



**GEORGE MASON UNIVERSITY
FOUNDATION**

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

***June 30, 2018 with Summarized Comparative Information
for June 30, 2017 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, 2018, 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, 2018, 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.

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.

The consolidated financial statements of the George Mason University Foundation, Inc. and Subsidiaries as of June 30, 2017 were audited by other auditors whose report dated November 10, 2017, expressed an unmodified opinion on those statements. We were not engaged to audit, review, or apply any procedures to the 2017 financial statements of the Foundation and, accordingly, we do not express an opinion or any other form of assurance on the 2017 financial statements as a whole.

A handwritten signature in black ink that reads "Cheryl Bekant LLP". The signature is written in a cursive, flowing style.

Tysons Corner, Virginia
November 9, 2018

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

JUNE 30, 2018 (WITH COMPARATIVE TOTALS AS OF JUNE 30, 2017)

	GMU Foundation, Inc.	Real Estate Subsidiaries	June 30, 2018	June 30, 2017
Assets				
Cash and cash equivalents	\$ 6,089,007	\$ 7,325,004	\$ 13,414,011	\$ 16,866,514
Restricted cash and cash equivalents	—	8,950,314	8,950,314	11,773,811
Contributions receivable, net	31,265,785	—	31,265,785	33,443,899
Investments	169,715,152	—	169,715,152	160,877,374
Beneficial interest in perpetual trusts	10,985,365	—	10,985,365	10,902,461
Property and equipment, net	19,251,077	48,637,341	67,888,418	84,493,784
Net investment in direct financing leases	—	91,339,380	91,339,380	78,998,116
Other assets	1,580,274	3,555,404	5,135,678	3,570,595
Deferred tax asset	—	714,640	714,640	1,814,447
Total Assets	\$ 238,886,660	\$ 160,522,083	\$ 399,408,743	\$ 402,741,001
Liabilities and Net Assets				
Liabilities				
Accounts payable and accrued expenses	\$ 6,647,308	\$ 1,066,764	\$ 7,714,072	\$ 9,640,305
Amounts held for others	12,230,253	—	12,230,253	14,675,999
Debt	—	156,078,928	156,078,928	158,552,358
Derivative obligations	—	—	—	4,722,777
Unearned rent	150,660	3,963,911	4,114,571	7,638,194
Other liabilities	1,259,373	17,083	1,276,456	1,053,611
Total Liabilities	\$ 20,287,594	\$ 161,126,686	\$ 181,414,280	\$ 196,283,244
Net Assets				
Unrestricted	\$ 26,623,198	\$ —	\$ 26,623,198	\$ 22,172,061
GMUF Arlington Campus, LLC	—	3,797,607	3,797,607	1,557,908
GMUF Mason Administration, LLC	—	(118,577)	(118,577)	(1,566,898)
GMUF Prince William Housing, LLC	—	1,297,011	1,297,011	1,105,873
GMUF Prince William Life Sciences Lab, LLC	—	(2,981,953)	(2,981,953)	(3,386,382)
GMUF Commerce Buildings, LLC	—	301,442	301,442	300,627
GMUF Potomac Heights, LLC	—	(2,900,133)	(2,900,133)	—
Temporarily restricted	100,097,030	—	100,097,030	99,058,190
Permanently restricted	91,878,838	—	91,878,838	87,216,378
Total Net Assets	\$ 218,599,066	\$ (604,603)	\$ 217,994,463	\$ 206,457,757
Total Liabilities and Net Assets	\$ 238,886,660	\$ 160,522,083	\$ 399,408,743	\$ 402,741,001

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

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

FOR THE YEAR ENDED JUNE 30, 2018 (WITH COMPARATIVE TOTALS AS OF JUNE 30, 2017)

	GMU Foundation, Inc.				Year Ended June 30, 2018	Year Ended June 30, 2017
	Unrestricted	Temporarily Restricted	Permanently Restricted	Real Estate Subsidiaries		
Support and Revenue						
Contributions, net loss on uncollectible contributions of \$9,303 and \$286,106	\$ 193,146	\$ 62,420,478	\$ 3,231,573	\$ —	\$ 65,845,197	\$ 61,526,860
Income from perpetual trusts	13,187	474,971	—	—	488,158	481,650
Investment return, net	2,195,531	4,668,626	1,002,649	94,961	7,961,767	8,568,080
Change in value of split interest agreements	—	86,168	344,914	—	431,082	588,860
Service fees	1,171,149	—	—	—	1,171,149	1,132,332
Rental income	2,971,430	—	—	11,210,983	14,182,413	14,773,781
Interest on direct financing leases	—	—	—	5,424,899	5,424,899	4,860,543
Gain on derivatives	282,213	—	—	1,331,730	1,613,943	2,914,728
Other income	26,270	—	—	—	26,270	258,667
Contributions from (to) related entities	1,203,000	—	—	(1,203,000)	—	—
Total Support and Revenue	8,055,926	67,650,243	4,579,136	16,859,573	97,144,878	95,105,501
Operating Expenses						
Administrative	3,771,724	—	—	1,470,198	5,241,922	3,537,795
Fundraising	266,352	—	—	—	266,352	306,224
Depreciation and amortization	787,982	—	—	1,611,748	2,399,730	3,114,495
Interest expense	310,158	—	—	6,297,088	6,607,246	7,050,198
Utilities and other	726,838	—	—	1,559,032	2,285,870	2,756,861
Total Operating Expenses	5,863,054	—	—	10,938,066	16,801,120	16,765,573
Operating Surplus	2,192,872	67,650,243	4,579,136	5,921,507	80,343,758	78,339,928
Reclassification Per Donor Request	(14,490)	(68,834)	83,324	—	—	—
Net Assets Released from Restriction	66,542,569	(66,542,569)	—	—	—	—
Support and Revenue, Net of Operating Expenses	68,720,951	1,038,840	4,662,460	5,921,507	80,343,758	78,339,928
Program Service Benefits for George Mason University						
Institutional program support	57,637,118	—	—	—	57,637,118	59,875,570
Scholarships	8,900,262	—	—	—	8,900,262	5,063,007
Administrative support	1,025,943	—	—	—	1,025,943	958,371
Total Program Service Benefits	67,563,323	—	—	—	67,563,323	65,896,948
Non-Operating Activity						
Income tax expense	—	—	—	(1,099,807)	(1,099,807)	(939,886)
Transfer of net deficit in creation of LLC	3,305,073	—	—	(3,305,073)	—	—
Gain on sale of long-lived assets	—	—	—	—	—	439,195
Loss on extinguishment or defeasance of debt	(11,564)	—	—	(132,358)	(143,922)	(3,933,325)
Total Non-Operating Activity	3,293,509	—	—	(4,537,238)	(1,243,729)	(4,434,016)
Change in Net Assets	4,451,137	1,038,840	4,662,460	1,384,269	11,536,706	8,008,964
Net Assets, beginning of year	\$ 22,172,061	\$ 99,058,190	\$ 87,216,378	\$ (1,988,872)	\$ 206,457,757	\$ 198,448,793
Net Assets, end of year	\$ 26,623,198	\$ 100,097,030	\$ 91,878,838	\$ (604,603)	\$ 217,994,463	\$ 206,457,757

