

**Consolidated Financial Statements and Report of  
Independent Certified Public Accountants**

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

**June 30, 2008 with Summarized Comparative  
Information for June 30, 2007**

# George Mason University Foundation, Inc. and Subsidiary

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## Report of Independent Certified Public Accountants

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

We have audited the accompanying consolidated statement of financial position of the George Mason University Foundation, Inc and Subsidiary (the Foundation) as of June 30, 2008, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of the Foundation as of and for the year ended June 30, 2007, were audited by other auditors. Those auditors expressed an unqualified opinion on those consolidated financial statements in their report dated October 29, 2007.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financing reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidating financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2008 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the George Mason University Foundation, Inc. and Subsidiary, as of June 30, 2008 and the changes in net assets and its cash flow for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

McLean, Virginia  
October 1, 2008

*Grant Thornton LLP*

# George Mason University Foundation, Inc. and Subsidiary

## Consolidated Statement of Financial Position

	GMU Foundation, Inc.	GMUF Arlington Campus, LLC	June 30, 2008	June 30, 2007
<b>Assets</b>				
Cash and cash equivalents	\$ 2,241,139	\$ 483,288	\$ 2,724,427	\$ 3,275,984
Investments	96,142,068	—	96,142,068	95,856,195
Investment income receivable	350,369	—	350,369	426,585
Contributions receivable, net	16,031,589	—	16,031,589	11,631,798
Inter-entity receivable	125,000	(125,000)	—	—
Beneficial interest in perpetual trusts	11,153,877	—	11,153,877	11,924,524
Real estate, net	37,993,059	64,056,963	102,050,022	104,812,837
Leasing commissions, net	—	2,914,785	2,914,785	3,242,555
Furniture and equipment, net	561,782	11,551	573,333	399,220
Art and antiques	572,567	—	572,567	572,567
Deferred loan costs, net	446,950	329,447	776,397	838,329
Annuity benefit contract	937,766	—	937,766	908,284
Derivative asset	21,824	—	21,824	2,476
Prepays	36,044	25,701	61,745	90,586
Other assets	27,297	677,319	704,616	150,674
<b>Total Assets</b>	<b>\$ 166,641,331</b>	<b>\$ 68,374,054</b>	<b>\$ 235,015,385</b>	<b>\$ 234,132,614</b>
<b>Liabilities and Net Assets</b>				
<b>Liabilities</b>				
Accounts payable and accrued expenses	2,914,085	933,627	3,847,712	2,594,736
Unearned rent	768,506	14,436	782,942	57,176
Long-term debt	31,095,000	69,700,000	100,795,000	101,870,000
Derivative obligations	952,910	—	952,910	222,012
Trust liabilities	1,842,118	—	1,842,118	2,033,975
Accrued annuity benefit	937,766	—	937,766	908,284
Other liabilities	52,814	29,312	82,126	22,119
Amounts held for others	5,718,276	—	5,718,276	2,953,071
<b>Total Liabilities</b>	<b>44,281,475</b>	<b>70,677,375</b>	<b>114,958,850</b>	<b>110,661,373</b>
<b>Net Assets</b>				
Unrestricted	3,974,996	—	3,974,996	5,337,703
Temporarily restricted	60,864,567	—	60,864,567	63,466,069
Permanently restricted	57,520,293	—	57,520,293	55,192,515
GMUF Arlington Campus, LLC	—	(2,303,321)	(2,303,321)	(525,046)
<b>Total Net Assets</b>	<b>122,359,856</b>	<b>(2,303,321)</b>	<b>120,056,535</b>	<b>123,471,241</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 166,641,331</b>	<b>\$ 68,374,054</b>	<b>\$ 235,015,385</b>	<b>\$ 234,132,614</b>

The accompanying notes are an integral part of these statements.

