank resulting in a taxable loan of $5,720,000 at a fixed rate of 3.63%, maturing March 1, 2030. The Foundation leases the property to the University with a 15 year lease term and the rental payments made by the University service the notes' principal and interest payments as well as operating costs.

GMUF Arlington Campus, LLC Notes

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

Per the terms of the loan, if the primary tenant's net book value drops below a specified threshold, the Foundation will be required to increase the funding of a tenant improvement reserve over the remaining loan term or obtain a qualified letter of credit from a commercial bank. During fiscal year 2014, this trigger event occurred, resulting in additional funding of the tenant improvement reserve for a period of time until the Foundation could secure a letter of credit facility. The letter of credit facility was established on April 1, 2014 in the amount of $3,330,844 and will continue through loan maturity of September 2016.

For certain debt issuances, on a periodic basis, the Foundation is required to comply with administrative reporting and debt covenant calculations. As of June 30, 2015, the Foundation was in compliance with its required debt covenant calculations.

The following represents the Foundation's bonds and notes payable at June 30, 2015.

	2015
Fairfax County Economic Development Authority Bonds (FCEDA):	
George Mason University Foundation, Inc. Bonds, variable rates maturing on May 31, 2018	$20,303,750
GMUF Mason Administration, LLC Tax-Exempt Revenue Bond, variable rate maturing on June 1, 2036	30,788,403
Industrial Development Authority of the County of Prince William (IDA-PW):	
Prince William County Series 2011A Bonds, serial with interest rates ranging from 4.25% to 5.00%, maturing at various dates from	1,895,000

	2015
September 1, 2022 to September 1, 2026	
Prince William County Series 2011A Bonds, term	
interest rate 5.50%, maturing September 1, 2031	3,190,000
interest rate 5.125%, maturing September 1, 2041	9,555,000
Prince William County Series 2011B Bonds, term	
interest rate 3.375%, maturing September 1, 2021	965,000
Prince William County Series 2011AA Bonds, serial with interest rates ranging from 3.00% to 5.00%, maturing at various dates from September 1, 2016 to September 1, 2026	8,010,000
Prince William County Series 2011AA Bonds, term	
interest rate 5.50%, maturing September 1, 2031	5,705,000
interest rate 5.50%, maturing September 1, 2034	4,275,000
interest rate 5.125%, maturing September 1, 2041	13,075,000
Prince William County Series 2011BB Bonds, term	
interest rate of 3.00%, maturing September 1, 2016	1,070,000
Bank Notes:	
GMUF Arlington Campus, LLC Notes A with interest rate of 6.24% maturing September 1, 2016	58,630,271
GMUF Arlington Campus, LLC Notes B with interest rate of 10.50% maturing September 1, 2016	4,122,441
GMUF Commerce Buildings, LLC Notes with interest rate of 3.63% maturing March 1, 2030	5,624,836
Notes and bonds payable at face value	167,209,701
Plus: unamortized net premium	576,232
Total long-term debt	$167,785,933

Scheduled maturities and sinking fund requirements are as follows:

Fiscal year ending June 30:	
2016	$4,308,110
2017	65,105,038
2018	19,401,659
2019	2,161,106
2020	2,268,499
Thereafter	73,965,289
	$167,209,701

Interest expense on notes, bonds and related swaps along with the amortization of deferred financing charges was $8,016,970 for the year ended June 30, 2015.

The carrying value of long-term debt approximated the fair value as of June 30, 2015. The Foundation estimated the fair value of bonds payable using valuations provided by an independent financial institution. If measured at fair value in the statement of financial position, the bonds payable would be categorized as Level 2 in the fair value hierarchy.

E. Derivative Instruments – GMUF

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

In October 2003, the Foundation entered into an interest rate swap agreement with a financial institution against the floating rate bonds in the notional amount of $22,425,000 at a fixed interest rate of 4.045%, including all costs, on a 20-year amortization schedule. Concurrently, the Foundation entered into a 20-year interest rate cap agreement with the same financial institution in the notional amount of $12,700,000, at a rate of 10%. The interest rate swap was used as a cash flow hedge to synthetically fix the rate of the bonds and to eliminate changes in the market interest rates. With the refinancing of the Fairfax County Economic Development Authority bonds (see Note D), the interest rate swap was amended on April 30, 2013 resulting in a notional amount of $20,818,750 at a fixed interest rate of 3.032% and a termination date of February 1, 2029. The interest rate cap agreement remained in place.

