

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>	<b>2008</b>	<b>2007</b>
<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

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June 30, 2008

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### 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.

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### 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)
		<hr/>
		(185,934)
		<hr/>
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
		<hr/>
		18,559,997
Less discount present value		(2,528,408)
		<hr/>
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.