George Mason University Foundation, Inc. and Subsidiary

Consolidated Statement of Activities

For the year ended June 30, 2008

	GMU Foundation, Inc.			GMUF Arlington Campus, LLC	Year Ended June 30, 2008	Year Ended June 30, 2007
	Unrestricted	Temporarily Restricted	Permanently Restricted			
<b>Support and Revenue</b>						
Contributions	\$ 259,655	\$ 19,454,211	\$ 3,375,275	\$ —	\$ 23,089,141	\$ 21,134,359
Income from perpetual trusts	18,538	365,501	—	—	384,039	550,365
Unrealized (loss) gain	(502,871)	(4,739,505)	—	—	(5,242,376)	7,037,376
Interest and dividends	1,350,582	1,201,757	—	9,060	2,561,399	2,503,555
Realized gains	41,504	508,100	—	—	549,604	1,996,226
Change in value of perpetual trusts	—	—	(770,647)	—	(770,647)	490,792
Change in split interest agreements	—	(26,912)	(360,948)	—	(387,860)	479,230
Management fees	925,159	(1,176,340)	—	—	(251,181)	(200,868)
Service fees	483,750	—	—	—	483,750	523,103
Rental income	4,245,811	—	—	7,859,479	12,105,290	10,824,888
Realized loss on derivative	—	—	—	—	—	(984,456)
Trust income	26,420	—	—	—	26,420	26,420
Unrealized loss on derivative	(711,551)	—	—	—	(711,551)	(214,847)
Miscellaneous income	—	—	—	20,632	20,632	12,602
<b>Total support and revenue</b>	<b>6,136,997</b>	<b>15,586,812</b>	<b>2,243,680</b>	<b>7,889,171</b>	<b>31,856,660</b>	<b>44,178,745</b>
<b>Operating Expenses</b>						
Administrative						
Accounting and legal	218,438	—	—	42,875	261,313	158,790
Administrative	1,843,236	—	—	1,050,859	2,894,095	1,975,052
Depreciation and amortization	1,462,434	—	—	2,312,536	3,774,970	3,308,597
Insurance	66,648	—	—	110,196	176,844	179,264
Interest expense	1,279,560	—	—	4,661,507	5,941,067	5,759,519
Utilities and other	1,206,805	—	—	1,489,473	2,696,278	2,402,202
	6,077,121	—	—	9,667,446	15,744,567	13,783,424
<b>Fundraising</b>	<b>287,924</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>287,924</b>	<b>402,116</b>
<b>Total Operating Expenses</b>	<b>6,365,045</b>	<b>—</b>	<b>—</b>	<b>9,667,446</b>	<b>16,032,491</b>	<b>14,185,540</b>
<b>Operating (Deficit) Surplus</b>	<b>(228,048)</b>	<b>15,586,812</b>	<b>2,243,680</b>	<b>(1,778,275)</b>	<b>15,824,169</b>	<b>29,993,205</b>
<b>Reclassification Per Donor Request</b>	<b>(25,375)</b>	<b>(58,723)</b>	<b>84,098</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Net Assets Released from Restriction</b>	<b>18,129,591</b>	<b>(18,129,591)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Support and Revenue, Net of Operating Expenses</b>	<b>17,876,168</b>	<b>(2,601,502)</b>	<b>2,327,778</b>	<b>(1,778,275)</b>	<b>15,824,169</b>	<b>29,993,205</b>
<b>Program Service Benefits for George Mason University</b>						
Scholarships	1,521,749	—	—	—	1,521,749	1,106,243
Academic program support	15,611,265	—	—	—	15,611,265	12,694,766
Eminent scholars	996,945	—	—	—	996,945	1,010,318
Annuity benefit contributions	97,408	—	—	—	97,408	93,866
University initiatives	188,169	—	—	—	188,169	83,727
Administrative support	607,017	—	—	—	607,017	541,801
Federal relations	181,392	—	—	—	181,392	181,516
University support	34,930	—	—	—	34,930	53,145
<b>Total Program Service Benefits</b>	<b>19,238,875</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>19,238,875</b>	<b>15,765,382</b>
<b>Change in Net Assets</b>	<b>(1,362,707)</b>	<b>(2,601,502)</b>	<b>2,327,778</b>	<b>(1,778,275)</b>	<b>(3,414,706)</b>	<b>14,227,823</b>
<b>Net Assets, beginning of year</b>	<b>5,337,703</b>	<b>63,466,069</b>	<b>55,192,515</b>	<b>(525,046)</b>	<b>123,471,241</b>	<b>109,243,418</b>
<b>Net Assets, end of year</b>	<b>\$ 3,974,996</b>	<b>\$ 60,864,567</b>	<b>\$ 57,520,293</b>	<b>\$ (2,303,321)</b>	<b>\$ 120,056,535</b>	<b>\$ 123,471,241</b>

