



GEORGE MASON UNIVERSITY
FOUNDATION, INC.

**GEORGE MASON UNIVERSITY FOUNDATION, INC.
AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

*June 30, 2019 with Summarized Comparative Information
for June 30, 2018*

And Report of Independent Auditor

GEORGE MASON UNIVERSITY FOUNDATION, INC. AND SUBSIDIARIES

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Report of Independent Auditors

Board of Trustees
George Mason University Foundation, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of the George Mason University Foundation, Inc. and Subsidiaries (the "Foundation"), which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the consolidated 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 Foundation'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 presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the George Mason University Foundation, Inc. and Subsidiaries as of June 30, 2019, and the changes in net assets and cash flows for the year then ended, ended in accordance with accounting principles generally accepted in the United States of America.

Report of Summarized Comparative Information

We have previously audited the Foundation's 2018 consolidated financial statements and we have expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated November 9, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the exception of the restatement of the net assets as a result of the implementation of ASU 2016-14, as described below, the audited statements from which it has been derived.

Changes in Financial Statement Presentation

As discussed in Note B, the Foundation adopted Accounting Standards Update ("ASU") 2016-14, *Not-for-profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The ASU has been applied retrospectively to all periods presented with the exception of the functional classification of expenses and the disclosure of financial assets and liquidity resources, which have been implemented prospectively as allowed under the provisions of ASU 2016-14. As a result of the implementation, underwater endowments of \$99,764 were reclassified from beginning net assets without donor restrictions to net assets with donor restrictions. See Note B for further information. Our opinion is not modified with respect to this matter.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated supplemental information on pages 5 and 6 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Handwritten signature of Cheryl Bekant LLP in black ink.

Tysons Corner, Virginia
October 31, 2019

GEORGE MASON UNIVERSITY FOUNDATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2019 (WITH COMPARATIVE TOTALS AS OF JUNE 30, 2018)

	GMU Foundation, Inc.	Real Estate Subsidiaries	June 30, 2019	June 30, 2018
Assets				
Cash and cash equivalents	\$ 9,603,219	\$ 9,482,396	\$ 19,085,615	\$ 13,414,011
Restricted cash and cash equivalents	—	6,132,007	6,132,007	8,950,314
Contributions receivable, net	66,265,442	—	66,265,442	31,265,785
Investments	190,136,784	—	190,136,784	169,715,152
Beneficial interest in perpetual trusts	11,142,428	—	11,142,428	10,985,365
Property and equipment, net	6,268,439	47,184,905	53,453,344	67,888,418
Land held for sale	16,264,828	—	16,264,828	—
Net investment in direct financing leases	—	88,681,210	88,681,210	91,339,380
Other assets	1,840,020	3,938,776	5,778,796	5,135,678
Deferred tax asset	—	27,862	27,862	714,640
Total Assets	\$ 301,521,160	\$ 155,447,156	\$ 456,968,316	\$ 399,408,743
Liabilities and Net Assets				
Liabilities				
Accounts payable and accrued expenses	\$ 7,927,448	\$ 1,061,253	\$ 8,988,701	\$ 7,714,072
Amounts held for others	12,883,192	—	12,883,192	12,230,253
Notes and bonds payable	—	149,216,535	149,216,535	156,078,928
Unearned rent	—	339,657	339,657	4,114,571
Other liabilities	1,285,746	—	1,285,746	1,276,456
Total Liabilities	\$ 22,096,386	\$ 150,617,445	\$ 172,713,831	\$ 181,414,280
Net Assets				
Without donor restrictions	\$ 28,970,131	\$ 4,829,711	\$ 33,799,842	\$ 26,118,359
With donor restrictions	250,454,643	—	250,454,643	191,876,104
Total Net Assets	\$ 279,424,774	\$ 4,829,711	\$ 284,254,485	\$ 217,994,463
Total Liabilities and Net Assets	\$ 301,521,160	\$ 155,447,156	\$ 456,968,316	\$ 399,408,743

GEORGE MASON UNIVERSITY FOUNDATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2019 (WITH COMPARATIVE TOTALS AS OF JUNE 30, 2018)

	GMU Foundation, Inc.		Real Estate Subsidiaries	Year Ended June 30, 2019	Year Ended June 30, 2018
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions		
Support and Revenue					
Contributions, net loss on uncollectible contributions of \$149,535 and \$9,303	\$ 152,878	\$ 130,541,184	\$ —	\$ 130,694,062	\$ 65,845,197
Investment returns, net	3,089,614	5,534,499	223,967	8,848,080	6,966,845
Service fees	2,176,964	—	—	2,176,964	2,009,066
Rental income	508,430	—	10,960,675	11,469,105	14,182,413
Interest on direct financing leases	—	—	5,749,757	5,749,757	5,424,899
Gain on derivatives	—	—	—	—	1,613,943
Trust and other income	21,504	614,434	—	635,938	945,510
Net assets released from restrictions	77,831,578	(77,831,578)	—	—	—
Total Support and Revenue	83,780,968	58,858,539	16,934,399	159,573,906	96,987,873
Operating Expenses					
Program support for George Mason University					
Academic institutional support	78,702,793	—	—	78,702,793	67,563,323
Real estate operations	90,991	—	11,500,085	11,591,076	15,350,224
Management and general	1,887,452	—	—	1,887,452	1,965,731
Fundraising	852,563	—	—	852,563	427,967
Total Operating Expenses	81,533,799	—	11,500,085	93,033,884	85,307,245
Change in Net Assets from Operations	2,247,169	58,858,539	5,434,314	66,540,022	11,680,628
Non-Operating Activity					
Loss on valuation of land held for sale	—	(280,000)	—	(280,000)	—
Loss on extinguishment of debt	—	—	—	—	(143,922)
Total Non-Operating Activity	—	(280,000)	—	(280,000)	(143,922)
Change in Net Assets	2,247,169	58,578,539	5,434,314	66,260,022	11,536,706
Net Assets, beginning of year restated for adoption of new accounting principles (Note B)	\$ 26,722,962	\$ 191,876,104	\$ (604,603)	\$ 217,994,463	\$ 206,457,757
Net Assets, end of year	\$ 28,970,131	\$ 250,454,643	\$ 4,829,711	\$ 284,254,485	\$ 217,994,463

The accompanying notes to the financial statements are an integral part of this statement.

GEORGE MASON UNIVERSITY FOUNDATION, INC. AND SUBSIDIARIES
CONSOLIDATED SUPPLEMENTAL STATEMENT OF FINANCIAL POSITION – REAL ESTATE
SUBSIDIARIES

JUNE 30, 2019 (WITH COMPARATIVE TOTALS AS OF JUNE 30, 2018)

	GMUF Arlington Campus, LLC	GMUF Mason Administration, LLC	GMUF Prince William Housing, LLC	GMUF Prince William Life Sciences Lab, LLC	GMUF Commerce Buildings, LLC	GMUF Potomac Heights, LLC	June 30, 2019	June 30, 2018
Assets								
Cash and cash equivalents	\$ 6,120,554	\$ 2,217,131	\$ —	\$ 353,881	\$ 195,829	\$ 595,001	\$ 9,482,396	\$ 7,325,004
Restricted cash and cash equivalents	2,840,688	—	1,541,615	1,749,704	—	—	6,132,007	8,950,314
Property and equipment, net	47,184,905	—	—	—	—	—	47,184,905	48,637,341
Net investment in direct financing lease	—	26,859,066	15,373,169	28,921,135	4,425,963	13,101,877	88,681,210	91,339,380
Other assets	3,921,625	—	—	—	17,151	—	3,938,776	3,555,404
Deferred tax asset	27,862	—	—	—	—	—	27,862	714,640
Total Assets	\$ 60,095,634	\$ 29,076,197	\$ 16,914,784	\$ 31,024,720	\$ 4,638,943	\$ 13,696,878	\$ 155,447,156	\$ 160,522,083
Liabilities and Net Assets								
Liabilities								
Accounts payable and accrued expenses	\$ 324,144	\$ 83,829	\$ 257,556	\$ 334,470	\$ 29,211	\$ 32,043	\$ 1,061,253	\$ 1,083,847
Notes and bonds payable	51,978,999	28,758,082	15,147,280	33,245,040	4,274,562	15,812,572	149,216,535	156,078,928
Unearned rent	330,407	—	—	—	9,250	—	339,657	3,963,911
Total Liabilities	\$ 52,633,550	\$ 28,841,911	\$ 15,404,836	\$ 33,579,510	\$ 4,313,023	\$ 15,844,615	\$ 150,617,445	\$ 161,126,686
Net Assets								
GMUF Arlington Campus, LLC	\$ 7,462,084	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 7,462,084	\$ 3,797,607
GMUF Mason Administration, LLC	—	234,286	—	—	—	—	234,286	(118,577)
GMUF Prince William Housing, LLC	—	—	1,509,948	—	—	—	1,509,948	1,297,011
GMUF Prince William Life Sciences Lab, LLC	—	—	—	(2,554,790)	—	—	(2,554,790)	(2,981,953)
GMUF Commerce Buildings, LLC	—	—	—	—	325,920	—	325,920	301,442
GMUF Potomac Heights, LLC	—	—	—	—	—	(2,147,737)	(2,147,737)	(2,900,133)
Total Net Assets	\$ 7,462,084	\$ 234,286	\$ 1,509,948	\$ (2,554,790)	\$ 325,920	\$ (2,147,737)	\$ 4,829,711	\$ (604,603)
Total Liabilities and Net Assets	\$ 60,095,634	\$ 29,076,197	\$ 16,914,784	\$ 31,024,720	\$ 4,638,943	\$ 13,696,878	\$ 155,447,156	\$ 160,522,083

