



Grant Thornton

Consolidated Financial Statements and Report of
Independent Certified Public Accountants

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

June 30, 2017 with Summarized Comparative
Information for June 30, 2016

George Mason University Foundation, Inc. and Subsidiaries

Contents

	Page(s)
Report of Independent Certified Public Accountants	3–4
Financial Statements	
Consolidated Statement of Financial Position	5
Consolidated Statement of Activities	6
Consolidated Statement of Financial Position – Real Estate Subsidiaries	7
Consolidated Statement of Activities – Real Estate Subsidiaries	8
Consolidated Statement of Cash Flows	9
Notes to Consolidated Financial Statements	10–45

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the accompanying consolidated financial statements of the George Mason University Foundation, Inc. and Subsidiaries (the “Foundation”), which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the George Mason University Foundation, Inc. and Subsidiaries as of June 30, 2017, and the changes in net assets and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 7 and 8 is presented for purposes of additional analysis, and is not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Report On 2016 Summarized Comparative Information

We have previously audited the Foundation's 2016 consolidated financial statements (not presented herein), and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated November 4, 2016. In our opinion, the accompanying summarized comparative information as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.



Arlington, Virginia
November 10, 2017

George Mason University Foundation, Inc. and Subsidiaries

Consolidated Statement of Financial Position

June 30, 2017 (with comparative totals as of June 30, 2016)

	GMU Foundation, Inc.	Real Estate Subsidiaries	June 30, 2017	June 30, 2016
Assets				
Cash and cash equivalents	\$ 11,052,747	\$ 5,813,767	\$ 16,866,514	\$ 16,403,540
Restricted cash and cash equivalents	—	11,773,811	11,773,811	8,246,109
Contributions receivable, net	33,443,899	—	33,443,899	35,949,756
Investments	160,877,374	—	160,877,374	154,008,101
Beneficial interest in perpetual trusts	10,902,461	—	10,902,461	10,348,471
Property and equipment, net	34,354,726	50,139,058	84,493,784	86,360,119
Net investment in direct financing leases	—	78,998,116	78,998,116	80,638,686
Prepays and other assets	886,962	2,683,633	3,570,595	3,059,644
Deferred income tax asset	—	1,814,447	1,814,447	2,754,333
Total Assets	\$ 251,518,169	\$ 151,222,832	\$ 402,741,001	\$ 397,768,759
Liabilities and Net Assets				
Liabilities				
Accounts payable and accrued expenses	\$ 8,108,306	\$ 1,531,999	\$ 9,640,305	\$ 8,383,529
Amounts held for others	14,675,999	—	14,675,999	15,461,081
Long-term debt	17,350,240	141,202,118	158,552,358	160,587,370
Derivative obligations	1,601,047	3,121,730	4,722,777	7,637,697
Unearned rent	299,420	7,338,774	7,638,194	6,191,667
Other liabilities	1,036,528	17,083	1,053,611	1,058,622
Total Liabilities	\$ 43,071,540	\$ 153,211,704	\$ 196,283,244	\$ 199,319,966
Net Assets				
Unrestricted	\$ 22,172,061	\$ —	\$ 22,172,061	\$ 16,621,242
Temporarily restricted	99,058,190	—	99,058,190	100,314,117
Permanently restricted	87,216,378	—	87,216,378	85,095,038
GMUF Arlington Campus, LLC	—	1,557,908	1,557,908	(1,324,936)
GMUF Mason Administration, LLC	—	(1,566,898)	(1,566,898)	(3,636,619)
GMUF Prince William Housing, LLC	—	1,105,873	1,105,873	936,670
GMUF Prince William Life Sciences Lab, LLC	—	(3,386,382)	(3,386,382)	219,037
GMUF Commerce Buildings, LLC	—	300,627	300,627	224,244
Total Net Assets	\$ 208,446,629	\$ (1,988,872)	\$ 206,457,757	\$ 198,448,793
Total Liabilities and Net Assets	\$ 251,518,169	\$ 151,222,832	\$ 402,741,001	\$ 397,768,759

The accompanying notes are an integral part of these consolidated financial statements.

George Mason University Foundation, Inc. and Subsidiaries

Consolidated Statement of Activities

For the year ended June 30, 2017 (with comparative totals for the year ended June 30, 2016)

	GMU Foundation, Inc.			Real Estate Subsidiaries	Year Ended June 30, 2017	Year Ended June 30, 2016
	Unrestricted	Temporarily Restricted	Permanently Restricted			
Support and Revenue						
Contributions	\$ 249,121	\$ 58,352,233	\$ 3,211,612	\$ —	\$ 61,812,966	\$ 73,210,048
Loss on uncollectible contributions	—	(46,059)	(240,047)	—	(286,106)	(468,397)
Income from perpetual trusts	13,673	467,977	—	—	481,650	565,866
Investment return, net	5,204,212	3,800,932	(476,571)	39,507	8,568,080	1,086,622
Change in value of split interest agreements	—	35,200	553,660	—	588,860	(957,987)
Service fees	1,132,332	—	—	—	1,132,332	1,081,854
Rental income	4,207,383	—	—	10,566,398	14,773,781	13,993,658
Interest on direct financing leases	—	—	—	4,860,543	4,860,543	5,048,641
Gain (loss) on derivatives	1,062,954	—	—	1,851,774	2,914,728	(1,724,109)
Other income	26,570	93,479	27,641	110,977	258,667	248,386
Total support and revenue	11,896,245	62,703,762	3,076,295	17,429,199	95,105,501	92,084,582
Operating Expenses						
Administrative	1,995,523	—	—	1,542,272	3,537,795	3,473,752
Fundraising	306,224	—	—	—	306,224	654,349
Depreciation and amortization	1,487,953	—	—	1,626,542	3,114,495	3,500,836
Interest expense	691,451	—	—	6,358,747	7,050,198	8,817,765
Utilities and other	1,321,166	—	—	1,435,695	2,756,861	2,754,208
Total operating expenses	5,802,317	—	—	10,963,256	16,765,573	19,200,910
Operating Surplus	6,093,928	62,703,762	3,076,295	6,465,943	78,339,928	72,883,672
Reclassification Per Donor Request	(25,000)	979,955	(954,955)	—	—	—
Net Assets Released from Restriction	64,939,644	(64,939,644)	—	—	—	—
Support and Revenue, Net of Operating Expenses	71,008,572	(1,255,927)	2,121,340	6,465,943	78,339,928	72,883,672
Program Service Benefits for George Mason University						
Institutional program support	59,875,570	—	—	—	59,875,570	52,516,631
Scholarships	5,063,007	—	—	—	5,063,007	1,806,585
Administrative support	958,371	—	—	—	958,371	840,452
Total Program Service Benefits	65,896,948	—	—	—	65,896,948	55,163,668
Non-Operating Activity						
Income tax (expense) benefit	—	—	—	(939,886)	(939,886)	2,754,333
Gain (loss) on sale of long-lived assets	439,195	—	—	—	439,195	(280,100)
Loss on defeasance of debt	—	—	—	(3,933,325)	(3,933,325)	—
Total Non-Operating Activity	439,195	—	—	(4,873,211)	(4,434,016)	2,474,233
Changes in Net Assets	5,550,819	(1,255,927)	2,121,340	1,592,732	8,008,964	20,194,237
Net Assets, beginning of year	\$ 16,621,242	\$ 100,314,117	\$ 85,095,038	\$ (3,581,604)	\$ 198,448,793	\$ 178,254,556
Net Assets, end of year	\$ 22,172,061	\$ 99,058,190	\$ 87,216,378	\$ (1,988,872)	\$ 206,457,757	\$ 198,448,793

The accompanying notes are an integral part of these consolidated financial statements.