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 June 30, 2008</i>	2008	2007
<b>Cash Flows from Operating Activities</b>		
Changes in net assets	\$ (3,414,706)	\$ 14,227,823
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,855,539	3,308,597
Discount on contributions receivable	(260,945)	26,070
Unrealized investment loss (gain)	5,557,480	(6,977,348)
Realized investment gains	(587,215)	(2,570,628)
Change in value of perpetual trusts	770,647	(490,792)
Stock contributions	(338,052)	(432,596)
In-kind contributions, real estate	(67,404)	—
Contributions restricted for long-term purposes	(3,375,275)	(2,042,331)
Unrealized loss on derivative	711,551	2,507,303
Change in assets and liabilities:		
Pledges receivable, net	(4,650,820)	(1,298,289)
Investment income receivable	76,216	(156,496)
Leasing commissions	(31,124)	(3,596,536)
Other assets	(525,101)	275,367
Accounts payable and accrued expenses	1,335,102	(2,655,023)
Unearned rent	725,766	20,269
Trust liabilities	(191,857)	(200,147)
Other liabilities	60,007	—
Amounts held for others	2,765,205	632,475
<b>Net Cash Provided by Operating Activities</b>	<b>2,415,014</b>	<b>577,718</b>
<b>Cash Flows from Investing Activities</b>		
Proceeds from sale of investments	33,636,111	25,026,643
Purchases of investments	(38,441,985)	(26,071,521)
Purchases of property and equipment	(460,972)	(4,665,915)
<b>Net Cash Used in Investing Activities</b>	<b>(5,266,846)</b>	<b>(5,710,793)</b>
<b>Cash Flows from Financing Activities</b>		
Proceeds from contributions in permanent endowments	3,375,275	2,042,331
Payments of debt issuance costs	—	(377,182)
Repayments on long-term debt	(1,075,000)	(67,925,000)
<b>Net Cash Provided by (Used In) Financing Activities</b>	<b>2,300,275</b>	<b>(66,259,851)</b>
<b>Decrease in Cash and Cash Equivalents</b>	<b>(551,557)</b>	<b>(777,041)</b>
<b>Cash and Cash Equivalents, beginning of year</b>	<b>3,275,984</b>	<b>4,053,025</b>
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 2,724,427</b>	<b>\$ 3,275,984</b>
<b>Supplemental Disclosure of Cash Flow Activities</b>		
Interest paid and expensed	\$ 5,452,952	\$ 5,332,934

*The accompanying notes are an integral part of these statements.*

# George Mason University Foundation, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

June 30, 2008

### 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 the Foundation and GMUF Arlington Campus, LLC, together (the "Foundation"). The George Mason University Foundation, Inc. owns 100 percent of GMUF Arlington Campus, LLC. 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 and the unrestricted investment earnings of the temporarily and permanently restricted funds. 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.

#### *Reclassifications*

Certain 2007 amounts included in the 2008 consolidated financial statements have been reclassified to conform to the current year presentation.

# George Mason University Foundation, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

June 30, 2008

### 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 a three year rolling average of each endowment's fair value, net of investment advisory fees. Endowment assets are invested in bonds and market neutral funds within a range of not less than 15 percent nor more than 60 percent, equities within a range of not less than 23 percent nor more than 67 percent, invested in alternative investments and private equity within a range of not less than 5 percent nor more than 31 percent and invested in real estate investment trusts within a range of 3 percent to 10 percent.

The Foundation's endowment policy allows for investments of up to 5 percent in commodities and as of June 30, 2008 no assets have been invested in this asset class.

#### *Estimates*

The preparation of consolidated financial statements in conformity with generally accepted accounting principles 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, pledges receivable, accounts payable, long-term debt, derivative instruments, trust liabilities and amounts held for others, approximate fair value.

#### *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.

#### *Derivative Instruments*

SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that entities report all derivatives as either assets or liabilities in the consolidated statement of financial position and measure those instruments at fair value. The change in the derivative's value is reported as an unrealized gain (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 primarily include overnight repurchase agreements. Cash and cash equivalents consist of cash and money market funds except for money market funds held for investment purposes.



# George Mason University Foundation, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

June 30, 2008

### NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

#### *Investments*

Investments are stated at fair value. The fair value of all debt and equity securities with a readily determinable market value 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. 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, 2008.

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

#### *Revenue Recognition*

In accordance with Statement of Financial Accounting Standards No. 13, *Accounting for Leases*, base rent income relating to the 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 accrued rent receivable. The impact of the straight-line adjustment increased rental income by \$245,136.

