

Consolidated Financial Statements and Report of
Independent Certified Public Accountants

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

June 30, 2010 with Summarized Comparative
Information for June 30, 2009

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 statement of financial position of the George Mason University Foundation, Inc and Subsidiaries (the Foundation) as of June 30, 2010, 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 prior-year summarized comparative information has been derived from the Foundation's 2009 consolidated financial statements and, in our report dated September 22, 2009 we expressed an unqualified opinion on those consolidated financial statements.

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 financial 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 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, 2010 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
November 12, 2010

George Mason University Foundation, Inc. and Subsidiary

Consolidated Statement of Financial Position

June 30, 2010 (with comparative totals as of June 30, 2009)

	GMU Foundation, Inc.	GMUF Arlington Campus, LLC	GMUF Mason Administration, LLC	June 30, 2010	June 30, 2009
Assets					
Cash and cash equivalents	\$ 12,121,618	\$ 56,807	\$ 745,308	\$ 12,923,733	\$ 7,344,863
Restricted cash and cash equivalents	—	730,706	—	730,706	417,195
Inter-entity receivable	125,100	(125,000)	(100)	—	—
Pledges receivable, net	33,752,463	—	—	33,752,463	16,842,772
Investment income receivable	184,446	—	—	184,446	250,901
Derivative asset	—	—	—	—	49,451
Other assets	114,689	156,285	—	270,974	422,360
Prepays	50,911	16,765	—	67,676	53,726
Leasing commissions	—	2,163,688	—	2,163,688	2,559,608
Beneficial interest in perpetual trusts	9,160,709	—	—	9,160,709	8,688,586
Annuity benefit contract	992,387	—	—	992,387	963,930
Deferred loan costs, net	403,769	248,766	203,612	856,147	714,466
Investments	80,862,560	—	—	80,862,560	74,986,764
Property and equipment, net	34,358,283	60,482,859	5,876,508	100,717,650	99,491,732
Art and antiques	572,567	—	—	572,567	572,567
Total Assets	\$ 172,699,502	\$ 63,730,876	\$ 6,825,328	\$ 243,255,706	\$ 213,358,921
Liabilities and Net Assets					
Liabilities					
Accounts payable and accrued expenses	3,965,456	824,206	926,385	5,716,047	4,845,492
Unearned rent	695,652	17,213	745,208	1,458,073	785,533
Trust liabilities	1,462,812	—	—	1,462,812	1,650,259
Other liabilities	25,000	23,312	—	48,312	80,350
Accrued annuity benefit	992,387	—	—	992,387	963,930
Derivative obligations	2,431,528	—	2,662,606	5,094,134	1,590,250
Long-term debt	29,020,000	67,235,598	5,155,725	101,411,323	98,065,512
Amounts held for others	6,426,837	—	—	6,426,837	5,460,779
Total Liabilities	45,019,672	68,100,329	9,489,924	122,609,925	113,442,105
Net Assets					
Unrestricted	(1,116,249)	—	—	(1,116,249)	(11,334,641)
Temporarily restricted	71,656,181	—	—	71,656,181	58,550,459
Permanently restricted	57,139,898	—	—	57,139,898	55,592,491
GMUF Arlington Campus, LLC	—	(4,369,453)	—	(4,369,453)	(2,889,851)
GMUF Mason Administration, LLC	—	—	(2,664,596)	(2,664,596)	(1,642)
Total Net Assets	127,679,830	(4,369,453)	(2,664,596)	120,645,781	99,916,816
Total Liabilities and Net Assets	\$ 172,699,502	\$ 63,730,876	\$ 6,825,328	\$ 243,255,706	\$ 213,358,921

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, 2010 (with comparative totals for the year ended June 30, 2009)

