



Consolidated Financial Statements and Report of
Independent Certified Public Accountants

**George Mason University
Foundation, Inc. and Subsidiaries**

June 30, 2013 with Summarized Comparative
Information for June 30, 2012

George Mason University Foundation, Inc. and Subsidiaries

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Report of Independent Certified Public Accountants

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, 2013, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the 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, 2013, and the changes in net assets and cash flow for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 7 and 8 is presented for purposes of additional analysis, and is not a required part of the consolidated financial statements. Such supplementary 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. These additional procedures included comparing and reconciling the 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 established by the American Institute of Certified Public Accountants. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Report On 2012 Summarized Comparative Information

We have previously audited the Foundation's 2012 consolidated financial statements (not presented herein), and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated November 8, 2012. In our opinion, the accompanying summarized comparative information as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.



McLean, Virginia
November 13, 2013

George Mason University Foundation, Inc. and Subsidiaries

Consolidated Statement of Financial Position

June 30, 2013 (with comparative totals as of June 30, 2012)

	GMU Foundation, Inc.	Real Estate Subsidiaries	June 30, 2013	June 30, 2012
Assets				
Cash and cash equivalents	\$ 10,771,191	\$ 5,405,484	\$ 16,176,675	\$ 6,195,799
Restricted cash and cash equivalents	—	1,713,057	1,713,057	2,450,622
Inter-entity receivable	836,206	(836,206)	—	—
Contributions receivable, net	17,720,060	—	17,720,060	19,549,895
Derivative asset	82,817	—	82,817	—
Prepays and other assets	739,221	348,133	1,087,354	831,429
Deposits held with trustees	—	5,362,155	5,362,155	37,524,275
Leasing commissions	—	1,813,939	1,813,939	1,533,952
Net investment in direct financing lease	—	46,569,256	46,569,256	31,636,683
Beneficial interest in perpetual trusts	10,803,294	—	10,803,294	10,260,229
Annuity benefit contract	465,534	—	465,534	434,677
Deferred loan costs, net	119,394	1,022,254	1,141,648	1,332,781
Investments	113,135,051	—	113,135,051	104,961,310
Property and equipment, net	38,099,195	91,362,857	129,462,052	110,680,590
Art and antiques	572,567	—	572,567	572,567
Total Assets	\$ 193,344,530	\$ 152,760,929	\$ 346,105,459	\$ 327,964,809
Liabilities and Net Assets				
Liabilities				
Accounts payable and accrued expenses	\$ 5,424,554	\$ 4,494,004	\$ 9,918,558	\$ 6,132,597
Unearned rent	150,595	2,336,326	2,486,921	19,020
Trust liabilities	1,260,758	—	1,260,758	1,080,428
Other liabilities	—	34,894	34,894	85,467
Accrued annuity benefit	465,534	—	465,534	434,677
Derivative obligations	2,051,738	3,824,980	5,876,718	9,125,309
Long-term debt	23,260,000	151,511,153	174,771,153	173,238,402
Amounts held for others	9,683,161	—	9,683,161	8,949,641
Total Liabilities	\$ 42,296,340	\$ 162,201,357	\$ 204,497,697	\$ 199,065,541
Net Assets				
Unrestricted	14,515,324	—	14,515,324	9,810,582
Temporarily restricted	64,008,515	—	64,008,515	60,538,096
Permanently restricted	72,524,351	—	72,524,351	70,115,416
GMUF Arlington Campus, LLC	—	(6,455,755)	(6,455,755)	(6,012,805)
GMUF Mason Administration, LLC	—	(2,937,559)	(2,937,559)	(5,533,089)
GMUF Prince William Housing, LLC	—	342,438	342,438	(6,164)
GMUF Prince William Life Sciences Lab, LLC	—	(84,072)	(84,072)	(12,768)
GMUF Commerce Buildings, LLC	—	(305,480)	(305,480)	—
Total Net Assets	\$ 151,048,190	\$ (9,440,428)	\$ 141,607,762	\$ 128,899,268
Total Liabilities and Net Assets	\$ 193,344,530	\$ 152,760,929	\$ 346,105,459	\$ 327,964,809

The accompanying notes are an integral part of these statements.

George Mason University Foundation, Inc. and Subsidiaries

Consolidated Statement of Activities

For the year ended June 30, 2013 (with comparative totals for the year ended June 30, 2012)

	GMU Foundation, Inc.					
	Unrestricted	Temporarily Restricted	Permanently Restricted	Real Estate Subsidiaries	Year Ended June 30, 2013	Year Ended June 30, 2012
Support and Revenue						
Contributions	\$ 282,594	\$ 36,454,918	\$ 2,100,511	\$ —	\$ 38,838,023	\$ 35,772,185
Income from Perpetual Trusts	5,681	437,493	—	—	443,174	356,302
Investment return, net	5,248,666	1,997,746	—	8,419	7,254,831	(1,014,539)
Change in value of perpetual trusts	—	—	543,065	—	543,065	(396,883)
Change in charitable trusts and gift annuities	—	(32,426)	(350,614)	—	(383,040)	(330,047)
Service fees	1,088,330	—	—	—	1,088,330	757,575
Rental income	3,950,814	—	—	8,537,341	12,488,155	12,071,666
Interest on direct financing lease	—	—	—	2,852,210	2,852,210	2,100,411
Gain (loss) on derivatives	1,136,004	—	—	2,195,404	3,331,408	(4,111,771)
Trust and other income	(31,021)	43,846	—	8,400	21,225	76,739
Total support and revenue	11,681,068	38,901,577	2,292,962	13,601,774	66,477,381	45,281,638
Operating Expenses						
Accounting and legal	240,140	—	—	14,880	255,020	156,835
Administrative	1,304,552	—	—	1,706,442	3,010,994	3,027,333
Depreciation and amortization	1,431,499	—	—	2,023,610	3,455,109	3,570,873
Insurance	63,110	—	—	85,663	148,773	144,601
Interest expense	960,374	—	—	6,387,109	7,347,483	7,049,103
Utilities and other	1,251,363	—	—	1,259,672	2,511,035	2,728,678
	5,251,038	—	—	11,477,376	16,728,414	16,677,423
Fundraising	254,686	—	—	—	254,686	352,407
Total Operating Expenses	5,505,724	—	—	11,477,376	16,983,100	17,029,830
Operating Surplus	6,175,344	38,901,577	2,292,962	2,124,398	49,494,281	28,251,808
Reclassification Per Donor Request	(30,900)	(85,073)	115,973	—	—	—
Net Assets Released from Restriction	35,346,085	(35,346,085)	—	—	—	—
Support and Revenue, Net of Operating Expenses	41,490,529	3,470,419	2,408,935	2,124,398	49,494,281	28,251,808
Program Service Benefits for George Mason University						
Scholarships	1,721,510	—	—	—	1,721,510	1,809,192
Academic program support	32,876,234	—	—	—	32,876,234	26,560,689
Eminent scholars	901,426	—	—	—	901,426	440,000
Administrative support	947,619	—	—	—	947,619	1,020,787
Total Program Service Benefits	36,446,789	—	—	—	36,446,789	29,830,668
Loss on Extinguishment of Debt	(338,998)	—	—	—	(338,998)	—
Impairment Loss on Land	—	—	—	—	—	(2,468,412)
Change in Net Assets	4,704,742	3,470,419	2,408,935	2,124,398	12,708,494	(4,047,272)
Net Assets, beginning of period	9,810,582	60,538,096	70,115,416	(11,564,826)	128,899,268	132,946,540
Net Assets, end of period	\$ 14,515,324	\$ 64,008,515	\$ 72,524,351	\$ (9,440,428)	\$ 141,607,762	\$ 128,899,268

The accompanying notes are an integral part of these statements.

