

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

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

**June 30, 2009 with Summarized Comparative
Information for June 30, 2008**

George Mason University Foundation, Inc. and Subsidiaries

Contents

Report of Independent Certified Public Accountants	3
Financial Statements	
Consolidated Statement of Financial Position	4
Consolidated Statement of Activities	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7–29



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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, 2009, 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 2008 consolidated financial statements and, in our report dated October 1, 2008 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 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 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, 2009 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
September 22, 2009

George Mason University Foundation, Inc. and Subsidiary

Consolidated Statement of Financial Position

June 30, 2009 (with comparative totals as of June 30, 2008)

	GMU Foundation, Inc.	GMUF Arlington Campus, LLC	GMUF Mason Administration, LLC	Eliminating Entry	June 30, 2009	June 30, 2008
Assets						
Cash and cash equivalents	\$ 7,258,439	\$ 86,424	\$ —	\$ —	\$ 7,344,863	\$ 2,426,518
Restricted cash and cash equivalents	—	417,195	—	—	417,195	297,909
Investments	74,986,764	—	—	—	74,986,764	96,142,068
Investment income receivable	250,901	—	—	—	250,901	350,369
Contributions receivable, net	16,842,772	—	—	—	16,842,772	16,031,589
Inter-entity receivable	212,877	(125,000)	(87,877)	—	—	—
Beneficial interest in perpetual trusts	8,688,586	—	—	—	8,688,586	11,153,877
Real estate, net	36,563,790	62,311,781	124,758	—	99,000,329	102,050,022
Leasing commissions, net	—	2,559,608	—	—	2,559,608	2,914,785
Furniture and equipment, net	483,233	8,170	—	—	491,403	573,333
Art and antiques	572,567	—	—	—	572,567	572,567
Deferred loan costs, net	425,360	289,106	—	—	714,466	776,397
Annuity benefit contract	963,930	—	—	—	963,930	937,766
Derivative asset	49,451	—	—	—	49,451	21,824
Prepays	37,243	16,483	—	—	53,726	61,745
Other assets	78,177	344,183	—	—	422,360	704,616
Total Assets	\$ 147,414,090	\$ 65,907,950	\$ 36,881	\$ —	\$ 213,358,921	\$ 235,015,385
Liabilities and Net Assets						
Liabilities						
Accounts payable and accrued expenses	4,022,062	784,907	38,523	—	4,845,492	3,847,712
Unearned rent	768,506	17,027	—	—	785,533	782,942
Long-term debt	30,095,000	67,970,512	—	—	98,065,512	100,795,000
Derivative obligations	1,590,250	—	—	—	1,590,250	952,910
Trust liabilities	1,650,259	—	—	—	1,650,259	1,842,118
Accrued annuity benefit	963,930	—	—	—	963,930	937,766
Other liabilities	54,995	25,355	—	—	80,350	82,126
Amounts held for others	5,460,779	—	—	—	5,460,779	5,718,276
Total Liabilities	44,605,781	68,797,801	38,523	—	113,442,105	114,958,850
Net Assets						
Unrestricted	(11,334,641)	—	—	—	(11,334,641)	3,974,996
Temporarily restricted	58,550,459	—	—	—	58,550,459	60,864,567
Permanently restricted	55,592,491	—	—	—	55,592,491	57,520,293
GMUF Arlington Campus, LLC	—	(2,889,851)	—	—	(2,889,851)	(2,303,321)
GMUF Mason Administration, LLC	—	—	(1,642)	—	(1,642)	—
Total Net Assets	102,808,309	(2,889,851)	(1,642)	—	99,916,816	120,056,535
Total Liabilities and Net Assets	\$ 147,414,090	\$ 65,907,950	\$ 36,881	\$ —	\$ 213,358,921	\$ 235,015,385

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, 2009 (with comparative totals for the year ended June 30, 2008)