	GMU Foundation, Inc.			GMUF Arlington Campus, LLC	GMUF Mason Administration, LLC	Year Ended June 30, 2010	Year Ended June 30, 2009
	Unrestricted	Temporarily Restricted	Permanently Restricted				
Support and Revenue							
Contributions	\$ 3,461,121	\$ 41,700,580	\$ 978,018	\$ —	\$ —	\$ 46,139,719	\$ 23,038,833
Income from Perpetual Trusts	7,226	462,436	—	—	—	469,662	635,259
Investment returns, net	9,554,403	(4,322,724)	—	552	—	5,232,231	(14,975,159)
Change in value of perpetual trusts	—	—	472,123	—	—	472,123	(2,465,291)
Change in split interest agreements	—	27,183	89,467	—	—	116,650	(997,457)
Service fees	580,484	—	—	—	—	580,484	483,935
Rental income	4,616,255	—	—	7,842,185	—	12,458,440	12,258,427
Trust income	26,420	—	—	—	—	26,420	26,420
Loss on derivatives	(791,528)	—	—	—	(2,662,606)	(3,454,134)	(609,712)
Miscellaneous income	—	61,530	—	162,041	—	223,571	23,405
Total support and revenue	17,454,381	37,929,005	1,539,608	8,004,778	(2,662,606)	62,265,166	17,508,660
Operating Expenses							
Administrative							
Accounting and legal	55,319	—	—	11,144	348	66,811	232,237
Administrative	1,853,498	—	—	1,294,704	—	3,148,202	3,116,268
Depreciation and amortization	1,520,423	—	—	2,233,012	—	3,753,435	3,544,681
Insurance	57,818	—	—	93,875	—	151,693	173,414
Interest expense	1,089,338	—	—	4,506,148	—	5,595,486	5,603,315
Utilities and other	1,240,543	—	—	1,345,397	—	2,586,040	2,959,619
	5,816,939	—	—	9,484,380	348	15,301,667	15,629,534
Fundraising	223,799	—	—	—	—	223,799	314,583
Total Operating Expenses	6,040,738	—	—	9,484,380	348	15,525,466	15,944,117
Operating Surplus (Deficit)	11,413,643	37,929,005	1,539,608	(1,479,602)	(2,662,954)	46,739,700	1,564,543
Reclassification Per Donor Request	(27,650)	19,851	7,799	—	—	—	—
Net Assets Released from Restriction	24,843,134	(24,843,134)	—	—	—	—	—
Support and Revenue, Net of Operating Expenses	36,229,127	13,105,722	1,547,407	(1,479,602)	(2,662,954)	46,739,700	1,564,543
Program Service Benefits for George Mason University							
Scholarships	1,719,957	—	—	—	—	1,719,957	1,895,429
Academic program support	22,574,914	—	—	—	—	22,574,914	17,752,398
Eminent scholars	573,790	—	—	—	—	573,790	930,674
Annuity benefit contributions	100,929	—	—	—	—	100,929	96,013
University initiatives	152,838	—	—	—	—	152,838	175,169
Administrative support	674,866	—	—	—	—	674,866	644,420
Federal relations	181,756	—	—	—	—	181,756	181,321
University support	31,685	—	—	—	—	31,685	28,838
Total Program Service Benefits	26,010,735	—	—	—	—	26,010,735	21,704,262
Change in Net Assets	10,218,392	13,105,722	1,547,407	(1,479,602)	(2,662,954)	20,728,965	(20,139,719)
Net Assets, beginning of year	(11,334,641)	58,550,459	55,592,491	(2,889,851)	(1,642)	99,916,816	120,056,535
Net Assets, end of year	\$ (1,116,249)	\$ 71,656,181	\$ 57,139,898	\$ (4,369,453)	\$ (2,664,596)	\$ 120,645,781	\$ 99,916,816

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>	2010	2009
Cash Flows from Operating Activities		
Changes in net assets	\$ 20,728,965	\$ (20,139,719)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,825,703	3,616,951
Discount on contributions receivable	482,747	(177,100)
Unrealized investment (gain) loss	(3,929,665)	9,469,298
Realized investment loss	129,129	7,672,163
Change in value of perpetual trusts	(472,123)	2,465,291
Stock contributions	(186,798)	(127,546)
In-kind contributions, real estate	(13,085,225)	—
Contributions restricted for long-term purposes	(978,018)	(2,368,927)
Loss on derivative	3,454,134	609,712
Change in assets and liabilities:		
Restricted cash	(313,511)	(119,286)
Pledges receivable, net	(3,092,438)	(769,068)
Investment income receivable	66,455	99,468
Other assets	151,386	282,256
Prepays	(13,950)	8,019
Accounts payable and accrued expenses	870,555	977,780
Unearned rent	672,540	2,591
Trust liabilities	(187,447)	(191,859)
Other liabilities	(32,038)	(1,776)
Amounts held for others	966,058	(257,497)
Net Cash Provided by Operating Activities	<u>9,056,459</u>	<u>1,050,751</u>
Cash Flows from Investing Activities		
Proceeds from sale of investments	13,418,817	25,630,873
Purchases of investments	(15,307,279)	(21,547,398)
Purchases of property and equipment	(5,808,546)	144,680
Net Cash (Used in) Provided by Investing Activities	<u>(7,697,008)</u>	<u>4,228,155</u>
Cash Flows from Financing Activities		
Proceeds from contributions in permanent endowments	978,018	2,368,927
Payments for new loan costs	(203,611)	—
Cash Received on the 2006 Swap Termination	99,201	—
Proceeds from long-term debt	5,155,725	—
Repayments on long-term debt	(1,809,914)	(2,729,488)
Net Cash Provided by (Used in) Financing Activities	<u>4,219,419</u>	<u>(360,561)</u>
Increase in Cash and Cash Equivalents	5,578,870	4,918,345
Cash and Cash Equivalents, beginning of year	<u>7,344,863</u>	<u>2,426,518</u>
Cash and Cash Equivalents, end of year	<u>\$ 12,923,733</u>	<u>\$ 7,344,863</u>
Supplemental Disclosure of Cash Flow Activities		
Interest paid and expensed	\$ 5,519,209	\$ 5,095,902

The accompanying notes are an integral part of these statements.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

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. and GMUF Arlington Campus, LLC, and GMUF Mason Administration, I.L.C., together (the “Foundation”). The George Mason University Foundation, Inc. owns 100 percent of GMUF Arlington Campus, LLC and GMUF Mason Administration, 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. 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 2009 amounts included in the 2010 consolidated financial statements have been reclassified to conform to the current year presentation.

