

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

Financial Statements

For the Year Ended December 31, 2015

(With Summarized Financial Information for the Year Ended December 31, 2014)



**and
Report Thereon**





Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Regents of the
Mount Vernon Ladies' Association of
the Union

Report on the Financial Statements

We have audited the accompanying financial statements of the Mount Vernon Ladies' Association of the Union (the Association), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 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 financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Continued

Report on Summarized Comparative Information

We have previously audited the Association's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 12, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Raffa, P.C.

Raffa, P.C.

Washington, DC
July 18, 2016

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

STATEMENT OF FINANCIAL POSITION

December 31, 2015

(With Summarized Financial Information as of December 31, 2014)

	2015	2014
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 22,532,340	\$ 10,547,694
Investments	2,379,147	1,143,967
Accounts receivable	426,485	763,310
Promises to give, net	3,898,393	11,939,468
Inventories, net	2,735,195	2,743,569
Prepaid expenses and other assets, net	695,261	505,983
Total Current Assets	32,666,821	27,643,991
Noncurrent Assets		
Investments	139,639,261	154,901,722
Split-interest agreements	2,416,044	2,541,233
Promises to give, net	6,000,047	4,124,726
Note receivable	500,000	500,000
Property and equipment, net	89,955,083	96,729,474
Capital projects in process	4,247,863	1,324,916
Historic properties	-	-
TOTAL ASSETS	\$ 275,425,119	\$ 287,766,062
LIABILITIES AND NET ASSETS		
Liabilities		
Current Liabilities		
Accounts payable and accrued expenses	\$ 3,723,239	\$ 3,264,269
Deferred income	638,654	548,738
Total Current Liabilities	4,361,893	3,813,007
Noncurrent Liabilities		
Bonds payable	15,000,000	15,000,000
Interest rate swap agreement	6,028,082	5,809,882
Other liabilities	1,225,785	1,274,721
TOTAL LIABILITIES	26,615,760	25,897,610
Net Assets		
Unrestricted		
Undesignated	6,591,064	8,050,737
Board-designated	31,735,430	36,650,106
Property and equipment and capital projects in process	94,202,946	98,054,390
Total Unrestricted Net Assets	132,529,440	142,755,233
Temporarily restricted	75,397,159	83,210,355
Permanently restricted	40,882,760	35,902,864
TOTAL NET ASSETS	248,809,359	261,868,452
TOTAL LIABILITIES AND NET ASSETS	\$ 275,425,119	\$ 287,766,062

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

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2015
(With Summarized Financial Information for the Year Ended December 31, 2014)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2015 Total	2014 Total
OPERATING REVENUE AND SUPPORT					
Contributions	\$ 5,640,555	\$ 3,388,221	\$ 5,105,085	\$ 14,133,861	\$ 9,381,550
Admission fees	13,642,763	-	-	13,642,763	13,058,966
Product sales	8,647,331	-	-	8,647,331	7,893,363
Food sales	7,346,889	-	-	7,346,889	6,927,649
Royalties	207,406	-	-	207,406	187,665
Other income	1,117,537	-	-	1,117,537	1,362,992
Appropriations from endowments	3,229,769	3,221,761	-	6,451,530	6,699,019
Net assets released from restrictions	7,667,331	(7,667,331)	-	-	-
	47,499,581	(1,057,349)	5,105,085	51,547,317	45,511,204
TOTAL OPERATING REVENUE AND SUPPORT					
EXPENSES					
Program services:					
Visitor engagement	24,982,523	-	-	24,982,523	24,979,827
Historic preservation and collections	11,450,784	-	-	11,450,784	11,196,017
Education	10,590,367	-	-	10,590,367	8,850,554
Support services:					
Management and general	3,497,204	-	-	3,497,204	3,185,151
Fundraising	2,945,533	-	-	2,945,533	2,836,868
	53,466,411	-	-	53,466,411	51,048,417
TOTAL EXPENSES					
CHANGE IN NET ASSETS FROM OPERATIONS	(5,966,830)	(1,057,349)	5,105,085	(1,919,094)	(5,537,213)
NONOPERATING ACTIVITIES					
Investment return (loss)	(1,122,469)	(3,222,622)	-	(4,345,091)	3,675,729
Endowment funds appropriated for operations	(3,229,769)	(3,221,761)	-	(6,451,530)	(6,699,019)
Change in value of interest rate swap agreement	(218,200)	-	-	(218,200)	(2,374,029)
Change in value of split-interest agreements	11	-	(125,189)	(125,178)	(14,398)
Return of contributions	-	-	-	-	(2,913,982)
Net assets released for long-term capital projects	311,464	(311,464)	-	-	-
	(10,225,793)	(7,813,196)	4,979,896	(13,059,093)	(13,862,912)
CHANGE IN NET ASSETS					
NET ASSETS, BEGINNING OF YEAR	142,755,233	83,210,355	35,902,864	261,868,452	275,731,364
NET ASSETS, END OF YEAR	\$ 132,529,440	\$ 75,397,159	\$ 40,882,760	\$ 248,809,359	\$ 261,868,452