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

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

JUNE 30, 2018 (WITH COMPARATIVE TOTALS AS OF JUNE 30, 2017)

	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, 2018	June 30, 2017
Assets								
Cash and cash equivalents	\$ 4,012,997	\$ 2,364,574	\$ —	\$ 348,217	\$ 181,638	\$ 417,578	\$ 7,325,004	\$ 5,813,767
Restricted cash and cash equivalents	5,833,391	—	1,413,297	1,703,626	—	—	8,950,314	11,773,811
Property and equipment, net	48,637,341	—	—	—	—	—	48,637,341	50,139,058
Net investment in direct financing lease	—	27,638,333	15,427,552	29,453,821	4,740,266	14,079,408	91,339,380	78,998,116
Other assets	3,548,692	60	—	—	6,652	—	3,555,404	2,683,633
Deferred tax asset	714,640	—	—	—	—	—	714,640	1,814,447
Total Assets	\$ 62,747,061	\$ 30,002,967	\$ 16,840,849	\$ 31,505,664	\$ 4,928,556	\$ 14,496,986	\$ 160,522,083	\$ 151,222,832
Liabilities and Net Assets								
Liabilities								
Accounts payable and accrued expenses	\$ 315,569	\$ 88,141	\$ 259,075	\$ 338,533	\$ 30,446	\$ 35,000	\$ 1,066,764	\$ 1,531,999
Debt	54,652,891	30,033,403	15,284,763	34,149,084	4,596,668	17,362,119	156,078,928	141,202,118
Derivative obligations	—	—	—	—	—	—	—	3,121,730
Unearned rent	3,963,911	—	—	—	—	—	3,963,911	7,338,774
Other liabilities	17,083	—	—	—	—	—	17,083	17,083
Total Liabilities	\$ 58,949,454	\$ 30,121,544	\$ 15,543,838	\$ 34,487,617	\$ 4,627,114	\$ 17,397,119	\$ 161,126,686	\$ 153,211,704
Net Assets								
GMUF Arlington Campus, LLC	\$ 3,797,607	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 3,797,607	\$ 1,557,908
GMUF Mason Administration, LLC	—	(118,577)	—	—	—	—	(118,577)	(1,566,898)
GMUF Prince William Housing, LLC	—	—	1,297,011	—	—	—	1,297,011	1,105,873
GMUF Prince William Life Sciences Lab, LLC	—	—	—	(2,981,953)	—	—	(2,981,953)	(3,386,382)
GMUF Commerce Buildings, LLC	—	—	—	—	301,442	—	301,442	300,627
GMUF Potomac Heights, LLC	—	—	—	—	—	(2,900,133)	(2,900,133)	—
Total Net Assets	\$ 3,797,607	\$ (118,577)	\$ 1,297,011	\$ (2,981,953)	\$ 301,442	\$ (2,900,133)	\$ (604,603)	\$ (1,988,872)
Total Liabilities and Net Assets	\$ 62,747,061	\$ 30,002,967	\$ 16,840,849	\$ 31,505,664	\$ 4,928,556	\$ 14,496,986	\$ 160,522,083	\$ 151,222,832

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

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

FOR THE YEAR ENDED JUNE 30, 2018 (WITH COMPARATIVE TOTALS AS OF JUNE 30, 2017)