June 30, 2010 and 2009

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 advisory fees. Endowment assets are invested in bonds and market neutral funds within a range of not less than 0 percent nor more than 50 percent, equities within a range of not less than 28 percent nor more than 82 percent, invested in alternative investments and private equity within a range of not less than 20 percent nor more than 66 percent, invested in real estate investment trusts within a range of 3 percent to 10 percent, and invested in cash within a range of 0 percent and 10 percent.

The Foundation's endowment policy allows for investments of up to 5 percent in managed futures and as of June 30, 2010 and 2009 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. 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 does not believe its financial statements include any uncertain tax positions.

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.

June 30, 2010 and 2009

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

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 investment purposes.

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, 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, 2010 and 2009.

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

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 accrued rent receivable. The impact of the straight-line adjustment decreased rental income by \$37,833 and \$69,072 as of June 30, 2010 and 2009.

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 on published market prices.

June 30, 2010 and 2009

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

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, 2010 and 2009, totaled \$395,920 and \$355,177 and is included in the consolidated statement of activities.

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 related to the GMUF Arlington Campus, LLC and the GMUF Mason Administration, LLC projects. The Foundation is amortizing these costs over the life of the bonds and notes payable, and amortization expense for each of the years ended June 30, 2010 and 2009, totaled \$61,930 each year. Deferred loan costs relating to construction in progress is capitalized until the construction project is substantially complete and ready to be placed in service.

Prior Year Summarized Information

The 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, 2009, from which the summarized information was derived.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Recently Adopted Accounting Pronouncements

Effective June 30, 2010, the Foundation applied the guidance in FASB Accounting Standards Update 2009-12, *Fair Value Measurement and Disclosures – Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, to its investments including hedge funds and private equity and real asset investments. This guidance permits, as a practical expedient, the fair value of investments within its scope to be estimated using net asset value (NAV) per share or its equivalent.

Effective June 30, 2010, the Foundation applied the guidance in FASB Accounting Standards Codification Topic 855, *Subsequent Events* (FASB ASC 855), which establishes general standards of accounting for and disclosure of events that occur after the statement of financial position date but before the financial statements are issued. FASB ASC 855 also requires disclosure of the date through which an entity has evaluated subsequent events.

NOTE C—INVESTMENTS

Investments, which are reported at fair value, consisted of the following as of June 30, 2010 and 2009:

	2010	2009
Cash and money market funds	\$ 3,158,316	\$ 1,362,921
Certificates of deposit	2,761,749	6,811,449
Mutual funds:		
Equity funds	7,830,800	5,693,980
Bond funds	15,488,614	1,462,320
U.S. government and agency obligations	—	463,488
Equity securities	9,425,353	11,793,714
Corporate bonds	12,224,869	15,892,773
Alternative investments	29,972,859	31,506,119
	<u>\$ 80,862,560</u>	<u>\$ 74,986,764</u>

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

NOTE C—INVESTMENTS—Continued

Investment earnings are summarized as follows for the years ended June 30, 2010 and 2009:

	2010	2009
Interest and dividends, net of external management fees	\$ 1,684,482	\$ 1,389,801
Realized loss	(209,315)	(6,762,598)
Unrealized gain (loss)	3,757,064	(9,602,362)
Investment return, net	5,232,231	(14,975,159)
Investment return included with change in split interest agreements	319,939	(702,169)
	\$ 5,552,170	\$ (15,677,328)

For the years ended June 30, 2010 and 2009, the Foundation paid external management fees of \$134,463 and \$105,454, respectively.

A summary of activity included with change in split interest agreements is as follows:

	2010	2009
Interest and dividends, net of external management fees	\$ 67,152	\$ 74,332
Realized gain (loss)	80,186	(909,565)
Unrealized gain	172,601	133,064
Investment return included with change in split interest agreements	319,939	(702,169)
Non-investment activity, net	(203,289)	(205,288)
	\$ 116,650	\$ (907,457)

June 30, 2010 and 2009

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.