	GMU Foundation, Inc.			GMUF Arlington Campus, LLC	GMUF Mason Administration, LLC	Eliminating Entry	Year Ended June 30, 2009	Year Ended June 30, 2008
	Unrestricted	Temporarily Restricted	Permanently Restricted					
Support and Revenue								
Contributions	\$ 277,205	\$ 20,392,701	\$ 2,368,927	\$ —	\$ —	\$ —	\$ 23,038,833	\$ 23,089,141
Contributions to GMUF Arlington Campus, LLC	—	—	—	1,203,000	—	(1,203,000)	—	—
Income from perpetual trusts	34,140	601,119	—	—	—	—	635,259	384,039
Unrealized loss	(8,092,195)	(1,510,167)	—	—	—	—	(9,602,362)	(5,242,376)
Interest and dividends	1,342,111	147,471	—	5,673	—	—	1,495,255	2,561,399
Realized loss (gain)	(5,581,465)	(1,181,133)	—	—	—	—	(6,762,598)	549,604
Change in value of perpetual trusts	—	—	(2,465,291)	—	—	—	(2,465,291)	(770,647)
Change in split interest agreements	—	(69,193)	(838,264)	—	—	—	(907,457)	(387,860)
Management fees	41,308	(146,762)	—	—	—	—	(105,454)	(251,181)
Service fees	483,935	—	—	—	—	—	483,935	483,750
Rental income	4,449,388	—	—	7,809,039	—	—	12,258,427	12,105,290
Trust income	26,420	—	—	—	—	—	26,420	26,420
Unrealized loss on derivative	(609,712)	—	—	—	—	—	(609,712)	(711,551)
Miscellaneous income	948	—	—	22,457	—	—	23,405	20,632
Total support and revenue	(7,627,917)	18,234,036	(934,628)	9,040,169	—	(1,203,000)	17,508,660	31,856,660
Operating Expenses								
Administrative								
Accounting and legal	219,815	—	—	10,780	1,642	—	232,237	261,313
Administrative	1,831,189	—	—	1,285,079	—	—	3,116,268	2,894,095
Contribution to GMUF Arlington Campus, LLC	1,203,000	—	—	—	—	(1,203,000)	—	—
Depreciation and amortization	1,492,829	—	—	2,051,852	—	—	3,544,681	3,774,970
Insurance	72,139	—	—	101,275	—	—	173,414	176,844
Interest expense	995,220	—	—	4,608,095	—	—	5,603,315	5,941,067
Utilities and other	1,390,001	—	—	1,569,618	—	—	2,959,619	2,696,278
	7,204,193	—	—	9,626,699	1,642	(1,203,000)	15,629,534	15,744,567
Fundraising	314,583	—	—	—	—	—	314,583	287,924
Total Operating Expenses	7,518,776	—	—	9,626,699	1,642	(1,203,000)	15,944,117	16,032,491
Operating (Deficit) Surplus	(15,146,693)	18,234,036	(934,628)	(586,530)	(1,642)	—	1,564,543	15,824,169
Reclassification Per Donor Request	(327,620)	1,320,794	(993,174)	—	—	—	—	—
Net Assets Released from Restriction	21,868,938	(21,868,938)	—	—	—	—	—	—
Support and Revenue, Net of Operating Expenses	6,394,625	(2,314,108)	(1,927,802)	(586,530)	(1,642)	—	1,564,543	15,824,169
Program Service Benefits for George Mason University								
Scholarships	1,895,429	—	—	—	—	—	1,895,429	1,521,749
Academic program support	17,752,398	—	—	—	—	—	17,752,398	15,611,265
Eminent scholars	930,674	—	—	—	—	—	930,674	996,945
Annuity benefit contributions	96,013	—	—	—	—	—	96,013	97,408
University initiatives	175,169	—	—	—	—	—	175,169	188,169
Administrative support	644,420	—	—	—	—	—	644,420	607,017
Federal relations	181,321	—	—	—	—	—	181,321	181,392
University support	28,838	—	—	—	—	—	28,838	34,930
Total Program Service Benefits	21,704,262	—	—	—	—	—	21,704,262	19,238,875
Change in Net Assets	(15,309,637)	(2,314,108)	(1,927,802)	(586,530)	(1,642)	—	(20,139,719)	(3,414,706)
Net Assets, beginning of year	3,974,996	60,864,567	57,520,293	(2,303,321)	—	—	120,056,535	123,471,241
Net Assets, end of year	\$ (11,334,641)	\$ 58,550,459	\$ 55,592,491	\$ (2,889,851)	\$ (1,642)	\$ —	\$ 99,916,816	\$ 120,056,535