George Mason University Foundation, Inc. and Subsidiaries

Consolidating Statement of Financial Position - Real Estate Subsidiaries

June 30, 2013 (with comparative totals as of June 30, 2012)

	GMUF Arlington Campus, LLC	GMUF Mason Administration, LLC	GMUF Prince William Housing, LLC	GMUF Prince William Life Sciences Lab, LLC	GMUF Commerce Buildings, LLC	June 30, 2013	June 30, 2012
Assets							
Cash and cash equivalents	\$ 1,079,260	\$ 1,606,051	\$ 874,365	\$ 1,823,817	\$ 21,991	\$ 5,405,484	\$ 185,580
Restricted cash and cash equivalents	1,213,057	500,000	—	—	—	1,713,057	2,250,622
Due (to) from GMUF, Inc.	(756,002)	(37,303)	(29,152)	(7,045)	(6,704)	(836,206)	(696,405)
Contributions receivable, net	—	—	—	—	—	—	—
Derivative asset	—	—	—	—	—	—	—
Prepays and other assets	285,888	37,178	25,067	—	—	348,133	686,334
Deposits held with trustees	—	—	—	5,362,155	—	5,362,155	37,524,275
Leasing commissions	1,813,939	—	—	—	—	1,813,939	1,533,952
Beneficial interest in perpetual trusts	—	—	—	—	—	—	—
Annuity benefit contract	—	—	—	—	—	—	—
Net investment in direct financing lease	—	31,307,076	15,262,180	—	—	46,569,256	31,636,683
Deferred loan costs, net	127,744	174,272	195,246	404,475	120,517	1,022,254	972,192
Property and equipment, net	55,509,928	—	—	30,975,572	4,877,357	91,362,857	69,312,606
Total Assets	\$ 59,273,814	\$ 33,587,274	\$ 16,327,706	\$ 38,558,974	\$ 5,013,161	\$ 152,760,929	\$ 143,405,839
Liabilities and Net Assets							
Liabilities							
Accounts payable and accrued expenses	\$ 502,642	\$ 251,450	\$ 258,902	\$ 2,971,681	\$ 509,329	\$ 4,494,004	\$ 2,402,965
Unearned rent	462,611	—	—	1,873,715	—	2,336,326	19,020
Trust liabilities	—	—	—	—	—	—	—
Other liabilities	34,894	—	—	—	—	34,894	34,894
Accrued annuity benefit	—	—	—	—	—	—	—
Derivative obligations	—	3,824,980	—	—	—	3,824,980	6,020,384
Long-term debt	64,729,422	32,448,403	15,726,366	33,797,650	4,809,312	151,511,153	146,493,402
Total Liabilities	\$ 65,729,569	\$ 36,524,833	\$ 15,985,268	\$ 38,643,046	\$ 5,318,641	\$ 162,201,357	\$ 154,970,665
Net Assets							
GMUF Arlington Campus, LLC	\$ (6,455,755)	\$ —	\$ —	\$ —	\$ —	\$ (6,455,755)	\$ (6,012,805)
GMUF Mason Administration, LLC	—	(2,937,559)	—	—	—	(2,937,559)	(5,533,089)
GMUF Prince William Housing, LLC	—	—	342,438	—	—	342,438	(6,164)
GMUF Prince William Life Sciences Lab, LLC	—	—	—	(84,072)	—	(84,072)	(12,768)
GMUF Commerce Buildings, LLC	—	—	—	—	(305,480)	(305,480)	—
Total Net Assets	\$ (6,455,755)	\$ (2,937,559)	\$ 342,438	\$ (84,072)	\$ (305,480)	\$ (9,440,428)	\$ (11,564,826)
Total Liabilities and Net Assets	\$ 59,273,814	\$ 33,587,274	\$ 16,327,706	\$ 38,558,974	\$ 5,013,161	\$ 152,760,929	\$ 143,405,839

The accompanying notes are an integral part of these statements.

George Mason University Foundation, Inc. and Subsidiaries

Consolidating Statement of Activities - Real Estate Subsidiaries

For the year ended June 30, 2013 (with comparative totals for the year ended June 30, 2012)

	GMUF Arlington Campus, LLC	GMUF Mason Administration, LLC	GMUF Prince William Housing, LLC	GMUF Prince William Life Sciences Lab, LLC	GMUF Commerce Buildings, LLC	Year Ended June 30, 2013	Year Ended June 30, 2012
Revenue							
Investment returns, net	\$ 554	\$ 7,824	\$ 13	\$ 28	\$ —	\$ 8,419	\$ 18,792
Rental income	8,537,341	—	—	—	—	8,537,341	8,498,408
Interest on direct financing lease	—	2,005,583	846,627	—	—	2,852,210	2,100,411
Gain (loss) on derivatives	—	2,195,404	—	—	—	2,195,404	(3,203,427)
Miscellaneous income	8,400	—	—	—	—	8,400	1,457
Total support and revenue	8,546,295	4,208,811	846,640	28	—	13,601,774	7,415,641
Operating Expenses							
Accounting and legal	8,629	50	—	—	6,201	14,880	11,970
Administrative	1,256,014	65,513	29,385	56,970	298,560	1,706,442	1,339,016
Depreciation and amortization	2,023,610	—	—	—	—	2,023,610	2,091,837
Insurance	84,944	—	—	—	719	85,663	82,537
Interest expense	4,356,376	1,547,718	468,653	14,362	—	6,387,109	6,003,640
Utilities and other	1,259,672	—	—	—	—	1,259,672	1,337,873
Total Operating Expenses	8,989,245	1,613,281	498,038	71,332	305,480	11,477,376	10,866,873
Change in Net Assets	(442,950)	2,595,530	348,602	(71,304)	(305,480)	2,124,398	(3,451,232)
Net Assets, beginning of period	(6,012,805)	(5,533,089)	(6,164)	(12,768)	—	(11,564,826)	(8,113,594)
Net Assets, end of period	\$ (6,455,755)	\$ (2,937,559)	\$ 342,438	\$ (84,072)	\$ (305,480)	\$ (9,440,428)	\$ (11,564,826)

The accompanying notes are an integral part of these statements.

George Mason University Foundation, Inc. and Subsidiary

Consolidated Statement of Cash Flows

<i>For the year ended</i>	2013	2012
Cash Flows from Operating Activities		
Changes in net assets	\$ 12,708,494	\$ (4,047,272)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization of property and leasing commissions	3,455,109	3,570,873
Amortization of loan financing costs	92,047	89,689
Amortization of bond premium	(53,112)	(45,497)
Discount on contributions receivable	(527,437)	(451,036)
Unrealized investment (gain) loss	(3,910,442)	4,270,070
Realized investment gain	(605,593)	(381,159)
Interest on direct financing lease	(2,852,210)	(2,100,411)
Change in value of perpetual trusts	(543,065)	396,883
Change in value of charitable trusts and gift annuities	383,043	330,047
Stock contributions	(170,055)	(284,470)
Contributions restricted for long-term purposes	(2,100,511)	(8,101,921)
Loss on sale of property and equipment	57,441	—
Impairment loss on land	—	2,468,412
Loss on extinguishment of debt	338,998	—
(Gain) loss on derivatives	(3,331,408)	4,111,771
Change in assets and liabilities:		
Restricted cash and cash equivalents	737,565	(1,601,783)
Contributions receivable	2,357,272	4,294,051
Prepays and other assets	(255,925)	(475,612)
Accounts payable and accrued expenses	3,785,961	(4,433,569)
Unearned rent	2,467,901	(3,425,691)
Other liabilities	(50,573)	287
Amounts held for others	733,520	492,797
Net Cash Provided by (Used In) Operating Activities	\$ 12,717,020	\$ (5,323,541)
Cash Flows from Investing Activities		
Proceeds from sale of investments	\$ 55,922,953	\$ 45,638,448
Purchases of investments	(59,613,316)	(54,075,361)
Purchases of property and equipment	(36,020,336)	(20,709,684)
Proceeds from sale of property and equipment	28,966	—
Payments received on direct financing lease	3,385,641	3,287,408
Net Cash Used in Investing Activities	\$ (36,296,092)	\$ (25,859,189)
Cash Flows from Financing Activities		
Proceeds from contributions in permanent endowments	\$ 2,040,650	\$ 8,101,921
Proceeds from contributions in charitable remainder trust	59,860	—
Increase in deferred loan costs	(239,912)	(639,947)
Proceeds from long-term debt	6,740,675	55,308,675
Repayments on long-term debt	(5,154,812)	(2,741,361)
Decrease (increase) in deposits with trustee	30,740,556	(37,524,275)
Payments of leasing commissions	(627,069)	(20,753)
Net Cash Provided by Financing Activities	\$ 33,559,948	\$ 22,484,260
Increase (Decrease) in Cash and Cash Equivalents	\$ 9,980,876	\$ (8,698,470)
Cash and Cash Equivalents, beginning of year	\$ 6,195,799	\$ 14,894,269
Cash and Cash Equivalents, end of year	\$ 16,176,675	\$ 6,195,799
Supplemental Disclosure of Cash Flow Activities		
Interest paid and expensed	\$ 7,319,366	\$ 6,158,973
Noncash investing activities: Conversion of property and equipment to direct-financing lease	\$ 15,466,004	\$ 32,674,904