GEORGE MASON UNIVERSITY FOUNDATION, INC. AND SUBSIDIARIES
CONSOLIDATED SUPPLEMENTAL STATEMENT OF ACTIVITIES – REAL ESTATE
SUBSIDIARIES

FOR THE YEAR ENDED JUNE 30, 2019 (WITH COMPARATIVE TOTALS AS OF JUNE 30, 2018)

	GMUF Arlington Campus, LLC	GMUF Mason Administration, LLC	GMUF Prince William Housing, LLC	GMUF Prince William Life Sciences Lab, LLC	GMUF Commerce Buildings, LLC	GMUF Potomac Heights, LLC	Year Ended June 30, 2019	Year Ended June 30, 2018
Support and Revenue								
Investment returns, net	\$ 135,211	\$ 35,340	\$ 21,652	\$ 28,855	\$ 1,451	\$ 1,458	\$ 223,967	\$ 94,961
Rental income	10,697,129	—	—	—	263,546	—	10,960,675	11,210,983
Interest on direct financing leases	—	1,420,733	1,002,820	1,879,312	204,423	1,242,469	5,749,757	5,424,899
Gain on derivatives	—	—	—	—	—	—	—	1,331,730
Contributions to GMU Foundation, Inc.	—	—	—	—	—	—	—	(1,203,000)
Total Support and Revenue	10,832,340	1,456,073	1,024,472	1,908,167	469,420	1,243,927	16,934,399	16,859,573
Operating Expenses								
Administrative	1,965,547	51,601	40,590	108,106	32,983	50,050	2,248,877	2,570,005
Depreciation and amortization	1,612,468	—	—	—	—	—	1,612,468	1,611,748
Interest expense	2,227,214	1,051,609	770,945	1,372,898	173,695	441,481	6,037,842	6,297,088
Utilities and other	1,362,634	—	—	—	238,264	—	1,600,898	1,559,032
Total Operating Expenses	7,167,863	1,103,210	811,535	1,481,004	444,942	491,531	11,500,085	12,037,873
Non-Operating Activity								
Transfer of net deficit in creation of LLC	—	—	—	—	—	—	—	(3,305,073)
Loss on extinguishment of debt	—	—	—	—	—	—	—	(132,358)
Total Non-Operating Activity	—	—	—	—	—	—	—	(3,437,431)
Change in Net Assets	3,664,477	352,863	212,937	427,163	24,478	752,396	5,434,314	1,384,269
Net Assets, beginning of year	\$ 3,797,607	\$ (118,577)	\$ 1,297,011	\$ (2,981,953)	\$ 301,442	\$ (2,900,133)	\$ (604,603)	\$ (1,988,872)
Net Assets, end of year	\$ 7,462,084	\$ 234,286	\$ 1,509,948	\$ (2,554,790)	\$ 325,920	\$ (2,147,737)	\$ 4,829,711	\$ (604,603)

GEORGE MASON UNIVERSITY FOUNDATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

JUNE 30, 2019 AND 2018

Cash Flows from Operating Activities		
Changes in net assets	\$ 66,260,022	\$ 11,536,706
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation and amortization of property and leasing commissions	1,679,130	2,399,730
Amortization of debt issuance costs and bond premium	125,327	109,385
Change in discount on contributions receivable	627,771	169,032
Unrealized and realized investment gains	(5,249,551)	(4,288,890)
Interest on direct financing leases	(5,749,758)	(5,424,899)
Change in value of split interest agreements	(65,330)	90,186
Stock contributions	(546,120)	(438,795)
Contributions restricted for long-term purposes	(53,418,927)	(3,729,873)
Loss on extinguishment of debt	—	143,922
Loss on valuation of land held for sale	280,000	—
Gain on derivative	—	(1,613,944)
Deferred income tax expense	686,778	1,099,807
Loss on uncollectible contributions	149,535	9,303
Change in assets and liabilities:		
Contributions receivable	(35,776,963)	1,999,779
Other assets	(723,955)	(1,647,175)
Accounts payable and accrued expenses	1,274,629	(1,926,233)
Unearned rent	(3,774,914)	(3,523,623)
Other liabilities	45,207	395,464
Amounts held for others	652,939	(2,445,746)
Net Cash Used in Operating Activities	\$ (33,524,180)	\$ (7,085,865)
Cash Flows from Investing Activities		
Proceeds from sale of investments	44,103,145	58,996,603
Purchases of investments	(58,856,757)	(63,452,407)
Purchases of property and equipment	(213,048)	(248,167)
Payments received on direct financing lease	8,407,930	7,619,532
Net Cash (Used in) Provided by Investing Activities	\$ (6,558,730)	\$ 2,915,561
Cash Flows from Financing Activities		
Proceeds from contributions in perpetual endowments	49,923,927	3,729,873
Increase in deferred loan costs	—	(445,616)
Settlement of derivative obligations	—	(3,108,833)
Proceeds from issuance of long-term debt	—	48,570,000
Repayments of debt	(6,987,720)	(50,851,121)
Net Cash Provided by (Used in) Financing Activities	\$ 42,936,207	\$ (2,105,697)
Increase (Decrease) in Cash, Cash Equivalents, and Restricted Cash	2,853,297	(6,276,001)
Cash, Cash Equivalents, and Restricted Cash, beginning of year	22,364,324	28,640,325
Cash, Cash Equivalents, and Restricted Cash, end of year	\$ 25,217,622	\$ 22,364,324
Supplemental Disclosure of Cash Flow Activities		
Interest paid and expensed	\$ 5,925,400	\$ 6,695,209
Noncash investing activities: Conversion of property and equipment to direct-financing lease	\$ —	\$ 14,535,895

The accompanying notes to the financial statements are an integral part of this statement.

GEORGE MASON UNIVERSITY FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note A—Organization

George Mason University Foundation, Inc. (the “Foundation”) was incorporated on November 21, 1991, as a nonstock corporation under the laws of the Commonwealth of Virginia to receive, invest and administer property, and to make expenditures for the benefit of George Mason University (the “University”). The Foundation seeks to promote the advancement of the University as an institution of higher education by managing, investing, and administering private gifts, including endowment and real property.

Although the Foundation operates to support the University, the Foundation is an entity independent of the University. The Foundation is not a subsidiary of the University and is not legally directly or indirectly controlled by the University. The assets of the Foundation are exclusively the property of the Foundation. The University is not accountable for, and has no ownership of, any of the financial and capital resources of the Foundation. The University has no authority to mortgage, pledge, or encumber the assets of the Foundation. The Board of Trustees of the Foundation makes all decisions regarding the business and affairs of the Foundation.

Note B—Summary of significant accounting policies

Principles of Consolidation – The accompanying consolidated financial statements include the accounts of George Mason University Foundation, Inc. and the following entities (collectively “Real Estate Subsidiaries”) which are 100 percent owned by the Foundation:

GMUF Arlington Campus, LLC,
GMUF Mason Administration, LLC,
GMUF Prince William Housing, LLC,
GMUF Prince William Life Sciences Lab, LLC,
GMUF Commerce Buildings, LLC, and
GMUF Potomac Heights, LLC.

All intercompany transactions are eliminated in consolidation.

Basis of Accounting – the accompanying consolidated financial statements of the Foundation have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when incurred.

Basis of Presentation – The Foundation’s net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for general use and not subject to donor restriction. This includes funds that are designated for discretionary use by the Foundation, real estate operations, board designated funds functioning as endowments, as well as board designated funds intended to be used as reserves.