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>	2009	2008
Cash Flows from Operating Activities		
Changes in net assets	\$ (20,139,719)	\$ (3,414,706)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,616,951	3,855,539
Discount on contributions receivable	(177,100)	(260,945)
Unrealized investment loss	9,469,298	5,557,480
Realized investment loss (gain)	7,672,163	(587,215)
Change in value of perpetual trusts	2,465,291	770,647
Stock contributions	(127,546)	(338,052)
In-kind contributions, real estate	—	(67,404)
Contributions restricted for long-term purposes	(2,368,927)	(3,375,275)
Unrealized loss on derivative	609,712	711,551
Change in assets and liabilities:		
Restricted cash	(119,286)	(297,909)
Pledges receivable, net	(769,068)	(4,650,820)
Investment income receivable	99,468	76,216
Leasing commissions	—	(31,124)
Other assets	290,275	(525,101)
Accounts payable and accrued expenses	977,780	1,335,102
Unearned rent	2,591	725,766
Trust liabilities	(191,859)	(191,857)
Other liabilities	(1,776)	60,007
Amounts held for others	(257,497)	2,765,205
Net Cash Provided by Operating Activities	1,050,751	2,117,105
Cash Flows from Investing Activities		
Proceeds from sale of investments	25,630,873	33,636,111
Purchases of investments	(21,547,398)	(38,441,985)
Purchases of property and equipment	144,680	(460,972)
Net Cash Provided by (Used in) Investing Activities	4,228,155	(5,266,846)
Cash Flows from Financing Activities		
Proceeds from contributions in permanent endowments	2,368,927	3,375,275
Repayments on long-term debt	(2,729,488)	(1,075,000)
Net Cash (Used In) Provided by Financing Activities	(360,561)	2,300,275
Increase (Decrease) in Cash and Cash Equivalents	4,918,345	(849,466)
Cash and Cash Equivalents, beginning of year	2,426,518	3,275,984
Cash and Cash Equivalents, end of year	\$ 7,344,863	\$ 2,426,518

Supplemental Disclosure of Cash Flow Activities

Interest paid and expensed

\$ 5,095,902 \$ 5,452,952
The accompanying notes are an integral part of these statements.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2009 and 2008

NOTE A—ORGANIZATION

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

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Foundation and GMUF Arlington Campus, LLC, and GMUF Mason Administration, LLC, 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 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 2008 amounts included in the 2009 consolidated financial statements have been reclassified to conform to the current year presentation.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2009 and 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 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, 2009 and 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 those money market funds held for investment purposes.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2009 and 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, 2009 and 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 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 \$69,072 as of June 30, 2009 and increased rental income by \$245,136 as of June 30, 2008.

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 fair value hierarchy of the fair value of the beneficial interests in perpetual trust can be referenced in Note C.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2009 and 2008

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, 2009 and 2008, totaled \$355,177 and \$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 years ended June 30, 2009 and 2008, totaled \$61,931 each year.

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, 2008, from which the summarized information was derived.

George Mason University Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2009 and 2008

NOTE C—INVESTMENTS

Fair Value Measurements

Effective July 1, 2008, the Foundation adopted Statement of Financial Accounting Standards (“SFAS”) No. 157, “*Fair Value Measurements*”. SFAS No.157 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and enhances disclosure requirements for fair value measurements. SFAS 157 maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available.