	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, 2018	Year Ended June 30, 2017
Support and Revenue								
Investment returns, net	\$ 63,722	\$ 11,433	\$ 7,909	\$ 11,224	\$ 579	\$ 94	\$ 94,961	\$ 39,507
Rental income	10,979,437	—	—	—	231,546	—	11,210,983	10,677,375
Interest on direct financing leases	—	1,636,027	1,004,876	1,912,417	218,066	653,513	5,424,899	4,860,543
Gain (loss) on derivatives	—	1,331,730	—	—	—	—	1,331,730	1,851,774
Contributions to GMU Foundation, Inc.	(1,203,000)	—	—	—	—	—	(1,203,000)	—
Total Support and Revenue	9,840,159	2,979,190	1,012,785	1,923,641	450,191	653,607	16,859,573	17,429,199
Operating Expenses								
Administrative	1,223,404	63,179	45,942	105,087	32,536	50	1,470,198	1,542,272
Depreciation and amortization	1,611,748	—	—	—	—	—	1,611,748	1,626,542
Interest expense	2,337,678	1,335,332	775,705	1,414,125	185,631	248,617	6,297,088	6,358,747
Utilities and other	1,327,823	—	—	—	231,209	—	1,559,032	1,435,695
Total Operating Expenses	6,500,653	1,398,511	821,647	1,519,212	449,376	248,667	10,938,066	10,963,256
Non-Operating Activity								
Income tax expense	(1,099,807)	—	—	—	—	—	(1,099,807)	(939,886)
Transfer of net deficit in creation of LLC	—	—	—	—	—	(3,305,073)	(3,305,073)	—
Loss on extinguishment or defeasance of debt	—	(132,358)	—	—	—	—	(132,358)	(3,933,325)
Total Non-Operating Activity	(1,099,807)	(132,358)	—	—	—	(3,305,073)	(4,537,238)	(4,873,211)
Change in Net Assets	2,239,699	1,448,321	191,138	404,429	815	(2,900,133)	1,384,269	1,592,732
Net Assets, beginning of year	\$ 1,557,908	\$ (1,566,898)	\$ 1,105,873	\$ (3,386,382)	\$ 300,627	\$ —	\$ (1,988,872)	\$ (3,581,604)
Net Assets, end of year	\$ 3,797,607	\$ (118,577)	\$ 1,297,011	\$ (2,981,953)	\$ 301,442	\$ (2,900,133)	\$ (604,603)	\$ (1,988,872)

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

GEORGE MASON UNIVERSITY FOUNDATION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

JUNE 30, 2018 AND 2017

	2018	2017
Cash Flows from Operating Activities		
Changes in net assets	\$ 11,536,706	\$ 8,008,964
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization of property and leasing commissions	2,399,730	3,114,495
Amortization of debt issuance costs	118,371	98,789
Amortization of bond premium	(8,986)	(39,300)
Change in discount on contributions receivable	169,032	191,884
Unrealized investment gain	(4,159,255)	(3,012,338)
Realized investment gain	(129,635)	(2,389,813)
Interest on direct financing lease	(5,424,899)	(4,860,543)
Change in value of split interest agreements	90,186	(622,833)
Stock contributions	(438,795)	(646,304)
Contributions restricted for long-term purposes	(3,729,873)	(3,211,612)
Loss on extinguishment or defeasance of debt	143,922	3,933,325
Gain on disposal of long-lived assets	—	(439,195)
Gain on derivative	(1,613,944)	(2,914,729)
Deferred income tax expense	1,099,807	939,886
Loss on uncollectible contributions	9,303	286,106
Change in assets and liabilities:		
Pledges receivable	1,999,779	2,027,867
Other assets	(1,647,175)	(636,399)
Accounts payable and accrued expenses	(1,926,233)	1,256,776
Unearned rent	(3,523,623)	1,446,527
Other liabilities	395,464	31,185
Amounts held for others	(2,445,746)	(785,082)
Net Cash Provided by (Used in) Operating Activities	<u>(7,085,864)</u>	<u>1,777,656</u>
Cash Flows from Investing Activities		
Proceeds from sale of investments	58,996,603	71,034,319
Purchases of investments	(63,452,407)	(71,822,491)
Purchases of property and equipment	(248,167)	(1,140,575)
Proceeds from sale of property and equipment	—	456,868
Payments received on direct financing lease	7,619,532	6,466,214
Net Cash Provided by Investing Activities	<u>2,915,561</u>	<u>4,994,335</u>
Cash Flows from Financing Activities		
Proceeds from contributions in permanent endowments	3,729,873	3,211,612
Increase in deferred loan costs	(445,616)	(46,589)
Settlement of derivative obligations	(3,108,833)	—
Proceeds from issuance of debt	48,570,000	—
Repayments of debt	(50,851,121)	(5,946,338)
Net Cash Used in Financing Activities	<u>(2,105,697)</u>	<u>(2,781,315)</u>
Increase (Decrease) in Cash, Cash Equivalents, and Restricted Cash	(6,276,000)	3,990,676
Cash, Cash Equivalents, and Restricted Cash, beginning of year	<u>28,640,325</u>	<u>24,649,649</u>
Cash, Cash Equivalents, and Restricted Cash, end of year	<u>\$ 22,364,325</u>	<u>\$ 28,640,325</u>
Supplemental Disclosure of Cash Flow Activities		
Interest paid and expensed	\$ 6,695,209	\$ 6,748,473
Noncash investing activities: Conversion of property and equipment to direct-financing lease	\$ 14,535,895	\$ —

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

GEORGE MASON UNIVERSITY FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations. This includes funds that are designated for discretionary use by the Foundation, board-designated funds functioning as endowments totaling \$81,243, as well as board designated funds intended to be used as a reserve equal to \$3,650,000 as of June 30, 2018.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or the passage of time. This includes contributions to the restricted fund as well as the reinvested investment earnings of endowments, which have been restricted by the donors.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. This includes the historical dollar amounts of the gifts, the present value of contributions receivable, 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, 2018 AND 2017

Note B—Summary of significant accounting policies (continued)

Estimates – The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles (“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, accounts payable, long-term debt, derivative instruments, 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 has been classified by the Internal Revenue Service (“IRS”) as an organization that is not a private foundation, though 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, 2015 through 2018 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.