George Mason University Foundation, Inc. and Subsidiaries

Consolidated Statement of Financial Position - Real Estate Subsidiaries

June 30, 2017 (with comparative totals as of June 30, 2016)

	GMUF Arlington Campus, LLC	GMUF Mason Administration, LLC	GMUF Prince William Housing, LLC	GMUF Prince William Life Sciences Lab, LLC	GMUF Commerce Buildings, LLC	June 30, 2017	June 30, 2016
Assets							
Cash and cash equivalents	\$ 3,335,744	\$ 1,933,528	\$ —	\$ 345,988	\$ 198,507	\$ 5,813,767	\$ 6,239,040
Restricted cash and cash equivalents	8,795,646	—	1,307,610	1,670,555	—	11,773,811	8,004,866
Due to GMUF, Inc.	—	—	—	—	—	—	(288,426)
Property and equipment, net	50,139,058	—	—	—	—	50,139,058	51,175,262
Net investment in direct financing lease	—	28,563,664	15,440,223	29,953,403	5,040,826	78,998,116	80,638,686
Prepays and other assets	2,683,633	—	—	—	—	2,683,633	2,119,612
Deferred income tax asset	1,814,447	—	—	—	—	1,814,447	2,754,333
Total Assets	\$ 66,768,528	\$ 30,497,192	\$ 16,747,833	\$ 31,969,946	\$ 5,239,333	\$ 151,222,832	\$ 150,643,373
Liabilities and Net Assets							
Liabilities							
Accounts payable and accrued expenses	\$ 638,078	\$ 112,933	\$ 260,144	\$ 489,012	\$ 31,832	\$ 1,531,999	\$ 1,425,718
Long-term debt	57,216,685	28,829,427	15,381,816	34,867,316	4,906,874	141,202,118	141,767,664
Derivative obligations	—	3,121,730	—	—	—	3,121,730	4,973,505
Unearned rent	7,338,774	—	—	—	—	7,338,774	6,041,007
Other liabilities	17,083	—	—	—	—	17,083	17,083
Total Liabilities	\$ 65,210,620	\$ 32,064,090	\$ 15,641,960	\$ 35,356,328	\$ 4,938,706	\$ 153,211,704	\$ 154,224,977
Net Assets							
GMUF Arlington Campus, LLC	\$ 1,557,908	\$ —	\$ —	\$ —	\$ —	\$ 1,557,908	\$ (1,324,936)
GMUF Mason Administration, LLC	—	(1,566,898)	—	—	—	(1,566,898)	(3,636,619)
GMUF Prince William Housing, LLC	—	—	1,105,873	—	—	1,105,873	936,670
GMUF Prince William Life Science Lab, LLC	—	—	—	(3,386,382)	—	(3,386,382)	219,037
GMUF Commerce Buildings, LLC	—	—	—	—	300,627	300,627	224,244
Total Net Assets	\$ 1,557,908	\$ (1,566,898)	\$ 1,105,873	\$ (3,386,382)	\$ 300,627	\$ (1,988,872)	\$ (3,581,604)
Total Liabilities and Net Assets	\$ 66,768,528	\$ 30,497,192	\$ 16,747,833	\$ 31,969,946	\$ 5,239,333	\$ 151,222,832	\$ 150,643,373

The accompanying notes are an integral part of these consolidated financial statements.

George Mason University Foundation, Inc. and Subsidiaries

Consolidated Statement of Activities - Real Estate Subsidiaries

For the year ended June 30, 2017 (with comparative totals for the year ended June 30, 2016)

	GMUF Arlington Campus, LLC	GMUF Mason Administration, LLC	GMUF Prince William Housing, LLC	GMUF Prince William Life Sciences Lab, LLC	GMUF Commerce Buildings, LLC	Year Ended June 30, 2017	Year Ended June 30, 2016
Support and Revenue							
Investment returns, net	\$ 16,812	\$ 20,708	\$ 571	\$ 838	\$ 578	\$ 39,507	\$ 9,486
Rental income	10,319,988	—	—	—	246,410	10,566,398	9,734,176
Interest on direct financing leases	—	1,666,632	1,005,030	1,957,757	231,124	4,860,543	5,048,641
Gain (loss) on derivatives	—	1,851,774	—	—	—	1,851,774	(1,090,127)
Other income	90,104	—	—	—	20,873	110,977	79,520
Total support and revenue	10,426,904	3,539,114	1,005,601	1,958,595	498,985	17,429,199	13,781,696
Operating Expenses							
Administrative	1,291,182	62,535	60,889	97,657	30,009	1,542,272	1,529,128
Depreciation and amortization	1,626,542	—	—	—	—	1,626,542	2,168,498
Interest expense	2,445,923	1,406,858	775,509	1,533,032	197,425	6,358,747	8,084,131
Utilities and other	1,240,527	—	—	—	195,168	1,435,695	1,426,236
Total Operating Expenses	6,604,174	1,469,393	836,398	1,630,689	422,602	10,963,256	13,207,993
Non-Operating Activity							
Income tax (expense) benefit	(939,886)	—	—	—	—	(939,886)	2,754,333
Loss on defeasance of debt	—	—	—	(3,933,325)	—	(3,933,325)	—
Total Non-Operating Activity	(939,886)	—	—	(3,933,325)	—	(4,873,211)	2,754,333
Change in Net Assets	2,882,844	2,069,721	169,203	(3,605,419)	76,383	1,592,732	3,328,036
Net Assets, beginning of year	\$ (1,324,936)	\$ (3,636,619)	\$ 936,670	\$ 219,037	\$ 224,244	\$ (3,581,604)	\$ (6,909,640)
Net Assets, end of year	\$ 1,557,908	\$ (1,566,898)	\$ 1,105,873	\$ (3,386,382)	\$ 300,627	\$ (1,988,872)	\$ (3,581,604)

The accompanying notes are an integral part of these consolidated financial statements.

George Mason University Foundation, Inc. and Subsidiaries

Consolidated Statement of Cash Flows

For the year ended June 30,

	2017	2016
Cash Flows from Operating Activities		
Changes in net assets	\$ 8,008,964	\$ 20,194,237
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization of property and leasing commissions	3,114,495	3,500,836
Amortization of debt issuance costs	98,789	110,764
Amortization of bond premium	(39,300)	(59,860)
Change in discount on contributions receivable	191,884	(151,094)
Unrealized investment (gain) loss	(3,012,338)	5,228,046
Realized investment gain	(2,389,813)	(3,209,861)
Interest on direct financing lease	(4,860,543)	(5,048,641)
Change in value of split interest agreements	(622,833)	957,987
Stock contributions	(646,304)	(327,350)
Contributions restricted for long-term purposes	(3,211,612)	(1,819,192)
Loss on defeasance of debt	3,933,325	—
(Gain) loss on disposal of long-lived assets	(439,195)	280,100
Donation of long-lived assets	—	130,815
(Gain) loss on derivative	(2,914,729)	1,724,109
Deferred income tax expense (benefit)	939,886	(2,754,333)
Loss on uncollectible contributions	286,106	468,397
Change in assets and liabilities:		
Pledges receivable	2,027,867	(8,150,057)
Prepays and other assets	(636,399)	(281,656)
Accounts payable and accrued expenses	1,256,776	1,985,681
Amounts held for others	(785,082)	3,330,581
Unearned rent	1,446,527	2,654,068
Other liabilities	31,185	33,429
Net Cash Provided by Operating Activities	1,777,656	18,797,006
Cash Flows from Investing Activities		
Proceeds from sale of investments	71,034,319	70,703,565
Purchases of investments	(71,822,491)	(86,180,784)
Purchases of property and equipment	(1,140,575)	(861,200)
Proceeds from sale of property and equipment	456,868	—
Payments received on direct financing lease	6,466,214	6,405,381
Net Cash Provided by (Used in) Investing Activities	4,994,335	(9,933,038)
Cash Flows from Financing Activities		
Proceeds from contributions in permanent endowments	3,211,612	1,819,192
Increase in debt issuance costs	(46,589)	(325,086)
Proceeds from long-term debt	—	60,000,000
Repayments on long-term debt	(5,946,338)	(65,979,366)
Net Cash Used in Financing Activities	(2,781,315)	(4,485,260)
Increase in Cash, Cash Equivalents, and Restricted Cash	3,990,676	4,378,708
Cash, Cash Equivalents, and Restricted Cash, beginning of year	24,649,649	20,270,941
Cash, Cash Equivalents, and Restricted Cash, end of year	\$ 28,640,325	\$ 24,649,649
Supplemental Disclosure of Cash Flow Activities		
Interest paid and expensed	\$ 6,748,473	\$ 8,866,330

The accompanying notes are an integral part of these consolidated financial statements.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

NOTE A—ORGANIZATION

George Mason University Foundation, Inc. was incorporated on November 21, 1991, as a nonstock corporation under the laws of the Commonwealth of Virginia to accept, administer, apply, and use property and to promote the advancement and further the aims of George Mason University (the “University”) in accordance with donor intent. 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.

Although the Foundation operates to support the University, the Foundation is independent of the University. The Foundation is not a subsidiary of the University and is not directly or indirectly controlled by the University. The assets of the Foundation are exclusively the property of the Foundation. The University is not accountable for, and has no ownership of, any of the financial and capital resources of the Foundation. The University has no authority to mortgage, pledge, or encumber the assets of the Foundation. The Board of Trustees of the Foundation makes all decisions regarding the business and affairs of the Foundation.

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

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

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

June 30, 2017 and 2016

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

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.

Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fair Value of Financial Instruments

The carrying values of financial instruments including investments, contributions receivable, investment in direct financing leases, accounts payable, long-term debt, derivative instruments, amounts held for others, and other liabilities approximate fair value.