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, 2009 and 2008

NOTE C—INVESTMENTS—Continued

Investments were recorded at fair value as of June 30, 2009 based on the following level of hierarchy:

	Level 1	Level 2	Level 3	Total
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
Corporate stocks	11,793,714	—	—	11,793,714
Corporate bonds	13,186,160	443,197	2,263,416	15,892,773
Alternative investments	—	—	30,188,636	30,188,636
Real estate and other	—	—	1,317,483	1,317,483
Investments	40,310,544	906,685	33,769,535	74,986,764
Beneficial interest in perpetual trusts	—	—	8,688,586	8,688,586
	\$ 40,310,544	\$ 906,685	\$ 42,458,121	\$ 83,675,350

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2009 and 2008

NOTE C—INVESTMENTS—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, 2009.

	Level 3 Assets Year Ended June 30, 2009			
	Alternative Investments	Corporate Bonds	Real Estate and Other	Beneficial Interest Perpetual Trusts
Balance, beginning of year	\$ 38,459,863	\$ —	\$ 2,075,716	\$ 11,153,877
Interest and dividends	(3,304)	13,757	(76,521)	—
Realized gains/(losses)	—	(13,205)	5,062	—
Unrealized gains/(losses) relating to instruments still held at the reporting date	(6,643,258)	267,848	(1,102,915)	(2,465,291)
External management fees	(18,932)	(4,997)	—	—
Purchases, sales, issuances and settlements (net)	(1,605,733)	2,000,013	416,141	—
Balance, end of year	\$ 30,188,636	\$ 2,263,416	\$ 1,317,483	\$ 8,688,586

Investment earnings are summarized as follows for the years ended June 30, 2009 and 2008:

	2009	2008
Interest and dividends	\$ 1,495,255	\$ 2,561,399
Realized (loss) gain	(6,762,598)	549,604
External management fees	(105,454)	(251,181)
Unrealized loss	(9,602,362)	(5,242,376)
	(14,975,159)	(2,382,554)
Investment return included with change in split interest agreements	(702,169)	(185,934)
Net investment return	\$ (15,677,328)	\$ (2,568,488)

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2009 and 2008

NOTE C—INVESTMENTS—Continued

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

	2009	2008
Interest and dividends	\$ 74,595	\$ 99,853
Realized (loss) gain	(909,565)	37,611
External management fees	(263)	(8,294)
Unrealized gain (loss)	133,064	(315,104)
Investment return included with change in split interest agreements	(702,169)	(185,934)
Non-investment activity, net	(205,288)	(201,926)
	\$ (907,457)	\$ (387,860)

NOTE D—CONTRIBUTIONS RECEIVABLE

Contributions receivable as of June 30, 2009 and 2008, are as follows:

	2009	2008
Due in less than one year	\$ 2,177,000	\$ 4,674,811
Due in one to five years	6,681,230	5,930,059
Due in more than five years	10,335,850	7,955,127
Less discount present value	19,194,080 (2,351,308)	18,559,997 (2,528,408)
Total	\$ 16,842,772	\$ 16,031,589

Discount rates range from .98 percent to 5.04 percent.

As of June 30, 2009 and 2008, the Foundation received \$10,507,445 and \$3,290,238, 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, 2009 and 2008

NOTE E—BENEFICIAL INTEREST IN PERPETUAL TRUSTS

The Foundation is a 50 percent beneficiary in two perpetual trusts, which are held and administered by independent trustees. The fair value of the Foundation's portion of these trusts at June 30, 2009 and 2008 totaled approximately \$7.5 million and \$9.6 million, respectively. Income from the trust totaled \$610,618 and \$312,306 for the years ended June 30, 2009 and 2008, respectively, and is included in unrestricted and temporarily restricted support and revenue. The change in value of the trust decreased \$2,033,936 and \$508,857 for the years ended June 30, 2009 and 2008, respectively, 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, 2009 and 2008, totaled approximately \$1.2 million and \$1.6 million respectively. Income from the trust totaled \$24,641 and \$71,733 for the years ended June 30, 2009 and 2008, respectively, and is included in temporarily restricted support and revenue. The change in value from the trust decreased \$431,355 and \$261,790 for the years ended June 30, 2009 and 2008, and is included in permanently restricted support and revenue.