The accompanying notes are an integral part of these statements.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2013 and 2012

NOTE A—ORGANIZATION

George Mason University Foundation, Inc. was incorporated on November 21, 1991, as a not-for-profit corporation under the laws of the Commonwealth of Virginia to receive, hold, invest and administer property, and to make expenditures for the benefit of George Mason University (the “University”). The George Mason University Foundation, Inc. seeks to promote the advancement of the University as an institution of higher education by developing and applying financial resources to the programs of the University and other such activities as are suited to that end.

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of George Mason University Foundation, Inc., GMUF Arlington Campus, LLC, GMUF Mason Administration, LLC, GMUF Prince William Housing, LLC, GMUF Prince William Life Sciences Lab, LLC, and GMUF Commerce Buildings, LLC (together the “Foundation”). George Mason University Foundation, Inc. owns 100 percent of GMUF Arlington Campus, LLC, GMUF Mason Administration, LLC, Prince William Housing, LLC, GMUF Prince William Life Sciences Lab, LLC, and GMUF Commerce Buildings, LLC (collectively “Real Estate Subsidiaries”). All intercompany transactions are eliminated in consolidation.

The accounts of the Foundation are maintained on the accrual basis of accounting where support is recognized when earned, and expenses are recognized when incurred.

Financial Statement Presentation

The Foundation records grants and contributions received as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any restrictions. Unrestricted net assets do not have donor-imposed restrictions concerning their use or expenditure. The Foundation’s unrestricted net assets include the activities of the general fund. Temporarily restricted net assets have donor-imposed restrictions on use such that they may only be expended for specified purposes and/or after specified time. These include 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 have restrictions in perpetuity such that they may not be expended and consist of endowment gifts. Donations shown as reclassifications in the accompanying consolidated statement of activities represent changes in restrictions to comply with written change requests from donors.

June 30, 2013 and 2012

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Endowment Policy

The Foundation’s endowment policy seeks to maintain the growth of the present value of existing assets at a rate at least equal to the inflation rate plus the current spending rate of 4 percent based on an average of each endowment’s fair value over the prior 12 quarters, net of investment fees. The allocation ranges for endowment assets during fiscal year 2013 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%
Hedge funds, private equity and real estate	0% to 20%
Total Fixed Income	20% to 70%
Domestic equity	20% to 60%
Global equity ex. US	10% to 40%
Hedge funds, private equity and real estate	0% to 20%
Managed futures/CTAs	0%-10%
Total Equity	30% to 80%

On November 4, 2011, The Board of Trustees of the Foundation amended the endowment spending policy. Under the revised policy, the endowment spending rate remains at 4 percent for all accounts with a market value which exceeds the original gift value or corpus. For those accounts with a market value that has not fallen below 80 percent of the original gift value, a spending rate of 2 percent applies. A spending rate does not apply, if the market value of any account has diminished below 80 percent of the original gift value. To the extent that the market values of the individual endowment funds fall below the original gift values, such deficiencies will be reported as unrestricted net assets, in accordance with U.S. generally accepted accounting principles (GAAP).

Estimates

The preparation of consolidated financial statements in conformity with 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, trust liabilities and amounts held for others, approximate fair value.

June 30, 2013 and 2012

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Income Taxes

Under the provisions of the Internal Revenue Code Section 501(c)(3) 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 recognizes or derecognizes tax positions on a “more likely than not” threshold. This applies to positions taken or expected to be taken in a tax return. The Foundation considered its income tax positions under the “more likely than not” level of certainty and determined there is no requirement to accrue any income tax liability.

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.

Cash and Cash Equivalents

For the purposes of the consolidated statement of cash flows, the Foundation considers cash equivalents to include overnight repurchase agreements. Cash and cash equivalents consist of cash and money market funds except those money market funds held for long-term investment purposes.

Investments

Investments are stated at fair value. The Foundation’s investments in mutual funds are valued at the net asset values (NAVs) 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. The alternative investments, which are not readily marketable, are carried at estimated fair values as provided by the investment managers. 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.

Contributions Receivable

Unconditional promises to give (contributions receivable) that are expected to be collected within one year are recorded at net realizable value. Contributions receivables 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 received, 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. The allowance for doubtful contributions receivable was zero, as of June 30, 2013 and 2012.

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

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2013 and 2012

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Revenue Recognition

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 \$15,369 as of June 30, 2013 and decreased rental income by \$4,365, as of June 30, 2012.

The Foundation rents the GMUF Mason Administration, LLC building and the Prince William Housing, LLC building to the University through direct financing leases. The lease terms are 25 years and 30 years, respectively. Interest on the direct financing leases is recognized over the lease term using the effective interest method.

Beneficial Interest in Perpetual Trusts

The stated value of the beneficial interests 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.

Arts and Antiques

Arts and antiques are recorded at their historical cost, if purchased and the estimated fair value at the date of contribution, if contributed.

Depreciation

Property and equipment having a cost in excess of \$2,000 are capitalized at cost. Donated assets in excess of \$2,000 are capitalized at the estimated fair value at 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.

Leasing Commissions

Leasing commissions related to the GMUF Arlington Campus, LLC project are capitalized. The Foundation is amortizing these costs over the life of the related leases and amortization expense for the year ended June 30, 2013 and 2012, totaled \$347,082 and \$383,151 and is included in the consolidated statement of activities.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2013 and 2012

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Deferred Loan Costs

The Foundation's capitalized costs relate to the financing of a housing project for the University, refinancing of the University Park and University Drive properties occupied by the University and loans and bonds related to the GMUF Arlington Campus, LLC, GMUF Mason Administration, LLC, GMUF Prince William Housing, LLC GMUF Prince William Life Sciences Lab, LLC and GMUF Commerce Buildings, LLC projects. The Foundation is amortizing the deferred loan costs of all bonds and notes payable over the life of the bonds and notes. Amortization expense for each of the years ended June 30, 2013 and 2012, totaled \$92,047 and \$89,689, respectively. In addition, the Foundation recorded a loss on extinguishment of debt of \$338,998 due to the write-off of deferred loan costs on debt refinanced during fiscal year 2013.

Prior Year Summarized Information

The consolidated financial statements include certain prior year summarized comparative information in total but not by asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2012, from which the summarized information was derived.

NOTE C—INVESTMENTS

Investments, which are reported at fair value, consisted of the following as of June 30, 2013 and 2012:

	2013	2012
Cash and money market funds	\$ 3,954,528	\$ 3,868,712
Certificates of deposit	—	50,573
Equities	33,974,762	24,230,332
Fixed income	48,318,237	51,173,485
Commodities	1,023,774	2,205,320
Real estate	223,436	237,996
Hedge funds	21,196,475	17,370,931
Managed futures	2,111,479	3,605,376
Private equity and real assets	2,332,360	2,218,585
	<u>\$ 113,135,051</u>	<u>\$ 104,961,310</u>

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2013 and 2012

NOTE C—INVESTMENTS—Continued

Investment earnings are summarized as follows for the years ended June 30, 2013 and 2012:

	2013	2012
Interest and dividends, net of external management fees	\$ 2,738,796	\$ 2,874,372
Realized gain	605,593	381,159
Unrealized gain (loss)	3,910,442	(4,270,070)
Investment return, net	7,254,831	(1,014,539)
Investment return included with change in charitable trusts and gift annuities	120,892	67,075
	\$ 7,375,723	\$ (947,464)

For the years ended June 30, 2013 and 2012, the Foundation paid external management fees of \$198,051 and \$161,819, respectively.