At June 30, 2015, the notional amount on the swap was $18,925,000 and on the cap was $10,475,000.

The fair value of the interest rate swap at June 30, 2015 totaled a derivative liability of $2,030,866. The net change in value has been recorded as gains or losses on derivatives in the consolidated statement of activities. The interest rate swap has a liability threshold of $3,500,000. Should the derivative obligation exceed $3,500,000, the Foundation is required to post collateral in excess of the threshold amount. As of June 30, 2015, no collateral balance was required. The fair value of the interest rate cap totaled a derivative asset of $1,214 at June 30, 2015. All assets or liabilities related to the interest rate swap and interest rate cap convert to zero at contract maturity.

GMUF Mason Administration, LLC Interest Rate Swaps

In March 2010, as part of the GMUF Mason Administration, LLC Project, the Foundation entered into a forward floating-to-fixed interest rate swap to effectively fix the interest rate on the $32,100,000 tax-exempt notional amount and a second forward floating-to-fixed interest rate swap to effectively fix the interest rate on the $1,900,000 taxable notional amount with a commercial bank. The swap transactions became effective on June 1, 2011. The termination date is June 1, 2036 for the tax-exempt notional amount and December 1, 2013 for the taxable notional amount. The tax-exempt swap has an option to terminate at no risk at the end of the 13th year.

At June 30, 2015, the notional amount on the tax-exempt swap was $30,825,000. The taxable swap had a balance of zero at June 30, 2015 due to the termination of the swap on December 1, 2013.

The fair value of the interest rate swaps at June 30, 2015 totaled a derivative liability of $3,883,378. The net change in value has been recorded as gains or losses on derivatives in the consolidated statement of activities. The remaining interest rate swap has a liability threshold of $5,000,000. Should the derivative obligations exceed $5,000,000, GMUF Mason Administration, LLC is required to post collateral in excess of the threshold amount. As of June 30, 2015, no collateral was required.

F. Long-Term Debt – MHI

In October 2008, the Fairfax county economic development agency (EDA) issued $39,760,000 of variable rate bonds (the Bonds) in order to provide financing for the development of the Organization. Bank of America (the Bond Purchaser) purchased these bonds and the proceeds received from the purchase were deposited to U.S. Bank National Association (the Trustee). Concurrently, the Organization entered into a loan agreement with EDA to borrow the proceeds received from the sale of the Bonds. EDA entered into a trust indenture with the Trustee to secure the repayment of the bonds by the assignment of its rights under the loan agreement. In addition, the Organization entered into two interest rate swap agreements with Bank of America which exchanged the variable rate borne by the Organization with a fixed rate.

Principal payments are due annually on August 1 from 2011 to 2039. The Bonds bear interest at a variable rate, not to exceed 12%, which is determined by the remarketing agent, Bank of America Securities LLC, on a weekly index floating rate and flexible rate basis. Initially the Bonds bore interest at the initial index floating rate, which is 1.10% plus the Securities Industries and Financial Market Association (SIFMA) index which expired on October 31, 2013. The Index floating rate period was extended and the Bonds bear interest at 1.10% plus SIFMA through January 31, 2018. Commencing February 1, 2018, the Organization may select an interest rate, as defined, pursuant to the terms of the trust indenture. The interest rate on the Bonds as of March 31, 2015 was 1.12%. The Bonds are secured by a Trust Indenture dated October 1, 2008. The trust indenture was supplemented on October 1, 2013 to reflect the Bonds as directly held by the bond purchaser.

In October 2008, an interest rate swap agreement was entered into on a notional amount of $38,400,000. The swap went into effect December 1, 2008, and is set to expire on August 1, 2039. Per the agreement, the Organization pays a fixed rate of 3.97% and Bank of America pays a variable rate of the one-month LIBOR-BBA for each month (.12263% at March 31, 2015).