Net Assets With Donor Restrictions – Net assets that are contributions and endowment investment earnings subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature that may or will be met, either by actions of the Foundation and/or the passage of time. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates the resources be maintained in perpetuity. This includes the historical dollar amounts of the gifts, and earnings required to be added to the corpus as stipulated by the donor.

GEORGE MASON UNIVERSITY FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note B—Summary of significant accounting policies (continued)

Functional Allocation of Expenses – The costs of providing the various program and supporting services have been summarized on a functional basis in Note R. Academic institutional support consists of resources disbursed to, and spent in support of, the University, in accordance with donor restrictions. The vast majority of the Foundation's expenses are directly allocated to the function to which they support. Fundraising expenses represent amounts expended in support of University Advancement.

Measure of Operations – The accompanying consolidated statements of activities distinguish between operating and nonoperating activities. Operating activities include all revenues and expenses that are an integral part of the Foundation's programmatic and supporting activities, such as contributions, investment return, and rental income. Nonoperating activities include activities which are considered to be nonrecurring in nature.

Estimates – The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles ("U.S. GAAP") requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fair Value of Financial Instruments – The carrying values of financial instruments including investments, contributions receivable, investment in direct financing leases, other assets, accounts payable and accrued expenses, notes and bonds payable, long-term debt, amounts held for others, and other liabilities approximate fair value.

Income Taxes – The Foundation is exempt from federal income taxes under Internal Revenue Code ("IRC") section 501(c)(3) and is classified by the Internal Revenue Service ("IRS") as an organization that is not a private foundation. It is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the IRC. Under IRS provisions and the applicable income tax regulations of the Commonwealth of Virginia, the Foundation is exempt from taxes on income other than unrelated business income.

The Foundation follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is more likely than not to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

The Foundation has processes in place to ensure the maintenance of its tax-exempt status, to identify and report unrelated income, to determine its filing and tax obligations in jurisdictions for which it has nexus, and to identify and evaluate other matters that may be considered tax positions. The tax years ended June 30, 2016 through 2019 are still eligible for review for both federal and state purposes. The Foundation has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Income tax expense is classified as an operating expense within the consolidated statement of financial position.

Cash, Cash Equivalents, and Restricted Cash – Cash and cash equivalents consist of cash and money market funds including overnight repurchase agreements, except those money market funds held for long-term investment purposes. Restricted cash consists of cash and money market funds restricted for debt service, tenant improvements, and repairs and maintenance.

GEORGE MASON UNIVERSITY FOUNDATION, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note B—Summary of significant accounting policies (continued)

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position that sum to the total shown in the statements of cash flows at June 30, 2019 and 2018:

	2019	2018
Cash and cash equivalents	\$ 19,085,615	\$ 13,414,011
Restricted cash and cash equivalents	6,132,007	8,950,314
	<u>\$ 25,217,622</u>	<u>\$ 22,364,325</u>

Contributions Receivable – Contributions receivable are unconditional promises to give. Contributions receivable that are expected to be collected within one year are recorded at net realizable value. Contributions receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are made, adjusted to include a risk premium. Amortization of the discounts is included in contribution revenue.

The Foundation uses the allowance method to account for amounts, if any, of its contributions receivable, which are considered uncollectible. The Foundation bases its assessment of the allowance for doubtful pledges on historical losses and current economic conditions.

Conditional promises to give are not included as support until the conditions are substantially met.

Donated Goods and Space – During the years ended June 30, 2019 and 2018, the Foundation was a beneficiary of donated goods and services. Donated goods are gifted for the benefit of the University to provide greater resources towards University programs. Items donated to the Foundation are recorded at the estimated market values at the date of donation. The value of donated goods and services for the years ended June 30, 2019 and 2018 were:

	2019	2018
Donated rent	\$ 37,845	\$ 69,957
Artwork, books, and other support	2,740,811	227,035
	<u>\$ 2,778,656</u>	<u>\$ 296,992</u>

Investments – Investments are stated at fair value. The Foundation’s investments in mutual funds are valued at the net asset values (“NAV”) reported on the active markets in which the mutual funds are traded. The fair value of other debt and equity securities, such as bonds and common stock, with readily determinable market values are based on published market prices. Alternative investments, which are not readily marketable, are carried at estimated fair values as provided by the investment managers, using NAV as a practical expedient. The Foundation reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed.

GEORGE MASON UNIVERSITY FOUNDATION, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note B—Summary of significant accounting policies (continued)

Beneficial Interest in Perpetual Trusts – The stated value of the beneficial interest in perpetual trusts is based on the estimated fair value of the assets held by the trusts. The fair values of the mutual funds included in the perpetual trusts are valued at the NAVs reported on the active markets in which the mutual funds are traded. The fair value of other debt and equity securities with a readily determinable market value are based on published market prices.

Endowment Policy – The Foundation’s endowment 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. In fiscal year 2017, the Foundation’s Board of Trustees modified its spending rate to fix the payout distribution for existing endowments at its fiscal year 2016 payout amount through fiscal year 2019. Payouts for existing endowments whose fair value equals or exceeds market value were calculated as 3.75% of the fiscal year 2016 market value. Payout distributions for new or fully funded endowments are calculated at 1.25% of the gift corpus through fiscal year 2019.

Effective fiscal year 2020, the Foundation will implement a banded inflation spending policy. For endowments in which the market value exceeds the original gift value, the prior year payout distribution will increase at the rate of the Consumer Price Index, with annual distributions to remain above 3% but not to exceed 6% of prior year fair market value. The endowment payout for accounts for which the market value is below the original gift value will receive a 2% of prior year fair market value payout.

The allocation ranges for endowment assets during the current year are as follows:

Asset Class	Allocation Ranges
Cash or cash equivalents	0% to 10%
Domestic/global fixed income	10% to 45%
High yield fixed income	0% to 10%
Total fixed income	10% to 50%
Domestic equity	20% to 60%
Global equity, excluding US	10% to 40%
Total equity	30% to 70%
Hedge funds, private equity and real estate	10% to 40%
Managed futures/commodities	0% to 10%
Total alternative investments	10% to 50%

Amounts Held for Others – The Foundation maintains certain assets, primarily investments, on behalf of several legally autonomous organizations and other programs associated with the University, such as University endowments, The Alumni Association of George Mason University, and University athletic organizations.

Debt Issuance Costs – The Foundation’s capitalized costs relate to the Real Estate Subsidiaries’ notes and bonds payable. These costs are presented in the consolidated statements of financial position as a direct deduction from the carrying amount of notes and bonds payable and are amortized over the life of the notes and bonds. Amortization expense for each of the years ended June 30, 2019 and 2018, totaled \$134,742 and \$118,371, respectively, and is included in interest expense on consolidated statements of activities.

GEORGE MASON UNIVERSITY FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note B—Summary of significant accounting policies (continued)

Revenue Recognition – Contributions represent the Foundation’s primary source of revenue. All contributions are considered to be available for use without restriction unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as contributions with donor restrictions. When a temporary restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

The Foundation collects certain service fees including gift assessment fees, endowment management fees and real estate services fees to support the costs of administering services performed in support of the University. The Foundation considers these service fees to be contributions without donor restrictions. These amounts totaled \$2,176,964 and \$2,009,066 in fiscal years 2019 and 2018, respectively and are disclosed as service fees in the consolidated statement of activities.

Base rent income relating to the GMUF Arlington Campus, LLC is recognized on a straight-line basis, rather than in accordance with lease payment schedules, for the purpose of recognizing a constant annual rental income. Scheduled base rent increases and the effects of rent abatements are spread evenly over the terms of the respective leases. Differences between the straight-line rents recorded and the amounts actually received are included in unearned rent. The impact of the straight-line adjustment increased rental income by \$408,794 and \$899,548 as of June 30, 2019 and 2018, respectively.

The Foundation leases buildings associated with GMUF Mason Administration, LLC, GMUF Prince William Housing, LLC, GMUF Prince William Life Sciences Lab, LLC, GMUF Commerce Buildings, LLC, and GMUF Potomac Heights, LLC to the University through direct financing leases. The lease terms range from 15 to 30 years. Interest on the direct financing leases is recognized over the lease term using the effective interest method.

Depreciation – Property and equipment having a cost in excess of \$5,000 are capitalized at cost. Donated assets in excess of \$5,000 are capitalized at the estimated fair value on the date received. Buildings, furniture, and equipment are depreciated on a straight-line basis over their estimated useful lives. The estimated useful lives are as follows: buildings, 25 to 45 years; building improvements, 3 to 27 years; and furniture and equipment, 3 to 7 years.