#### *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 value of all debt and equity securities with a readily determinable market value are based published market prices. The land, which is not readily marketable, is carried at estimated fair value as provided by the trustee. The Foundation reviews and evaluates the values provided by the trustee and agrees with the valuation methods and assumptions used. This estimated fair value may differ significantly from the value that would have been used had a ready market for the land existed.

#### *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.

# George Mason University Foundation, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

June 30, 2008

### NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

#### *Depreciation*

Property and equipment having a cost in excess of \$2,000 are capitalized at cost. Donated assets 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, 2008, totaled \$358,894 and is included in the consolidated statement of activities.

#### *Deferred Loan Costs*

The Foundation capitalized costs related 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 related to the GMUF Arlington Campus, LLC project. The Foundation is amortizing these costs over the life of the bonds and notes payable, and amortization expense for the year ended June 30, 2008, totaled \$61,931.

### NOTE C—INVESTMENTS

The fair value of investments at June 30, 2008, is summarized as follows:

Cash and money market funds	\$ 7,815,819
Mutual funds:	
Equity funds	14,946,618
Bond funds	2,166
U.S. government and agency obligations	1,412,810
Corporate stocks	20,303,001
Corporate bonds	11,105,419
Alternative investments	38,459,863
Real estate and other	2,096,372
Total investments	<u>\$ 96,142,068</u>

# George Mason University Foundation, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

June 30, 2008

### NOTE C—INVESTMENTS—Continued

Investment earnings are summarized as follows for the year ended June 30, 2008:

Interest and dividends	\$ 2,561,399
Realized gains	549,604
External management fees	(251,181)
Unrealized loss	(5,242,376)
	<hr/>
	\$ (2,382,554)
Realized/unrealized gains (losses) included with change in split interest agreements:	
Interest and dividends	\$ 99,853
Realized gains	37,611
External management fees	(8,294)
Unrealized loss	(315,104)
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	(185,934)
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Net investment return	\$ (2,568,488)

### NOTE D—CONTRIBUTIONS RECEIVABLE

Contributions receivable as of June 30, 2008, are as follows:

Due in less than one year	\$ 4,674,811
Due in one to five years	5,930,059
Due in more than five years	7,955,127
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	18,559,997
Less discount present value	(2,528,408)
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Total	\$ 16,031,589

Discount rates range from 1.63 percent to 5.12 percent.

As of June 30, 2008, the Foundation received \$3,290,238 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 Subsidiary

## Notes to Consolidated Financial Statements

June 30, 2008

### NOTE E—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, 2008, totaled approximately \$9.6 million. Income from the trust totaled \$312,305 for the year ended June 30, 2008, and is included in unrestricted and temporarily restricted support and revenue. The change in value of the trust decreased \$508,857 for the year ended June 30, 2008, and is 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, 2008, totaled approximately \$1.6 million. Income from the trust totaled \$71,733 for the year ended June 30, 2008, and is included in temporarily restricted support and revenue. The change in value from the trust decreased \$261,790 for the year ended June 30, 2008, and is included in permanently restricted support and revenue.

The estimated fair value of the Foundation's portion of these trusts at June 30, 2008, is summarized as follows:

Cash and money market funds	\$ 672,717
Mutual funds:	
Equity funds	2,580,319
Bond funds	45,482
US government and agency obligations	131,051
Corporate stocks	3,359,887
Proprietary funds	4,364,421
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Total	\$ 11,153,877

### NOTE F—PROPERTY AND EQUIPMENT

The following comprises property and equipment at June 30, 2008:

Land	\$ 19,520,986
Buildings	92,332,695
Building improvements	4,195,814
Furniture and equipment	1,024,041
	<hr/>
	117,073,536
Accumulated depreciation and amortization	(14,450,181)
	<hr/>
Net property and equipment	\$ 102,623,355

# George Mason University Foundation, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

June 30, 2008

### NOTE G—LONG-TERM DEBT

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. Interest is accrued and paid monthly, the bonds mature annually on February 1 and the final maturity is on February 1, 2029. 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 H).

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 at 12% per annum and expiring on October 15, 2008. As of June 30, 2008, no draws have been taken against the letter of credit; however, due to principal payments on the bonds, the letter of credit amount as of June 30, 2008, was reduced to \$31,509,600. As of June 30, 2008, the principal balance outstanding on the bonds was \$31,095,000.

Beginning on June 30, 2005, restrictive covenants related to the bond went into effect, including unrestricted liquidity of not less than \$6,000,000 and a property debt service coverage ratio of not less than 1.20 to 1. As of June 30, 2008, the Foundation was in compliance with the required restrictive covenants.