Income Taxes

The Foundation is exempt from federal income taxes under Internal Revenue Code ("IRC") section 501(c)(3) and has been classified by the Internal Revenue Service ("IRS") as an organization that is not a private foundation, though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. Under IRS provisions 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 follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2017 and 2016

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Income Taxes—Continued

The Foundation has processes presently in place to ensure the maintenance of its tax-exempt status, to identify and report unrelated income, to determine its filing and tax obligations in jurisdictions for which it has nexus, and to identify and evaluate other matters that may be considered tax positions. The tax years ending June 30, 2014 through 2017 are still eligible for review for both federal and state purposes. The Foundation has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

Cash, Cash Equivalents, and Restricted Cash

For the purposes of the consolidated statement of cash flows, the Foundation considers cash equivalents to include overnight repurchase agreements. Cash and cash equivalents consist of cash and money market funds except those money market funds held for long-term investment purposes. Restricted cash consists of cash and money market funds restricted for debt service, tenant improvements, and repairs and maintenance.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position that sum to the total shown in the statement of cash flows at June 30, 2017 and 2016:

	2017	2016
Cash and cash equivalents	\$ 16,866,514	\$ 19,871,921
Restricted cash and cash equivalents	11,773,811	4,777,728
	<u>\$ 28,640,325</u>	<u>\$ 24,649,649</u>

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 \$350,525 and \$503,056, as of June 30, 2017 and 2016, respectively. Loss on uncollectible contributions was \$286,106 and \$468,397 as of June 30, 2017 and 2016, respectively.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2017 and 2016

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Contributions Receivable—Continued

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

Donated Goods and Services

During the years ended June 30, 2017 and 2016, the Foundation was a beneficiary of donated goods and services. Donated goods are generally gifted to the University to provide greater resources towards their programs. The value of these donated goods and services for the years ended June 30, 2017 and 2016 were:

	2017	2016
Donated rent	\$ 91,328	\$ 91,328
Educational licenses	22,500	388,314
Books, photographs and other educational materials	94,284	1,786,392
	<u>\$ 208,112</u>	<u>\$ 2,266,034</u>

During fiscal year 2016, the Foundation recorded a loss on disposal of long-lived assets of \$280,100 related to the write down of certain donated art and antiques. These art and antiques were subsequently gifted to the University. There were no such disposals in 2017.

Investments

Investments are stated at fair value. The Foundation's investments in mutual funds are valued at the net asset values ("NAVs") reported on the active markets in which the mutual funds are traded. The fair value of other debt and equity securities, such as bonds and common stock, with readily determinable market values are based on published market prices. Alternative investments, which are not readily marketable, are carried at estimated fair values as provided by the investment managers, using NAV as a practical expedient. 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.

Beneficial Interest in Perpetual Trusts

The stated value of the beneficial interest in perpetual trusts is based on the estimated fair value of the assets held by the trusts. The fair values of the mutual funds included in the perpetual trusts are valued at the NAVs reported on the active markets in which the mutual funds are traded. The fair value of other debt and equity securities with a readily determinable market value are based on published market prices.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2017 and 2016

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Endowment Policy

The Foundation's endowment 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. In fiscal year 2017, the Foundation's Board of Trustees modified its spending rate to freeze the payout distribution for existing endowments at its fiscal year 2016 payout amount through fiscal year 2019. Payouts distributions for new or newly fully funded endowments are calculated at 1.25% of the gift corpus through fiscal year 2019.

Effective fiscal year 2020, the Foundation will implement a banded inflation spending methodology. For endowments in which the market value exceed the original gift value, the prior year payout distribution will increase at the rate of the Consumer Price Index, with annual distributions to remain above 3.0% but not to exceed 6.0% of fair market value. The endowment payout for accounts for which the market value is below the original gift value will receive a 2.0% payout.

To the extent that the market values of the individual endowment funds fall below the original gift values, such deficiencies are reported as unrestricted net assets, in accordance with GAAP. The allocation ranges for endowment assets during the current year are as follows:

Asset Class	Allocation Ranges
Cash or cash equivalents	0% to 10%
Domestic/global fixed income	20% to 55%
High yield fixed income	0% to 15%
Total fixed income	20% to 60%
Domestic equity	20% to 60%
Global equity, excluding US	10% to 40%
Total equity	30% to 70%
Hedge funds, private equity and real estate	10% to 40%
Managed futures/commodities	0% to 10%
Total alternative investments	10% to 50%

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, such as University endowments and gifts, The Alumni Association of George Mason University, Association of Writers and Writing Programs, and University athletic organizations.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2017 and 2016

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

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.

Debt Issuance Costs

The Foundation's capitalized costs relate to the financing of a housing project for the University and loans and bonds related to the GMUF Arlington Campus, LLC, GMUF Mason Administration, LLC, GMUF Prince William Housing, LLC, GMUF Prince William Life Sciences Lab, LLC, and GMUF Commerce Buildings, LLC projects. These costs are presented in the consolidated statement of financial position as a direct deduction from the carrying amount of the debt liability and are amortized over the life of the bonds and notes. Amortization expense for each of the years ended June 30, 2017 and 2016, totaled \$98,789 and \$110,764, respectively, and is included in interest expense on consolidated statement of activities.

Revenue Recognition

Base rent income relating to the GMUF Arlington Campus, LLC is recognized on a straight-line basis, rather than in accordance with lease payment schedules, for the purpose of recognizing a constant annual rental income. Scheduled base rent increases and the effects of rent abatements are spread evenly over the terms of the respective leases. Differences between the straight-line rents recorded and the amounts actually received are included in unearned rent. The impact of the straight-line adjustment increased rental income by \$619,182 and \$183,954 as of June 30, 2017 and 2016, respectively.

The Foundation rents the GMUF Mason Administration, LLC building, the Prince William Housing, LLC building, GMUF Prince William Life Sciences Lab, LLC building and the GMUF Commerce Buildings, LLC to the University through direct financing leases. The lease terms range from 15 to 30 years. Interest on the direct financing leases is recognized over the lease term using the effective interest method.

Depreciation

Property and equipment having a cost in excess of \$5,000 are capitalized at cost. Donated assets in excess of \$5,000 are capitalized at the estimated fair value on 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.

June 30, 2017 and 2016

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Prior Year Summarized Information

The consolidated financial statements include certain prior year summarized comparative information in total but not by asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

New Accounting Pronouncements

In November 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. Due to the diversity that exists in the presentation of restricted cash across entities, this ASU clarifies how restricted cash should be reported in the statement of cash flows. Specifically, amounts classified as restricted cash or restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning and end-of-period amounts reported on the statement of cash flows. This ASU is effective for public entities for fiscal years beginning after December 15, 2017. Early adoption and retrospective application is permitted. The Foundation elected to early adopt this ASU for the years ended June 30, 2017 and 2016. Therefore, restricted cash is included in the beginning and ending balances reported on the statement of cash flows.

Management is currently evaluating the effects the following accounting pronouncements will have on their financial statements:

ASU 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 requires an entity to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which an entity expects to be entitled in exchange for those goods or services. Five key steps will be required to assess revenue recognition along with enhanced disclosures. The ASU is effective for fiscal year 2019.

ASU 2016-02, *Leases*. ASU 2016-02, will require lessees to recognize lease assets and liabilities on the balance sheet for all arrangements with terms longer than 12 months. Lessor accounting remains largely consistent with existing U.S. GAAP. The ASU is effective for fiscal year 2019.

ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 reduces the number of net assets classification from three to two: with donor restrictions and without donor restrictions. The ASU also requires not-for-profits to report expenses by functional and natural classification in one location in the financial statements, and requires not-for-profits to report quantitative and qualitative information about management of liquidity resources and availability of financial assets. The ASU is effective for fiscal year 2019.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2017 and 2016

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Reclassifications

Certain amounts from the prior year have been reclassified to conform to the current year presentation. The reclassifications had no impact on previously reported net assets.

NOTE C—CONTRIBUTIONS RECEIVABLE

Contributions receivable as of June 30, 2017 and 2016 are as follows:

	2017	2016
Due in less than one year	\$ 14,782,247	\$ 11,721,987
Due in one to five years	15,511,734	25,718,644
Due in more than five years	5,049,897	369,751
	35,343,878	37,810,382
Less: allowance for doubtful accounts	(350,525)	(503,056)
Less: discount present value	(1,549,454)	(1,357,570)
	<u>\$ 33,443,899</u>	<u>\$ 35,949,756</u>

Discount rates range from 0.46% to 4.64% for the years ended June 30, 2017 and 2016.