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.

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, 2018 and 2017:

	2018	2017
Cash and cash equivalents	\$ 13,414,011	\$ 16,866,514
Restricted cash	8,950,314	11,773,811
	<u>\$ 22,364,325</u>	<u>\$ 28,640,325</u>

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

JUNE 30, 2018 AND 2017

Note B—Summary of significant accounting policies (continued)

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, 2018 and 2017, 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, 2018 and 2017 were:

	2018	2017
Donated rent	\$ 69,957	\$ 91,328
Educational licenses	—	22,500
Books, photographs and other support	227,035	94,284
	<u>\$ 296,992</u>	<u>\$ 208,112</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.

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.

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

JUNE 30, 2018 AND 2017

Note B—Summary of significant accounting policies (continued)

Endowment Policy (Continued) – 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 fair market value. The endowment payout for accounts for which the market value is below the original gift value will receive a 2% of fair market value payout.

To the extent that the market values of the individual endowment funds fall below the original gift values, such deficiencies are reported as unrestricted net assets, in accordance with GAAP. 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	20% to 55%
High yield fixed income	0% to 15%
Total fixed income	20% to 60%
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, Association of Writers and Writing Programs, and University athletic organizations.

Derivative Instruments – The Foundation reports all derivatives as either assets or liabilities in the consolidated statement of financial position and measures those instruments at fair value. The change in the derivative's value is reported as a gain or loss on derivatives in the consolidated statement of activities. During fiscal year 2018, all derivative instruments were terminated.

Debt Issuance Costs – The Foundation's capitalized costs relate to the Real Estate Subsidiaries' loans and bonds. These costs are presented in the consolidated statements of financial position as a direct deduction from the carrying amount of the debt liability and are amortized over the life of the bonds and notes. Amortization expense for each of the years ended June 30, 2018 and 2017, totaled \$118,371 and \$98,789, respectively, and is included in interest expense on consolidated statements of activities.

Revenue Recognition – All contributions are considered to be available for unrestricted use 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 temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

GEORGE MASON UNIVERSITY FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

Note B—Summary of significant accounting policies (continued)

Revenue Recognition (Continued) – 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 \$899,548 and \$619,182 as of June 30, 2018 and 2017, respectively.

The Foundation rents buildings associated with GMUF Mason Administration, LLC, 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 – The Foundation elected to early adopt Accounting Standards Update (“ASU”) 2016-18 for the years ending June 30, 2018 and 2017. Therefore, restricted cash is included in the beginning and ending balances reported on the statement of cash flows.

Management is currently evaluating the effects the following accounting pronouncements will have on their financial statements:

ASU-2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 requires an entity to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which an entity expects to be entitled in exchange for those goods or services. Five key steps will be required to assess revenue recognition along with enhanced disclosures. The ASU is effective for fiscal year 2020.

ASU 2016-02, *Leases*. 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. Lessor accounting remains consistent with existing U.S. GAAP. The ASU is effective for fiscal year 2019.

ASU 2016-14, *Presentation of Financial Statements of Not for Profit Entities*. 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 ASU is effective for fiscal year 2019.

ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 provides a more detailed framework for determining whether a grant or similar contract should be accounted for as a contribution or as an exchange transaction. ASU 2018-08 also provides additional guidance to help determine whether a contribution is conditional, and better distinguish between a donor-imposed condition and a donor-imposed restriction. The ASU is effective for fiscal year 2021.

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

JUNE 30, 2018 AND 2017

Note C—Contributions Receivable

Contributions receivable as of June 30, 2018 and 2017 are as follows:

	2018	2017
Due in less than one year	\$ 12,956,484	\$ 14,782,247
Due in one to five years	14,006,114	15,511,734
Due in more than five years	6,314,943	5,049,897
	<u>33,277,541</u>	<u>35,343,878</u>
Less: allowance for doubtful accounts	(293,270)	(350,525)
Less: discount present value	(1,718,486)	(1,549,454)
	<u>\$ 31,265,785</u>	<u>\$ 33,443,899</u>

Discount rates range from 0.87 percent to 3.58 percent for the years ended June 30, 2018 and 2017.

As of June 30, 2018 and 2017, the Foundation has \$22,621,700 and \$23,022,500, respectively, of conditional promises to give. These conditional promises to give are not recognized as assets in the consolidated statement of financial position until they become unconditional, that is, when the conditions on which they depend are substantially met.

Note D—Investments

Investments, which are reported at fair value, consisted of the following as of June 30, 2018 and 2017:

	2018	2017
Cash and money market funds	\$ 5,332,069	\$ 3,081,078
Equities	47,245,412	45,981,087
Fixed income	92,282,429	89,426,927
Liquid alternatives	2,348,496	2,551,503
Hedge funds	12,917,835	10,641,479
Managed futures	2,509,052	2,353,585
Private equity and real assets	7,044,589	6,785,781
Other funds	35,270	55,934
	<u>\$ \$169,715,152</u>	<u>\$ 160,877,374</u>

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

JUNE 30, 2018 AND 2017

Note D—Investments (continued)

Investment earnings are summarized as follows for the years ended June 30, 2018 and 2017:

	2018	2017
Interest and dividends, net of external management fees	\$ 3,704,756	\$ 3,165,929
Realized gain (loss)	97,756	2,389,813
Unrealized gain (loss)	4,159,255	3,012,338
Investment return, net	7,961,767	8,568,080
Investment return included with change in value of split interest agreements	24,880	55,083
	<u>\$ 7,986,647</u>	<u>\$ 8,623,163</u>

For the years ended June 30, 2018 and 2017, the Foundation paid external management fees of \$291,923 and \$300,325, respectively.