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.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

NOTE D—FAIR VALUE MEASUREMENT—Continued

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.
- *Mutual funds:* Valued at the closing price reported on the active market on which the individual securities are traded.
- *Equity securities:* Valued at the closing price reported on the active market on which the individual (or similar) securities are traded.
- *Corporate bonds:* Valued at prices provided by investment managers and custodian bank. Both the investment managers and the custodian bank use a variety of pricing sources to determine market valuations, such as pricing services.
- *Alternative investments:* Valued at the net asset value (“NAV”) of 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.
- *Interest rate swap and caps:* 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.
- *Beneficial interest in perpetual trusts:* Valued by applying the Foundation’s ownership percentage to the underlying assets. The underlying assets are made up of cash, mutual funds and corporate stock.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

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, 2010:

	Level 1	Level 2	Level 3	Total
Financial Assets:				
Cash and money market funds	\$ 3,158,316	\$ —	\$ —	\$ 3,158,316
Certificates of deposit	2,761,749	—	—	2,761,749
Mutual funds:				
Equity funds	7,830,800	—	—	7,830,800
Bond funds	15,488,614	—	—	15,488,614
U.S. government agency obligations	—	236,642	—	236,642
Equity securities	9,425,353	—	—	9,425,353
Corporate bonds	10,696,482	1,291,745	—	11,988,227
Alternative investments	—	970,400	29,002,459	29,972,859
Investments	49,361,314	2,498,787	29,002,459	80,862,560
Beneficial interest in perpetual trusts	—	—	9,160,709	9,160,709
Total financial assets	49,361,314	2,498,787	38,163,168	90,023,269
Financial Liabilities:				
Interest rate swaps and cap	—	5,094,134	—	5,094,134
Total financial liabilities	\$ —	\$ 5,094,134	\$ —	\$ 5,094,134

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

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, 2009:

	Level 1	Level 2	Level 3	Total
Financial Assets:				
Cash and money market funds	\$ 1,362,921	\$ —	\$ —	\$ 1,362,921
Certificates of deposit	6,811,449	—	—	6,811,449
Mutual funds:				
Equity funds	5,693,980	—	—	5,693,980
Bond funds	1,462,320	—	—	1,462,320
U.S. government and agency obligations	—	463,488	—	463,488
Equity securities	11,793,714	—	—	11,793,714
Corporate bonds	13,186,160	443,197	2,263,416	15,892,773
Alternative investments	—	—	31,506,119	31,506,119
Investments	40,310,544	906,685	33,769,535	74,986,764
Beneficial interest in perpetual trusts	—	—	8,688,586	8,688,586
Interest rate cap	—	49,451	—	49,451
Total financial assets	40,310,544	956,136	42,458,121	83,724,801
Financial Liabilities:				
Interest rate swaps	—	1,590,250	—	1,590,250
Total financial liabilities	\$ —	\$ 1,590,250	\$ —	\$ 1,590,250

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

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, 2010.

	Level 3 Assets Year Ended June 30, 2010		
	Alternative Investments	Corporate Bonds	Beneficial Interest Perpetual Trusts
Balance, beginning of year	\$ 31,506,119	\$ 2,263,416	\$ 8,688,586
Interest and dividends, net of external management fees	(59,519)	(2,312)	—
Realized gains/(losses)	(59,781)	290,549	—
Unrealized gains/(losses) relating to instruments still held at the reporting date	1,127,150	—	472,123
Purchases, sales, issuances and settlements (net)	(3,511,510)	(2,551,653)	—
Balance, end of year	\$ 29,002,459	\$ —	\$ 9,160,709

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, 2009.

	Level 3 Assets Year Ended June 30, 2009		
	Alternative Investments	Corporate Bonds	Beneficial Interest Perpetual Trusts
Balance, beginning of year	\$ 40,535,579	\$ —	\$ 11,153,877
Interest and dividends, net of external management fees	(98,757)	8,760	—
Realized gains/(losses)	5,062	(13,205)	—
Unrealized gains/(losses) relating to instruments still held at the reporting date	(7,746,173)	267,848	(2,465,291)
Purchases, sales, issuances and settlements (net)	(1,189,592)	2,000,013	—
Balance, end of year	\$ 31,506,119	\$ 2,263,416	\$ 8,688,586

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

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, 2010:

	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Fund of hedge funds – Multi-strategies (a)	\$ 16,691,587	\$ N/A	Quarterly Annually	60 days, 90 days, 95 days
Fund of hedge funds – Directional (b)	8,349,345	N/A	Annually	90 days, 100 days
Hedge fund -Directional (c)	1,975,088	N/A	Quarterly	60 days, 90 days
Hedge fund - Emerging income (d)	1,814,681	N/A	Monthly	60 days
Private Equity and Real Assets (e)	1,142,158	2,432,199	N/A	N/A
Total	\$ 29,972,859	\$ 2,432,199		

(a). This category includes investments in several fund 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, and other trading strategies. This category also includes approximately \$370,000 of an investment in a hedge fund established for the purpose of liquidating illiquid assets of an affiliated fund; therefore, this investment is not redeemable and distributions are received upon the sale of the underlying assets. In addition, approximately \$4 million of investments in this category are not redeemable within the first 12 months of acquisition, without a redemption penalty. The penalty period ends 7-9 months subsequent to June 30, 2010. The fair values of the investments in this category have been estimated using the NAV per share of the investments.