In October 2008, an interest rate swap agreement was entered into on a notional amount of $1,360,000. The swap went into effect December 1, 2008, and is set to expire on August 1, 2039. Per the agreement, the Organization pays a fixed rate of 3.035% and Bank of America pays a variable rate of the one-month LIBOR-BBA for each month (.12263% at March 31, 2015).

The loan payable is secured by the Organization's building and improvements and future rental income. Interest is payable monthly on a loan payable, commencing in November 2008. Annual principal payments commenced in August 2011. Pursuant to the master covenant agreement with the bond purchaser, the Organization is required to maintain a debt service coverage ratio of at least 1.20.

During the year ended March 31, 2015, interest expense of $1,966,256 was incurred and included in interest expense on the statements of activities and changes in unrestricted net deficit. As of March 31, 2015, the outstanding principal balance was $39,460,000.

Aggregate maturities of the loan payable over the next five years and thereafter is as follows:

2016	$160,000
2017	190,000
2018	245,000
2019	320,000
2020	410,000
Thereafter	38,135,000
Total	$39,460,000

G. Long-Term Debt – GMUIF

GMUIF has a note payable with a bank, in the original amount of $2,850,000 that commenced on March 1, 2010; collateralized by a deed of trust on 50 acres of land owned by GMUIF. The note bears interest at a fixed rate of 5.75% per annum with monthly payments of principal and interest of $18,483. The note matures on March 1, 2025.

The minimum five years payments for the years ending March 31 are as follow:

2016	$135,350
2017	142,261
2018	149,524
2019	157,158
2020	165,182
Thereafter	942,403
Total	$1,691,878

H. Long-Term Debt – Mason Korea

During 2013, Mason Korea entered into an operation support agreement with the Songdo Global University Foundation (SGUF). As part of the agreement, the SGUF agreed to provide Mason Korea with a subsidy of $1,000,000 after the 4 year period in which Mason Korea receives funding from IFEZ expires. Additionally, SGUF agreed to provide Mason Korea with an interest-free loan for ten years. The total amount should not exceed $10,000,000 during the ten year period and the repayment period of the loan shall be ten years from the end of the year when the revenues arising from the operation of Mason Korea equals or exceeds expenses. No more than 50% of the amount in which operational revenues exceeds expenses in any given year will be applied to repay the loan. As such Mason Korea does not have fixed principal payments, as the repayment terms are contingent on future income. As of December 31, 2014, the notes payable balance was $485,928 as reported in the statement of financial position.

I. Subsequent Events – Component Units

In January 2015, Mason Korea received a $225,000 loan from Songdo Global University Foundation. The loan will be repaid once Mason Korea has sufficient net income that would allow for repayment.

In March 2016, GMUF's Board approved financing documents from a local bank to refinance approximately $64 million of debt held by GMUF Arlington Campus, LLC at 4.05% over a 17 year term. The anticipated closing date is June 1, 2016.

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 Position and by natural classification, which is the basis for amounts shown in the Statement of Cash Flows.

	Salaries and Wages	Fringe Benefits	Goods and Services	Student Aid	Depreciation & Amortization	Total
Instruction	$186,787,451	$50,727,177	$28,183,418	-	-	$265,698,046
Research	40,816,137	8,252,211	22,718,293	-	-	71,786,641
Academic Support	34,016,750	11,148,108	12,459,900	-	-	57,624,758
Student Services	15,897,053	4,943,453	5,578,039	-	-	26,418,545
Public Service	7,227,036	1,739,819	9,074,017	-	-	18,040,872
Operation and Maintenance	16,275,382	6,364,557	29,241,604	-	-	51,881,543
Institutional Support	30,427,511	10,228,510	5,220,962	-	-	45,876,983
Depreciation & Amortization	-	-	-	-	58,878,610	58,878,610
Student Aid	-	-	-	28,403,265	-	28,403,265
Auxiliary Enterprises	39,307,926	10,852,830	77,604,547	-	-	127,765,303
Totals	$370,755,246	$104,256,665	$190,080,780	$28,403,265	$58,878,610	$752,374,566

13. STATE APPROPRIATIONS- CURRENT UNRESTRICTED FUNDS

George Mason University receives appropriations from the General Fund of the Commonwealth. The Appropriation Act specifies that such unexpended appropriations shall revert, as specifically provided by the General Assembly, at the end of a biennium. For years ending at the middle of a biennium, unexpended appropriations that have not been approved for re-appropriation 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	$117,511,437
Adjustments:	
Central Appropriations Adjustment	2,643,083
Funds for VIVA Program	41,137
Total	$120,195,657

14. INTEREST EXPENSE

During fiscal year 2015, the University incurred interest charges totaling $28,214,876. Of this amount, $1,708,895 was capitalized as part of the cost of construction and $26,505,981 was expensed.