Note E—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, 2018 and 2017 totaled approximately \$9.1 million and \$9.0 million, respectively. Contributions from the trust totaled \$439,568 and \$455,775 for the years ended June 30, 2018 and 2017, respectively, and is included in unrestricted and temporarily restricted income from perpetual trusts. The change in value of the trust increased \$96,871 and \$438,315 during the years ended June 30, 2018 and 2017, respectively. These amounts are included in permanently restricted support and revenue as a component of change in value of split interest agreements on the consolidated statement of activities.

100% Beneficiary – The fair value of the Foundation’s portion of this trust at June 30, 2018 and 2017 totaled approximately \$1.9 million. Contributions from the trust totaled \$48,590 and \$25,875 for the years ended June 30, 2018 and 2017, respectively, and is included in temporarily restricted income from perpetual trusts. The change in value from the trust decreased \$13,969 and increased \$115,675 during the years ended June 30, 2018 and 2017, respectively. These amounts are included in permanently restricted support and revenue as a component of change in value of split interest agreements on the consolidated statement of activities.

GEORGE MASON UNIVERSITY FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

Note E—Split interest agreements (continued)

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 20 years and discount rates range from 2% to 8%. The market value of the assets at June 30, 2018 and 2017 was \$618,175 and \$963,885, respectively. Liabilities related to these agreements were \$264,387 and \$437,007 at June 30, 2018 and 2017, respectively, and are included with other liabilities. During fiscal year 2018, the Foundation received one new charitable remainder trust. During fiscal year 2017, the Foundation received one new charitable gift annuity.

The activity related to the change in charitable trusts and gift annuities, recorded as change in value of split interest agreements, was an increase of \$348,180 and \$34,870 for the years ended June 30, 2018 and 2017, 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/her death. The associated use obligation was \$364,111 as of June 30, 2018 and is included in other liabilities.

Note F—Endowment

The Foundation's endowment consists of approximately 510 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 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 permanently restricted portion of the Foundation's endowment includes contributions receivable but excludes 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 permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation 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:

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

Note F—Endowment (continued)

- 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

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (99,764)	\$ 5,795,963	\$ 79,168,992	\$ 84,865,191
Board-designated endowment funds	81,243	—	—	81,243
Total funds	<u>\$ (18,521)</u>	<u>\$ 5,795,963</u>	<u>\$ 79,168,992</u>	<u>\$ 84,946,434</u>

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ (495,300)	\$ 2,996,280	\$ 75,191,457	\$ 77,692,437
Investment return:				
Investment income	155,657	1,487,607	36,028	1,679,292
Net appreciation (realized and unrealized)	569,677	3,736,036	94,405	4,400,118
External management fees	(25,314)	(241,920)	(5,859)	(273,093)
Total investment return	700,020	4,981,723	124,574	5,806,317
Contributions	—	—	3,232,299	3,232,299
Appropriation of endowment assets for expenditure	(223,550)	(2,170,405)	—	(2,393,955)
Losses on uncollectible pledges	—	—	(727)	(727)
Other changes	309	(11,635)	621,389	610,063
Endowment net assets, end of year	<u>\$ (18,521)</u>	<u>\$ 5,795,963</u>	<u>\$ 79,168,992</u>	<u>\$ 84,946,434</u>

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

JUNE 30, 2018 AND 2017

Note F—Endowment (continued)

Endowment Net Asset Composition by Type of Fund as of June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (571,437)	\$ 2,996,280	\$ 75,191,457	\$ 77,616,300
Board-designated endowment funds	76,137	—	—	76,137
Total funds	<u>\$ (495,300)</u>	<u>\$ 2,996,280</u>	<u>\$ 75,191,457</u>	<u>\$ 77,692,437</u>

Changes in Endowment Net Assets for the Year Ended June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ (2,369,585)	\$ 932,820	\$ 73,003,138	\$ 71,566,373
Investment return:				
Investment income	366,449	1,149,148	24,271	1,539,868
Net depreciation (realized and unrealized)	2,071,232	2,715,937	76,641	4,863,810
External management fees	(66,146)	(207,427)	(4,381)	(277,954)
Total investment return	2,371,535	3,657,658	96,531	6,125,724
Contributions	—	—	3,239,253	3,239,253
Appropriation of endowment assets for expenditure	(497,250)	(1,595,121)	—	(2,092,371)
Losses on uncollectible pledges	—	—	(240,047)	(240,047)
Other changes	—	923	(907,418)	(906,495)
Endowment net assets, end of year	<u>\$ (495,300)</u>	<u>\$ 2,996,280</u>	<u>\$ 75,191,457</u>	<u>\$ 77,692,437</u>

2018 **2017**

The portion of perpetual endowment funds
subject to a time restriction under UPMIFA

Academic support	\$ 281,692	\$ 133,234
Community/public service	637,112	251,489
Eminent scholars	2,321,894	1,316,299
Research	531,884	324,986
Student financial aid	1,912,970	909,722
Other	110,411	60,550

Total endowment funds classified as temporarily
restricted net assets

\$ 5,795,963 \$ 2,996,280

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

JUNE 30, 2018 AND 2017

Note F—Endowment (continued)

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 permanent endowment. In accordance with GAAP, deficiencies of this nature are reported as unrestricted net assets. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and continued appropriation for certain programs deemed prudent by the Board of Trustees. Future gains will be classified as increases in unrestricted net assets until the shortfalls previously charged to unrestricted net assets have been eliminated and endowment fund assets are restored to the required levels stipulated by donors. As of June 30, 2018 and 2017, \$99,764, and \$571,437, respectively, of such deficiencies are reported in unrestricted net assets.