(b). This category includes investments in several fund of hedge funds that use directional strategies such as long/short and long-biased. Investments held by these funds primarily consist of equities, and to a lesser extent, fixed income securities. The fair values of the investments in this category have been estimated using NAV per share of the investments.

(c). This category includes investments in hedge funds employing directional strategies, primarily long/short strategies. Investments held by these funds primarily consist of equities and global natural resource securities and commodities. Currently, approximately \$1 million of these investments are not redeemable within the first 12 months of acquisition, without a redemption penalty. The penalty period ends approximately 6 months subsequent to June 30, 2010. The remaining balances are redeemable at the stated frequency and notice period. The fair values of the investments in this category have been estimated using the NAV per share of the investments.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

NOTE D—FAIR VALUE MEASUREMENT—Continued

- (d). This category includes investment in a hedge fund with the principal objective of realizing a consistently positive absolute return through investments in emerging market currencies or instruments whose value is derived from the performance of an underlying emerging market currency. The fund also invests in debt instruments, which may include government agency and corporate obligations and structured notes denominated in emerging market currencies. Currently, none of the investments in this category are redeemable within the first 12 months of acquisition, without a redemption penalty. The penalty period ends approximately 3 months subsequent to June 30, 2010. The fair values of the investments in this category have been estimated using the NAV per share of the investments.
- (e). This category includes investments in private equity and real asset funds. One of the funds invests in global real estate private equity funds for purpose of generating income and capital appreciation. The other fund makes direct and indirect investments in privately and publicly issued debt securities and privately issued equity securities that are currently experiencing financial and/or operational distress. These investments can never be redeemed with the funds. Instead, the nature of the investments in this category 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 2 to 5 years. The fair values of these investments have been estimated using the NAV of the Foundation ownership interest in the funds.

NOTE E—CONTRIBUTIONS RECEIVABLE

Contributions receivable as of June 30, 2010 and 2009, are as follows:

	2010	2009
Due in less than one year	\$ 6,298,764	\$ 2,177,000
Due in one to five years	23,544,907	6,681,230
Due in more than five years	6,742,847	10,335,850
	36,586,518	19,194,080
Less discount present value	(2,834,055)	(2,351,308)
Total	\$ 33,752,463	\$ 16,842,772

Discount rates range from .98 percent to 5.69 percent.

As of June 30, 2010 and 2009, the Foundation has \$8,186,107 and \$10,507,445, 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

June 30, 2010 and 2009

NOTE F—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, 2010 and 2009 totaled approximately \$7.9 million and \$7.5 million, respectively. Income from the trust totaled \$433,053 and \$610,618 for the years ended June 30, 2010 and 2009, respectively, and is included in unrestricted and temporarily restricted support and revenue. The change in value of the trust increased \$351,906 for the year ended June 30, 2010 and decreased \$2,033,936 for the year ended June 30, 2009, 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, 2010 and 2009 totaled approximately \$1.3 million and \$1.2 million, respectively. Income from the trust totaled \$36,609 and \$24,641 for the years ended June 30, 2010 and 2009, respectively, and is included in temporarily restricted support and revenue. The change in value from the trust increased \$120,217 for the year ended June 30, 2010 and decreased \$431,355 for the year ended June 30, 2009, and is included in permanently restricted support and revenue.

The estimated fair value of the Foundation's portion of these trusts at June 30, 2010 and 2009, is summarized as follows:

	2010	2009
Cash and money market funds	\$ 231,410	\$ 453,715
Mutual funds:		
Equity funds	3,107,908	3,332,906
Bond funds	2,840,195	2,400,998
Corporate stocks	2,981,196	2,500,967
Total	\$ 9,160,709	\$ 8,688,586

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

NOTE G—PROPERTY AND EQUIPMENT

The following comprises property and equipment at June 30, 2010 and 2009:

	2010	2009
Land	\$ 19,076,211	\$ 19,520,986
Buildings	91,501,850	92,271,851
Building improvements	4,249,801	4,208,703
Furniture and equipment	801,953	802,550
Construction in progress	5,872,532	124,758
	121,502,347	116,928,848
Accumulated depreciation and amortization	(20,784,697)	(17,437,116)
Property and equipment, net	\$ 100,717,650	\$ 99,491,732

Included in construction in progress at June 30, 2010 are costs associated with the GMUF Mason Administration, LLC building project. The Foundation formed this entity to facilitate the development, design and construction of a 140,000 square foot facility on the University's Fairfax campus. The expected completion date is April 2011.

NOTE H—LONG-TERM DEBT

Fairfax County Economic Development Authority Bonds

On October 7, 2003, the Foundation issued \$35,125,000 of variable rate Fairfax County Economic Development Authority bonds. \$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 I).