NOTE D—FAIR VALUE MEASUREMENT

FASB ASC 820, Fair Value Measurements and Disclosures, provides the framework for measuring fair value and expands disclosures about fair value measurements.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. The nature of these securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed.

Level 3 – Securities that have little to no pricing observability as of the report date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

June 30, 2013 and 2012

NOTE D—FAIR VALUE MEASUREMENT—Continued

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the entity.

The Foundation considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the entity's perceived risk of that instrument.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

- *Cash and cash equivalents:* Carrying value of cash equivalents such as money market funds approximates the fair value due to the short maturity of these investments.
- *Equity securities:* Investments in equity securities valued at the quoted prices in an active market are classified within Level 1 of the fair value hierarchy.
- *Fixed income securities:* This class includes fixed income mutual funds, corporate bonds, municipal bonds and US government and agency securities. When quoted prices are available in an active market, fixed income securities are classified within Level 1 of the fair value hierarchy. Quoted prices in inactive markets are classified within Level 2. If quoted market prices are not available or accessible, then fair values are estimated using pricing models or discounted cash flow models. The fair values of corporate debt securities estimated using pricing models or matrix pricing based on observable prices of corporate debt securities that trade in inactive markets are generally classified within Level 2 of the fair value hierarchy.
- *Commodities and real estate:* These classes include investments in commodity and real estate mutual funds which are valued at the quoted prices in an active market and are classified within Level 1 of the fair value hierarchy.
- *Hedge funds, managed futures, private equity and real assets:* Investments in these classes are valued at the NAV provided by the underlying investment managers based on the shares held by the Foundation at year end. Valuations provided by alternative investment fund managers include estimates, appraisals, assumptions and methods that are reviewed by management. When necessary, the Foundation adjusts NAV for contributions, distributions, or general market conditions subsequent to the latest NAV valuation date when calculating fair value. Investments under this class, which are redeemable at or near year-end at NAV per share, are classified within Level 2 of the fair value hierarchy; otherwise, they are classified within Level 3 of the fair value hierarchy.
- *Beneficial interest in perpetual trusts:* Beneficial interests in perpetual trusts held by others are valued using the fair value of the assets in the trust as a practical expedient unless facts and circumstances indicate that the fair value of the assets in the trust differs from the fair value of the beneficial interests. Perpetual trusts held by others are classified within Level 3 of the fair value hierarchy. The underlying assets are primarily comprised of cash equivalents, equities and fixed income securities.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2013 and 2012

NOTE D—FAIR VALUE MEASUREMENT—Continued

- *Interest rate swaps and caps:* Interest rate swaps and caps are valued using pricing models (such as discounted cash flows) based on observable market data such as prices of instruments with similar maturities and characteristics, interest rate yield curves, and measures of interest rate volatility. Interest rate swaps and caps are reflected on the consolidated statement of financial position as derivate assets and derivative obligations. These derivatives are classified within Level 2 of the fair value hierarchy.
- *Deposits held with trustee:* Funds held on deposit with a trustee are held in money market funds. Since money market funds approximate fair value because of the short maturity of these investments, these deposits are classified within Level 1 of the fair value hierarchy.

The valuation methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date and that difference may be material to the Foundation's financial statements.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2013 and 2012

NOTE D—FAIR VALUE MEASUREMENT—Continued

The following table presents the Foundation's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2013:

	Level 1	Level 2	Level 3	Total
Financial Assets:				
Cash and cash equivalents	\$ 3,954,528	\$ —	\$ —	\$ 3,954,528
Equities:				
Domestic large cap	16,476,412	—	—	16,476,412
Domestic small/mid cap	2,795,381	—	—	2,795,381
International (developed countries)	10,896,780	—	—	10,896,780
International (emerging markets)	3,806,189	—	—	3,806,189
Fixed income:				
Short-term bonds	22,502,197	1,720,120	—	24,222,317
Intermediate bonds	7,822,873	—	—	7,822,873
Long-term bonds	—	1,047,472	—	1,047,472
Multi-sector bonds	6,676,558	—	—	6,676,558
World bonds	5,345,690	—	—	5,345,690
Bank loans	3,203,327	—	—	3,203,327
Commodities	1,023,774	—	—	1,023,774
Real estate	223,436	—	—	223,436
Hedge funds:				
Multi-strategies	—	6,383,343	11,321,699	17,705,042
Directional equity	—	—	3,491,433	3,491,433
Managed futures	—	2,111,479	—	2,111,479
Private equity and real assets	—	—	2,332,360	2,332,360
Investments	84,727,145	11,262,414	17,145,492	113,135,051
Beneficial interest in perpetual trusts	—	—	10,803,294	10,803,294
Deposits held with trustees	5,362,155	—	—	5,362,155
Interest rate cap	—	82,817	—	82,817
Total financial assets	\$ 90,089,300	\$ 11,345,231	\$ 27,948,786	\$ 129,383,317
Financial Liabilities:				
Interest rate swaps	\$ —	\$ 5,876,718	\$ —	\$ 5,876,718
Total financial liabilities	\$ —	\$ 5,876,718	\$ —	\$ 5,876,718

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2013 and 2012

NOTE D—FAIR VALUE MEASUREMENT—Continued

The following table presents the Foundation's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2012:

	Level 1	Level 2	Level 3	Total
Financial Assets:				
Cash and cash equivalents	\$ 3,868,712	\$ —	\$ —	\$ 3,868,712
Certificates of deposit	50,573	—	—	50,573
Equities:				
Domestic large cap	13,196,532	—	—	13,196,532
Domestic small/mid cap	2,308,942	—	—	2,308,942
International (developed countries)	4,796,418	—	—	4,796,418
International (emerging markets)	3,928,440	—	—	3,928,440
Fixed income:				
Short-term bonds	17,062,891	1,976,006	—	19,038,897
Intermediate bonds	12,506,320	68,911	—	12,575,231
Long-term bonds	252,943	1,553,088	—	1,806,031
Multi-sector bonds	8,739,930	—	—	8,739,930
World bonds	6,240,056	—	—	6,240,056
Bank loans	2,773,340	—	—	2,773,340
Commodities	2,205,320	—	—	2,205,320
Real estate	237,996	—	—	237,996
Hedge funds:				
Multi-strategies	—	4,204,443	7,303,989	11,508,432
Directional equity	—	437,628	5,424,871	5,862,499
Managed futures	—	3,605,376	—	3,605,376
Private equity and real assets	—	—	2,218,585	2,218,585
Investments	78,168,413	11,845,452	14,947,445	104,961,310
Beneficial interest in perpetual trusts	—	—	10,260,229	10,260,229
Deposits held with trustees	37,524,275	—	—	37,524,275
Total financial assets	\$ 115,692,688	\$ 11,845,452	\$ 25,207,674	\$ 152,745,814
Financial Liabilities:				
Interest rate swaps	\$ —	\$ 9,125,309	\$ —	\$ 9,125,309
Total financial liabilities	\$ —	\$ 9,125,309	\$ —	\$ 9,125,309

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2013 and 2012

NOTE D—FAIR VALUE MEASUREMENT—Continued

The table below sets forth a summary of changes in fair value of the Foundation's level 3 assets for the year ended June 30, 2013.

	Balance at July 1, 2012	Net Gain (Loss) on Investments	Purchases	Sales	Transfers Out of Level 3	Balance at June 30, 2013
Hedge funds – Multi-strategies	\$ 7,303,989	\$ 816,264	\$ 3,745,634	\$ (544,188)	\$ —	\$ 11,321,699
Hedge funds – Directional	5,424,871	258,859	1,300,009	(3,393,913)	(98,393)	3,491,433
Private equity and real assets	2,218,585	110,179	330,376	(326,780)	—	2,332,360
Beneficial interest in perpetual trusts	10,260,229	543,065	—	—	—	10,803,294
	<u>\$ 25,207,674</u>	<u>\$ 1,728,367</u>	<u>\$ 5,376,019</u>	<u>\$ (4,264,881)</u>	<u>\$ (98,393)</u>	<u>\$ 27,948,786</u>

The Foundation's policy is to recognize transfers in and out of fair value hierarchy levels as of the end of the reporting period in which the event or change in circumstances occurred. The transfers out of Level 3 during fiscal year 2013 related to the redemption of a hedge fund.