A reconciliation of the permanently restricted endowments to the permanently restricted net asset balance as of June 30:

	2018	2017
Permanently Restricted Net Assets, end of year	\$ 91,878,838	\$ 87,216,378
Beneficial interest in perpetual trusts	(10,985,365)	(10,902,461)
Charitable remainder trusts and charitable gift annuities	(79,868)	(359,340)
Other permanently restricted investments	<u>(1,644,613)</u>	<u>(763,120)</u>
Permanently Restricted Endowments, end of year	<u>\$ 79,168,992</u>	<u>\$ 75,191,457</u>

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, 2018 AND 2017

Note F—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 3.08% and 3.15% as of June 30, 2018 and 2017, 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 G—Fair value measurements

FASB Accounting Standards Codification ("ASC") 820, Fair Value Measurements and Disclosures, 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, 2018 AND 2017

Note G—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, 2018 and 2017, based on the level of input utilized to measure fair value:

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
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
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
Other funds	35,270	—	—	—	35,270
Liquid alternatives	2,348,496	—	—	—	2,348,496
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

* 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, 2018 AND 2017

Note G—Fair value measurements (continued)

Measurement at fair value on a recurring basis as of June 30, 2017:

	Level 1	Level 2	Level 3	Reported at NAV *	Total
Financial Assets:					
Cash and cash equivalents	\$ 3,081,078	\$ —	\$ —	\$ —	\$ 3,081,078
Equities:					
Domestic large cap	20,048,478	—	—	—	20,048,478
Domestic small/mid cap	5,213,352	—	—	—	5,213,352
International (developed countries)	17,031,191	—	—	—	17,031,191
International (emerging markets)	3,688,066	—	—	—	3,688,066
Fixed income:					
Short-term bonds	60,248,719	—	—	—	60,248,719
Intermediate bonds	15,023,704	—	—	—	15,023,704
Long-term bonds	5,817,244	—	—	—	5,817,244
Multi-sector bonds	91,635	—	—	—	91,635
World bonds	5,721,114	—	—	—	5,721,114
Bank loans	2,524,511	—	—	—	2,524,511
Other funds	55,934	—	—	—	55,934
Liquid alternatives	2,551,503	—	—	—	2,551,503
Hedge funds	—	—	—	10,641,479	10,641,479
Managed futures	—	—	—	2,353,585	2,353,585
Private equity and real assets	—	—	—	6,785,781	6,785,781
Investments	141,096,529	—	—	19,780,845	160,877,374
Beneficial interest in perpetual trusts	—	10,902,461	—	—	10,902,461
Derivative asset	—	366	—	—	366
Total financial assets	\$141,096,529	\$10,902,827	\$ —	\$ 19,780,845	\$ 171,780,201
Financial Liabilities:					
Derivative obligations	\$ —	\$ 4,722,777	\$ —	\$ —	\$ 4,722,777
Total financial liabilities	\$ —	\$ 4,722,777	\$ —	\$ —	\$ 4,722,777

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

JUNE 30, 2018 AND 2017

Note G—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)	7,044,589	4,145,786	N/A	N/A
Total	\$ 22,471,476	\$ 4,145,786		

The following table presents the nature and risk of assets with fair values estimated using NAV held at June 30, 2017:

	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Hedge funds –Multi-strategies ^(a)	\$ 4,857,832	\$ N/A	Quarterly, Annually	60 days, 65 days, 90 days
Hedge funds –Directional ^(b)	5,783,647	N/A	Annually	105 days
Managed futures ^(c)	2,353,585	N/A	Daily	1 day
Private equity and real assets ^(d)	6,785,781	4,031,070	N/A	N/A
Total	\$ 19,780,845	\$ 4,031,070		

- (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.
- (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.

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

JUNE 30, 2018 AND 2017

Note G—Fair value measurement (continued)

- (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. It is estimated that the underlying assets will be liquidated over 1 to 10 years.

Note H—Property and equipment

The following comprises property and equipment at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Land	\$ 27,109,091	\$ 27,109,091
Buildings	60,302,189	88,132,687
Building improvements	5,007,923	5,260,429
Furniture and equipment	1,037,375	2,742,764
	<u>93,456,578</u>	<u>123,244,971</u>
Accumulated depreciation and amortization	<u>(25,568,160)</u>	<u>(38,751,187)</u>
Property and equipment, net	<u>\$ 67,888,418</u>	<u>\$ 84,493,784</u>

Depreciation expense was \$2,317,637 and \$2,989,237 for the years ended June 30, 2018 and 2017, respectively. During fiscal year 2018, the Potomac Heights property was converted to a capital lease, see additional information at Note I. During fiscal year 2017, the Foundation sold a building resulting in a gain of \$439,195.