15. COMMITMENTS

A. Operating Leases

The University is committed under various operating leases for rental of off-campus facilities. The future lease terms are for periods of one to eleven years. Facility rental expenses for the fiscal year ended June 30, 2015 were $5,820,953. The University had, as of June 30, 2015, the following total future minimum rental payments due under the above leases:

Year Ended June 30-	
2016	$ 5,351,813
2017	4,449,640
2018	4,239,769
2019	4,053,352
2020	3,153,349
2021-2025	16,989,417
2026	3,656,919
Total	$41,894,259

B. Construction

Outstanding commitments for capital outlay projects that were under construction at June 30, 2015 were $27,698,637.

16. RETIREMENT AND PENSION SYSTEMS

A. Virginia Retirement System (VRS) State Employee Defined Benefit Retirement Plan and Virginia Law Officers System (VaLORS) Defined Benefit Retirement Plan

General Information about the Pension Plan

Plan Description

All full-time, salaried permanent employees of state agencies are automatically covered by the VRS State Employee Retirement Plan or the VaLORS Retirement Plan upon employment. These plans are administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. These plans are single-employer plans treated as cost-sharing plans for financial reporting purposes. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria

as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees in the VRS State Employee Retirement Plan – Plan 1, Plan 2, and, Hybrid and two different benefit structures for covered employees in the VaLORS Retirement Plan – Plan 1 and Plan 2. Each of these benefit structures has a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	**About Plan 2** Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.	**About the Hybrid Retirement Plan** The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members") • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may

		start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013. **Hybrid Opt-In Election** VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	**Eligible Members** Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013. **Hybrid Opt-In Election** Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	**Eligible Members** Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • State employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014 ***Non-Eligible Members** Some employees are not eligible to participate in the Hybrid Retirement Plan. They include: • Members of the Virginia Law Officers' Retirement System (VaLORS) Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
Retirement Contributions State employees, excluding	**Retirement Contributions** State employees contribute 5%	**Retirement Contributions** A member's retirement benefit

state elected officials, and optional retirement plan participants, contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	of their compensation each month to their member contribution account through a pre-tax salary reduction.	is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.
Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	**Creditable Service** Same as Plan 1.	**Creditable Service** **Defined Benefit Component:** Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. **Defined Contributions Component:**

		Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.
Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.	**Vesting** Same as Plan 1.	**Vesting** **<u>Defined Benefit Component:</u>** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component. **<u>Defined Contributions Component:</u>** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. • After two years, a member is 50% vested and may withdraw 50% of employer

		contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	**Calculating the Benefit** See definition under Plan 1.	**Calculating the Benefit** **Defined Benefit Component:** See definition under Plan 1 **Defined Contribution Component:** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier **VRS:** The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous	**Service Retirement Multiplier** **VRS:** Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned,	**Service Retirement Multiplier** **Defined Benefit Component:** **VRS:** The retirement multiplier for the defined benefit component is 1.00%.

duty members is 1.70%. **VaLORS:** The retirement multiplier for VaLORS employees is 1.70% or 2.00%.	purchased or granted on or after January 1, 2013. **VaLORS:** The retirement multiplier for VaLORS employees is 2.00%.	For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. **VaLORS:** Not applicable. **Defined Contribution Component:** Not applicable.
Normal Retirement Age **VRS:** Age 65. **VaLORS:** Age 60.	**Normal Retirement Age** **VRS:** Normal Social Security retirement age. **VaLORS:** Same as Plan 1.	**Normal Retirement Age** **Defined Benefit Component:** **VRS:** Same as Plan 2. **VaLORS:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility **VRS:** Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. **VaLORS:** Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	**Earliest Unreduced Retirement Eligibility** **VRS:** Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. **VaLORS:** Same as Plan 1.	**Earliest Unreduced Retirement Eligibility** **Defined Benefit Component:** **VRS:** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. **VaLORS:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to