The estimated fair value of the Foundation's portion of these trusts at June 30, 2009 and 2008, is summarized as follows:

	2009	2008
Cash and money market funds	\$ 453,715	\$ 672,717
Mutual funds:		
Equity funds	2,242,201	2,580,319
Bond funds	38,976	45,482
US government and agency obligations	—	131,051
Corporate stocks	2,500,967	3,359,887
Proprietary funds	3,452,727	4,364,421
Total	\$ 8,688,586	\$ 11,153,877

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2009 and 2008

NOTE F—PROPERTY AND EQUIPMENT

The following comprises property and equipment at June 30, 2009 and 2008:

	2009	2008
Land	\$ 19,520,986	\$ 19,520,986
Buildings	92,271,851	92,332,695
Building improvements	4,208,703	4,195,814
Furniture and equipment	802,550	1,024,041
Construction in progress	124,758	—
	116,928,848	117,073,536
Accumulated depreciation and amortization	(17,437,116)	(14,450,181)
Net property and equipment	\$ 99,491,732	\$ 102,623,355

NOTE G—LONG-TERM DEBT

On October 7, 2003, the Foundation issued \$35,125,000 of variable rate Fairfax County Economic Development Authority bonds. \$27,700,000 of the bonds were used to finance a housing project for the University and the remaining \$7,425,000 were used to refinance existing properties the Foundation owns and rents to the University. Interest is accrued and paid monthly, the bonds mature annually on February 1 and the final maturity is on February 1, 2029. Additionally, the Foundation simultaneously entered into an interest rate swap with a commercial bank to effectively fix the interest rate on \$22,425,000 of the bonds, (See Note H).

As a security for the payment of the bonds, the Foundation entered into an irrevocable letter of credit with a commercial bank in the initial amount of \$35,593,333 at 12% per annum and expiring on October 15, 2009. As of June 30, 2009, \$14,460,000 in draws has been taken against the letter of credit regarding tendered bonds. These bonds are held as bank bonds at June 30, 2009. On July 2, 2009, \$14,460,000 held as bank bonds were successfully remarketed leaving a balance of \$0 on the letter of credit facility. On July 22, 2009 investors exercised their right to tender \$95,000 FCEDA bonds. Funds for the bonds are drawn on the letter of credit facility and the bonds are held by the trustee as bank bonds. Due to principal payments on the bonds, the letter of credit amount as of June 30, 2009 and 2008, was reduced to \$30,496,267 and \$31,509,600, respectively. As of June 30, 2009 and 2008, the principal balance outstanding on the bonds was \$30,095,000 and \$31,095,000, respectively.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2009 and 2008

NOTE G—LONG-TERM DEBT—Continued

Due to the reduction of the commercial bank's credit rating below investment grade, the Foundation will replace the letter of credit facility with that of another commercial bank. The substitute commercial bank will simultaneously assume the related interest rate swap and interest rate cap derivative instruments (See Note H). The transaction is scheduled to close October 7, 2009.

Beginning on June 30, 2005, restrictive covenants related to the bond went into effect, including unrestricted liquidity of not less than \$6,000,000 and a property debt service coverage ratio of not less than 1.20 to 1. On March 30, 2009, the unrestricted liquidity covenant was reduced to \$3,800,000. As of June 30, 2009 and 2008, the Foundation was in compliance with the required restrictive covenants.

Interest incurred on the bonds as well as the related swap agreement during fiscal years 2009 and 2008 totaled \$1,158,201 and \$1,268,948, respectively.

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, 2009 and 2008, the principal balance outstanding on the note was \$67,970,520 and \$68,500,000, respectively.

NOTE H—DERIVATIVE INSTRUMENTS

In October 2003, the Foundation entered into an interest rate swap agreement with a financial institution against the floating rate bonds in the notional amount of \$22,425,000 at a fixed interest rate of 4.045%, 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%. At June 30, 2009 and 2008, the notional amount on the swap was \$18,625,000 and \$19,475,000 and on the cap was \$11,600,000 and \$11,750,000, respectively. The interest rate swap was used as a cash flow hedge to synthetically fix the rate of the bonds and to eliminate changes in the market interest rates.