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

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2015

(With Summarized Financial Information for the Year Ended December 31, 2014)

Increase (Decrease) in Cash and Cash Equivalents

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (13,059,093)	\$ (13,862,912)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Decrease (increase) in allowance for obsolete inventory	(222,866)	275,000
Change in discount on promises to give	-	(279,538)
Depreciation and amortization expense	7,897,728	7,549,867
Amortization of bond issuance costs	4,704	4,704
Realized and unrealized losses (gains) on investments and split-interest agreements	6,090,867	(1,783,200)
Cash received for endowment	(11,262,935)	(5,193,764)
Cash restricted for long-term projects	-	(329,623)
Change in value of interest rate swap agreement	218,200	2,374,029
Changes in assets and liabilities:		
Accounts receivable	336,825	132,876
Promises to give	6,165,754	4,474,877
Inventories	231,240	256,543
Prepaid expenses and other assets	(193,982)	51,424
Accounts payable and accrued expenses	230,185	(1,623,209)
Deferred income	89,916	(88,627)
Other liabilities	(48,936)	(64,122)
NET CASH USED IN OPERATING ACTIVITIES	<u>(3,522,393)</u>	<u>(8,105,675)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, equipment and capital projects in process	(3,817,499)	(2,320,539)
Purchases of investments	(131,117,392)	(83,315,700)
Proceeds from sales of investments	<u>139,178,995</u>	<u>88,635,848</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>4,244,104</u>	<u>2,999,609</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash received for endowment	11,262,935	5,193,764
Cash restricted for long-term projects	<u>-</u>	<u>329,623</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>11,262,935</u>	<u>5,523,387</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	11,984,646	417,321
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>10,547,694</u>	<u>10,130,373</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 22,532,340</u>	<u>\$ 10,547,694</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 632,717</u>	<u>\$ 612,714</u>
NONCASH INVESTING AND FINANCING ACTIVITIES		
Property, equipment and capital projects in process included in accounts payable	<u>\$ 375,406</u>	<u>\$ 146,621</u>

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

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2015

(With Summarized Financial Information for the Year Ended December 31, 2014)

1. Organization and Summary of Significant Accounting Policies

Organization

The Mount Vernon Ladies' Association of the Union (the Association) is a 501(c)(3) nonprofit corporation founded in 1853 by Ann Pamela Cunningham. The Mission of the Mount Vernon Ladies' Association is to preserve, restore and manage the estate of George Washington to the highest standards and to educate visitors and people throughout the world about the life and legacies of George Washington, so that his example of character and leadership will continue to inform and inspire future generations.

Basis of Accounting

The financial statements have been prepared using the accrual basis of accounting. Revenue, other than contributions, is recognized when earned; expenses are recorded when the obligation is incurred. Contributions are recorded as unrestricted, temporarily restricted or permanently restricted support depending upon the existence and/or nature of any donor-imposed restrictions. All donor-restricted contributions other than permanently restricted contributions are reported initially as an increase in temporarily restricted net assets and then reclassified to unrestricted net assets when restrictions have been met.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits and money market accounts and all highly liquid investments with initial maturities of three months or less. Cash and cash equivalents held in investment accounts are excluded, as they are considered to be held for long-term purposes.

Accounts Receivable

Trade receivables are carried at original invoice amounts less an estimate made for doubtful receivables based on the review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by reviewing all outstanding receivables for possible uncollectibility. Receivables are charged to the allowance account when deemed uncollectible.

Promises to Give

Unconditional promises to give are recorded at their fair value. For those due in more than one year, fair value is estimated by discounting estimated future cash flows at rates approximating the current rate for risk-free returns. Management determines the allowance for doubtful pledges by reviewing all outstanding pledges for possible uncollectibility. Pledges are charged to the allowance account when deemed uncollectible.

Inventories

Inventories consist of gift shop and food service items and are valued at the lower of cost (as determined by the first-in, first-out method) or market. Management periodically adjusts the value for slow-moving or obsolete inventory.

Continued

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2015

(With Summarized Financial Information for the Year Ended December 31, 2014)

1. Organization and Summary of Significant Accounting Policies (continued)

Bond Issuance Costs

Bond issuance costs incurred in connection with a June 2007 tax-exempt bond issue have been capitalized and are being amortized over the life of the bond using the straight-line method. Accounting principles generally accepted in the United States of America (GAAP) require that the effective yield method be used to amortize costs; however, the effect of using the straight-line method is not materially different from the effective yield method. The unamortized costs are included in prepaid expenses and other assets in the accompanying statement of financial position.