		restrictions.
Earliest Reduced Retirement Eligibility **VRS:** Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service. **VaLORS:** 50 with at least five years of creditable service.	**Earliest Reduced Retirement Eligibility** **VRS:** Age 60 with at least five years (60 months) of creditable service. **VaLORS:** Same as Plan 1.	**Earliest Reduced Retirement Eligibility** **Defined Benefit Component:** **VRS:** Age Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. **VaLORS:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%. **Eligibility:** For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one	**Cost-of-Living Adjustment (COLA) in Retirement** The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%. **Eligibility:** Same as Plan 1	**Cost-of-Living Adjustment (COLA) in Retirement** **Defined Benefit Component:** Same as Plan 2. **Defined Contribution Component:** Not applicable. **Eligibility:** Same as Plan 1 and Plan 2.

calendar year following the unreduced retirement eligibility date. **<u>Exceptions to COLA Effective Dates:</u>** The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member Is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.	**<u>Exceptions to COLA Effective Dates:</u>** Same as Plan 1	**<u>Exceptions to COLA Effective Dates:</u>** Same as Plan 1 and Plan 2.
Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement	**Disability Coverage** Members who are eligible to be considered for disability retirement and retire on disability, the retirement	**Disability Coverage** State employees (including Plan 1 and Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered

multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.	multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VSDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	**Purchase of Prior Service** Same as Plan 1.	**Purchase of Prior Service** **Defined Benefit Component:** Same as Plan 1, with the following exceptions: • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost. **Defined Contribution Component:** Not applicable.

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, the 5.00% member contribution was paid by the employer. Beginning July 1, 2012 state employees were required to pay the 5.00% member contribution and the employer was required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. Each state agency's contractually required contribution rate for the year ended June 30, 2015 was 12.33% of covered employee compensation for employees in the VRS State Employee Retirement Plan and 17.67% of covered employee compensation for employees in the VaLORS Retirement Plan. These rates were based on an actuarially determined rate from an actuarial valuation as of June 30, 2013. The actuarial rate for the VRS State Employee Retirement Plan was 15.80% and the actuarial rate for VaLORS Retirement Plan was 21.06%. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the *Code of Virginia*, as amended, the contributions for the VRS State Employee Retirement Plan were funded at 78.02% of the actuarial rate and the contributions for the VaLORS Retirement Plan were funded at 83.88% of the actuarial rate for the year ended June 30, 2015. Contributions from the state agency to the VRS State Employee Retirement Plan were $15,306,508 and $11,050,470 for the years ended June 30, 2015 and June 30, 2014, respectively. Contributions from the state agency to the VaLORS Retirement Plan were $458,655 and $370,328 for the years ended June 30, 2015 and June 30, 2014, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the state agency reported a liability of $182,878,000 for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability and a liability of $4,785,000 for its proportionate share of the VaLORS Retirement Plan Net Pension Liability. The Net Pension Liability was measured as of June 30, 2014 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The state agency's proportion of the Net Pension Liability was based on the state agency's actuarially determined employer contributions to the pension plan for the year ended June 30, 2014 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2014, the state agency's proportion of the VRS State Employee Retirement Plan was 3.26661% as compared to 3.19690% at June 30, 2013. At June 30, 2014, the state agency's proportion of the VaLORS Retirement Plan was .70987% as compared to .88495% at June 30, 2013.

For the year ended June 30, 2015, the state agency recognized pension expense of $13,417,000 for the VRS State Employee Retirement Plan and $72,000 for the VaLORS Retirement Plan. Since there was a change in proportionate share between June 30, 2013 and June 30, 2014, a portion of the pension expense was related to deferred amounts from changes in proportion and

from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2015, the state agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	33,137,000
Changes in proportion and differences between Employer contributions and proportionate share of contributions	3,397,000	949,000
Employer contributions subsequent to the measurement date	15,765,163	-
Total	$ 19,162,163	$ 34,086,000

$15,765,163 reported as deferred outflows of resources related to pensions resulting from the state agency's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30	
2016	($7,468,000)
2017	($7,468,000)
2018	($7,468,000)
2019	($8,285,000)

Actuarial Assumptions

The total pension liability for the VRS State Employee Retirement Plan was based on an actuarial valuation as of June 30, 2013, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

Inflation	2.5 percent
Salary increases, including Inflation	3.5 percent – 5.35 percent
Investment rate of return	7.0 percent, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates:

Pre-Retirement:
RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 2 years and females were set back 3 years.