New Accounting Pronouncements – In 2019, the Foundation adopted Accounting Standards Update (“ASU”) 2016-14 – Presentation of Financial Statements of Not for Profit Entities (“ASU 2016-14”). ASU 2016-14 reduces the number of net assets classification from three to two: (1) with donor restrictions and (2) without donor restrictions. The ASU also requires not for profits to report expenses by functional and natural classification in one location in the financial statements and requires quantitative and qualitative information about management of liquidity resources and availability of financial assets. The Foundation adopted the amendments in ASU 2016-14 for the year ending June 30, 2019 using the retrospective method, with the exception of the functional classification of expenses and the disclosure of financial assets and liquidity resources, which have been implemented prospectively as allowed under the provisions of ASU 2016-14.

GEORGE MASON UNIVERSITY FOUNDATION, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note B—Summary of significant accounting policies (continued)

The net asset reclassifications recorded as a result of the adoption of ASU 2016-14 as of June 30, 2018 are as follows:

	Without Donor Restrictions	With Donor Restriction	Total
Net assets before adoption of ASU 2016-14			
Unrestricted	\$ 26,018,595	\$ -	\$ 26,018,595
Temporarily restricted	-	100,097,030	100,097,030
Permanently restricted	-	91,878,838	91,878,838
Total net assets before adoption of ASU 2016-14	26,018,595	191,975,868	217,994,463
Reclassification to implement ASU 2016-14			
Underwater endowments	99,764	(99,764)	-
Total net assets after adoption of ASU 2016-14	\$ 26,118,359	\$ 191,876,104	\$ 217,994,463

The Foundation also adopted ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (“ASU 2018-08”) for the year ended June 30, 2019. The FASB issued this new standard to clarify and improve the scope and the accounting guidance for contributions received and made, including guidance to help an entity evaluate whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and determine whether a contribution is conditional. As required by ASU 2018-08, the Foundation applied the requirements on a modified prospective basis to agreements that either are not completed as of June 30, 2018 or entered into after June 30, 2018. The adoption of the standard did not have a material impact on the Foundation’s financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”), which updates numerous requirements in U.S. GAAP, eliminates industry-specific guidance, and provides entities with a single model for recognizing revenue from contracts with customers. The core principle of the new standard is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 requires entities to identify contractual performance obligations and determine whether revenue should be recognized at a point in time or over time, based on when control of goods and services transfers to a customer. On July 1, 2018, the Foundation adopted ASU 2014-09 using the modified retrospective method. The adoption of the standard did not have a material impact on the Foundation’s financial statements.

The Foundation elected to early adopt ASU 2018-13 Disclosure Framework-Changes to Disclosure Requirement for Fair Value Measurement (“ASU 2018-13”), which resulted in a reduction to certain fair value disclosures for the years ending June 30, 2019 and 2018. The Foundation also early adopted ASU 2016-18 Statement of Cash Flows beginning in fiscal year 2018. Therefore, restricted cash is included in the beginning and ending balances reported on the statement of cash flows.

Management is currently evaluating the effects of ASU 2016-02, Leases (“ASU 2016-02”) on the financial statements. ASU 2016-02 will require lessees to recognize lease assets and liabilities on the balance sheet for all arrangements with terms longer than 12 months. ASU 2016-02 is effective for fiscal year 2020.

GEORGE MASON UNIVERSITY FOUNDATION, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note C—Financial assets and liquidity resources

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position sheet date, as of June 30, 2019, include:

Cash and cash equivalents	\$ 13,837,555
Accounts receivable and other assets	276,132
Short-term investments	<u>836,798</u>
	<u>\$ 14,950,485</u>

Endowment funds consist of donor-restricted endowments and board designated endowments. Income from donor-restricted endowments that is restricted for specific purposes is not available for general expenditure. Restricted funds, available for expenditure, are restricted for specific purposes by donor direction and therefore not available for general expenditure for operations.

As of June 30, 2019, and 2018 the Foundation's operating reserve was \$3,895,000 and \$3,650,000, respectively. The operating reserve is not included in the total financial assets available for expenditure as shown above. Board designated reserve funds are an important mechanism to ensure the Foundation's financial health and stability, to support the growth of its operations and programs, and to mitigate financial risks. Reserves are designated for key priorities and opportunities of strategic importance, and the amount and use of the reserves is linked to the Foundation's mission and strategic goals to support George Mason University. Reserves are available for general expenditure upon approval of the Board.

Note D—Contributions receivable

Contributions receivable as of June 30, 2019 and 2018 are as follows:

	2019	2018
Due in less than one year	\$ 50,482,571	\$ 12,956,484
Due in one to five years	17,419,436	14,006,114
Due in more than five years	<u>1,026,901</u>	<u>6,314,943</u>
	68,928,908	33,277,541
Less: allowance for doubtful accounts	(317,209)	(293,270)
Less: discount present value	<u>(2,346,257)</u>	<u>(1,718,486)</u>
	<u>\$ 66,265,442</u>	<u>\$ 31,265,785</u>

Discount rates range from 0.95 percent to 3.69 percent for the years ended June 30, 2019 and 2018.

As of June 30, 2019 and 2018, the Foundation has \$13,653,955 and \$22,621,700, respectively, of conditional promises to give. These conditional promises to give are not recognized as assets in the consolidated statement of financial position until the conditions are met.

GEORGE MASON UNIVERSITY FOUNDATION, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note E—Investments

Investments, which are reported at fair value, consisted of the following as of June 30, 2019 and 2018:

	2019	2018
Cash and money market funds	\$ 12,158,807	\$ 5,332,069
Fixed income	88,438,412	92,282,429
Equities	62,316,077	47,245,412
Liquid alternatives	4,432,738	2,383,766
Hedge funds	11,514,852	12,917,835
Managed futures	2,667,045	2,509,052
Private equity and real assets	8,608,853	7,044,589
	<u>\$ 190,136,784</u>	<u>\$ 169,715,152</u>

Note F—Split interest agreements

Beneficial Interest in Perpetual Trusts

The Foundation is a beneficiary in two perpetual trusts, both held and administered by independent trustees:

50% Beneficiary – The fair value of the Foundation’s portion of this trust at June 30, 2019 and 2018 totaled approximately \$9.1 million, for both years. Contributions from the trust totaled \$440,059 and \$439,568 for the years ended June 30, 2019 and 2018, respectively, and is included in support and revenue with donor restrictions. The change in value of the trust increased \$67,008 and \$96,871 during the years ended June 30, 2019 and 2018, respectively. These amounts are included in support and revenue with donor restrictions as a component of trust and other income on the consolidated statement of activities.

100% Beneficiary – The fair value of the Foundation’s portion of this trust at June 30, 2019 and 2018 totaled approximately \$2.0 million and \$1.9 million, respectively. No contributions were received for the year ended June 30, 2019. Contributions from the trust totaled \$48,590 for the year ended June 30, 2018. This income is included in support and revenue with donor restrictions. The change in value from the trust increased \$90,055 and decreased \$13,969 during the years ended June 30, 2019 and 2018, respectively. These amounts are included in support and revenue with donor restrictions as a component of trust and other income on the consolidated statement of activities.

Charitable Remainder Trusts and Charitable Gift Annuities

The Foundation holds charitable remainder trusts and charitable gift annuities, established and funded by donors. Distributions are paid to the beneficiaries over the agreements’ terms. Upon termination of the agreements, the Foundation will receive or retain the remaining assets. Liabilities are recorded at the net present value of the estimated future annuity payments. Life expectancies range from 2 to 19 years and discount rates range from 2% to 8%. The market value of the assets at June 30, 2019 and 2018 was \$490,526 and \$618,175, respectively. Liabilities related to these agreements were \$228,471 and \$264,387 at June 30, 2019 and 2018, respectively, and are included with other liabilities. During fiscal year 2019, no new charitable remainder trusts were received. During fiscal year 2018, the Foundation received one new charitable gift annuity.

GEORGE MASON UNIVERSITY FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note F—Split interest agreements (continued)

Charitable Remainder Trusts and Charitable Gift Annuities (continued)

The activity related to the change in charitable trusts and gift annuities, recorded as trust and other income with donor restrictions, was a decrease of \$21,651 and an increase of \$348,180 for the years ended June 30, 2019 and 2018, respectively.