As of June 30, 2017 and 2016, the Foundation has \$23,022,500 and \$31,107,000, respectively, of conditional promises to give. These conditional promises to give are not recognized as assets in the consolidated statement of financial position.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2017 and 2016

NOTE D—INVESTMENTS

Investments, which are reported at fair value, consisted of the following as of June 30, 2017 and 2016:

	2017	2016
Cash and money market funds	\$ 3,081,078	\$ 19,365,338
Equities	45,981,087	47,135,878
Fixed income	89,426,927	60,257,480
Commodities	18,952	19,330
Real estate	36,982	37,444
Liquid alternatives	2,551,503	1,497,036
Hedge funds	10,641,479	15,482,945
Managed futures	2,353,585	2,804,390
Private equity and real assets	6,785,781	7,408,260
	<u>\$ 160,877,374</u>	<u>\$ 154,008,101</u>

Investment earnings are summarized as follows for the years ended June 30, 2017 and 2016:

	2017	2016
Interest and dividends, net of external management fees	\$ 3,165,929	\$ 3,104,807
Realized gain	2,389,813	3,209,861
Unrealized gain (loss)	3,012,338	(5,228,046)
Investment return, net	8,568,080	1,086,622
Investment return included with change in value of split interest agreements	55,083	(40,537)
	<u>\$ 8,623,163</u>	<u>\$ 1,046,085</u>

For the years ended June 30, 2017 and 2016, the Foundation paid external management fees of \$300,325 and \$191,655, respectively.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2017 and 2016

NOTE E—SPLIT INTEREST AGREEMENTS

Beneficial Interest in Perpetual Trusts

The Foundation is a 50% beneficiary in a 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, 2017 and 2016 totaled approximately \$9.0 million and \$8.5 million, respectively. Contributions from the trust totaled \$455,775 and \$543,183 for the years ended June 30, 2017 and 2016, respectively, and is included in unrestricted and temporarily restricted income from perpetual trusts. The change in value of the trust increased \$438,315 and decreased \$868,029 during the years ended June 30, 2017 and 2016, respectively. These amounts are included in permanently restricted support and revenue as a component of change in value of split interest agreements on the consolidated statements of activities.

The Foundation is a 100% beneficiary in a 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, 2017 and 2016 totaled approximately \$1.9 million and \$1.8 million, respectively. Contributions from the trust totaled \$25,875 and \$22,683 for the years ended June 30, 2017 and 2016, respectively, and is included in temporarily restricted income from perpetual trusts. The change in value from the trust increased \$115,675 and decreased \$11,600 during the years ended June 30, 2017 and 2016, respectively. These amounts are included in permanently restricted support and revenue as a component of change in value of split interest agreements on the consolidated statements of activities.

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 paid to the beneficiaries over the agreements' terms. Upon termination of the agreements, the Foundation will receive or retain the remaining assets. Liabilities are recorded at the net present value of the estimated future annuity payments. Life expectancies range from 3 to 21 years and discount rates range from 2.0 to 8.0%. The market value of the assets at June 30, 2017 and 2016 was \$963,885 and \$931,238, respectively. Liabilities related to these agreements were \$437,007 and \$473,203 at June 30, 2017 and 2016, respectively, and are included with other liabilities. During fiscal year 2017, the Foundation received one new charitable gift annuity. No new charitable remainder trusts or gift annuities were received in fiscal year 2016.

The activity related to the change in charitable trusts and gift annuities, recorded as change in value of split interest agreements, was an increase of \$34,870 and a decrease of \$78,358 for the years ended June 30, 2017 and 2016, respectively.

June 30, 2017 and 2016

NOTE F—ENDOWMENT

The Foundation's endowment consists of approximately 470 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The permanently restricted portion of the Foundation's endowment includes contributions receivable but excludes split interest agreements.

Interpretation of Relevant Law

The Board of Trustees of the Foundation has interpreted the Commonwealth of Virginia's Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the endowment fund
- 2) The purposes of the Foundation and the donor-restricted endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of the Foundation
- 7) The investment policies of the Foundation

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2017 and 2016

NOTE F—ENDOWMENT—Continued

Interpretation of Relevant Law—Continued

Endowment Net Asset Composition by Type of Fund as of June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (571,437)	\$ 2,996,280	\$ 75,191,457	\$77,616,300
Board-designated endowment funds	76,137	—	—	76,137
Total funds	<u>\$ (495,300)</u>	<u>\$ 2,996,280</u>	<u>\$ 75,191,457</u>	<u>\$77,692,437</u>

Changes in Endowment Net Assets for the Year Ended June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ (2,369,585)	\$ 932,820	\$ 73,003,138	\$71,566,373
Investment return:				
Investment income	366,449	1,149,148	24,271	1,539,868
Net appreciation (realized and unrealized)	2,071,232	2,715,937	76,641	4,863,810
External management fees	(66,146)	(207,427)	(4,381)	(277,954)
Total investment return	2,371,535	3,657,658	96,531	6,125,724
Contributions	—	—	3,239,253	3,239,253
Appropriation of endowment assets for expenditure	(497,250)	(1,595,121)	—	(2,092,371)
Losses on uncollectible pledges	—	—	(240,047)	(240,047)
Other changes	—	923	(907,418)	(906,495)
Endowment net assets, end of year	<u>\$ (495,300)</u>	<u>\$ 2,996,280</u>	<u>\$ 75,191,457</u>	<u>\$77,692,437</u>

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2017 and 2016

NOTE F—ENDOWMENT—Continued

Interpretation of Relevant Law—Continued

Endowment Net Asset Composition by Type of Fund as of June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (2,439,936)	\$ 932,820	\$ 73,003,138	\$71,496,022
Board-designated endowment funds	70,351	—	—	70,351
Total funds	\$ (2,369,585)	\$ 932,820	\$ 73,003,138	\$71,566,373

Changes in Endowment Net Assets for the Year Ended June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ (1,124,109)	\$ 2,102,405	\$ 71,266,828	\$72,245,124
Investment return:				
Investment income	1,114,785	343,215	14,837	1,472,837
Net depreciation (realized and unrealized)	(434,449)	(949,598)	(14,084)	(1,398,131)
External management fees	(135,242)	(41,638)	(1,800)	(178,680)
Total investment return	545,094	(648,021)	(1,047)	(103,974)
Contributions	—	—	1,819,192	1,819,192
Appropriation of endowment assets for expenditure	(1,790,570)	(526,844)	—	(2,317,414)
Losses on uncollectible pledges	—	—	(44,623)	(44,623)
Other changes	—	5,280	(37,212)	(31,932)
Endowment net assets, end of year	\$ (2,369,585)	\$ 932,820	\$ 73,003,138	\$71,566,373

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

	2017	2016
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA	\$ 75,191,457	\$73,003,138
Total endowment funds classified as permanently restricted net assets	\$ 75,191,457	\$73,003,138

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2017 and 2016

NOTE F—ENDOWMENT—Continued

Interpretation of Relevant Law—Continued

	<u>2017</u>	<u>2016</u>
The portion of perpetual endowment funds subject to a time restriction under UPMIFA		
Academic support	\$ 133,234	\$ 15,153
Community/public service	251,489	105,217
Eminent scholars	1,316,299	374,529
Research	324,986	205,005
Student financial aid	909,722	218,163
Other	60,550	14,753
	<u> </u>	<u> </u>
Total endowment funds classified as temporarily restricted net assets	<u>\$ 2,996,280</u>	<u>\$ 932,820</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 for certain programs deemed prudent by the Board of Trustees. Future gains will be classified as increases in unrestricted net assets until the shortfalls previously charged to unrestricted net assets have been eliminated and endowment fund assets are restored to the required levels stipulated by donors. As of June 30, 2017 and 2016, \$571,437 and \$2,439,936, respectively, of such deficiencies are reported in unrestricted net assets.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2017 and 2016

NOTE F—ENDOWMENT—Continued

Funds with Deficiencies—Continued

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

	<u>2017</u>	<u>2016</u>
Permanently Restricted Net Assets, end of year	\$ 87,216,378	\$ 85,095,038
Beneficial interest in perpetual trusts	(10,902,461)	(10,348,471)
Charitable remainder trusts and charitable gift annuities	(359,340)	(359,671)
Other permanently restricted investments	(763,120)	(1,383,758)
Permanently Restricted Endowments, end of year	<u>\$ 75,191,457</u>	<u>\$ 73,003,138</u>

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 at least equal to inflation plus the spending rate including administrative expenses, net of investment fees. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

As further summarized in Note B, the percentage appropriated for distribution, as a percentage of endowment market value, was 3.15% and 3.70% as of June 30, 2017 and 2016, respectively. The Foundation considers the long-term expected return on its endowment and the organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term.

June 30, 2017 and 2016

NOTE G—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.