The table below sets forth a summary of changes in fair value of the Foundation's level 3 assets for the year ended June 30, 2012.

	Balance at July 1, 2011	Net Gain (Loss) on Investments	Purchases	Sales	Transfers Out of Level 3	Balance at June 30, 2012
Hedge funds – Multi-strategies	\$ 7,781,005	\$ 23,653	\$ 110,144	\$ (610,813)	\$ —	\$ 7,303,989
Hedge funds – Directional	8,002,160	(201,013)	2,000,040	(3,938,688)	(437,628)	5,424,871
Private equity and real assets	1,791,938	313,972	208,117	(95,442)	—	2,218,585
Beneficial interest in perpetual trusts	10,657,112	(396,883)	—	—	—	10,260,229
	<u>\$ 28,232,215</u>	<u>\$ (260,271)</u>	<u>\$ 2,318,301</u>	<u>\$ (4,644,943)</u>	<u>\$ (437,628)</u>	<u>\$ 25,207,674</u>

The transfers out of level 3 during fiscal year 2012 are due to the expiration of redemption restrictions for certain hedge funds which were redeemable at NAV at June 30, 2012.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2013 and 2012

NOTE D—FAIR VALUE MEASUREMENT—Continued

The following table presents the nature and risk of assets with fair values estimated using NAV held at June 30, 2013:

	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Hedge funds – Multi-strategies (a)	\$ 17,705,042	\$ N/A	Quarterly, Annually	60 days, 90 days, 95 days
Hedge funds – Directional (b)	3,491,433	N/A	Annually	105 days
Managed futures (c)	2,111,479	N/A	Daily	1 day
Private equity and real assets (d)	<u>2,332,360</u>	<u>2,873,154</u>	N/A	N/A
Total	<u>\$ 25,640,314</u>	<u>\$ 2,873,154</u>		

- (a) This class includes investments in several funds of hedge funds 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. The fair values of the investments in this class have been estimated using the NAV per share of the investments.
- (b) This class includes investments in a fund of hedge funds that use directional strategies, primarily long/short strategies. Investments held by this fund primarily consist of equities. The fair values of the investments in this class have been estimated using the NAV per share of the investments. Currently, these investments are not redeemable, because the fund restricts redemption in the first two years after acquisition with subsequent redemption available on December 31st of each year. The remaining restriction on these investments is 9 months at June 30, 2013.
- (c) This class includes investments in managed futures with the objective to seek long-term capital appreciation. This is a multi-manager fund traded by approximately 20 commodity trading advisors (CTAs) 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 as of June 30, 2013. The fair value of the investments in this class has been estimated using the NAV per share of the investments.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2013 and 2012

NOTE D—FAIR VALUE MEASUREMENT—Continued

- (d) This class includes investments in private equity and real asset funds. The real asset funds invest in either global or US commercial real estate investments for purpose of generating income and capital appreciation. The private equity funds make direct and indirect investments in privately and publicly issued debt securities and privately issued equity securities. Strategies employed by the private equity funds include distress, growth equity, buyout and opportunistic strategies. 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 12 years. The fair value of these investments has been estimated using the NAV of the Foundation's ownership interest in the funds.

NOTE E—CONTRIBUTIONS RECEIVABLE

Contributions receivable as of June 30, 2013 and 2012 are as follows:

	2013	2012
Due in less than one year	\$ 3,665,205	\$ 3,578,832
Due in one to five years	14,970,760	11,618,622
Due in more than five years	615,000	6,410,783
	19,250,965	21,608,237
Less discount present value	(1,530,905)	(2,058,342)
Total	\$ 17,720,060	\$ 19,549,895

Discount rates range from 0.23 percent to 5.69 percent.

As of June 30, 2013 and 2012, the Foundation has \$4,607,000 and \$5,372,244, respectively, of conditional promises to give, primarily matching funds for which the fundraising goals have not yet been achieved. These conditional promises to give are not recognized as assets in the consolidated statement of financial position.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2013 and 2012

NOTE F—SPLIT INTEREST AGREEMENTS

Beneficial Interest in Perpetual Trusts

The Foundation is a 50 percent beneficiary in two perpetual trusts, which are held and administered by independent trustees. The fair value of the Foundation's portion of these trusts at June 30, 2013 and 2012 totaled approximately \$9.1 million and \$8.7 million, respectively. Income from the trust totaled \$414,853 and \$332,457 for the years ended June 30, 2013 and 2012, respectively, and is included in unrestricted and temporarily restricted support and revenue. The change in value of the trust increased \$474,383 during the year ended June 30, 2013 and decreased \$350,764 during the year ended June 30, 2012. These amounts are included in permanently restricted support and revenue.

The Foundation is a 100% beneficiary in one perpetual trust, which is held and administered by an independent trustee. The fair value of the Foundation's portion of this trust at June 30, 2013 and 2012 totaled approximately \$1.7 million and \$1.6 million, respectively. Income from the trust totaled \$28,320 and \$23,845 for the years ended June 30, 2013 and 2012, respectively, and is included in temporarily restricted support and revenue. The change in value from the trust increased \$68,683 during the year ended June 30, 2013 and decreased \$46,119 during the year ended June 30, 2012. These amounts are included in permanently restricted support and revenue.

The estimated fair value of the Foundation's portion of these trusts at June 30, 2013 and 2012 is summarized as follows:

	2013	2012
Cash and money market funds	\$ 382,276	\$ 574,190
Equities:		
Domestic large cap	5,394,225	5,356,252
Domestic small/mid cap	408,868	544,701
International (developed)	2,054,845	908,465
Fixed income:		
Short-term bonds	—	574,204
Intermediate bonds	1,212,152	1,073,516
Multi-sector bonds	452,454	215,934
World bonds	—	311,233
High yield bonds	678,800	225,404
Bank loans	195,482	133,538
Commodities	—	161,264
Real estate	24,192	181,528
Total	\$ 10,803,294	\$ 10,260,229

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2013 and 2012

NOTE F—SPLIT INTEREST AGREEMENTS—Continued

Charitable Remainder Trusts and Charitable Gift Annuities

The Foundation has charitable remainder trusts and charitable gift annuities, which have been established and funded by various donors. Distributions are received by the Foundation 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 3 to 25 years and discount rates range from 4.2 to 8.0 percent. The market value of the assets at June 30, 2013 and 2012 was \$1,734,586 and \$1,877,438, respectively. Liabilities related to these agreements were \$1,260,758 and \$1,080,428 at June 30, 2013 and 2012, respectively. One new charitable remainder trust was received in fiscal year 2013. During fiscal year 2012, the Foundation received no new charitable remainder trusts or gift annuities.

A summary of activity included with change in charitable remainder trusts and gift annuities is as follows:

	2013	2012
Interest and dividends, net of external management fees	\$ 28,168	\$ 43,969
Realized gain	101,465	80,417
Unrealized loss	(8,741)	(57,311)
Investment return included with change in split interest agreements	120,892	67,075
Non-investment activity, net	(503,932)	(397,122)
	\$ (383,040)	\$ (330,047)

NOTE G—PROPERTY AND EQUIPMENT

The following comprises property and equipment at June 30, 2013 and 2012:

	2013	2012
Land	\$ 29,121,652	\$ 29,121,652
Buildings	91,353,059	91,353,059
Building improvements	4,288,542	4,281,098
Furniture and equipment	764,013	743,404
Construction in progress	33,993,970	12,218,986
Accumulated depreciation and amortization	159,521,236	137,718,199
	(30,059,184)	(27,037,609)
Property and equipment, net	\$ 129,462,052	\$ 110,680,590

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2013 and 2012

NOTE G—PROPERTY AND EQUIPMENT—Continued

The GMUF Administration building was occupied in May 2011. Construction costs and lease payments to be paid by the University were subsequently finalized in fiscal year 2012. The final transaction, completed during fiscal year 2012, resulted in a direct financing lease with the removal of the related building, furniture, and equipment from the Foundation's consolidated statement of financial position and the creation of a net investment in direct financing lease (see Note L).