Post-Retirement:
RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with females set back 1 year.

Post-Disablement:
RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of withdrawals for less than 10 years of service
- Decrease in rates of male disability retirement
- Reduce rates of salary increase by 0.25% per year

The total pension liability for the VaLORS Retirement Plan was based on an actuarial valuation as of June 30, 2013, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

Inflation	2.5 percent
Salary increases, including Inflation	3.5 percent – 4.75 percent
Investment rate of return	7.0 percent, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates:

Pre-Retirement:
RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 5 years and females were set back 3 years.

Post-Retirement:
RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with females set back 1 year.

Post-Disablement:
RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Update mortality table
- Adjustments to the rates of service retirement
- Decrease in rates of withdrawals for females under 10 years of service
- Increase in rates of disability

- Decrease service related disability rate from 60% to 50%

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, less that system's fiduciary net position. As of June 30, 2014, NPL amounts for the VRS State Employee Retirement Plan and the VaLORS Retirement Plan are as follows (amounts expressed in thousands):

	State Employee Retirement Plan	**VaLORS Retirement Plan**
Total Pension Liability	$ 21,766,933	$ 1,824,577
Plan Fiduciary Net Position	16,168,535	1,150,450
Employers' Net Pension Liability (Asset)	$ 5,598,398	$ 674,127
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.28%	63.05%

The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in accordance with the requirements of GASB Statement No. 67 in the System's notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	100.00%		5.83%
	Inflation		2.50%
	* Expected arithmetic nominal return		8.33%

* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the state agency for the VRS State Employee Retirement Plan and the VaLORS Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive

employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the State Agency's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the state agency's proportionate share of the VRS State Employee Retirement Plan net pension liability using the discount rate of 7.00%, as well as what the state agency's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1.00% Decrease (6.00%)	**Current Discount Rate (7.00%)**	**1.00% Increase (8.00%)**
State agency's proportionate share of the VRS State Employee Retirement Plan Net Pension Liability	$267,898,000	$182,878,000	$111,586,000

The following presents the state agency's proportionate share of the VaLORS Retirement Plan net pension liability using the discount rate of 7.00%, as well as what the state agency's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1.00% Decrease (6.00%)	**Current Discount Rate (7.00%)**	**1.00% Increase (8.00%)**
State agency's proportionate share of the VaLORS VaLORS Retirement Plan Net Pension Liability	$6,539,000	$4,785,000	$3,344,000

Pension Plan Fiduciary Net Position

Detailed information about the VRS State Employee Retirement Plan's Fiduciary Net Position or the VaLORS Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2014 Comprehensive Annual Financial Report (CAFR). A copy of the 2014 VRS CAFR

may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2014-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the Pension Plan

As of June 30, 2015, the University had a payable to VRS in the amount of $989,186. Of this amount, $941,169 was for the VRS State Employee Retirement Plan and $48,017 was for VaLORS. These amounts represent current legally required contributions to the pension plan not yet remitted to VRS in accordance with the payment terms.

The University's employer pension contribution amounts for each month are calculated based on employee salaries as of the first business day of each month multiplied by the legally required contribution rate and paid to VRS no later than the 10th of the following month.

B. Hybrid Retirement Plan- Defined Contribution Component

The University's expenses also include the amount assessed by the Commonwealth for the employer's required contributions to the defined contribution component of the Hybrid retirement plan, which totaled $107,214 for the year ended June 30, 2015.

During FY 2015, the employer's required retirement contribution rate was 1% for the defined contribution component of the Hybrid Plan. All participants were required to contribute 1% to the defined contribution portion of the Hybrid Plan.

During FY 2015, participants were permitted to make voluntary contributions of up to 4% to the Hybrid plan which the University is required to match with an employer contribution of up to 2.5%. The employer matching contribution totaled $23,521 for the year ended June 30, 2015.