Interest incurred on the bonds as well as the related swap agreement during fiscal year 2008 totaled \$1,268,948.

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. There are two notes ("A note" and "B note") under the deed of trust with the A note for \$64,000,000 at a fixed interest rate of 6.24% per annum, two years interest only, with 30 year amortization thereafter, and the B note for \$4,500,000 at a fixed interest rate of 10.50% per annum, two years interest only, with a 30 year amortization thereafter. The resulting blended rate for the two notes is 6.52%.

On February 16, 2007, GMUF Arlington Campus, LLC secured an additional seven-year \$1,300,000 collateral loan, secured by real property with a financial institution. The note has a fixed interest rate of 6.3%. As of June 30, 2008, the principal balance outstanding on the note was \$1,200,000.

In fiscal year 2008, interest expense on all GMUF Arlington Campus, LLC loans totaled \$4,621,166.

The following are maturities of the long-term debt for the next five years ending June 30:

2009	\$	1,354,480
2010		1,609,922
2011		1,685,004
2012		1,776,360
2013		1,869,811
Thereafter		92,499,423
	\$	<u>100,795,000</u>

# George Mason University Foundation, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

June 30, 2008

### NOTE H—DERIVATIVE INSTRUMENTS

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 4.56%, 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%. At June 30, 2008, the notational amount on the swap was \$19,475,000 and on the cap was \$11,750,000. 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.

The fair value of the interest rate swap at June 30, 2008, totaled a derivative liability of \$809,341 and the interest rate cap at June 30, 2008, totaled a derivative asset of \$21,824. The net change in value has been recorded as an unrealized loss on derivative 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 in 2024.

On September 24, 2004, GMUF Arlington Campus, LLC entered into a forward interest rate swap agreement with a financial institution to lock the interest rate at 6.96% for years three through seven related to their \$61 million construction/mini-permanent loan, (See Note G). The interest rate swap was used as a cash flow hedge to synthetically fix the rate of the loan and to eliminate changes in the market interest rates. On August 18, 2006, the forward interest rate swap was unwound and settled for \$1,058,000, resulting in a realized loss on derivative of \$984,456 in the consolidated statement of activities as of June 30, 2007.

In October 2006, the Foundation entered into an interest rate swap agreement with a financial institution against the floating rate bonds in the notional amount of \$25,775,000 on a 23-year amortization schedule. At June 30, 2008, the notational amount on the swap was \$25,775,000. The swap was used as a cash flow hedge to stabilize the interest rate for the last five years of the bond issue related to the student housing project and expects to create positive cash flows over the remaining bond life. At closing on October 19, 2006, the Foundation received \$250,000 up front cash. Under the swap agreement, beginning in February 2007 the Foundation will received the difference between the Bond Market Association (BMA) index and 68.48% of the 5 year LIBOR index from the swap provider. If the BMA index is higher than 68.48% of the 5 year LIBOR index, the Foundation paid the difference to the swap provider. In fiscal year 2008, the swap provider paid \$10,978 to the Foundation which is included in interest expense on the consolidated statement of activities.

The fair value of the interest rate swap at June 30, 2008, totaled a derivative liability of \$143,569. The net change in value has been recorded as an unrealized gain on derivative 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 in 2029.

# George Mason University Foundation, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

June 30, 2008

### NOTE I—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 J—AMOUNTS HELD FOR OTHERS

<b>Balance, June 30, 2007</b>	<b>\$ 2,953,071</b>
Other income	620,737
Conferences	216,144
Advertising	327,110
Membership fees	254,437
Credit card sales	932,469
University contributions	3,325,872
Investment earnings	(212,421)
Endowment contribution expense	(41,362)
Scholarships	(22,220)
Program support	(2,635,561)
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<b>Balance, June 30, 2008</b>	<b>\$ 5,718,276</b>

### NOTE K—RENTAL INCOME

The Foundation leases certain properties with a cost of \$114,211,115 and accumulated depreciation of \$13,983,662 as of June 30, 2008, under operating lease agreements. A portion of the above property, with a cost of \$19,291,194 and accumulated depreciation of \$6,474,042, is subject to annual state appropriation, (See Note N). GMUF Arlington Campus, LLC property has one lease for university parking rental which is also subject to state appropriation.