Investments

Investments consist of cash equivalents, mutual funds, real estate investment trusts, commingled funds, corporate and U.S. government agency bonds, equity securities, and hedge and private equity funds. These investments are recorded in the accompanying statement of financial position at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability through an orderly transaction between market participants at the measurement date. Purchases and sales are reflected on a trade date basis. Interest, dividends and realized gains or losses are recorded when earned. Changes in the fair value of the portfolio are recorded as unrealized gains or losses. Donated investments are recorded as contributions based on their fair market value at the date of donation.

The Association maintains investment accounts for its endowment funds. Realized and unrealized gains and losses, and interest and dividends from the investment accounts, are allocated monthly to the individual endowment funds based on the relationship of the fair value of each endowment to the total fair value of the investment accounts, as adjusted for additions to or deductions from these accounts.

Fair Value of Financial Instruments

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, defines fair value, establishes a framework for measuring fair value in accordance with GAAP and requires disclosures about fair value measurements for assets and liabilities measured at fair value on a recurring basis. The ASC emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, the ASC established a fair value hierarchy based upon the transparency of the inputs to the valuation of an asset or liability. These inputs may be observable, whereby market participant assumptions are developed based on market data obtained from independent sources, and unobservable, whereby market participant assumptions are developed by the reporting entity based on the best information available in the circumstances.

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MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2015

(With Summarized Financial Information for the Year Ended December 31, 2014)

1. Organization and Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments (continued)

The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities accessible at the measurement date.

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets.

Level 3 – Unobservable inputs for the asset or liability, including the reporting entity's own assumptions in determining the fair value measurement.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practical to estimate that value:

Cash and cash equivalents – For cash and cash equivalents, the carrying amount is a reasonable estimate of fair value.

Investments – For securities held for investment purposes, fair values are based on quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities. Certain hedge and private equity funds are reported at estimated fair values. The estimated fair value of investments in hedge and private equity funds, which are not readily marketable, is based on the ownership percentage of the underlying fund as of the measurement date. The funds value underlying securities and other financial instruments on a fair value basis of accounting. The estimated fair values of certain investments of the underlying investment funds, which may include private placements and other securities for which prices are not readily available, are determined by the investment manager of the fund, and may not reflect amounts that could be realized upon immediate sale nor amounts that may be ultimately realized. The Association follows the fair value measurement provisions of FASB Accounting Standards Update (ASU) No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, for its hedge and private equity fund investments. This guidance permits, as a practical expedient, the fair value of investments within its scope to be estimated using net asset value or its equivalent. Because of the inherent uncertainty of the valuation of these funds and of certain of the underlying investments held by these funds, their values may differ significantly from values that would have been used had an active market for the investments existed.

Inventories – Fair value is based on the lower of cost or market.

Promises to give – Fair value is estimated based on the donor's verifiable pledge. For those due in greater than one year, fair value is estimated by discounting estimated future cash flows at rates approximating the current rate for risk-free returns on the date of the gift. Fair value is adjusted for the allowance for doubtful promises to give.

Continued

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2015

(With Summarized Financial Information for the Year Ended December 31, 2014)

1. Organization and Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments (continued)

Bonds payable – The fair value of the variable rate bonds is the amount payable at the reporting date.

Interest rate swap agreement – The fair value of the interest rate swap agreement is estimated using valuation methodologies with current market interest rate data adjusted for interest credit risk.

Property and Equipment and Related Depreciation and Amortization

Property and equipment used to conduct the business of the Association are recorded on the statement of financial position of the Association at cost, with depreciation computed on a straight-line basis over the estimated useful life of each asset. The Association capitalizes all property and equipment purchased with a cost of \$10,000 or more. The cost of property and equipment retired or disposed of is removed from the accounts along with the related accumulated depreciation or amortization, and any gain or loss is reflected in revenue and support, or expenses, in the accompanying statement of activities. Major additions are capitalized while replacements, maintenance and repairs that do not improve or extend the lives of the respective assets are expensed as incurred.

Capital Projects in Process

Capital projects in process consist of various construction projects and are stated at cost.

Impairment of Long-Lived Assets

The Association reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying value of an asset, an impairment loss is recognized for the difference. The Association did not record an impairment loss during the years ended December 31, 2015 and 2014.

Split-Interest Agreements

The Association's split-interest agreements with donors consist of charitable gift annuities, a pooled income fund and a perpetual trust held by a third party.

The Association initially records revenue from charitable annuity contributions in the year in which the agreement is executed. The amount of the revenue recognized in the first year is the difference between the amount of the assets received and the fair value of the future cash flows expected to be paid to the designated beneficiaries. In succeeding years, revenue is recorded for the reduction in the present value of future cash payments to the beneficiaries.