The GMUF Prince William Housing building was occupied in November 2012. The final transaction resulted in a direct financing lease with the removal of the related construction in progress asset from the Foundation's consolidated statement of financial position and the creation of a net investment in a direct financing lease (see Note L).

Construction in progress at June 30, 2013 represents costs associated with the construction of a new life sciences lab and improvements to the Commerce buildings located in Fairfax, Virginia (see Note H). These projects are expected to be completed in fiscal year 2014.

During fiscal year 2010, the Foundation received a donation for three adjacent parcels of land located in Loudon County for future development on behalf of the University. The first two parcels of land were deeded to the Foundation in fiscal years 2011 and 2010. Title transferred to the Foundation for the third parcel of land during fiscal year 2012, at which time an appraisal was performed. As a result of a decline in the land's fair value, the Foundation recorded an impairment loss of \$2,468,412 during fiscal year 2012.

NOTE H—LONG-TERM DEBT

Fairfax County Economic Development Authority Bonds – George Mason University Foundation, Inc.

On October 7, 2003, the Foundation issued \$35,125,000 of variable rate Fairfax County Economic Development Authority bonds. \$27,700,000 of the bonds were used to finance a housing project for the University and the remaining \$7,425,000 were used to refinance existing properties the Foundation owns and rents to the University. Additionally, the Foundation simultaneously entered into an interest rate swap with a commercial bank to effectively fix the interest rate on \$22,425,000 of the bonds (See Note I).

As a security for the payment of the bonds, the Foundation entered into an irrevocable letter of credit with a commercial bank in the initial amount of \$35,593,333. Due to the reduction of the commercial bank's credit rating below investment grade, the Foundation replaced the letter of credit facility with that of another commercial bank on October 7, 2009. The substitute commercial bank simultaneously assumed the related interest rate swap derivative instrument (See Note I). The letter of credit is renewable annually and was scheduled to expire October 7, 2013.

On April 30, 2013 the interest rate swap was amended resulting in a change to the notional balance to \$20,818,750, and changes to the fixed interest rate and termination date (See Note I). On May 1, 2013, the Foundation refinanced the Fairfax County Economic Development Authority bonds to variable rate bonds with the same commercial bank, resulting in the elimination of the letter of credit. On May 24, 2013, \$2,260,000 of the refinanced Fairfax County Economic Development Authority bonds, relating to the Commerce buildings, were refinanced by another commercial bank through the issuance of the Industrial Development Authority of the Town of Clifton, VA – GMUF Commerce Buildings, LLC Project, Series 2013. See the Industrial Development Authority of the Town of Clifton, VA – GMUF Commerce Buildings, LLC Project, Series 2013 below.

June 30, 2013 and 2012

NOTE H—LONG-TERM DEBT—Continued

Fairfax County Economic Development Authority Bonds – GMUF Mason Administration, LLC

On April 21, 2010 the Fairfax County Development Authority issued its \$36,100,000 Revenue Bond Series 2010A (Tax Exempt - GMUF Mason Administration, LLC Project) and its \$1,900,000 Revenue Bond Series 2010B (Taxable - GMUF Mason Administration, LLC Project) and sold such bonds to a commercial bank pursuant to a Bond Purchase and Loan Agreement dated April 1, 2010. The Series 2010A Bond is subject to mandatory repayment at the option of the commercial bank in December 2023. Proceeds are to be used in the acquisition, construction, renovation and equipping of a five-story administration building consisting of approximately 140,000 square feet for classrooms, administrative office and retail space. The building was substantially completed in May 2011, with remaining construction for retail space to be completed in fiscal year 2014. The Foundation's loan obligation is limited to that portion of the bond issuance which it draws upon pursuant to the Bond Purchase and Loan Agreement.

As part of this transaction, the Foundation simultaneously entered into a forward floating-to-fixed interest rate swap to effectively fix the interest rate on the \$32,100,000 tax-exempt notional amount and a second forward floating-to-fixed interest rate swap to effectively fix the interest rate on the \$1,900,000 taxable notional amount with a commercial bank. The swap transactions were effective on June 1, 2011. The termination date is June 1, 2036 for the tax-exempt notional amount and December 1, 2013 for the taxable notional amount. The tax-exempt swap has an option to terminate at no risk at the end of the 13th year. See Note I for discussion regarding the interest rate swaps.

Industrial Development Authority of the County of Prince William Bonds – GMUF Prince William Housing, LLC Project

On August 10, 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) pursuant to a Trust Indenture, dated August 1, 2011. Proceeds will be used to finance the acquisition, construction and equipping of a student residence hall consisting of 152 beds in 112 units in approximately 80,858 total square feet of space, university program space of approximately 10,000 square feet, and approximately 15,000 square feet of 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, and the rental payments made by the University service the bonds' principal and interest payments.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2013 and 2012

NOTE H—LONG-TERM DEBT—Continued

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

On August 10, 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 will be used to finance the acquisition, construction and equipping of life sciences lab facilities consisting of approximately 58,056 square feet, and the acquisition and construction of approximately 17,615 square feet of unimproved “shell space” designated for commercial laboratory use. The project is expected to be completed in fiscal year 2014. 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 will lease the property to the University, and the rental payments made by the University will service the bonds’ principal and interest payments.

The unspent bond proceeds for both of the Industrial Development Authority of the County of Prince William Series 2011 Bonds are held by a trustee and invested in money market funds. The trustee reimburses third party vendors for expenditures related to the life science lab and housing projects.

Industrial Development Authority of the Town of Clifton, VA – GMUF Commerce Buildings, LLC Project, Series 2013

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 are to be used for the purposes of (a) refinancing \$2,260,000 of the Fairfax County Development Authority bonds, (b) renovating existing office buildings owned by the Foundation in the City of Fairfax, Virginia, and (c) paying certain other expenditures associated with the bond issuance, such as deferred loan costs. The Foundation will lease the property to the University, and the rental payments made by the University will service the bonds’ principal and interest payments. The project is expected to be completed in fiscal year 2014. As of June 30, 2013, the Foundation had drawn \$4,809,312 of the loan with the commercial bank.

GMUF Arlington Campus, LLC Notes

On August 18, 2006, GMUF Arlington Campus, LLC secured a permanent 10-year \$68.5 million loan by executing a deed of trust on real property located at 3434 North Washington Street with a book value of \$58,810,080 with a financial institution.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2013 and 2012

NOTE H—LONG-TERM DEBT—Continued

The following represents the Foundation's bonds and notes payable at June 30, 2013 and 2012.

	2013	2012
Fairfax County Economic Development Authority Bonds:		
George Mason University Foundation, Inc. Bonds with variable interest rate maturing at various dates through February 1, 2029	\$ 23,260,000	\$ 26,745,000
GMUF Mason Administration, LLC Tax-Exempt Revenue Bond, variable rate maturing on June 1, 2036	32,063,403	30,371,821
GMUF Mason Administration, LLC Taxable Revenue Bond, variable rate maturing on December 1, 2013	385,000	920,220
Industrial Development Authority of the County of Prince William:		
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
interest rate 5.125%, maturing September 1, 2041	9,555,000	9,555,000
Prince William County Series 2011 B Bonds, term interest rate 2.50%, maturing September 1, 2021	985,000	985,000
Prince William County Series 2011AA Bonds, serial with interest rates ranging from 3.00% to 5.00%, maturing at various dates from September 1, 2016 to September 1, 2026	8,010,000	8,010,000
Prince William County Series 2011AA Bonds, term interest rate 5.50%, maturing September 1, 2031	5,705,000	5,705,000
interest rate 5.50%, maturing September 1, 2034	4,275,000	4,275,000
interest rate 5.125%, maturing September 1, 2041	13,075,000	13,075,000
Prince William County Series 2011BB Bonds, term interest rate of 3.00%, maturing September 1, 2016	2,145,000	2,145,000

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2013 and 2012

NOTE H—LONG-TERM DEBT—Continued

	2013	2012
Industrial Development Authority of the Town of Clifton, VA:		
Industrial Development Authority of the Town of Clifton, VA, Revenue bond series 2013, variable rate maturing May 10, 2031	4,809,312	—
Bank Notes:		
GMUF Arlington Campus, LLC Notes A with interest rate of 6.24% maturing September 1, 2016	\$ 60,477,124	\$ 61,313,153
GMUF Arlington Campus, LLC Notes B with interest rate of 10.50% maturing September 1, 2016	4,252,298	4,311,081
Notes and bonds payable at face value	174,082,137	172,496,275
Plus: unamortized net premium	689,016	742,127
Total long-term debt	\$ 174,771,153	\$ 173,238,402

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.