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

NOTE H—LONG-TERM DEBT—Continued

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 and expiring on October 15, 2009. The letter of credit amount as of June 30, 2009 was \$30,496,267. 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 expired October 6, 2010 and is renewable annually. As disclosed in Note S, the letter of credit has been extended for one year. As of June 30, 2010, 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, 2010 was reduced to \$29,406,933. As of June 30, 2010 and 2009, the principal balance outstanding on the bonds was \$29,020,000 and \$30,095,000, respectively.

Beginning on June 30, 2005, restrictive covenants related to the bonds 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. On March 30, 2009, the unrestricted liquidity covenant was reduced to \$3,800,000. On October 7, 2009, as a result of the substitution of the letter of credit facility with another commercial bank, the unrestricted liquidity covenant was further reduced to \$1,100,000. As of June 30, 2010 and 2009, the Foundation was in compliance with the required restrictive covenants.

Interest incurred on the bonds as well as the related swap agreement during fiscal years 2010 and 2009 totaled \$1,145,465 and \$1,158,201, respectively.

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. 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%. As of June 30, 2010 and 2009, the principal balance outstanding on the notes was \$67,235,598 and \$67,970,520, respectively.

Interest incurred on the notes during fiscal years 2010 and 2009 totaled \$4,506,148 and \$4,608,095, respectively.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

NOTE H—LONG-TERM DEBT—Continued

GMUF Mason Administration, LLC Bonds

On April 21, 2010 the Fairfax County Development Authority issued its \$36,100,000 Revenue Bond Series 2010A (Tax Exempt - GMUF Mason Administration, LLC Project) and its \$1,900,000 Revenue Bond Series 2010B (Taxable - GMUF Mason Administration, LLC Project) and sold such bonds to a commercial bank pursuant to a Bond Purchase and Loan Agreement dated April 1, 2010. 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. Under the terms of the Loan Agreement, during the construction period, the commercial bank will make advances to the Foundation upon receipt of required approvals by the construction consultant. Interest-only payments are paid monthly during the construction period on the amount drawn at a floating rate of 64.1% of 1-month Libor plus 1.5% on the 2010A proceeds and on the amount drawn at a floating rate of 1 month Libor plus 2.0% on the 2010B proceeds. The Series 2010A bond will mature on June 1, 2036. The series 2010B bond will mature December 1, 2013. The building is expected to be completed in April 2011.

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 of June 30, 2010, the outstanding loan balance is \$5,155,725.

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 are 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.

Maturities of bonds and notes payable on all of the aforementioned obligations at June 30, 2010 are as follows:

Fiscal year ending June 30:

2011	\$	1,885,004
2012		2,741,360
2013		2,894,811
2014		3,040,789
2015		3,195,922
Thereafter		87,653,437
	\$	<u>101,411,323</u>

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

NOTE I—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 4.045%, 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 Footnote 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. At June 30, 2010 and 2009, the notional amount on the swap was \$17,125,000 and \$18,625,000 and on the cap was \$11,425,000 and \$11,600,000, respectively.

The fair value of the interest rate swap at June 30, 2010 and 2009, totaled a derivative liability of \$2,425,458 and \$1,361,210, respectively. The fair value of the interest rate cap totaled a derivative liability of \$6,070 at June 30, 2010 and a derivative asset of \$49,451 at June 30, 2009. The net change in value has been recorded as a loss 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 in 2024.

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. 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 received the difference between the Bond Market Association (BMA) index and 68.48% of the 5 year LIBOR index from the swap provider. When the BMA index was higher than 68.48% of the 5 year LIBOR index, the Foundation paid the difference to the swap provider. In fiscal years 2010 and 2009, the swap provider paid \$56,127 and \$184,571, respectively, to the Foundation which is included in interest expense on the consolidated statement of activities.

Upon mutual agreement by the Foundation and the financial institution, the interest rate swap agreement, and derivative liability of \$229,040 at June 30, 2009, was terminated September 2, 2009. The Foundation received a \$99,201 payment from the financial institution in consideration of the termination. The net change in value has been recorded with net of loss on derivatives in the consolidated statement of activities.

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 are 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 at June 30, 2010 totaled a derivative liability of \$2,662,606. The net change in value has been recorded as a loss on derivatives in the consolidated statement of activities.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

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, 2010 and 2009:

	2010	2009
Amounts held for others, beginning of year	\$ 5,460,779	\$ 5,718,276
Other income	761,274	882,209
Conferences	82,042	145,730
Advertising	343,300	393,349
Membership fees	260,257	267,550
Credit card sales	1,020,339	1,012,240
University contributions	633,665	980,011
Investment earnings	245,550	(1,105,568)
Endowment contribution expense	(84,197)	(77,903)
Scholarships	(23,587)	(18,550)
Program support	(2,272,585)	(2,736,565)
Amounts held for others, end of year	\$ 6,426,837	\$ 5,460,779