The fair value of the interest rate swap at June 30, 2009 and 2008, totaled a derivative liability of \$1,361,210 and \$809,341 and the interest rate cap at June 30, 2009 and 2008, totaled a derivative asset of \$49,451 and \$21,824, respectively. The derivative asset and liability's level within the hierarchy established by SFAS 157, "*Fair Value Measurements*" is Level 2 valuation inputs for financial instruments used to determine fair value are other than quoted prices in active markets which are either directly or indirectly observable as of the report date. The net change in value has been recorded as an unrealized loss on derivative in the consolidated statement of activities. Additionally, all assets or liabilities related to the interest rate swap and interest rate cap convert to zero at contract maturity in 2024.

George Mason University Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2009 and 2008

NOTE H—DERIVATIVE INSTRUMENTS—Continued

In October 2006, the Foundation entered into an interest rate swap agreement with a financial institution against the floating rate bonds in the notional amount of \$25,775,000 on a 23-year amortization schedule. At June 30, 2009 and 2008, the notational amount on the swap was \$24,350,000 and \$25,075,000, respectively. 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 2009 and 2008, the swap provider paid \$184,571 and \$10,978, respectively, to the Foundation which is included in interest expense on the consolidated statement of activities.

The fair value of the interest rate swap at June 30, 2009 and 2008, totaled a derivative liability of \$229,040 and \$143,569, respectively. The derivative liability's level within the fair value hierarchy established by SFAS 157, "*Fair Value Measurements*" is Level 2. Valuation inputs for financial instruments used to determine fair value are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. The net change in value has been recorded as an unrealized loss on derivative in the consolidated statement of activities.

Upon mutual agreement by the Foundation and the financial institution, the interest rate swap agreement, derivative liability of \$229,040 at June 30, 2009, was terminated September 2, 2009. The Foundation received a \$99,200 payment from the financial institution in consideration of the termination.

NOTE I—RETIREMENT ANNUITY

The Foundation, through a trust arrangement, purchased a joint and survivor, single-premium retirement annuity contract to provide supplemental retirement benefits to the former President of the University and his spouse. Through this trust arrangement, the Foundation does receive periodic payments and, subject to trustee approval, does in turn provide payments to the former President and his spouse under the annuity contract. Additionally, the Foundation is the beneficiary of a life insurance policy covering the former President and his spouse that will provide a death benefit of \$750,000.

George Mason University Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2009 and 2008

NOTE J—AMOUNTS HELD FOR OTHERS

The Foundation maintains certain assets, primarily investments, on behalf of several legally autonomous organization and other programs associated with the University. Activity related to these organizations was as follows for the years ended June 30, 2009 and 2008:

	2009	2008
Amounts held for others, beginning of year	\$ 5,718,276	\$ 2,953,071
Other income	882,209	620,737
Conferences	145,730	216,144
Advertising	393,349	327,110
Membership fees	267,550	254,437
Credit card sales	1,012,240	932,469
University contributions	980,011	3,325,872
Investment earnings	(1,105,568)	(212,421)
Endowment contribution expense	(77,903)	(41,362)
Scholarships	(18,550)	(22,220)
Program support	(2,736,565)	(2,635,561)
Amounts held for others, end of year	\$ 5,460,779	\$ 5,718,276

NOTE K—RENTAL INCOME

The Foundation leases certain properties with a cost of \$115,452,141 and \$114,211,105 and accumulated depreciation of \$17,100,114 and \$13,983,652 as of June 30, 2009 and 2008, respectively, under operating lease agreements. A portion of the above property, with a cost of \$20,450,166 and \$19,161,185 and accumulated depreciation of \$6,719,315 and \$6,378,352 as of June 30, 2009 and 2008, respectively, is subject to annual state appropriation, (See Note N). GMUF Arlington Campus, LLC property has one lease for university parking rental which is also subject to state appropriation.