Retained Life Estate

The Foundation holds a retained life estate, included in other assets, with a market value of \$583,000. A retained life estate is a type of split-interest agreement whereby a donor gifts real estate but retains the right to use the property until his or her death. The associated use obligation was \$393,996 and \$364,111 as of June 30, 2019 and 2018, respectively, and is included in other liabilities.

Note G—Endowment

The Foundation's endowment consists of approximately 520 individual funds established for a variety of purposes, including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Foundation's endowment excludes contributions receivable and split interest agreements.

Interpretation of Relevant Law

The Board of Trustees of the Foundation has interpreted the Commonwealth of Virginia's Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions (a) the original value of gifts donated, (b) the original value of subsequent gifts, and (c) income accumulations, if specified by the applicable donor gift instrument.

The Foundation appropriates for expenditure a portion of the donor-restricted endowment fund in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the endowment fund
- 2) The purposes of the Foundation and the donor-restricted endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of the Foundation
- 7) The investment policies of the Foundation

GEORGE MASON UNIVERSITY FOUNDATION, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note G—Endowment (continued)

Endowment Net Asset Composition by Type of Fund as of June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Board designated endowment funds	\$ 84,179	\$ —	\$ 84,179
Donor-restricted endowment funds:			
Original donor-restricted gift required to be maintained in perpetuity by donor	—	92,608,619	92,608,619
Accumulated earnings	—	7,094,060	7,094,060
Total endowment funds	\$ 84,179	\$ 99,702,679	\$ 99,786,858

Changes in Endowment Net Assets for the Year Ended June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 81,243	\$78,988,206	\$ 79,069,449
Total investment return, net	3,956	4,134,799	4,138,755
Contributions	—	19,188,197	19,188,197
Appropriation of endowment assets for expenditure	(1,020)	(2,642,873)	(2,643,893)
Other changes	—	34,350	34,350
Endowment net assets, end of year	\$ 84,179	\$99,702,679	\$ 99,786,858

Endowment Net Asset Composition by Type of Fund as of June 30, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Board designated endowment funds	\$ 81,243	\$ —	\$ 81,243
Donor-restricted endowment funds:			
Original donor-restricted gift required to be maintained in perpetuity by donor	—	73,292,007	73,292,007
Accumulated earnings	—	5,696,199	5,696,199
Total endowment funds	\$ 81,243	\$78,988,206	\$ 79,069,449

GEORGE MASON UNIVERSITY FOUNDATION, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note G—Endowment (continued)

Changes in Endowment Net Assets for the Year Ended June 30, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 76,137	\$71,379,743	\$ 71,455,880
Total investment return, net	6,066	5,812,384	5,818,450
Contributions	—	4,132,129	4,132,129
Appropriation of endowment assets for expenditure	(960)	(2,394,915)	(2,395,875)
Other changes	—	58,865	58,865
Endowment net assets, end of year	<u>\$ 81,243</u>	<u>\$78,988,206</u>	<u>\$ 79,069,449</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original value of the gift donated to the fund of permanent duration. The Foundation has interpreted Commonwealth of Virginia UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under law. In accordance with accounting guidance for not-for-profit organizations, deficiencies of this nature are reported in net assets with donor restrictions. As of June 30, 2019, and 2018, funds with an original gift value of \$15,574,853 and \$8,244,721 were underwater by \$9,537 and \$99,764, respectively.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that emphasizes total return while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return at least equal to inflation plus the spending rate including administrative expenses, net of investment fees. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

GEORGE MASON UNIVERSITY FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note G—Endowment (continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

As further summarized in Note B, the percentage appropriated for distribution, as a percentage of endowment market value, was 3.00% and 3.22% as of June 30, 2019 and 2018, respectively. The Foundation considers the long-term expected return on its endowment and the organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term.

Note H—Fair value measurements

FASB Accounting Standards Codification 820, Fair Value Measurements and Disclosures ("FASB ASC 820"), establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of the observable inputs and minimize the use of unobservable inputs.

Level 2 fair value measurements are derived from the underlying assets of the perpetual and third-party trusts which substantially consists of investments with readily determinable fair values. The fair value of the assets in the third-party trusts is reduced by the net present value of the expected payments to other beneficiaries, discounted at a risk adjusted interest rate.

Other investments include those investments carried at NAV as published by the applicable fund manager, as a practical expedient.

GEORGE MASON UNIVERSITY FOUNDATION, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note H—Fair value measurements (continued)

The following tables summarize the valuation of the Foundation's financial assets and liabilities measured at fair value as of June 30, 2019 and 2018, based on the level of input utilized to measure fair value:

Measurement at fair value on a recurring basis as of June 30, 2019:

	Level 1	Level 2	Level 3	Reported at NAV *	Total
Financial Assets:					
Cash and cash equivalents	\$ 12,158,807	\$ —	\$ —	\$ —	\$ 12,158,807
Fixed income:					
Short-term bonds	55,877,196	1,191,226	—	—	57,068,422
Intermediate bonds	10,603,397	9,640,459	—	—	20,243,856
Long-term bonds	—	77,968	—	—	77,968
Multi-sector bonds	—	—	—	—	—
World bonds	4,358,847	—	—	—	4,358,847
Bank loans	4,816,749	—	—	—	4,816,749
Preferred stock	1,872,570	—	—	—	1,872,570
Equities:					
Domestic large cap	31,864,437	—	—	—	31,864,437
Domestic small/mid cap	5,054,294	—	—	—	5,054,294
International (developed countries)	20,883,832	—	—	—	20,883,832
International (emerging markets)	4,513,514	—	—	—	4,513,514
Liquid alternatives	4,432,738	—	—	—	4,432,738
Hedge funds	—	—	—	11,514,852	11,514,852
Managed futures	—	—	—	2,667,045	2,667,045
Private equity and real assets	—	—	—	8,608,853	8,608,853
Investments	156,436,381	10,909,653	—	22,790,750	190,136,784
Beneficial interest in perpetual trusts	—	11,142,428	—	—	11,142,428
Total financial assets	\$ 156,436,381	\$22,052,081	\$ —	\$22,790,750	\$ 201,279,212

* Certain investments that are measured at NAV, as a practical expedient, have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statement of financial position.

GEORGE MASON UNIVERSITY FOUNDATION, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note H—Fair value measurements (continued)

Measurement at fair value on a recurring basis as of June 30, 2018:

	Level 1	Level 2	Level 3	Reported at NAV *	Total
Financial Assets:					
Cash and cash equivalents	\$ 5,332,069	\$ —	\$ —	\$ —	\$ 5,332,069
Fixed income:					
Short-term bonds	55,274,553	951,393	—	—	56,225,946
Intermediate bonds	12,861,893	7,930,019	—	—	20,791,912
Long-term bonds	17,598	152,740	—	—	170,338
Multi-sector bonds	56,183	—	—	—	56,183
World bonds	5,093,984	—	—	—	5,093,984
Bank loans	7,004,647	—	—	—	7,004,647
Preferred stock	2,939,419	—	—	—	2,939,419
Equities:					
Domestic large cap	709,492	—	—	—	709,492
Domestic small/mid cap	5,914,436	—	—	—	5,914,436
International (developed countries)	37,143,759	—	—	—	37,143,759
International (emerging markets)	3,477,725	—	—	—	3,477,725
Liquid alternatives	2,383,766	—	—	—	2,383,766
Hedge funds	—	—	—	12,917,835	12,917,835
Managed futures	—	—	—	2,509,052	2,509,052
Private equity and real assets	—	—	—	7,044,589	7,044,589
Investments	138,209,524	9,034,152	—	22,471,476	169,715,152
Beneficial interest in perpetual trusts	—	10,985,365	—	—	10,985,365
Total financial assets	\$ 138,209,524	\$ 20,019,517	\$ —	\$ 22,471,476	\$ 180,700,517

The following table presents the nature and risk of assets with fair values estimated using NAV held at June 30, 2019:

	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Hedge funds –Multi-strategies ^(a)	\$ 11,514,852	\$ N/A	Quarterly, Annually	45 days, 60 days, 65 days, 90 days, 105 days
Hedge funds –Directional ^(b)	—	N/A	Annually	105 days
Managed futures ^(c)	2,667,045	N/A	Daily	1 day
Private equity and real assets ^(d)	8,608,853	6,037,407	N/A	N/A
Total	\$ 22,790,750	\$ 6,037,407		

GEORGE MASON UNIVERSITY FOUNDATION, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note H—Fair value measurements (continued)

The following table presents the nature and risk of assets with fair values estimated using NAV held at June 30, 2018:

	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Hedge funds –Multi-strategies ^(a)	\$ 6,382,532	\$ N/A	Quarterly, Annually	60 days, 65 days, 90 days, 105 days
Hedge funds –Directional ^(b)	6,535,303	N/A	Annually	105 days
Managed futures ^(c)	2,509,052	N/A	Daily	1 day
Private equity and real assets ^(d)	<u>7,044,589</u>	<u>4,145,786</u>	N/A	N/A
Total	<u>\$ 22,471,476</u>	<u>\$ 4,145,786</u>		

- (a) Hedge funds – Multi-strategies: This class includes investments that use multiple strategies to obtain absolute returns. Direct and indirect investments are made using capital structure arbitrage, distressed debt, equity long/short, multi-strategy credit, multi-strategy event driven, value and other trading strategies. The investments in this class are redeemable based on the redemption frequencies and notice periods described above. Some investments include “gates” which limit the percentage of the Foundation’s investments that can be redeemed at one time.
- (b) Hedge funds – Directional: This class includes investments that use directional strategies, primarily long/short strategies. Investments held by this fund primarily consist of equities. The investments in this class are redeemable based on the redemption frequency and notice period described above.
- (c) Managed futures: This class includes investments with the objective to seek long-term capital appreciation. This is a multi-manager fund traded by approximately 20 commodity trading advisors (“CTA”) across different styles of managed futures trading. Geographic distribution of investments is approximately 50% to North America and 50% to Europe. Currently, all investments in this class are redeemable.
- (d) Private equity and real assets: This class includes investments in private equity and real asset funds. The real asset funds invest in global real estate investments for purpose of generating income and capital appreciation. The private equity funds, which include venture capital funds, make direct and indirect investments in privately and publicly issued debt equity securities. Strategies employed by the private equity funds include distress, growth equity, buyout, alternative credit and opportunistic strategies across a variety of industries and geographies. A portion of this class also invests in social impact companies. These investments can never be redeemed with the funds. Instead, the nature of the investments in this class is that distributions are received through liquidation of the underlying assets of the funds.

GEORGE MASON UNIVERSITY FOUNDATION, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note I—Property and equipment

The following comprises property and equipment at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Land	\$ 14,059,263	\$ 27,109,091
Buildings	60,302,189	60,302,189
Building improvements	5,220,969	5,007,923
Furniture and equipment	1,037,375	1,037,375
	<u>80,619,796</u>	<u>93,456,578</u>
Accumulated depreciation and amortization	<u>(27,166,452)</u>	<u>(25,568,160)</u>
Property and equipment, net	<u>\$ 53,453,344</u>	<u>\$ 67,888,418</u>
Land held for sale	<u>\$ 16,264,828</u>	<u>\$ —</u>

Depreciation expense was \$1,598,292 and \$2,317,637 for the years ended June 30, 2019 and 2018, respectively. During fiscal year 2018, the Potomac Heights property was converted to a capital lease, see additional information at Note J.

On November 16, 2016, the Foundation entered into a Purchase and Sale agreement to sell a 36.7293-acre property located in Loudoun County, Virginia to a third-party to be developed as a school site and for residential purposes. The sale of land had several contingencies including the completion of a boundary line adjustment to separate the land into three tracts and re-zoning for residential purposes. The boundary line adjustments and re-zoning were approved by Loudoun County in June 2019. As a result, the land meets the definition of an asset held for sale and is classified as such in the consolidated statement of financial position. The property will be sold in two phases, with the first closing date expected to occur in September 2019 for a sales price of \$10,900,000 and the second closing date to occur approximately one year later for a sales price of \$12,400,000.

During fiscal year 2019, the Foundation also received land located in Wyoming for the fulfillment of a pledge, with a fair value of \$3,495,000 on the date of gift. The Foundation intends to sell the land, which was placed on the market in the spring 2019. At that time, the Foundation recorded a valuation loss of \$280,000 on the land. This land is classified as land held for sale in the consolidated statement of financial position.

GEORGE MASON UNIVERSITY FOUNDATION, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note I—Property and equipment (continued)

The following summarizes the Foundation's property, including land held for sale, and related direct financing leases and bonds and notes payable at June 30, 2019:

Property	Description	Net Book Value Property and Equipment June 30, 2019	Net Investment In Direct Financing Leases June 30, 2019	Debt Issuer	Debt June 30, 2019
GMUF Arlington Campus, LLC	Commercial office building, Arlington County, VA	\$ 47,184,904	\$ —	Bank Notes	\$ 52,207,989
GMUF Mason Administration, LLC	Administration building, main campus, Fairfax County, VA	—	26,859,066	FCEDA	28,981,518
GMUF Prince William Housing, LLC	Graduate student housing, Science and Technology Campus, Prince William County, VA	—	15,373,169	IDA-PW	15,250,000
GMUF Prince William Life Sciences Lab, LLC	Research and office space, Science and Technology Campus, Prince William County, VA	—	28,921,135	IDA-PW	33,645,000
GMUF Commerce Buildings, LLC	Research and office space, City of Fairfax, VA	—	4,425,963	Bank Notes	4,357,096
GMUF Potomac Heights, LLC	Dormitory, main campus, Fairfax County, VA	—	13,101,877	FCEDA	15,955,000
University Park	Graduate student townhomes and commercial office space, City of Fairfax, VA	987,901	—	N/A	—
Kelley Drive Property	Office space, Fairfax County, VA	26,026	—	N/A	—
Mathy House	Residential rental, Fairfax County, VA	345,411	—	N/A	—
Mathy Lodge	Residential rental, Fairfax County, VA	1,137,213	—	N/A	—
Franconia Land	5.6 acres of vacant land, Fairfax County, VA	5,000	—	N/A	—
Shirley Gate Park Land	0.77 acre vacant lot, Fairfax County, VA	27,500	—	N/A	—
Broadlands Land*	36.73 acres of vacant land, Loudoun County, VA	13,049,828	—	N/A	—

GEORGE MASON UNIVERSITY FOUNDATION, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note I—Property and equipment (continued)

Halpin Trust gift of land*	Moose, WY	3,215,000	—	N/A	—
Point of View Land	77.63 acres of vacant land, Fairfax County, VA	3,728,504	—	N/A	—
General Fund Assets	Furniture and fixtures, system assets	10,885	—	N/A	—
	Unamortized net premium	—	—	N/A	50,935
	Debt issuance costs	—	—	N/A	(1,231,003)
Total		\$ 69,718,172	\$ 88,681,210		\$ 149,216,535

*Property is included within land held for sale on the consolidated statement of financial position.

Note J—Leases

Rental Income on Operating Leases

The Foundation leases certain properties with a cost of \$79,788,319 and \$79,575,272 and accumulated depreciation of \$26,407,540 and \$24,832,527 as of June 30, 2019 and 2018, respectively, under operating lease agreements. A portion of the above properties are leased to the University and, therefore, subject to state appropriation. The expected future rental payments from the University are \$30,420,724 and \$34,538,085 as of June 30, 2019 and 2018, respectively.

The future minimum payments to be received under non-cancelable operating leases are as follows:

2020	\$	10,187,601
2021		10,314,548
2022		10,417,863
2023		10,663,064
2024		10,914,036
Thereafter		<u>21,592,572</u>
	\$	<u>74,089,684</u>

During the years ended June 30, 2019 and 2018, rental income earned by the Foundation totaled \$11,469,105 and \$13,344,496, of which \$5,018,305 and \$4,426,989 was paid by the University for 2019 and 2018, respectively. In addition, \$2,422,830 was paid by University students for 2018. No payments were received from students in 2019.

Leasing commissions related to the GMUF Arlington Campus, LLC project are capitalized. The Foundation amortizes these costs over the life of the related leases. Amortization expense totaled \$80,838 and \$82,093 for the years ended June 30, 2019 and 2018, respectively. Unamortized leasing commissions, a component of other assets, was \$507,271 and \$588,109 for the years ended June 30, 2019 and 2018, respectively.

GEORGE MASON UNIVERSITY FOUNDATION, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note J—Leases (continued)

Direct Financing Leases

In recent years, the Foundation has completed several construction projects for GMUF Mason Administration, LLC, GMUF Prince William Housing, LLC, GMUF Prince William Life Sciences Lab, LLC, GMUF Commerce Buildings, LLC, and GMUF Potomac Heights, LLC for subsequent leasing to the University. All of these leases meet the lessor’s criteria to account for these building leases as direct financing leases.