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.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2017 and 2016

NOTE G—FAIR VALUE MEASUREMENT—Continued

- *Equities:* Investments in equity securities valued at the quoted prices in an active market are classified within Level 1 of the fair value hierarchy.
- *Fixed income:* This class includes fixed income mutual funds, corporate bonds, municipal bonds and US government and agency securities. When quoted prices are available in an active market, fixed income securities are classified within Level 1 of the fair value hierarchy. Quoted prices in inactive markets are classified within Level 2. If quoted market prices are not available or accessible, then fair values are estimated using pricing models or discounted cash flow models. The fair values of corporate debt securities estimated using pricing models or matrix pricing based on observable prices of corporate debt securities that trade in inactive markets are generally classified within Level 2 of the fair value hierarchy.
- *Commodities and real estate:* These classes include investments in commodity and real estate mutual funds which are valued at the quoted prices in an active market and are classified within Level 1 of the fair value hierarchy.
- *Liquid Alternatives:* This class includes mutual funds, which have alternative type strategies which are valued at the quoted market prices in an active market and are classified within Level 1 of the fair value hierarchy.
- *Hedge funds, managed futures, private equity and real assets:* Investments in these classes are valued at the NAV provided by the underlying investment managers based on the shares held by the Foundation at year end. Valuations provided by alternative investment fund managers include estimates, appraisals, assumptions and methods that are reviewed by management. When necessary, the Foundation adjusts NAV for contributions, distributions, or general market conditions subsequent to the latest NAV valuation date when calculating fair value. Because the Foundation uses NAV as a practical expedient for fair value for the hedge funds, managed futures, private equity and real assets, these investments are excluded from the fair value hierarchy.
- *Beneficial interest in perpetual trusts:* Beneficial interests in perpetual trusts held by others are valued using the fair value of the assets in the trust as a practical expedient unless facts and circumstances indicate that the fair value of the assets in the trust differs from the fair value of the beneficial interests. Perpetual trusts held by others are classified within Level 3 of the fair value hierarchy. The underlying assets are primarily comprised of cash equivalents, equities and fixed income securities.
- *Derivative obligations and assets:* Interest rate swaps and caps are valued using pricing models (such as discounted cash flows) based on observable market data such as prices of instruments with similar maturities and characteristics, interest rate yield curves, and measures of interest rate volatility. Interest rate swaps and caps are reflected on the consolidated statement of financial position as derivative assets and derivative obligations. These derivatives are classified within Level 2 of the fair value hierarchy.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2017 and 2016

NOTE G—FAIR VALUE MEASUREMENT—Continued

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

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, 2017:

	Level 1	Level 2	Level 3	Reported at NAV	Total
Financial Assets:					
Cash and cash equivalents	\$ 3,081,078	\$ —	\$ —	\$ —	\$ 3,081,078
Equities:					
Domestic large cap	20,048,478	—	—	—	20,048,478
Domestic small/mid cap	5,213,352	—	—	—	5,213,352
International (developed countries)	17,031,191	—	—	—	17,031,191
International (emerging markets)	3,688,066	—	—	—	3,688,066
Fixed income:					
Short-term bonds	60,248,719	—	—	—	60,248,719
Intermediate bonds	15,023,704	—	—	—	15,023,704
Long-term bonds	5,817,244	—	—	—	5,817,244
Multi-sector bonds	91,635	—	—	—	91,635
World bonds	5,721,114	—	—	—	5,721,114
Bank loans	2,524,511	—	—	—	2,524,511
Commodities	18,952	—	—	—	18,952
Real estate	36,982	—	—	—	36,982
Liquid alternatives	2,551,503	—	—	—	2,551,503
Hedge funds	—	—	—	10,641,479	10,641,479
Managed futures	—	—	—	2,353,585	2,353,585
Private equity and real assets	—	—	—	6,785,781	6,785,781
Investments	141,096,529			19,780,845	160,877,374
Beneficial interest in perpetual trusts	—	—	10,902,461	—	10,902,461
Derivative asset	—	366	—	—	366
Total financial assets	\$141,096,529	\$ 366	\$10,902,461	\$ 19,780,845	\$171,780,201
Financial Liabilities:					
Derivative obligations	\$ —	\$4,722,777	\$ —	\$ —	\$ 4,722,777

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2017 and 2016

NOTE G—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, 2016:

	Level 1	Level 2	Level 3	Reported at NAV	Total
Financial Assets:					
Cash and cash equivalents	\$ 19,365,338	\$ —	\$ —	\$ —	\$ 19,365,338
Equities:					
Domestic large cap	22,773,230	—	—	—	22,773,230
Domestic small/mid cap	4,038,564	—	—	—	4,038,564
International (developed countries)	15,967,488	—	—	—	15,967,488
International (emerging markets)	4,356,596	—	—	—	4,356,596
Fixed income:					
Short-term bonds	26,586,365	—	—	—	26,586,365
Intermediate bonds	16,840,363	—	—	—	16,840,363
Multi-sector bonds	94,732	—	—	—	94,732
World bonds	10,223,133	—	—	—	10,233,133
Bank loans	6,512,887	—	—	—	6,512,887
Commodities	19,330	—	—	—	19,330
Real estate	37,444	—	—	—	37,444
Liquid alternatives	1,497,036	—	—	—	1,497,036
Hedge funds	—	—	—	15,482,945	15,482,945
Managed futures	—	—	—	2,804,390	2,804,390
Private equity and real assets	—	—	—	7,408,260	7,408,260
Investments	128,312,506	—	—	25,695,595	154,008,101
Beneficial interest in perpetual trusts	—	—	10,348,471	—	10,348,471
Derivative asset	—	557	—	—	557
Total financial assets	\$128,312,506	\$ 557	\$10,348,471	\$ 25,695,595	\$164,357,129
Financial Liabilities:					
Derivative obligations	\$ —	\$7,637,697	\$ —	\$ —	\$ 7,637,697

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2017 and 2016

NOTE G—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, 2017.

	Balance at July 1, 2016	Net Gain on Investments	Purchases	Sales	Transfers Out of Level 3	Balance at June 30, 2017
Beneficial interest in perpetual trusts	\$ 10,348,471	\$ 553,990	\$ —	\$ —	\$ —	\$ 10,902,461

The Foundation's policy is to recognize transfers in and out of fair value hierarchy levels as of the end of the reporting period in which the event or change in circumstances occurred.

The table below sets forth a summary of changes in fair value of the Foundation's level 3 assets for the year ended June 30, 2016.

	Balance at July 1, 2015	Net Loss on Investments	Purchases	Sales	Transfers Out of Level 3	Balance at June 30, 2016
Beneficial interest in perpetual trusts	\$ 11,228,100	\$ (879,629)	\$ —	\$ —	\$ —	\$ 10,348,471

The following table presents the nature and risk of assets with fair values estimated using NAV held at June 30, 2017:

	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Hedge funds –Multi-strategies (a)	\$ 4,857,832	\$ N/A	Quarterly, Annually	60 days, 65 days, 90 days
Hedge funds –Directional (b)	5,783,647	N/A	Annually	105 days
Managed futures (c)	2,353,585	N/A	Daily	1 day
Private equity and real assets (d)	6,785,781	4,031,070	N/A	N/A
Total	\$19,780,845	\$ 4,031,070		

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2017 and 2016

NOTE G—FAIR VALUE MEASUREMENT—Continued

The following table presents the nature and risk of assets with fair values estimated using NAV held at June 30, 2016:

	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Hedge funds –Multi-strategies ^(a)	\$10,350,797	\$ N/A	Quarterly, Annually	60 days, 65 days, 90 days
Hedge funds –Directional ^(b)	5,132,148	N/A	Annually	105 days
Managed futures ^(c)	2,804,390	N/A	Daily	1 day
Private equity and real assets ^(d)	7,408,260	3,313,431	N/A	N/A
Total	<u>\$25,695,595</u>	<u>\$ 3,313,431</u>		

- (a) Hedge funds- Multi-strategies: This class includes investments that use multiple strategies to obtain absolute returns. Direct and indirect investments are made using capital structure arbitrage, distressed debt, equity long/short, multi-strategy credit, multi-strategy event driven, value and other trading strategies. The investments in this class are redeemable based on the redemption frequencies and notice periods described above.
- (b) Hedge funds – Directional: This class includes investments that use directional strategies, primarily long/short strategies. Investments held by this fund primarily consist of equities. The investments in this class are redeemable based on the redemption frequency and notice period described above.
- (c) Managed futures: This class includes investments with the objective to seek long-term capital appreciation. This is a multi-manager fund traded by approximately 20 commodity trading advisors (“CTAs”) across different styles of managed futures trading. Geographic distribution of investments is approximately 50% to North America and 50% to Europe. Currently, all investments in this class are redeemable.
- (d) Private equity and real assets: This class includes investments in private equity and real asset funds. The real asset funds invest in global real estate investments for purpose of generating income and capital appreciation. The private equity funds, which include venture capital funds, make direct and indirect investments in privately and publicly issued debt equity securities. Strategies employed by the private equity funds include distress, growth equity, buyout, alternative credit and opportunistic strategies across a variety of industries and geographies. These investments can never be redeemed with the funds. Instead, the nature of the investments in this class is that distributions are received through liquidation of the underlying assets of the funds. It is estimated that the underlying assets will be liquidated over 1 to 8 years.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2017 and 2016