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

JUNE 30, 2018 AND 2017

Note H—Property and equipment (continued)

The following summarizes the Foundation's property and related direct financing leases and bonds and notes payable at June 30, 2018:

Property	Description	Net Book Value Property and Equipment June 30, 2018	Net Investment In Direct Financing Leases June 30, 2018	Debt Issuer	Debt June 30, 2018
GMUF Arlington Campus, LLC	Commercial office building, Arlington County, VA	\$ 48,637,341	\$ —	Bank Notes	\$ 54,912,427
GMUF Mason Administration, LLC	Administration building, main campus, Fairfax County, VA	—	27,638,333	FCEDA	30,281,518
GMUF Prince William Housing, LLC	Graduate student housing, Science and Technology Campus, Prince William County, VA	—	15,427,552	IDA-PW	15,385,000
GMUF Prince William Life Sciences Lab, LLC	Research and office space, Science and Technology Campus, Prince William County, VA	—	29,453,821	IDA-PW	34,580,000
GMUF Commerce Buildings, LLC	Research and office space, City of Fairfax, VA	—	4,740,266	Bank Notes	4,686,910
GMUF Potomac Heights, LLC	Dormitory, main campus, Fairfax County, VA	—	14,079,408	FCEDA	17,538,468
University Park	Graduate student townhomes and commercial office space, City of Fairfax, VA	950,062	—	N/A	—
Kelley Drive Property	Office space, Fairfax County, VA	26,381	—	N/A	—
Mathy House	Residential rental, Fairfax County, VA	286,767	—	N/A	—
Mathy Lodge	Residential rental, Fairfax County, VA	1,150,168	—	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	13,049,831	—	N/A	—

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

JUNE 30, 2018 AND 2017

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	26,864	—	N/A	—
	Unamortized net premium	—	—	N/A	60,350
	Debt issuance costs	—	—	N/A	(1,365,745)
Total		\$ 67,888,418	\$ 91,339,380		\$ 156,078,928

Note I—Leases

Rental Income on Operating Leases

The Foundation leases certain properties with a cost of \$79,575,272 and \$109,415,122 and accumulated depreciation of \$24,832,527 and \$38,044,497 as of June 30, 2018 and 2017, 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 \$34,538,085 and \$36,468,335 as of June 30, 2018 and 2017, respectively.

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

2019	\$ 9,887,079
2020	10,116,489
2021	10,236,478
2022	10,324,168
2023	10,552,248
Thereafter	<u>32,061,807</u>
	<u>\$ 83,178,269</u>

During the years ended June 30, 2018 and 2017, rental income earned by the Foundation totaled \$14,183,413 and \$14,773,781, of which \$4,426,989 and \$4,635,482 was paid by the University for 2018 and 2017, respectively. Additionally, \$2,422,830 and \$3,619,783, was paid by University students for 2018 and 2017, respectively.

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 \$82,093 and \$125,258 for the years ended June 30, 2018 and 2017, respectively. Unamortized leasing commissions, a component of other assets, was \$588,109 and \$670,202 for the years ended June 30, 2018 and 2017, respectively.

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.

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

JUNE 30, 2018 AND 2017

Note I—Leases (continued)

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, 2018 and 2017 are as follows:

	2018	2017
Total minimum lease payments to be received	159,138,848	\$ 147,518,578
Less: Unearned income	(67,799,468)	(68,520,462)
Net investment in direct financing lease	<u>\$ 91,339,380</u>	<u>\$ 78,998,116</u>

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

2019	\$ 8,207,880
2020	8,629,176
2021	8,692,624
2022	8,688,189
2023	8,727,089
Thereafter	<u>116,193,890</u>
	<u>\$ 159,138,848</u>

GEORGE MASON UNIVERSITY FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

Note J—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 I), 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 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 K 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 I), 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, 2018 AND 2017

Note J—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 I), and the lease payments 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 (see Note I), 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. As a result, the Series 2011AA Bonds are deemed extinguished for accounting purposes resulting in a loss of \$3,933,325 during fiscal year 2017. 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, 2018 AND 2017

Note J—Debt (continued)

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 FCEDA 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 debt issuance 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 (see Note I) 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.

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

JUNE 30, 2018 AND 2017

Note J—Debt (continued)

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

	2018	2017
Fairfax County Economic Development Authority Bonds (FCEDA):		
George Mason University Foundation, Inc. Bonds, variable rates maturing on May 31, 2018	\$ —	\$ 17,372,500
GMUF Potomac Heights, LLC Tax-Exempt Revenue Bonds, term interest rate 2.41%, maturing on November 1, 2027	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	30,281,518	28,968,403
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 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 2011B 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 September 1, 2021	745,000	840,000
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	24,265,000	25,015,000
Prince William County Series 2017 Bonds, term interest rate 4.524%, maturing October 1, 2041	10,315,000	10,315,000
Bank Notes:		
GMUF Arlington Campus, LLC Note with interest rate of 4.05% maturing June 1, 2033	54,912,427	57,508,273
GMUF Commerce Buildings, LLC Note with interest rate of 3.63% maturing March 1, 2030	<u>4,686,910</u>	<u>5,004,823</u>
Notes and bonds payable at face value	157,384,323	159,663,999
Plus: Unamortized net premium	60,350	69,336
Less: Debt issuance costs, net	<u>(1,365,745)</u>	<u>(1,180,977)</u>
Total debt	<u>\$ 156,078,928</u>	<u>\$ 158,552,358</u>

GEORGE MASON UNIVERSITY FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

Note J—Debt (continued)

Scheduled maturities and sinking fund requirements are as follows:

<i>Fiscal year ending June 30,</i>	
2019	\$ 6,989,191
2020	7,280,572
2021	7,586,827
2022	7,843,004
2023	8,159,821
Thereafter	<u>119,524,908</u>
	\$ <u>157,384,323</u>

Interest expense on notes, bonds and related swaps along with the amortization of deferred financing charges was \$6,607,246 and \$7,050,198, for the years ended June 30, 2018 and 2017, respectively.

The carrying value of debt approximated the fair value as of June 30, 2018 and 2017, respectively. The Foundation estimated the fair value of bonds payable using valuations provided by an independent financial institution.