Scheduled maturities and sinking fund requirements are as follows:

Fiscal year ending June 30:

2014	\$ 4,477,780
2015	4,078,262
2016	4,311,556
2017	65,105,232
2018	19,398,391
Thereafter	76,710,916
	<u>\$ 174,082,137</u>

Interest expense on notes, bonds and related swaps along with the amortization of deferred financing charges was \$7,686,481 and \$7,049,103, as of June 30, 2013 and June 20, 2012, respectively.

The carrying value of long-term debt approximated the fair value as of June 30, 2013 and 2012, respectively. The Foundation estimated the fair value of bonds payable using valuations provided by an independent financial institution. If measured at fair value in the statement of financial position, the bonds payable would be categorized as Level 2 in the fair value hierarchy.

June 30, 2013 and 2012

NOTE I—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. As described in Note H, the interest rate swap agreement was assumed by another financial institution in October 2009 in conjunction with the assumption of the letter of credit securing the Fairfax County Economic Development Authority bonds, which adjusted the interest rate to 4.345%. With the refinancing of the Fairfax County Economic Development Authority bonds, 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, 2013 and 2012, the notional amount on the swap was \$20,818,750 and \$15,800,000 and on the cap was \$10,875,000 and \$11,075,000, respectively.

The fair value of the interest rate swap at June 30, 2013 and 2012 totaled a derivative liability of \$2,051,738 and \$3,104,925, respectively. 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, 2013 no collateral balance was required, and at June 30, 2012, \$200,000 was held as collateral by a third party. The fair value of the interest rate cap totaled a derivative asset of \$82,817 at June 30, 2013. There was no related derivative asset at June 30, 2012. The net change in value has been recorded as gains or losses on derivatives in the consolidated statement of activities. Additionally, all assets or liabilities related to the interest rate swap and interest rate cap convert to zero at contract maturity.

GMUF Mason Administration, LLC Interest Rate Swaps

In March 2010, as part of the GMUF Mason Administration, LLC Project, the Foundation entered into a forward floating-to-fixed interest rate swap to effectively fix the interest rate on the \$32,100,000 tax-exempt notional amount and a second forward floating-to-fixed interest rate swap to effectively fix the interest rate on the \$1,900,000 taxable notional amount with a commercial bank. The swap transactions became effective on June 1, 2011. The termination date is June 1, 2036 for the tax-exempt notional amount and December 1, 2013 for the taxable notional amount. The tax-exempt swap has an option to terminate at no risk at the end of the 13th year. The fair value of the interest rate swaps were \$3,824,980 and \$6,020,384 for June 30, 2013 and 2012, respectively. The net change in value has been recorded as gains or losses on derivatives in the consolidated statement of activities. The combined interest rate swaps have 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, 2013 and 2012, \$500,000 and \$1,200,000 was held as collateral by a third party.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2013 and 2012

NOTE J—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 does receive 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 \$750,000.

NOTE K—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. Activity related to these organizations was as follows for the years ended June 30, 2013 and 2012:

	2013	2012
Amounts held for others, beginning of year	\$ 8,949,641	\$ 8,456,844
Other income	1,856,289	860,038
Conferences	168,908	77,896
Advertising	591,703	619,558
Royalties	196,441	213,037
Membership fees	267,172	221,448
Credit card sales	1,712,748	1,388,735
University contributions	1,235,062	1,175,762
Investment earnings (expense)	391,238	(112,541)
Endowment contribution expense	(96,916)	(42,661)
Scholarships	(138,007)	(41,435)
Program support	(5,451,118)	(3,867,040)
Amounts held for others, end of year	\$ 9,683,161	\$ 8,949,641

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2013 and 2012

NOTE L—LEASES

Rental Income on Operating Leases

The Foundation leases certain properties with a cost of \$106,317,135 and \$111,454,981 and accumulated depreciation of \$26,204,485 and \$26,579,950 as of June 30, 2013 and 2012, respectively, under operating lease agreements. A portion of the above properties, with a cost of \$11,134,409 and \$16,376,291 and accumulated depreciation of \$4,577,896 and \$7,717,540 as of June 30, 2013 and 2012, respectively, is subject to annual state appropriation. GMUF Arlington Campus, LLC property has one lease for university parking rental which is also subject to state appropriation. Effective July 1, 2013, the Foundation revised its Arlington lease agreement with the main office tenant reducing their occupancy to two floors and extending the lease to June 30, 2026. At the same time, the Foundation entered into a lease with the University, effective July 1, 2013, to occupy a portion of this building with a lease term ending June 30, 2026. The future minimum rentals below reflect the new lease terms.

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

2014	\$ 8,993,618
2015	8,754,455
2016	8,950,478
2017	9,007,514
2018	9,100,831
Thereafter	79,371,732
Total	<u>\$ 124,178,628</u>

During the years ended June 30, 2013 and 2012, rental income earned by the Foundation totaled \$12,488,155 and \$12,071,666, of which \$577,110 and \$815,429 was paid by the University for 2013 and 2012, respectively. Additionally, \$3,351,684 and \$2,735,809, was paid by University students for 2013 and 2012, respectively while \$22,020 was paid for both years by Capitol Connection, a separate 501(c)(3) organization associated with the University.

Total rental income for GMUF Arlington Campus, LLC was \$8,537,341 and \$8,498,408 for the years ended June 30, 2013 and 2012, respectively.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2013 and 2012

NOTE L—LEASES—Continued

Direct Financing Leases

During fiscal year 2012, the Foundation met the lessor's criteria to account for the GMUF Mason Administration, LLC building lease as a direct financing lease in accordance with GAAP. During fiscal year 2013, the Foundation substantially completed the GMUF Prince William Housing building and met the lessor's criteria to account for the building lease as a direct financing lease.

Under the terms of both 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 for the GMUF Mason Administration, LLC building lease are based on a total loan borrowing of \$34,000,000 over a lease life of 25 years with the final payment in 2036. The future minimum rentals for the GMUF Prince William Housing, LLC building lease are based on a total loan borrowing of \$15,625,000 over a lease life of 30 years with the final payment in 2042. Both of these direct financing leases are with the University and the rental streams are subject to annual state appropriation.