NOTE H—PROPERTY AND EQUIPMENT

The following summarizes the Foundation's property and related direct financing leases and bonds and notes payable at June 30, 2017:

Property	Description	Net Book Value, Property and Equipment June 30, 2017	Net Investment in Direct Financing June 30, 2017	Debt Issuer	Long-Term Debt June 30, 2017
GMUF Arlington Campus, LLC	Commercial office building, Arlington County, VA	\$ 50,139,058	\$ —	Bank Notes	\$ 57,508,272
GMUF Mason Administration, LLC	Merten Hall, administration building, main campus, Fairfax County, VA	—	28,563,664	FCEDA	28,968,403
GMUF Prince William Housing, LLC	Beacon Hall, graduate student housing, Science and Technology Campus, Prince William County, VA	—	15,440,223	IDA-PW	15,480,000
GMUF Prince William Life Sciences Lab, LLC	Research and office space, Science and Technology Campus, Prince William County, VA	—	29,953,403	IDA-PW	35,330,000
GMUF Commerce Buildings, LLC	Research and office space, City of Fairfax, VA	—	5,040,826	Bank Notes	5,004,823
Potomac Heights	Dormitory, main campus, Fairfax County, VA	15,038,654	—	FCEDA	17,372,500
University Park	Graduate student townhomes and commercial office space, City of Fairfax, VA	955,002	—	N/A	—
Kelley Drive Property	Office space, Fairfax County, VA	26,733	—	N/A	—
Mathy House	Residential rental, Fairfax County, VA	349,511	—	N/A	—
Mathy Lodge	Residential rental, Fairfax County, VA	1,133,163	—	N/A	—
Franconia Land	5.6 acres of vacant land, Fairfax County, VA	5,000	—	N/A	—
Shirley Gate Park Land	0.77 acre vacant lot, Fairfax County, VA	27,500	—	N/A	—
Broadlands Land	36.73 acres of vacant land, Loudoun County, VA	13,049,828	—	N/A	—
Point of View Land	77.63 acres of vacant land, Fairfax County, VA	3,728,504	—	N/A	—
	Furniture and fixtures, system assets	40,831	—	N/A	—
	Unamortized net premium	—	—	N/A	69,336
	Debt issuance costs	—	—	N/A	(1,180,976)
Total		\$ 84,493,784	\$ 78,998,116		\$ 158,552,358

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2017 and 2016

NOTE H—PROPERTY AND EQUIPMENT—Continued

The following comprises property and equipment at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Land	\$ 27,109,091	\$ 27,125,291
Buildings	88,132,687	88,119,586
Building improvements	5,260,429	4,904,765
Furniture and equipment	2,742,764	2,065,457
	<u>123,244,971</u>	<u>122,215,099</u>
Accumulated depreciation and amortization	<u>(38,751,187)</u>	<u>(35,854,980)</u>
Property and equipment, net	<u>\$ 84,493,784</u>	<u>\$ 86,360,119</u>

During fiscal year 2017, the Foundation sold a building resulting in a gain of \$439,195. There were no buildings sold in 2016.

NOTE I—LEASES

Rental Income on Operating Leases

The Foundation leases certain properties with a cost of \$109,415,122 and \$108,385,250 and accumulated depreciation of \$38,044,497 and \$35,165,741 as of June 30, 2017 and 2016, respectively, under operating lease agreements. A portion of the above properties, are leased to the University, and therefore subject to state appropriation. The expected future rental payments from the University are \$36,468,335 and \$40,502,077 as of June 30, 2017 and June 30, 2016, respectively.

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

2018	\$ 9,737,599
2019	9,910,036
2020	9,626,202
2021	9,812,119
2022	9,914,299
Thereafter	<u>42,001,598</u>
	<u>\$ 91,001,853</u>

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2017 and 2016

NOTE I—LEASES—Continued

During the years ended June 30, 2017 and 2016, rental income earned by the Foundation totaled \$14,773,781 and \$13,993,658, of which \$4,635,482 and \$4,591,672 was paid by the University for 2017 and 2016, respectively. Additionally, \$3,619,783 and \$3,659,137, was paid by University students for 2017 and 2016, respectively.

Leasing commissions related to the GMUF Arlington Campus, LLC project are capitalized. The Foundation amortizes these costs over the life of the related leases. Amortization expense totaled \$125,258 and \$409,546 for the years ended June 30, 2017 and 2016, respectively. Unamortized leasing commissions, a component of prepaids and other assets, was \$670,202 and \$585,302 for the years ended June 30, 2017 and 2016, respectively.

Direct Financing Leases

In recent years, the Foundation has completed several construction projects for GMUF Mason Administration, LLC, GMUF Prince William Housing, LLC, GMUF Prince William Life Sciences Lab, LLC, and the GMUF Commerce Buildings, LLC for subsequent leasing to the University. All of these leases meet the lessor's criteria to account for these building leases as direct financing leases.

Under the terms of these lease agreements, the rent payments are calculated based on the annual debt service costs of the building as well as additional rents to ensure the Foundation has sufficient funding to pay the principal, interest, carrying costs and development costs of the projects. The future minimum rentals are based on the following terms:

Building	Loan Borrowing	Term	Final Fiscal Year of Payment
GMUF Mason Administration, LLC	\$34,000,000	25 years	2036
GMUF Prince William Housing, LLC	\$15,625,000	30 years	2042
GMUF Prince William Lab Sciences, LLC	\$35,330,000	29.5 years	2042
GMUF Commerce Buildings, LLC	\$ 5,720,000	15 years	2030

All direct financing leases are with the University and the rental payments are subject to annual state appropriation.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2017 and 2016

NOTE I—LEASES—Continued

The components of the net investment in the direct financing leases as of June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Total minimum lease payments to be received	\$147,518,578	\$154,476,423
Less: Unearned income	<u>(68,520,462)</u>	<u>(73,837,737)</u>
Net investment in direct financing lease	<u>\$ 78,998,116</u>	<u>\$ 80,638,686</u>

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

2018	\$ 6,509,582
2019	6,551,687
2020	6,572,445
2021	6,636,220
2022	6,630,771
Thereafter	<u>114,617,873</u>
	<u>\$147,518,578</u>

NOTE J—LONG-TERM DEBT

George Mason University Foundation, Inc. (Potomac Heights and University Park Projects) - 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 to finance a housing project for the University and to refinance existing properties the Foundation owns and rents to the University. On May 1, 2013, the Foundation refinanced the remaining \$25,520,000 of the Fairfax County Economic Development Authority bonds with the same commercial bank. These variable rate bonds mature on May 31, 2018. With the exception of \$522,500, the interest rate on these bonds is effectively fixed through an interest rate swap (see Note K).

On November 7, 2016, the commercial bank agreed to release the lien of the deed of trust from the University Park Projects.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2017 and 2016

NOTE J—LONG-TERM DEBT—Continued

GMUF Mason Administration, LLC (Merten Hall) - Fairfax County Economic Development Authority 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. The Foundation borrowed only \$32,100,000 of the Revenue Bond Series 2010A and the entire \$1,900,000 of the Revenue Bond Series 2010B.

The Series 2010A Bonds were subject to mandatory repayment at the option of the commercial bank on December 1, 2023. On November 4, 2016, the Foundation executed a loan modification agreement in which the commercial bank shall not exercise the mandatory prepayment option but the Foundation is now obligated to prepay the Series 2010A Bonds on June 1, 2024.

Proceeds were used in the acquisition, construction, renovation and equipping of a five-story administration building for classrooms, administrative office and retail space. The building was substantially completed in May 2011, with remaining construction for retail space completed in fiscal year 2014. The Foundation's loan obligation is limited to that portion of the bond issuance which it drew upon pursuant to the Bond Purchase and Loan Agreement.

As part of this transaction, the Foundation simultaneously entered into two forward floating-to-fixed interest rate swaps with a commercial bank to effectively fix the interest rates on the tax-exempt and taxable bonds. See Note K for discussion regarding the interest rate swaps.