Under the terms of these lease agreements, the rent payments are calculated based on the annual debt service costs of the building as well as additional rents to ensure the Foundation has sufficient funding to pay the principal, interest, carrying costs and development costs of the projects. The future minimum rentals are based on the following terms:

Building	Loan Borrowing	Term	Final Fiscal Year of Payment
GMUF Mason Administration, LLC	\$30,395,000	25 years	2036
GMUF Prince William Housing, LLC	\$15,625,000	30 years	2042
GMUF Prince William Life Sciences Lab, LLC	\$35,330,000	29.5 years	2042
GMUF Commerce Buildings, LLC	\$ 5,720,000	15 years	2030
GMUF Potomac Heights, LLC	\$18,175,000	10 years	2028

All direct financing leases are with the University and the rental payments are subject to annual state appropriation.

The components of the net investment in the direct financing leases as of June 30, 2019 and 2018 are as follows:

	2019	2018
Total minimum lease payments to be received	\$ 150,730,968	\$159,138,848
Less: Unearned income	(62,049,758)	(67,799,468)
Net investment in direct financing lease	<u>\$ 88,681,210</u>	<u>\$ 91,339,380</u>

The future minimum payments to be received under the noncancelable direct financing lease are as follows:

2020	\$ 8,629,176
2021	8,692,624
2022	8,688,189
2023	8,727,089
2024	8,767,602
Thereafter	<u>107,226,288</u>
	<u>\$ 150,730,968</u>

GEORGE MASON UNIVERSITY FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note K—Debt

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

On October 7, 2003, the Fairfax County Economic Development Authority (“FCEDA”) issued \$35,125,000 of variable rate bonds to finance a housing project for use by the University and to refinance existing properties the Foundation owns and rents to the University. On May 1, 2013, the Foundation refinanced the remaining \$25,520,000 of the FCEDA bonds with the same commercial bank. On November 7, 2016, the commercial bank agreed to release the lien of the deed of trust from the University Park Projects. On December 21, 2017, the Foundation, through its newly established subsidiary, GMUF Potomac Heights, LLC, refinanced with a second commercial bank, the remaining \$16,597,500 of FCEDA bonds as well as the interest rate swap termination fee. Bonds were issued including \$16,795,000 of FCEDA Refunding Revenue Note, Series 2017A (GMUF Potomac Heights, LLC Issue) tax-exempt fixed rate bonds, and \$1,380,000 of FCEDA Refunding Revenue Note, Series 2017B (GMUF Potomac Heights, LLC Issue) taxable fixed rate bonds. The Foundation began leasing the property to the University in fiscal year 2018 with a 10-year lease term (see Note J), and the lease payments service the bonds’ principal and interest payments.

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

On April 21, 2010 the FCEDA 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 Foundation borrowed \$32,100,000 of the Revenue Bond Series 2010A and the entire \$1,900,000 of the Revenue Bond Series 2010B.

The Series 2010A Bonds were subject to mandatory repayment at the option of the commercial bank on December 1, 2023. On November 4, 2016, the Foundation executed a loan modification agreement in which the commercial bank shall not exercise the mandatory prepayment option, but the Foundation is now obligated to prepay the Series 2010A Bonds on June 1, 2024.

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 debt 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. These swaps were terminated in fiscal year 2018. See Note L for discussion regarding the interest rate swaps.

On May 18, 2018, the FCEDA issued its \$30,395,000 Refunding Revenue Bond, Series 2018 (GMUF Mason Administration, LLC Project) and sold such bonds to a commercial bank pursuant to a loan and financing agreement. Proceeds were used to retire the \$28,243,403 of outstanding FCEDA Revenue Bond Series 2010A (Tax-Exempt – GMUF Mason Administration, LLC Project) bonds as well as the interest rate swap termination fee. The Foundation began leasing the property to the University in fiscal year 2011 with a 25 year lease term (see Note J), and the lease payments service the bonds’ principal and interest payments.

GEORGE MASON UNIVERSITY FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note K—Debt (continued)

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 (see Note J), and the lease payments service the bonds’ principal and interest payments.

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 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 (see Note J), and the lease payments service the bonds’ principal and interest payments. The Series 2011BB Bonds matured on September 1, 2016.

During fiscal year 2017, the Industrial Development Authority of the County of Prince William issued its \$35,330,000 Revenue Bond Series 2017 (“Series 2017 Bonds”) pursuant to a Trust Indenture dated February 1, 2017. Proceeds were used by the Foundation to execute an advanced refunding and to legally defease the Series 2011AA Bonds. The Foundation entered into this advanced refunding to eliminate the private business use restrictions on the building, allowing the Foundation more flexibility in utilizing the space and to take advantage of historically low long-term interest rates. The University’s lease payments fund the debt service of the Series 2017 Bonds.

All of the term bonds for the Industrial Development Authority of the County of Prince William Series 2017 Bonds are subject to mandatory redemption by operation of sinking fund installments.

GEORGE MASON UNIVERSITY FOUNDATION, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note K—Debt (continued)

GMUF Commerce Buildings, LLC Notes

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 (see Note J) and the lease 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 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.

During fiscal year 2016, GMUF Arlington Campus, LLC extinguished its existing loan and terminated a related letter of credit. Effective June 1, 2016, GMUF Arlington Campus, LLC negotiated a new loan of \$60 million with another commercial bank at a fixed rate of 4.05%, maturing June 1, 2033.

The following represents the Foundation's bonds and notes payable at June 30:

	2019	2018
Fairfax County Economic Development Authority Bonds (FCEDA):		
GMUF Potomac Heights, LLC Tax-Exempt Revenue Bonds, term interest rate 2.41%, maturing on November 1, 2027	\$ 15,955,000	\$ 16,795,000
GMUF Potomac Heights, LLC Taxable Revenue Bonds, term interest rate 2.05%, maturing on November 1, 2018	—	743,468
GMUF Mason Administration, LLC Tax-Exempt Revenue Bond, interest rate 3.47% maturing on April 1, 2036	28,981,518	30,281,518
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 September 1, 2022 to September 1, 2026	1,895,000	1,895,000
Prince William County Series 2011A Bonds, term interest rate 5.50%, maturing September 1, 2031	3,190,000	3,190,000
Prince William County Series 2011A Bonds, term interest rate 5.125%, maturing September 1, 2041	9,555,000	9,555,000
Prince William County Series 2011B Bonds, term interest rate 3.375%, maturing at various dates from September 1, 2014 to September 1, 2021	610,000	745,000
Prince William County Series 2017 Bonds, serial with interest rates ranging from 1.206% to 4.424%, maturing at various dates from October 1, 2017 to October 1, 2036	23,330,000	24,265,000
Prince William County Series 2017 Bonds, term interest rate 4.524%, maturing October 1, 2041	10,315,000	10,315,000

GEORGE MASON UNIVERSITY FOUNDATION, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note K—Debt (continued)

Bank Notes:

GMUF Arlington Campus, LLC Note with interest rate of 4.05% maturing June 1, 2033	52,207,989	54,912,427
GMUF Commerce Buildings, LLC Note with interest rate of 3.63% maturing March 1, 2030	<u>4,357,096</u>	<u>4,686,910</u>
Notes and bonds payable at face value	150,396,603	157,384,323
Plus: Unamortized net premium	50,935	60,350
Less: Debt issuance costs, net	<u>(1,231,003)</u>	<u>(1,365,745)</u>
Total debt	<u>\$ 149,216,535</u>	<u>\$ 156,078,928</u>

Scheduled maturities and sinking fund requirements are as follows:

<i>Fiscal year ending June 30,</i>		
2020	\$	7,280,122
2021		7,586,781
2022		7,842,956
2023		8,159,771
2024		8,467,869
Thereafter		<u>111,059,104</u>
	\$	<u>150,396,603</u>

Interest expense on notes, bonds and related swaps along with the amortization of deferred financing charges was \$6,037,842 and \$6,607,246, for the years ended June 30, 2019 and 2018, respectively.

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, 2019 and 2018, the Foundation was in compliance with its required debt covenant calculations.

Note L—Derivative instruments

During fiscal year 2018, the Foundation refinanced its debt related to Potomac Heights and Merten Hall and settled the related interest rate swap and cap agreements. Therefore, there is no derivative instrument activity in fiscal year 2019.

GEORGE MASON UNIVERSITY FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note M—Retirement annuity

The Foundation, through a trust arrangement, purchased a joint and survivor, single-premium retirement annuity contract to provide supplemental retirement benefits to the former President of the University and his spouse. Through this trust arrangement, the Foundation receives periodic payments and, subject to trustee approval, does in turn provide payments to the former President and his spouse under the annuity contract. Additionally, the Foundation is the beneficiary of a life insurance policy covering the former President and his spouse that will provide a death benefit of \$845,041. The related annuity benefit contract asset and liability are recorded as a component of other assets and other liabilities, respectively, in the consolidated statements of financial position. The annuity benefit contract asset and liability was \$659,529 and \$627,125, respectively, as of June 30, 2019 and 2018.