Contributions to the Hybrid plan were calculated using plan's covered payroll of $10,732,985 for the year ended June 30, 2015.

C. Faculty Retirement Plans

Most full-time faculty and certain administrative staff participate in one faculty retirement plan with two investment providers rather than the VRS. These are defined contribution plans where the retirement benefits received are based upon the employer's contribution plus interest and dividends.

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

Individual contracts issued under the plan provide for full and immediate vesting of the University's contributions. Total pension expense under these plans was $16,283,599 for the fiscal year ended June 30, 2015 based on total covered payroll of $165,452,071. The University's outstanding liability for accrued pension expense as of June 30, 2015 was $562,755. The change in the accrued liability amount from the prior year end was a reduction of $15,441, which accounts for the difference between the pension contributions made to plan trustees, as set forth in the table below, and the pension expense amount stated above. FY 2015 pension contributions were calculated using the plan's covered payroll of $165,593,879 for Fiscal Year 2015.

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

Faculty Retirement Plan	Pension Contributions Made to Plan Trustees	Plan's Covered Payroll	Contribution Percentage
TIAA-CREF*	$8,812,834	$84,738,789	10.4%
TIAA-CREF 2	2,068,101	24,330,603	8.5%
Fidelity Investments	3,358,234	32,290,713	10.4%
Fidelity Investments 2	2,059,871	24,233,774	8.5%
Total	$16,299,040	$165,593,879	

*Teachers Insurance and Annuity Association/College Retirement Equities Fund

D. Deferred Compensation

Employees of the University are employees of the Commonwealth of Virginia. State employees may participate in the Commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the Commonwealth matching up to $20 per pay period. The dollar amount match can change depending on the funding available in the Commonwealth's budget. The Commonwealth's Deferred Compensation Plan is a qualified defined contribution plan under Section 401(a) of the Internal Revenue Code.

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

Employer contributions under these Deferred Compensation Plans were $1,267,485 for the fiscal year ended June 30, 2015.

17. POST-RETIREMENT BENEFITS

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

18. RISK MANAGEMENT AND EMPLOYEE HEALTH CARE PLANS

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

At June 30, 2015 restricted net position included the following purpose restrictions:

Restricted, nonexpendable:	
Student aid	$1,382,281
Instruction	1,620,000
Research	1,126,760
Total restricted, nonexpendable	$4,129,041
Restricted, expendable:	
Instruction	$ 434,323
Research	308,540
Total restricted, expendable	$ 742,863

20. NET EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

The University implemented GASBS 68- "Accounting and Financial Reporting for Pensions" and GASBS 71- "Pension Transition for Contributions Made Subsequent to the Measurement Date" during FY 2015. GASBS 68 requires the recording of the University's share of the net pension liability of the Commonwealth's defined benefit pension plans. More specifically, GASBS 68 requires the liability of the University to its

employees for defined benefit pensions (net pension liability) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributable to those employees' past periods of service (total pension liability) less the amount of the pension plan's fiduciary net position. The Virginia Retirement System (VRS) worked with a consultant to perform the actuarial and other technical calculations required by GASBS 68/GASBS 71 and, based on that work, provided the University with the information the University needs to properly report its share of the Commonwealth's total net pension liability and related items.

In order to comply with this change in accounting principle, the University has recorded a net pension liability of $187,663,000 and an increase in deferred inflows of resources of $34,086,000 (credit amounts) offset by a reduction in FY 2015 beginning net position of $204,863,000, an increase in deferred outflows of resources of $3,397,000, and pension expense of $13,489,000 (debit amounts). In addition, GASBS 71 required a reclassification of $15,765,163 of defined benefit plan retirement contributions made by the University to VRS during 2015 (contributions made subsequent to the measurement date) from pension expense to deferred outflows of resources. See Note 16, Retirement and Pension Systems, for additional details.

21. SUBSEQUENT EVENTS

On July 16, 2015, the University signed a $54.8 million construction phase services contract with the Whiting-Turner Contracting Company for the construction of the Academic VII/Research III building (the Health and Human Services Building) on the Fairfax Campus.