GMUF Prince William Housing, LLC (Beacon Hall) - Industrial Development Authority of the County of Prince William Bonds

On August 11, 2011, the Industrial Development Authority of the County of Prince William issued its \$14,640,000 Revenue Bond Series 2011A (Tax-Exempt George Mason University Foundation Prince William Housing LLC Project) and its \$985,000 Revenue Bond Series 2011B (Taxable George Mason University Foundation Prince William Housing LLC Project). Proceeds were used to finance the acquisition, construction and equipping of a student residence hall, university program space, and unimproved "shell space" designated for retail tenants.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2017 and 2016

NOTE J—LONG-TERM DEBT—Continued

GMUF Prince William Housing, LLC (Beacon Hall) - Industrial Development Authority of the County of Prince William Bonds—Continued

The Series 2011A and Series 2011B Bonds are special, limited obligations of the Issuer, payable solely from the revenues pledged therefore under the indenture. Neither the Foundation nor the University is liable for payments of the principal or redemption price of interest on the Bonds. The Foundation began leasing the property to the University in fiscal year 2013 with a 30 year lease term (see Note I), and the lease payments made by the University service the bonds' principal and interest payments.

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

On August 11, 2011, the Industrial Development Authority of the County of Prince William issued its \$31,065,000 Revenue Bond Series 2011AA (Tax-Exempt George Mason University Foundation Prince

William Life Sciences Lab LLC Project) and its \$2,145,000 Revenue Bond Series 2011BB (Taxable George Mason University Foundation Prince William Life Sciences Lab LLC Project) pursuant to a Trust Indenture dated August 1, 2011. Proceeds were used to finance the acquisition, construction and equipping of life sciences lab facilities and the acquisition and construction of unimproved "shell space" designated for commercial laboratory use. The project was completed in fiscal year 2015.

The Series 2011AA and Series 2011BB Bonds are special, limited obligations of the Issuer, payable solely from the revenues pledged therefore under the indenture. Neither the Foundation nor the University is liable for payments of the principal or redemption price of interest on the Bonds. The Foundation began leasing the property in fiscal year 2013 to the University with a 29.5 year lease term (see Note I), and the lease payments made by the University service the bonds' principal and interest payments. The Series 2011BB Bonds matured on September 1, 2016.

During fiscal year 2017, the Industrial Development Authority of the County of Prince William issued its \$35,330,000 Revenue Bond Series 2017 ("Series 2017 Bonds") pursuant to a Trust Indenture dated February 1, 2017. Proceeds were used by the Foundation to execute an advanced refunding and to legally defease the Series 2011AA Bonds. As a result, the Series 2011AA Bonds are deemed extinguished for accounting purposes resulting in a loss of \$3,933,325 during fiscal year 2017. The Foundation entered into this advanced refunding to eliminate the private business use restrictions on the Life Sciences Lab, allowing the Foundation more flexibility in utilizing the space and to take advantage of historically low long-term interest rates. The University's lease payments fund the debt service of the Series 2017 Bonds.

All of the term bonds for the Industrial Development Authority of the County of Prince William Series 2017 Bonds are subject to mandatory redemption by operation of sinking fund installments.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2017 and 2016

NOTE J—LONG-TERM DEBT—Continued

GMUF Commerce Buildings, LLC - Industrial Development Authority of the Town of Clifton, VA

On May 24, 2013, the Industrial Development Authority of the Town of Clifton, VA issued its \$6,500,000 Revenue Bond Series 2013 (GMUF Commerce Buildings, LLC Project) and sold such bonds to a commercial bank pursuant to a Bond Purchase and Loan Agreement dated May 24, 2013. Proceeds were used for the purposes of (a) refinancing \$2,260,000 of the Fairfax County Development Authority bonds, (b) renovating existing office buildings owned by the Foundation in the City of Fairfax, Virginia, and (c) paying certain other expenditures associated with the bond issuance, such as debt issuance costs. The project was completed in fiscal year 2014, and the Foundation had drawn a total of \$6,232,503 of the loan with the commercial bank. The Foundation's loan obligation is limited to that portion of the bond issuance which it drew upon pursuant to the Bond Purchase and Loan Agreement.

On March 16, 2015, GMU Commerce Buildings, LLC modified its existing loan with the commercial bank resulting in a taxable loan of \$5,720,000 at a fixed rate of 3.63%, maturing March 1, 2030. The Foundation leases the property to the University with a 15 year lease term (see Note I) and the rental payments made by the University service the notes' principal and interest payments as well as operating costs.

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, Arlington, VA, with a financial institution.

During fiscal year 2016, GMUF Arlington Campus, LLC extinguished its existing loan and terminated a related letter of credit. Effective June 1, 2016, GMUF Arlington Campus, LLC negotiated a new loan of \$60 million with another commercial bank at a fixed rate of 4.05%, maturing June 1, 2033.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2017 and 2016

NOTE J—LONG-TERM DEBT—Continued

The following represents the Foundation's bonds and notes payable at June 30, 2017 and 2016.

	2017	2016
Fairfax County Economic Development Authority Bonds (FCEDA):		
George Mason University Foundation, Inc. Bonds, variable rates maturing on May 31, 2018	\$ 17,372,500	\$ 18,866,250
GMUF Mason Administration, LLC Tax-Exempt Revenue Bonds, variable rates maturing on June 1, 2024	28,968,403	29,898,403
Industrial Development Authority of the County of Prince William (IDA-PW):		
Prince William County Series 2011A Bonds, serial with interest rates ranging from 4.25% to 5.00%, maturing at various dates from September 1, 2022 to September 1, 2026	1,895,000	1,895,000
Prince William County Series 2011A Bonds, term interest rate 5.50%, maturing September 1, 2031	3,190,000	3,190,000
Prince William County Series 2011A Bonds, term interest rate 5.125%, maturing September 1, 2041	9,555,000	9,555,000
Prince William County Series 2011B Bonds, term interest rate 3.375%, maturing September 1, 2021	840,000	920,000
Prince William County Series 2011AA Bonds, serial with interest rates ranging from 3.00% to 5.00%, maturing at various dates from September 1, 2016 to September 1, 2026		8,010,000
Prince William County Series 2011AA Bonds, term interest rate 5.50%, maturing September 1, 2031	—	5,705,000
Prince William County Series 2011AA Bonds, term interest rate 5.50%, maturing September 1, 2034	—	4,275,000
Prince William County Series 2011AA Bonds, term interest rate 5.125%, maturing September 1, 2041	—	13,075,000
Prince William County Series 2011BB Bonds, term interest rate of 3.00%, maturing September 1, 2016	—	510,000
Prince William County Series 2017 Bonds, serial with interest rates ranging from 1.206% to 4.424%, maturing at various dates from October 1, 2017 to October 1, 2036	25,015,000	—
Prince William County Series 2017 Bonds, term interest rate 4.524%, maturing October 1, 2041	10,315,000	—
Bank notes:		
GMUF Arlington Campus, LLC Note with interest rate of 4.05% maturing June 1, 2033	\$ 57,508,272	\$ 60,000,000
GMUF Commerce Buildings, LLC Notes with interest rate of 3.63% maturing March 1, 2030	5,004,823	5,330,683
Notes and bonds payable at face value	159,663,998	161,230,336
Plus: Unamortized net premium	69,336	516,372
Less: Debt issuance costs, net	(1,180,976)	(1,159,338)
Total long-term debt	\$ 158,552,358	\$ 160,587,370

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2017 and 2016

NOTE J—LONG-TERM DEBT—Continued

Scheduled maturities and sinking fund requirements are as follows:

<i>Fiscal year ending June 30,</i>	
2018	\$ 22,103,863
2019	5,126,987
2020	5,336,883
2021	5,613,187
2022	5,834,415
Thereafter	<u>115,648,663</u>
	<u>\$ 159,663,998</u>

Interest expense on notes, bonds and related swaps along with the amortization of deferred financing charges was \$7,050,198 and \$8,817,765, for the years ended June 30, 2017 and 2016, respectively.

The carrying value of long-term debt approximated the fair value as of June 30, 2017 and 2016, respectively. The Foundation estimated the fair value of bonds payable using valuations provided by an independent financial institution.

For certain debt issuances, on a periodic basis, the Foundation is required to comply with administrative reporting and debt covenant calculations. As of June 30, 2017 and 2016, the Foundation was in compliance with its required debt covenant calculations.