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

2010	\$ 8,458,248
2011	8,383,020
2012	7,031,398
2013	7,048,281
2014	7,048,107
Thereafter	14,991,677
Total	\$ 52,960,731

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2009 and 2008

NOTE K—RENTAL INCOME—Continued

During the years ended June 30, 2009 and 2008, rental income earned by the Foundation totaled \$12,258,427 and \$12,105,290, of which \$1,480,400 and \$1,453,627 was (or will be) paid by the University, \$3,321,869 and \$3,118,296, respectively was paid by University students and \$22,020 and \$22,020 was paid by Capitol Connection, a separate 501(c)(3) organization associated with the University.

GMUF Arlington Campus, LLC rental income through June 30, 2009 and 2008, was \$7,809,039 and \$7,859,479 and is comprised of the following:

	2009	2008
Office space	\$ 6,268,655	\$ 6,149,072
Operating recoveries	403,507	341,108
Parking	705,146	714,774
Retail space	381,602	605,618
Storage	50,129	48,907
Total rental income	\$ 7,809,039	\$ 7,859,479

NOTE L—NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. The following is a summary of net assets released from donor restrictions during the years ended June 30, 2009 and 2008:

	2009	2008
Academic program support	\$ 17,744,804	\$ 15,610,897
Administrative Support	1,298,031	—
Scholarships	1,895,429	1,521,749
Eminent scholars	930,674	996,945
Total	\$ 21,868,938	\$ 18,129,591

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2009 and 2008

NOTE M—NET ASSETS AVAILABLE

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	26,194	146,648
	<hr/>	<hr/>
	\$ 58,550,459	\$ 55,592,491

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

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

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2009 and 2008

NOTE N—RELATED PARTY TRANSACTIONS

The Foundation outsources its payroll processing to the University and reimburses the University for payroll costs incurred. As of June 30, 2009 and 2008, the Foundation had salaries payable to the University totaling \$147,025 and \$488,555, 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, 2009 and 2008, the Foundation had \$595,653 and \$0 payable to the University, respectively.

The Foundation receives donated space located on the University property in Fairfax, Virginia from the University. In fiscal years 2009 and 2008, \$78,288 and \$87,976, 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 K).

NOTE O—CONCENTRATIONS OF CREDIT RISK

The Foundation maintains its cash in several commercial banks in Virginia that are in excess of the Federal Deposit Insurance Corporation (FDIC) maximum of \$250,000 per depositor per institution. At June 30, 2009, the Foundation had approximately \$5,360,360 in checking and savings accounts and an additional \$53,145 in certificates of deposit, for a combined uninsured balance of \$5,413,505 at four institutions.

Cash equivalents are primarily composed of cash that is swept into overnight repurchases accounts, which are invested in U.S. government or agency securities. Amounts included in cash and cash equivalents that were invested in the overnight repurchase accounts totaled approximately \$3,076,014 at June 30, 2009. Historically, losses from federal government securities have not occurred.

In fiscal year 2009, 2 donors contributed approximately 20 and 9 percent of the total contributions, respectively, and approximately 42 and 26 percent of total pledges receivable, respectively, were due from 2 contributors.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2009 and 2008

NOTE P—SPLIT INTEREST AGREEMENTS

Charitable Remainder Trusts

The Foundation has charitable remainder trusts, which have been established and funded by various donors. Trust distributions are received by the Foundation over the trusts' terms. Upon termination of the trusts, the Foundation will receive the remaining trust assets. Trust liabilities are recorded at the net present value of the estimated future annuity payments. Life expectancies range from 2 to 24 years and discount rates range from 4.2 to 8.0 percent. The market value of the assets at June 30, 2009 and 2008 was \$2,305,762 and \$3,399,214, respectively. Trust liabilities related to charitable remainder trusts at June 30, 2009 and 2008 were \$1,605,259 and \$1,842,118, respectively. During fiscal years 2009 and 2008, the Foundation received no new charitable trusts.