During December 2015, the University entered into several promissory notes with the Virginia College Building Authority (VCBA) to participate in the Educational Facilities Revenue Bonds, Series 2015B issued by the VCBA under its Pooled Bond Program. The total principal amount of these notes is $81.8 million. The proceeds of these notes were used to advance refund $79.1 million of previously issued and outstanding notes. Payments on the notes will be made semi-annually, with coupon rates ranging from 3.0% to 5.0%. The refunding generates a $13.5 million present value savings.

During April 2016, the University received from a real estate developer a Notice of Intent to File a Claim with respect to project cost overruns in excess of the Guaranteed Maximum Price for the project. There is a reasonable possibility that the University has incurred a liability with respect to this matter. At this time it would be speculative to attempt to predict an outcome. Therefore, an estimate of a possible loss cannot be made.

REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information (RSI)
Cost-Sharing Employer Plans – VRS State Employee Retirement Plan and VaLORS Retirement Plan
For the Fiscal Year Ended June 30, 2015

Schedule of Employer's Share of Net Pension Liability
VRS State Employee Retirement Plan
For the Year Ended June 30, 2015 *

	2015
Employer's Proportion of the Net Pension Liability (Asset)	3.27%
Employer's Proportionate Share of the Net Pension Liability (Asset)	$182,878,000
Employer's Covered-Employee Payroll	$124,101,744
Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	147.36%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.28%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

* The amounts presented have a measurement date of the previous fiscal year end.

Schedule of Employer's Share of Net Pension Liability
VaLORS Retirement Plan
For the Year Ended June 30, 2015 *

	2015
Employer's Proportion of the Net Pension Liability (Asset)	0.7090%
Employer's Proportionate Share of the Net Pension Liability (Asset)	$4,785,000
Employer's Covered-Employee Payroll	$2,536,429
Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	188.65%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	63.05%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

* The amounts presented have a measurement date of the previous fiscal year end.

Schedule of Employer Contributions For the Year Ended June 30, 2015					
Plan	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Employee Payroll (4)	Contributions as a % of Covered Employee Payroll (5)
State Employee	$15,306,508	$15,306,508	$0	$131,204,081	11.67%
VaLORS Employee	$458,655	$458,655	$0	$2,832,716	16.19%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

Notes to Required Supplementary Information
For the Year Ended June 30, 2015

Changes of benefit terms – There have been no significant changes to the System benefit provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component were adopted in 2012. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. The liabilities presented do not reflect the hybrid plan since it covers new members joining the System after the valuation date of June 30, 2013.and the impact on the liabilities as of the measurement date of June 30, 2014 are minimal.

Changes of assumptions – The following changes in actuarial assumptions were made for the VRS - State Employee Retirement Plan effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of withdrawals for less than 10 years of service
- Decrease in rates of male disability retirement
- Reduce rates of salary increase by 0.25% per year

The following changes in actuarial assumptions were made for the VaLORS Retirement Plan effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

- Update mortality table
- Adjustments to the rates of service retirement
- Decrease in rates of withdrawals for females under 10 years of service
- Increase in rates of disability
- Decrease service related disability rate from 60% to 50%

INDEPENDENT AUDITOR’S REPORT

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

May 4, 2016

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable Robert D. Orrock, Sr.
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
George Mason University

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of George Mason University (University), a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units of the University, which are discussed in Note 1 and Note 11. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion,

insofar as it relates to the amounts included for the component units of the University, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the component units of the University that were audited by other auditors upon whose reports we are relying were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinions.

Opinion

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and aggregate discretely presented component units of the University as of June 30, 2015, and the respective changes in financial position and cash flows, where applicable thereof, for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 20 to the financial statements, the University implemented Governmental Accounting Standards Board (GASB) Statement No. 68 and No. 71, related to pension accounting and financial reporting for employers. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1 through 13, the Schedule of Employer's Share of the Net Pension Liability on pages 71 through 72, the Schedule of Employer Contributions on page 73, and the Notes to Required Supplementary Information on pages 73 through 74 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated May 4, 2016, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the University's internal control over financial reporting and compliance.

AUDITOR OF PUBLIC ACCOUNTS

ZLB/alh

UNIVERSITY OFFICIALS

GEORGE MASON UNIVERSITY

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UNIVERSITY OFFICIALS
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Jennifer Davis, Senior Vice President for Administration and Finance

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