NOTE K—DERIVATIVE INSTRUMENTS

George Mason University Foundation, Inc. Interest Rate Swaps and Cap

In October 2003, the Foundation entered into an interest rate swap agreement with a financial institution against the floating rate bonds in the notional amount of \$22,425,000 at a fixed interest rate of 4.045%, including all costs, on a 20-year amortization schedule. Concurrently, the Foundation entered into a 20-year interest rate cap agreement with the same financial institution in the notional amount of \$12,700,000, at a rate of 10%. The interest rate swap was used as a cash flow hedge to synthetically fix the rate of the bonds and to eliminate changes in the market interest rates. With the refinancing of the Fairfax County Economic Development Authority bonds (see Note J), the interest rate swap was amended on April 30, 2013 resulting in a notional amount of \$20,818,750 at a fixed interest rate of 3.032% and a termination date of February, 1, 2029. The interest rate cap agreement remained in place.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2017 and 2016

NOTE K—DERIVATIVE INSTRUMENTS—Continued

George Mason University Foundation, Inc. Interest Rate Swaps and Cap—Continued

At June 30, 2017 and 2016, the notional amount on the swap was \$16,850,000 and \$17,912,500, respectively, and on the cap was \$9,975,000 and \$10,225,000, respectively.

The fair value of the interest rate swap at June 30, 2017 and 2016 totaled a derivative liability of \$1,601,047 and \$2,664,192, respectively. The net change in value has been recorded as a gain on derivatives in the consolidated statement of activities. The interest rate swap has a liability threshold of \$3,500,000. Should the derivative obligation exceed \$3,500,000, the Foundation is required to post collateral in excess of the threshold amount. As of June 30, 2017 and 2016, no collateral balance was required. The fair value of the interest rate cap totaled a derivative asset of \$366 and \$557 at June 30, 2017 and 2016, respectively, and is a component of prepaids and other assets. All assets or liabilities related to the interest rate swap and interest rate cap convert to zero at contract maturity.

GMUF Mason Administration, LLC Interest Rate Swaps

In March 2010, as part of the GMUF Mason Administration, LLC project, the Foundation entered into a forward floating-to-fixed interest rate swap to effectively fix the interest rate on the \$32,100,000 tax-exempt notional amount at a fixed interest rate of 4.675% and a second forward floating-to-fixed interest rate swap to effectively fix the interest rate on the \$1,900,000 taxable notional amount at a fixed interest rate of 4.5% with a commercial bank. The swap transactions became effective on June 1, 2011. The termination date is June 1, 2036 for the tax-exempt notional amount and the taxable swap was terminated on December 1, 2013. At June 30, 2017 and 2016, the notional amount on the tax-exempt swap was \$29,005,000 and \$29,935,000, respectively.

The fair value of the interest rate swaps at June 30, 2017 and 2016 totaled a derivative liability of \$3,121,730 and \$4,973,505, respectively. The net change in value has been recorded as gains or losses on derivatives in the consolidated statement of activities. The remaining interest rate swap has a liability threshold of \$5,000,000. Should the derivative obligations exceed \$5,000,000, GMUF Mason Administration, LLC is required to post collateral in excess of the threshold amount. As of June 30, 2017 and June 30, 2016, no collateral was required.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2017 and 2016

NOTE L—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 receives 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. The related annuity benefit contract asset and liability are recorded as a component of prepaids and other assets and other liabilities, respectively, in the consolidated statements of financial position. The annuity benefit contract asset and liability was \$595,771 and \$564,586, respectively, as of June 30, 2017 and 2016.

NOTE M—CONCENTRATIONS OF CREDIT RISK

The Foundation maintains its cash in several commercial banks that are in excess of the Federal Deposit Insurance Corporation (“FDIC”) maximum of \$250,000 per depositor per institution. At June 30, 2017, the Foundation had approximately \$28,300,000 of uninsured balances in checking and money market accounts.

Cash equivalents referred to above include cash that is swept into overnight repurchase accounts, which are invested in U.S. government or agency securities. Amounts included in cash and cash equivalents that were invested in the overnight repurchase accounts totaled \$3,291,395 at June 30, 2017. Historically, losses from federal government securities have not occurred.

In fiscal year 2017, 11 donors collectively contributed approximately 54% of the total contributions, and approximately 69% of total contributions receivable were due from 5 contributors.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2017 and 2016

NOTE N—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, 2017 and 2016:

	2017	2016
Institutional program support	\$ 59,876,637	\$ 52,053,009
Scholarships	5,063,007	1,806,585
	<u>\$ 64,939,644</u>	<u>\$ 53,859,594</u>

NOTE O—NET ASSETS AVAILABLE

Restricted net assets consisted of the following at June 30, 2017:

	Temporarily Restricted	Permanently Restricted
Administrative support	\$ 12,201,896	\$ 42,180
Academic support	30,997,045	10,703,390
Athletics	353,018	173,184
Community/public service	3,528,296	6,997,521
Eminent scholars	3,856,702	22,910,462
Eminent scholars – perpetual trust	—	8,977,326
Facilities	10,082,909	61,912
Library	645,723	882,840
Research	20,518,268	6,534,753
Student financial aid	16,841,134	28,510,832
Student financial aid – perpetual trust	—	1,925,136
Time restricted without purpose restriction	33,199	276,842
	<u>\$ 99,058,190</u>	<u>\$ 87,996,378</u>

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2017 and 2016

NOTE O—NET ASSETS AVAILABLE—Continued

Restricted net assets consisted of the following at June 30, 2016:

	Temporarily Restricted	Permanently Restricted
Administrative support	\$ 10,859,302	\$ 27,168
Academic support	33,629,383	11,743,669
Athletics	714,086	160,936
Community/public service	3,109,133	5,901,515
Eminent scholars	2,775,292	22,699,314
Eminent scholars – perpetual trust	—	8,539,012
Facilities	15,716,129	59,193
Library	692,640	844,543
Research	21,250,694	5,922,522
Student financial aid	11,534,624	27,108,704
Student financial aid – perpetual trust	—	1,809,460
Time restricted without purpose restriction	32,834	279,002
	<u>\$100,314,117</u>	<u>\$ 85,095,038</u>

NOTE P—RELATED PARTY TRANSACTIONS

The Foundation outsources its payroll processing to the University and reimburses the University for payroll costs incurred. As of June 30, 2017 and 2016, the Foundation had salaries payable to the University totaling \$111,466 and \$133,490, respectively.

The Foundation remits to the University the excess cash flow of the Foundation Potomac Heights housing project one fiscal year later. As of June 30, 2017 and 2016, the Foundation had \$1,293,799 and \$1,107,694 payable to the University, respectively.

The Foundation receives donated space located on the main campus in Fairfax, Virginia from the University. In both fiscal years 2017 and 2016, \$91,328, is reflected in the consolidated statement of activities as unrestricted contribution revenue and administrative expenses.

In addition, the Foundation leases certain properties to the University and earns rental income on these leases (see Note I). In some instances, rates charged to the University are substantially below market.

As a general practice, the Foundation gifts donated goods to the University to provide greater resources towards their programs (see Note B).

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2017 and 2016

NOTE Q—INCOME TAXES

The Foundation follows FASB Accounting Standards Codification (“ASC”) Topic 740-10, Income Taxes, which requires the recognition of deferred tax liabilities and deferred tax assets, net of applicable valuation allowances, for certain temporary differences and net operating loss carry forwards. FASB ASC Topic 740-10 requires that the net deferred tax asset be reduced by a valuation allowance if, based on the weight of the available evidence, it is more likely than not that some portion or all of the net deferred tax asset will not be realized. As of June 30, 2016, based on changes in facts and circumstances surrounding the GMUF Arlington Campus, LLC building, the Foundation determined that it was more likely than not that all of the net operating loss carryforwards related to this project would be realized in future years and recorded a deferred tax asset.

The components of the provisions for income taxes are as follows for the fiscal years ended June 30, 2017 and 2016:

	2017	2016
Current:		
Federal income tax	\$ (838,828)	\$ (635,493)
State income tax	(148,028)	(119,304)
	<u>\$ (986,856)</u>	<u>\$ (754,797)</u>
Deferred:		
Federal income tax	\$ (703,452)	\$ (1,705,690)
State income tax	(124,139)	(293,846)
	<u>\$ (827,591)</u>	<u>\$ (1,999,536)</u>
Net income tax benefit	<u>\$ (1,814,447)</u>	<u>\$ (2,754,333)</u>

The components of the deferred tax assets as of June 30, 2017 and 2016, are as follows:

	2017	2016
Deferred income tax asset	<u>\$ 1,814,447</u>	<u>\$ 2,754,333</u>
Net deferred income tax asset	<u>\$ 1,814,447</u>	<u>\$ 2,754,333</u>

No income taxes were paid by the Foundation during fiscal years 2017 and 2016.

George Mason University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Continued

June 30, 2017 and 2016

NOTE R—SUBSEQUENT EVENTS

The Foundation evaluated subsequent events through November 10, 2017, which is the date the financial statements were available to be issued. The Foundation is not aware of any other subsequent events which would require recognition or disclosure in the consolidated financial statements