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, 2018 and 2017, the Foundation was in compliance with its required debt covenant calculations.

Note K—Derivative instruments

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 FCEDA bonds (see Note J), 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, 2017, the notional amount on the swap was \$16,850,000, and on the cap was \$9,975,000. The fair value of the interest rate swap at June 30, 2017 totaled a derivative liability of \$1,601,047. The net change in value has been recorded as a gain 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, 2017, no collateral balance was required. The fair value of the interest rate cap totaled a derivative asset of \$366 at June 30, 2017, and was a component of other assets. All assets or liabilities related to the interest rate swap and interest rate cap convert to zero at contract maturity.

On December 21, 2017, the interest rate swap was terminated for a fee of \$1,318,468, which was equal to the derivative obligation at closing. On January 4, 2018, the interest rate cap was terminated at no cost.

GEORGE MASON UNIVERSITY FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

Note K—Derivative instruments (continued)

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 at a fixed interest rate of 4.675 percent and a second forward floating-to-fixed interest rate swap to effectively fix the interest rate on the \$1,900,000 taxable notional amount at a fixed interest rate of 4.5 percent 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 the taxable swap was terminated on December 1, 2013. At June 30, 2017, the notional amount on the tax-exempt swap was \$29,005,000.

The fair value of the interest rate swaps at June 30, 2017 totaled a derivative liability of \$3,121,730. 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, 2017, no collateral balance was required.

On May 18, 2018, the interest rate swap was terminated for a fee of \$1,790,000, which was equal to the derivative obligation at closing.

Note L—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 \$826,694. 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 \$627,125 and \$595,771, respectively, as of June 30, 2018 and 2017.

Note M—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, 2018, the Foundation had approximately \$22,720,000 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 \$6,219,870 at June 30, 2018. Historically, losses from federal government securities have not occurred.

In fiscal year 2018, 10 donors collectively contributed approximately 59 percent of the total contributions, and approximately 67 percent of total contributions receivable were due from seven contributors.

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

JUNE 30, 2018 AND 2017

Note N—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 \$57,642,307 and \$59,876,637 for the years ended June 30, 2018 and 2017, respectively. Additionally, net assets released for scholarships totaled \$8,900,262 and \$5,063,007 for the years ended June 30, 2018 and 2017, respectively.

Note O—Net assets available

Restricted net assets consisted of the following at June 30, 2018:

	Temporarily Restricted	Permanently Restricted
Administrative support	\$ 19,439,791	\$ 616,152
Academic support	25,945,861	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	18,227,948	7,122,656
Student financial aid	18,260,449	30,702,293
Student financial aid – perpetual trust	—	1,911,168
Time restricted without purpose restriction	31,739	—
	\$ 100,097,030	\$ 91,878,838

Restricted net assets consisted of the following at June 30, 2017:

	Temporarily Restricted	Permanently Restricted
Administrative support	\$ 12,201,896	\$ 42,180
Academic support	30,997,045	9,923,390
Athletics	353,018	173,184
Community/public service	3,528,296	6,997,521
Eminent scholars	3,856,702	22,910,462
Eminent scholars – perpetual trust	—	8,977,326
Facilities	10,082,909	61,912
Library	645,723	882,840
Research	20,518,268	6,534,753
Student financial aid	16,841,134	28,510,832
Student financial aid – perpetual trust	—	1,925,136
Time restricted without purpose restriction	33,199	276,842
	\$ 99,058,190	\$ 87,216,378

GEORGE MASON UNIVERSITY FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

Note P—Related party transactions

The Foundation outsources its payroll processing to the University and reimburses the University for payroll costs incurred. As of June 30, 2018 and 2017, the Foundation had salaries payable to the University totaling \$155,234 and \$111,466, respectively.

Prior to the execution of a lease for the GMUF Potomac Heights, LLC building to the University in fiscal year 2018, the Foundation remitted to the University the excess cash flow of the project one fiscal year later. As of June 30, 2017, the Foundation had \$1,293,799 payable to the University.

The Foundation receives donated space located on the main campus in Fairfax, Virginia from the University. In fiscal years 2018 and 2017, \$69,957 and \$91,328 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 I). 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 Q—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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

Note Q—Income taxes (continued)

The components of the provisions for income taxes are as follows for the fiscal years ending June 30, 2018 and 2017:

	2018	2017
Current:		
Federal income tax	\$ (431,298)	\$ (838,828)
State income tax	(123,228)	(148,028)
Current income tax benefit	\$ (554,526)	\$ (986,856)
Deferred:		
Federal income tax	\$ (124,533)	\$ (703,452)
State income tax	(35,581)	(124,139)
Deferred income tax benefit	\$ (160,114)	\$ (827,591)
Net income tax benefit	\$ (714,640)	\$ (1,814,447)

The components of the deferred tax assets as of June 30, 2018 and 2017, are as follows:

	2018	2017
Net operating loss carryforward	\$ 714,640	\$ 1,814,447
Net deferred income tax asset	\$ 714,640	\$ 1,814,447

No income taxes were paid by the Foundation during fiscal years 2018 and 2017.

Note R—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 S—Subsequent events

The Foundation is a beneficiary in a trust that became irrevocable upon the decedent's death in May 2018. Due to the complex nature of the trust and assets involved, the Foundation was not able to make a reasonable estimate of the expected proceeds as of June 30, 2018. Subsequent to June 30, 2018, the Foundation received information ascertaining the trust's value and structure. The residual proceeds expected to be received by the Foundation are estimated at \$54,000,000 and will be used to establish an endowed chair.

The Foundation evaluated subsequent events through November 9, 2018, which is the date the 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