NOTE L—RENTAL INCOME

The Foundation leases certain properties with a cost of \$111,335,662 and \$115,452,141 and accumulated depreciation of \$20,363,913 and \$17,100,114 as of June 30, 2010 and 2009, respectively, under operating lease agreements. A portion of the above property, with a cost of \$16,333,687 and \$20,450,166 and accumulated depreciation of \$7,066,871 and \$6,719,315 as of June 30, 2010 and 2009, respectively, is subject to annual state appropriation, (See Note O). GMUF Arlington Campus, LLC property has one lease for university parking rental which is also subject to state appropriation.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

NOTE L—RENTAL INCOME—Continued

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

2011	\$ 8,186,465
2012	6,828,934
2013	6,839,739
2014	6,833,320
2015	6,839,602
Thereafter	<u>7,587,341</u>
Total	<u>\$ 43,115,401</u>

During the years ended June 30, 2010 and 2009, rental income earned by the Foundation totaled \$12,458,440 and \$12,258,427, of which \$1,480,400 was (or will be) paid by the University for both years, \$3,488,736 and \$3,321,869, respectively was paid by University students and \$22,020 was paid for both years by Capitol Connection, a separate 501(c)(3) organization associated with the University.

GMUF Arlington Campus, LLC rental income through June 30, 2010 and 2009, was \$7,842,185 and \$7,809,039 and is comprised of the following:

	2010	2009
Office space	\$ 6,424,508	\$ 6,268,655
Operating recoveries	250,576	403,507
Parking	712,924	705,146
Retail space	402,795	381,602
Storage	51,382	50,129
Total rental income	<u>\$ 7,842,185</u>	<u>\$ 7,809,039</u>

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, 2010 and 2009:

	2010	2009
Academic program support	\$ 22,544,137	\$ 17,744,804
Administrative Support	5,250	1,298,031
Scholarships	1,719,957	1,895,429
Eminent scholars	573,790	930,674
Total	<u>\$ 24,843,134</u>	<u>\$ 21,868,938</u>

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

NOTE N—NET ASSETS AVAILABLE

Restricted net assets consisted of the following at June 30, 2010:

	Temporarily Restricted	Permanently Restricted
Administrative support	\$ 10,994,946	\$ 31,348
Academic support	15,008,330	4,011,763
Athletics	673,420	52,323
Community/public service	5,472,025	3,529,191
Eminent scholars	1,369,899	18,926,834
Eminent scholars – perpetual trust	—	7,882,885
Facilities	12,881,323	55,365
Library	438,226	232,260
Research	5,064,228	2,231,898
Student Financial Aid	5,361,728	18,766,543
Student Financial Aid – perpetual trust	—	1,277,824
Time restricted without purpose restriction	14,392,056	141,664
	<u>\$ 71,656,181</u>	<u>\$ 57,139,898</u>

Restricted net assets consisted of the following at June 30, 2009:

	Temporarily Restricted	Permanently Restricted
Administrative support	\$ 543,691	\$ 29,573
Academic support	28,744,644	4,011,411
Athletics	331,306	28,681
Community/public service	7,679,863	3,612,509
Eminent scholars	3,975,700	18,860,666
Eminent scholars – perpetual trust	—	7,530,979
Facilities	7,641,077	35,071
Library	403,518	221,655
Research	3,372,704	2,198,615
Student Financial Aid	5,831,762	17,759,076
Student Financial Aid – perpetual trust	—	1,157,607
Time restricted without purpose restriction	26,194	146,648
	<u>\$ 58,550,459</u>	<u>\$ 55,592,491</u>

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

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, 2010 and 2009, the Foundation had salaries payable to the University totaling \$115,249 and \$147,025, 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, 2010 and 2009, the Foundation had \$714,840 and \$595,653 payable to the University, respectively.

The Foundation receives donated space located on the University property in Fairfax, Virginia from the University. In fiscal years 2010 and 2009, \$72,296 and \$78,288, respectively, 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 L).

During fiscal year 2010, the Foundation transferred land and building of \$4,120,000 to the Commonwealth of Virginia for the benefit of the University.

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, 2010, the Foundation had approximately \$12,597,087 in checking and savings accounts and an additional \$25,000 in certificates of deposit, for a combined uninsured balance of \$12,622,087 at three institutions.

Cash equivalents 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 approximately \$1,953,027 at June 30, 2010. Historically, losses from federal government securities have not occurred.

In fiscal year 2010, three donors collectively contributed approximately 57 percent of the total contributions, and approximately 82 percent of total pledges receivable were due from four contributors.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

NOTE Q—SPLIT INTEREST AGREEMENTS

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 2 to 24 years and discount rates range from 4.2 to 8.0 percent. The market value of the assets at June 30, 2010 and 2009 was \$2,212,468 and \$2,305,762, respectively. Liabilities related to these agreements were \$1,462,812 and \$1,605,259 at June 30, 2010 and 2009, respectively. During fiscal year 2010, the Foundation received one new charitable gift annuity with an asset value of \$10,000 and a liability value of \$3,789. The Foundation received no new agreements during fiscal year 2009.