Note N—Concentrations of credit risk

The Foundation maintains its cash in several commercial banks that are in excess of the Federal Deposit Insurance Corporation (“FDIC”) maximum of \$250,000 per depositor per institution. At June 30, 2019, the Foundation had approximately \$30,600,000 of uninsured balances in checking and money market accounts.

Cash equivalents referred to above include cash that is swept into overnight repurchase accounts, which are invested in U.S. government or agency securities. Amounts included in cash and cash equivalents that were invested in the overnight repurchase accounts totaled \$16,371,147 at June 30, 2019. Historically, losses from federal government securities have not occurred.

In fiscal year 2019, 11 donors collectively contributed approximately 76 percent of the total contributions, and approximately 85 percent of total contributions receivable were due from eight contributors.

Note O—Net assets released from restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. Net assets released for institutional program support totaled \$66,103,818 and \$57,642,307 for the years ended June 30, 2019 and 2018, respectively. Additionally, net assets released for scholarships totaled \$11,727,760 and \$8,900,262 for the years ended June 30, 2019 and 2018, respectively.

Note P—Net assets available

As of June 30, 2019, and 2018, net assets without donor restrictions include:

	2019	2018
Real estate operations	\$ 4,829,711	\$ (604,603)
Board designated funds, functioning as endowments	84,179	81,243
Board designated funds intended to be used as a reserve	3,895,000	3,650,000
Undesignated	24,990,952	22,991,719
	<u>\$ 33,799,842</u>	<u>\$ 26,118,359</u>

GEORGE MASON UNIVERSITY FOUNDATION, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note P—Net assets available (continued)

Net assets with donor restrictions consisted of the following at June 30, 2019:

	With Donor Restriction for Time and Purpose	With Donor Restriction - Perpetuity
Administrative support	\$ 23,603,371	\$ 556,795
Academic support	17,451,606	63,702,954
Athletics	446,425	215,701
Community/public service	5,396,354	8,332,566
Eminent scholars	5,763,228	22,580,283
Eminent scholars – perpetual trust	—	9,141,205
Facilities	11,031,516	63,645
Library	638,789	941,196
Research	20,972,648	7,431,420
Student financial aid	17,591,457	32,562,789
Student financial aid – perpetual trust	—	2,001,223
Time restricted without purpose restriction	29,472	—
	<u>\$ 102,924,866</u>	<u>\$ 147,529,777</u>

Net assets with donor restrictions consisted of the following at June 30, 2018:

	With Donor Restriction for Time and Purpose	With Donor Restriction - Perpetuity
Administrative support	\$ 19,430,378	\$ 616,152
Academic support	25,919,516	11,350,514
Athletics	455,388	205,387
Community/public service	4,598,991	7,379,892
Eminent scholars	5,186,034	22,547,371
Eminent scholars – perpetual trust	—	9,074,197
Facilities	7,300,872	62,683
Library	649,957	906,525
Research	18,221,975	7,122,656
Student financial aid	18,202,414	30,702,293
Student financial aid – perpetual trust	—	1,911,168
Time restricted without purpose restriction	31,739	—
	<u>\$ 99,997,264</u>	<u>\$ 91,878,838</u>

GEORGE MASON UNIVERSITY FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note Q—Related party transactions

The Foundation outsources its payroll processing to the University and reimburses the University for payroll costs incurred. As of June 30, 2019 and 2018, the Foundation had salaries payable to the University totaling \$161,886 and \$120,984, respectively.

The Foundation receives donated space located on the main campus in Fairfax, Virginia from the University. In fiscal years 2019 and 2018, \$37,845 and \$69,957 respectively, is reflected in the consolidated statements of activities as unrestricted contribution revenue and administrative expenses.

In addition, the Foundation leases certain properties to the University and earns rental income on these leases (see Note J). In some instances, rates charged to the University are substantially below market.

As a general practice, the Foundation gifts donated goods to the University to provide greater resources towards their programs (see Note B).

Note R—Functional classification of expenses

The Foundation's primary program service is support of George Mason University in its academics and real estate operations. Expenses by function and natural classification for the years ended June 30, 2019 and 2018 were as follows:

	Program Support for George Mason University				Total 6/30/2019	Total 6/30/2018
	Academic Institutional Support	Real Estate Operations	Management and General	Fundraising		
<u>Distributions to George Mason University and affiliates:</u>						
Program support	\$ 41,700,408	\$ 6,647	\$ 37,905	\$ -	\$ 41,744,960	\$ 38,554,589
Student scholarships	11,078,794	-	-	-	11,078,794	8,327,040
Salaries and benefits	11,385,304	-	1,065,739	10,935	12,461,978	11,056,638
Interest	-	6,037,842	-	-	6,037,842	6,607,247
Professional and contracted services	5,877,940	730,725	616,150	264,789	7,489,604	7,008,515
Events and conferences	4,337,013	-	5,157	304,135	4,646,305	2,438,618
Travel	2,228,800	892	10,288	66,738	2,306,718	2,322,173
Depreciation and amortization	-	1,663,144	15,986	-	1,679,130	2,399,730
Utilities, repairs and maintenance	367,856	1,634,073	7,298	3,926	2,013,153	2,316,567
Student scholarships	648,966	-	-	-	648,966	573,222
Taxes	-	1,457,926	-	-	1,457,926	1,873,451
Other	1,077,712	59,827	128,929	202,040	1,468,508	1,829,455
	<u>\$ 78,702,793</u>	<u>\$ 11,591,076</u>	<u>\$ 1,887,452</u>	<u>\$ 852,563</u>	<u>\$ 93,033,884</u>	<u>\$ 85,307,245</u>

Note S—Income taxes

The Foundation follows FASB ASC Topic 740-10, *Income Taxes*, which requires the recognition of deferred tax liabilities and deferred tax assets, net of applicable valuation allowances, for certain temporary differences and net operating loss carry forwards. FASB ASC Topic 740-10 requires that the net deferred tax asset be reduced by a valuation allowance if, based on the weight of the available evidence, it is more likely than not that some portion or all of the net deferred tax asset will not be realized. As of June 30, 2016, based on changes in facts and circumstances surrounding the GMUF Arlington Campus, LLC building, the Foundation determined that it was more likely than not that all of the net operating loss carryforwards related to this project would be realized in future years and recorded a deferred tax asset.

GEORGE MASON UNIVERSITY FOUNDATION, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note S—Income taxes (continued)

The components of the provisions for income taxes are as follows for the fiscal years ended June 30, 2019 and 2018:

	2019	2018
Current:		
Federal income tax	\$ (21,670)	\$ (431,298)
State income tax	(6,192)	(123,228)
	<hr/>	<hr/>
Current income tax benefit	\$ (27,862)	\$ (554,526)
Deferred:		
Federal income tax	\$ —	\$ (124,533)
State income tax	—	(35,581)
	<hr/>	<hr/>
Deferred income tax benefit	\$ —	\$ (160,114)
	<hr/>	<hr/>
Net income tax benefit	\$ (27,862)	\$ (714,640)

The components of the deferred tax assets as of June 30, 2019 and 2018 are as follows:

	2019	2018
Net operating loss carryforward	\$ 27,862	\$ 714,640
	<hr/>	<hr/>
Net deferred income tax asset	\$ 27,862	\$ 714,640

No income taxes were paid by the Foundation during fiscal years 2019 and 2018. Income tax expense for the year-ended June 30, 2019 is included within real estate operations within the consolidated statement of activities.

Note T—Commitments and contingencies

The Foundation is subject to legal proceedings and claims, which arise in the ordinary course of business. In the opinion of management, there is no pending or threatened litigation or administrative proceeding that is expected to have a material adverse impact on the Foundation's financial position or results of operations.

Note U—Subsequent events

The Foundation entered into an arrangement on November 16, 2016 with a commercial development entity to sell approximately 36.7 acres of land in Loudon County, Virginia. On September 16, 2019 the Foundation closed on phase one of the sale of 26.4 acres. Proceeds realized of approximately \$10,900,000 will support Foundation funding of university initiatives. Phase two of the sale of the remaining 10.3 acres is expected to close in September 2020.

The Foundation evaluated subsequent events through October 31, 2019, which is the date the consolidated financial statements were available to be issued. The Foundation is not aware of any other subsequent events which would require recognition or disclosure in the consolidated financial statements.