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

2009	\$ 8,439,143
2010	8,458,248
2011	8,455,875
2012	7,031,398
2013	7,048,281
Thereafter	22,039,784
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Total	\$ 61,472,729

# George Mason University Foundation, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

June 30, 2008

### NOTE K—RENTAL INCOME—Continued

During the year ended June 30, 2008, rental income earned by the Foundation totaled \$12,105,290, of which \$1,453,627 was (or will be) paid by the University, \$3,118,296 was paid by University students and \$22,020 was paid by Capitol Connection, a separate 501(c)(3) organization associated with the University.

GMUF Arlington Campus, LLC rental income through June 30, 2008, was \$7,859,479 and is comprised of the following:

Office space	\$ 6,149,072
Operating recoveries	341,108
Parking	714,774
Retail space	605,618
Storage	48,907
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Total rental income	\$ 7,859,479

### NOTE L—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 year ended June 30, 2008:

Academic program support	\$ 15,610,897
Scholarships	1,521,749
Eminent scholars	996,945
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Total	\$ 18,129,591



# George Mason University Foundation, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

June 30, 2008

### NOTE M—NET ASSETS AVAILABLE

Restricted net assets consisted of the following at June 30, 2008:

	Temporarily Restricted	Permanently Restricted
Administrative support	\$ 705,444	\$ 7,973
Academic support	28,210,441	3,903,202
Athletics	317,202	30,931
Community/public service	4,187,543	4,520,838
Eminent scholars	5,964,307	17,334,563
Eminent scholars – perpetual trust	—	9,564,916
Facilities	7,781,883	43,327
Library	420,283	173,755
Research	5,270,269	2,116,204
Student Financial Aid	6,677,510	18,087,535
Student Financial Aid – perpetual trust	—	1,588,961
Time restricted	1,329,685	148,088
	<u>\$ 60,864,567</u>	<u>\$ 57,520,293</u>

### NOTE N—RELATED PARTY TRANSACTIONS

The Foundation outsources its payroll processing to the University and reimburses the University for payroll costs incurred. As of June 30, 2008, the Foundation had salaries payable to the University totaling \$488,555.

The Foundation receives donated space located on the University property in Fairfax, Virginia from the University. In fiscal year 2008, \$87,976 is reflected in the consolidated statement of activities as unrestricted contribution revenue and administrative expenses. In addition, the Foundation leases property at rates substantially below market to the University and earns rental income on leases, (See Note K).

## George Mason University Foundation, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

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June 30, 2008

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#### NOTE O—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 \$100,000 per institution. At June 30, 2008, the Foundation had approximately \$1,186,202 in checking and savings accounts and an additional \$3,829,613 in certificates of deposit, for a combined uninsured balance of \$5,015,816 at six institutions.

Cash equivalents are primarily composed of cash that is swept into overnight repurchases 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 approximately \$1,334,200 at June 30, 2008. Historically, losses from federal government securities have not occurred.

In fiscal year 2008, two donors contributed approximately 12 and 10 percent of the total contributions, respectively, and approximately 38, 15 and 11 percent of total pledges receivable, respectively, were due from three contributors.

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#### NOTE P—SPLIT INTEREST AGREEMENTS

##### *Charitable Remainder Trusts*

The Foundation has charitable remainder trusts, which have been established and funded by various donors. Trust distributions are received by the Foundation over the trusts' terms. Upon termination of the trusts, the Foundation will receive the remaining trust assets. Trust liabilities are recorded at the net present value of the estimated future annuity payments. Life expectancies range from 2 to 24 years and discount rates range from 4.2 to 8.0 percent. The market value of the assets at June 30, 2008 was \$3,399,214. Trust liabilities related to charitable remainder trusts at June 30, 2008 were \$1,842,118. During fiscal year 2008, the Foundation received no new charitable trusts.

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#### NOTE Q—SUBSEQUENT EVENTS

In August 2008, the FASB issued FASB Staff Position (FSP) 117-1, "*Endowments of Not-For-Profit Organizations: Net Asset Classifications of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds.*" FSP 117-1 is effective for fiscal years ending after December 15, 2008. FSP 117-1 addresses the net asset classification of donor-restricted endowment funds for organizations subject to an enacted version of the 2006 Uniform Prudent Management of Institutional Funds Act (UPMIFA). In addition, the FSP requires new disclosures about an organization's donor-restricted and board-designated endowment funds. The Foundation is in the process of reviewing the provisions of FSP 117-1 to determine the impact on its financial statements.