NOTE R—ENDOWMENT

The Foundation's endowment consists of approximately 340 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 U.S. generally accepted accounting principles (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.

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

June 30, 2010 and 2009

NOTE R—ENDOWMENT—Continued

Endowment Net Asset Composition by Type of Fund as of June 30, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (4,982,971)	\$ 476,309	\$ 47,378,433	\$ 42,871,771
Board-designated endowment funds	55,630	—	—	55,630
Total funds	\$ (4,927,341)	\$ 476,309	\$ 47,378,433	\$ 42,927,401

Changes in Endowment Net Assets for the Year Ended June 30, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ (11,331,389)	\$ 5,369,578	\$ 46,392,616	\$ 40,430,805
Investment return:				
Investment income	479,466	79,775	—	559,240
Net depreciation (realized and unrealized)	6,758,049	(4,564,485)	—	2,193,564
External management fees	(169,275)	(28,164)	—	(197,438)
Total investment return	7,068,240	(4,512,874)	—	2,555,366
Contributions	—	—	978,018	978,018
Appropriation of endowment assets for expenditure	(664,192)	(380,054)	—	(1,044,246)
Other Changes	—	(341)	7,799	7,458
Endowment net assets, end of year	\$ (4,927,341)	\$ 476,309	\$ 47,378,433	\$ 42,927,401

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

NOTE R—ENDOWMENT—Continued

Endowment Net Asset Composition by Type of Fund as of June 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (11,384,561)	\$ 5,369,578	\$ 46,392,616	\$ 40,377,633
Board-designated endowment funds	53,172	—	—	53,172
Total funds	\$ (11,331,389)	\$ 5,369,578	\$ 46,392,616	\$ 40,430,805

Changes in Endowment Net Assets for the Year Ended June 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 72,256	\$ 7,550,467	\$ 45,016,862	\$ 52,639,585
Investment return:				
Investment income	277,791	59,969	—	337,760
Net depreciation (realized and unrealized)	(10,632,220)	(1,897,947)	—	(12,530,167)
External management fees	(140,118)	(25,236)	—	(165,354)
Total investment return	(10,494,547)	(1,863,214)	—	(12,357,761)
Contributions	—	—	2,368,928	2,368,928
Appropriation of endowment assets for expenditure	(909,098)	(296,272)	—	(1,205,370)
Other Changes	—	(21,403)	(993,174)	(1,014,577)
Endowment net assets, end of year	\$ (11,331,389)	\$ 5,369,578	\$ 46,392,616	\$ 40,430,805

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

	2010	2009
Permanently Restricted Net Assets	\$ 47,378,433	\$ 46,392,616
Total endowment funds classified as permanently restricted net assets	\$ 47,378,433	\$ 46,392,616

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2010 and 2009

NOTE R—ENDOWMENT—Continued

	2010	2009
The portion of perpetual endowment funds subject to a time restriction under UPMIFA		
Without purpose restrictions	\$ 268	\$ 327
Academic support	136	479,687
Athletics	3,706	2,272
Community/public service	17,599	173,126
Eminent scholars	426,788	3,100,336
Facilities	—	1,559
Library	204	12,627
Research	195	101,951
Student financial aid	27,413	1,497,693
Total endowment funds classified as temporarily restricted net assets	<u>\$ 476,309</u>	<u>\$ 5,369,578</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original value of the gift donated to the 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, in fiscal year 2009, for certain programs deemed prudent by the Board of Trustees. The investment gains achieved in fiscal 2010 have been classified as increases in unrestricted net assets. Future gains will continue to 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, 2010 and 2009, \$4,982,971 and \$11,384,561, 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:

	2010	2009
Permanently Restricted Net Assets, end of year	\$ 57,139,898	\$ 55,592,491
Beneficial interest in perpetual trusts	(9,160,709)	(8,688,586)
Split interest agreements	(600,756)	(511,289)
Permanently Restricted Endowments, end of year	<u>\$ 47,378,433</u>	<u>\$ 46,392,616</u>

June 30, 2010 and 2009

NOTE R—ENDOWMENT—Continued

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 9.5 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 that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

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. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 3.75 percent annually. This is consistent with the organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

NOTE S—SUBSEQUENT EVENTS

The Foundation evaluated subsequent events through November 12, 2010, which is the date the financial statements were available for issuance. On October 7, 2010, the Foundation renewed its letter of credit related to the Fairfax County Economic Development Authority bonds for an additional year.

In addition, 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 must demonstrate a commitment of a 20% match from the private sector - \$5,691,070. On August 31, 2010, the Foundation committed to providing half of the required match - \$2,845,535. A separate University affiliated foundation committed to providing the remaining required match of \$2,845,535. 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 its commitment should there exist a shortfall in the University Development fundraising efforts.