The components of the net investment in the direct financing leases as of June 30, 2013 and 2012 are as follows:

	2013	2012
Total minimum lease payments to be received	\$ 94,682,719	\$ 60,766,888
Less: Unearned income	(48,113,463)	(29,130,205)
Net investment in direct financing lease	\$ 46,569,256	\$ 31,636,683

The future minimum rentals to be received under the non-cancelable direct financing lease are as follows:

2014	\$ 3,471,235
2015	3,503,549
2016	3,539,179
2017	3,563,298
2018	3,578,906
Thereafter	77,026,552
Total	\$ 94,682,719

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2013 and 2012

NOTE M—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. The following is a summary of net assets released from donor restrictions during the years ended June 30, 2013 and 2012:

	2013	2012
Academic program support	\$ 32,723,374	\$ 26,536,596
Scholarships	1,721,285	1,809,192
Eminent scholars	901,426	440,000
Time restricted expired for general support	—	5,420,000
Total	\$ 35,346,085	\$ 34,205,788

NOTE N—NET ASSETS AVAILABLE

Restricted net assets consisted of the following at June 30, 2013:

	Temporarily Restricted	Permanently Restricted
Administrative support	\$ 9,488,796	\$ 21,118
Academic support	21,694,291	4,793,796
Athletics	651,734	97,606
Community/public service	3,435,744	3,620,854
Eminent scholars	2,805,858	20,654,600
Eminent scholars – perpetual trust	—	9,127,925
Facilities	8,659,913	59,592
Library	602,460	407,838
Research	10,486,891	3,520,506
Student financial aid	6,152,238	28,303,813
Student financial aid – perpetual trust	—	1,675,369
Time restricted without purpose restriction	30,590	241,334
	\$ 64,008,515	\$ 72,524,351

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2013 and 2012

NOTE N—NET ASSETS AVAILABLE—Continued

Restricted net assets consisted of the following at June 30, 2012:

	Temporarily Restricted	Permanently Restricted
Administrative support	\$ 9,485,623	\$ 24,118
Academic support	20,799,381	4,548,622
Athletics	613,490	76,239
Community/public service	3,858,615	3,619,211
Eminent scholars	2,473,562	20,053,774
Eminent scholars – perpetual trust	—	8,653,543
Facilities	10,753,951	65,959
Library	510,086	329,162
Research	6,249,373	3,450,286
Student financial aid	5,754,303	27,414,625
Student financial aid – perpetual trust	—	1,606,687
Time restricted without purpose restriction	39,712	273,190
	<u>\$ 60,538,096</u>	<u>\$ 70,115,416</u>

NOTE O—RELATED PARTY TRANSACTIONS

The Foundation outsources its payroll processing to the University and reimburses the University for payroll costs incurred. As of June 30, 2013 and 2012, the Foundation had salaries payable to the University totaling \$67,313 and \$124,715, respectively.

The Foundation remits to the University the excess cash flow of the Foundation housing project one fiscal year after the fact. As of June 30, 2013 and 2012, the Foundation had \$667,189 and \$1,239,708 payable to the University, respectively.

The Foundation receives donated space located on the University property in Fairfax, Virginia from the University. In fiscal years 2013 and 2012, \$93,408 and \$125,866, respectively, is reflected in the consolidated statement of activities as unrestricted contribution revenue and administrative expenses. In addition, the Foundation leases certain properties at rates substantially below market to the University and earns rental income on leases.

June 30, 2013 and 2012

NOTE P—CONCENTRATIONS OF CREDIT RISK

The Foundation maintains its cash in several commercial banks in Virginia that are in excess of the Federal Deposit Insurance Corporation (FDIC) maximum of \$250,000 per depositor per institution. At June 30, 2013, the Foundation had approximately \$15,900,000 of uninsured balances in checking and savings 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 \$3,634,793 at June 30, 2013. Historically, losses from federal government securities have not occurred.

In fiscal year 2013, 13 donors collectively contributed approximately 48 percent of the total contributions, and approximately 75 percent of total contributions receivable were due from five contributors.

NOTE Q—ENDOWMENT

The Foundation's endowment consists of approximately 370 individual funds established for a variety of purposes. Its endowment includes 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:

- 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 Consolidated Financial Statements—Continued

June 30, 2013 and 2012

NOTE Q—ENDOWMENT—Continued

Endowment Net Asset Composition by Type of Fund as of June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (2,958,263)	\$ 768,803	\$ 61,386,630	\$ 59,197,170
Board-designated endowment funds	63,356	—	—	63,356
Total funds	\$ (2,894,907)	\$ 768,803	\$ 61,386,630	\$ 59,260,526

Changes in Endowment Net Assets for the Year Ended June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ (4,466,469)	\$ 401,431	\$ 59,230,007	\$ 55,164,969
Investment return:				
Investment income	863,368	450,613	—	1,313,981
Net depreciation (realized and unrealized)	2,227,032	836,737	—	3,063,769
External management fees	(123,836)	(64,633)	—	(188,469)
Total investment return	2,966,564	1,222,717	—	4,189,281
Contributions	—	—	2,040,650	2,040,650
Appropriation of endowment assets for expenditure	(1,395,002)	(851,964)	—	(2,246,966)
Other changes	—	(3,381)	115,973	112,592
Endowment net assets, end of year	\$ (2,894,907)	\$ 768,803	\$ 61,386,630	\$ 59,260,526

Endowment Net Asset Composition by Type of Fund as of June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (4,525,806)	\$ 401,431	\$ 59,230,007	\$ 55,105,632
Board-designated endowment funds	59,337	—	—	59,337
Total funds	\$ (4,466,469)	\$ 401,431	\$ 59,230,007	\$ 55,164,969

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2013 and 2012

NOTE Q—ENDOWMENT—Continued

Changes in Endowment Net Assets for the Year Ended June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ (1,911,163)	\$ 1,630,042	\$ 51,124,074	\$ 50,842,953
Investment return:				
Investment income	950,536	115,869	—	1,066,405
Net depreciation (realized and unrealized)	(1,688,564)	(619,195)	—	(2,307,759)
External management fees	(139,220)	(16,971)	—	(156,191)
Total investment return	(877,248)	(520,297)	—	(1,397,545)
Contributions	—	—	8,101,921	8,101,921
Appropriation of endowment assets for expenditure	(1,678,058)	(716,005)	—	(2,394,063)
Other changes	—	7,691	4,012	11,703
Endowment net assets, end of year	\$ (4,466,469)	\$ 401,431	\$ 59,230,007	\$ 55,164,969

Permanently Restricted Net Assets

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA

Total endowment funds classified as permanently restricted net assets

	2013	2012
	\$ 61,386,630	\$ 59,230,007
	\$ 61,386,630	\$ 59,230,007

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

Without purpose restrictions

Academic support

Athletics

Community/public service

Eminent scholars

Library

Research

Student financial aid

	2013	2012
	\$ 93	\$ 55
	11,383	643
	10,177	5,873
	40,449	16,760
	504,769	338,490
	2,667	—
	2,431	382
	196,834	39,228

Total endowment funds classified as temporarily restricted net assets

	\$ 768,803	\$ 401,431
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George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2013 and 2012

NOTE Q—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, 2013 and 2012, \$2,958,263 and \$4,525,806, respectively, of such deficiencies are reported in unrestricted net assets.

Permanently Restricted Net Assets

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

	2013	2012
Permanently Restricted Net Assets, end of year	\$ 72,524,351	\$ 70,115,416
Beneficial interest in perpetual trusts	(10,803,294)	(10,260,229)
Charitable remainder trusts and charitable gift annuities	(334,427)	(625,180)
Permanently Restricted Endowments, end of year	\$ 61,386,630	\$ 59,230,007

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 of approximately 5.75 percent annually, 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 Consolidated Financial Statements—Continued

June 30, 2013 and 2012

NOTE Q—ENDOWMENT—Continued

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution each year 5.75 percent of its endowment fund's average fair value over the prior 12 quarters. In establishing this policy, the Foundation considered 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 R—COMMITMENTS AND CONTINGENCIES

George Mason University was selected by the U.S. Department of Education, Office of Innovation and Improvement to receive a grant of \$28,455,346 for a Virginia Initiative for Science Teaching and Achievement program (VISTA). As a condition of receipt, the University had to demonstrate a commitment of a 20% match from the private sector of \$5,691,070. The University Development and Alumni Affairs Department will solicit the required matching funds specifically for the VISTA program over the five year grant period. The Foundation, to ensure the University's eligibility for the award, has agreed to fulfill the commitment should there exist a shortfall in the University Development's fundraising efforts. Required matching funds are due each year in proportion to the expenditures made during the grant period. The grant year ends on September 30 and the report is due by the following November 30. As of September 30, 2013 and 2012 the matching funds shortfall is \$358,994 and \$16,000. All grant year reports have been and will be filed timely.

NOTE S—SUBSEQUENT EVENTS

The Foundation evaluated subsequent events through November 13, 2013, which is the date the financial statements were available to be issued. The Foundation is not aware of any subsequent events which would require recognition or disclosure in the consolidated financial statements.