NOTE Q—ENDOWMENT

The Foundation's endowment consists of approximately 330 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2009 and 2008

NOTE Q—ENDOWMENT—Continued

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, 2009 and 2008

NOTE Q—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

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2009 and 2008

NOTE Q—ENDOWMENT—Continued

Endowment Net Asset Composition by Type of Fund as of June 30, 2008:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ —	\$ 7,550,467	\$ 45,016,862	\$ 52,567,329
Board-designated endowment funds	72,256	—	—	72,256
Total funds	\$ 72,256	\$ 7,550,467	\$ 45,016,862	\$ 52,639,585

Changes in Endowment Net Assets for the Year Ended June 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 78,256	\$ 13,597,455	\$ 41,558,562	\$ 55,234,273
Investment return:				
Investment income	1,259	851,848	—	853,107
Net depreciation (realized and unrealized)	(5,529)	(4,009,406)	—	(4,014,935)
External management fees	(389)	(267,921)	—	(268,310)
Total investment return	(4,659)	(3,425,479)	—	(3,430,138)
Contributions	—	—	3,375,275	3,375,275
Appropriation of endowment assets for expenditure	(1,341)	(2,640,019)	—	(2,641,360)
Other Changes	—	18,510	83,025	101,535
Endowment net assets, end of year	\$ 72,256	\$ 7,550,467	\$ 45,016,862	\$ 52,639,585

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

	2009	2008
	\$ 46,392,616	\$ 45,016,862
Total endowment funds classified as permanently restricted net assets	\$ 46,392,616	\$ 45,016,862

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2009 and 2008

NOTE Q—ENDOWMENT—Continued

	<u>2009</u>	<u>2008</u>
The portion of perpetual endowment funds subject to a time restriction under UPMIFA		
Without purpose restrictions	\$ 327	\$ 327
Academic support	479,687	486,767
Athletics	2,272	13,255
Community/public service	173,126	207,688
Eminent scholars	3,100,336	5,155,943
Facilities	1,559	1,559
Library	12,627	12,627
Research	101,951	101,951
Student financial aid	<u>1,497,693</u>	<u>1,570,350</u>
Total endowment funds classified as temporarily restricted net assets	<u>\$ 5,369,578</u>	<u>\$ 7,550,467</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$11,384,561 as of June 30, 2009. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees. There was \$30,199 of such deficiencies as of June 30, 2008.

Permanently Restricted Net Assets

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

	<u>2009</u>	<u>2008</u>
Permanently Restricted Net Assets, end of year	\$ 55,592,491	\$ 57,520,293
Beneficial interest in perpetual trusts	(8,688,586)	(11,153,877)
Split interest agreements	(511,289)	(1,349,554)
Permanently Restricted Endowments, end of year	<u>\$ 46,392,616</u>	<u>\$ 45,016,862</u>

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2009 and 2008

NOTE Q—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 R—SUBSEQUENT EVENTS

Swap Agreement Termination

As disclosed in Note H, the interest rate swap agreement, derivative liability of \$229,040 at June 30, 2009, was terminated September 2, 2009.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2009 and 2008

NOTE R—SUBSEQUENT EVENTS—Continued

Substitute Letter of Credit Facility Provider

As disclosed in Note G, the Foundation will replace the letter of credit facility with that of another commercial bank. The substitute commercial bank will simultaneously assume the related interest rate swap and interest rate cap derivative instruments.

Bank Bonds

As disclosed in Note G, on July 2, 2009, \$14,460,000 held as bank bonds were successfully remarketed. On July 22, 2009 investors exercised their right to tender \$95,000 FCEDA bonds, which are held as bank bonds.

GMUF Mason Administration, LLC

GMUF Mason Administration, LLC was formed by the Foundation in April 2009 to facilitate the development, design and construction of a 140,000 square foot facility on the George Mason University Fairfax campus known as University Hall. The University will execute a long term capital lease for space within the building. Construction will begin November 2009. The expected completion date of the project is April 2011 at an estimated total cost not to exceed \$40 million dollars. As of June 30, 2009, GMUF Mason Administration, LLC has recorded \$124,758 of Construction in Progress.