The charitable gift annuity assets are included in investments and the liabilities are included in other liabilities in the accompanying statement of financial position.

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2015

(With Summarized Financial Information for the Year Ended December 31, 2014)

1. Organization and Summary of Significant Accounting Policies (continued)

Historical Properties and Collections

Historical properties and collections owned by the Association were acquired through purchases and contributions since the Association's inception. These historical properties and collections are not included as assets in the statement of financial position. The cost of the properties is not readily available, and the Association is of the opinion that, because of the intrinsic value of the properties, it is impractical to assign values to the components. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired or as temporarily or permanently restricted net assets if the assets used to purchase the items are restricted by donors. The financial statements do not reflect any contributed collection items.

Derivative Financial Instruments and Hedging Activities

During the years ended December 31, 2015 and 2014, the Association had an interest rate swap outstanding that is used to mitigate the economic impact of changes in interest rates. The Association does not enter into derivative transactions for trading or other speculative purposes. The swap is designated as a cash flow hedge and is being used to offset the risk of changes in cash flows associated with benchmark interest payments on its variable rate bonds.

Net Assets

The net assets of the Association are reported as follows:

- Unrestricted net assets represent the portion of expendable funds that are available for support of the Association's operations.
- Temporarily restricted net assets represent amounts that are specifically restricted by donors or grantors for various purposes or time periods.
- Permanently restricted net assets represent gifts requiring that the principal be invested in perpetuity and that only the income be expended as designated by the donor.

Revenue Recognition

The Association recognizes all unconditional contributions in the period in which the commitment is made and the value of the contribution is measurable. Contributions received are recorded as permanently restricted, temporarily restricted or unrestricted revenue, depending on the existence and/or nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted for specific purposes are reported as temporarily restricted support that increases those net asset classes.

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2015

(With Summarized Financial Information for the Year Ended December 31, 2014)

1. Organization and Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Unconditional promises to give that are expected to be collected within a year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the fair value of their estimated future cash flows. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

The Association recognizes revenue related to admission fees, product sales and food sales when earned.

Noncash and in-kind contributions are recorded as revenue at the fair value of the items contributed.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities based on an analysis made by management. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Measurement of Operations

Operating revenue and expenses generally reflect those revenues and expenses that management can influence, including annual authorized operating support from the endowment based on the spending formula established by the Association's Board of Regents.

Nonoperating activities include investment returns, endowment fund appropriations, unrealized gains or losses from the interest rate swap agreement, change in value of split-interest agreements, and net assets released for long-term capital projects.

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2015

(With Summarized Financial Information for the Year Ended December 31, 2014)

2. Promises to Give

The following are unconditional promises to give as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Historic preservation and collections	\$ 4,596,114	\$ 1,021,510
Education	3,318,264	12,772,419
Life insurance policies	2,150,000	2,150,000
Capital projects and other	422,470	605,173
Visitor engagement	<u>5,000</u>	<u>108,500</u>
Promises to give before unamortized discount	10,491,848	16,657,602
Less: Unamortized discounts between 0.13% and 3.04%	<u>(593,408)</u>	<u>(593,408)</u>
Promises to Give, Net	<u>\$ 9,898,440</u>	<u>\$ 16,064,194</u>
Amounts due in:		
Less than one year	\$ 3,898,393	\$ 11,939,468
One to five years	<u>6,000,047</u>	<u>4,124,726</u>
Total	<u>\$ 9,898,440</u>	<u>\$ 16,064,194</u>

All amounts are deemed to be fully collectible as of December 31, 2015 and 2014.

3. Investments

Investments consisted of the following as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Short-term:		
Cash equivalents	<u>\$ 2,379,147</u>	<u>\$ 1,143,967</u>
Long-term:		
Equity investments	92,012,358	61,879,028
Fixed-income investments	27,228,386	29,224,344
Hedge and private equity funds	20,398,517	54,798,994
Real asset investments	<u>-</u>	<u>8,999,356</u>
Total Long-Term	<u>139,639,261</u>	<u>154,901,722</u>
Total Investments	<u>\$ 142,018,408</u>	<u>\$ 156,045,689</u>

Continued

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2015

(With Summarized Financial Information for the Year Ended December 31, 2014)

3. Investments (continued)

The following summarizes investment return and its classification in the statement of activities, in accordance with the Association's endowment spending policy as disclosed in Note 15, for the years ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Realized and unrealized gains (losses)	\$ (5,965,689)	\$ 1,794,174
Interest and dividends	<u>1,620,598</u>	<u>1,881,555</u>
Investment Return (Loss)	<u>\$ (4,345,091)</u>	<u>\$ 3,675,729</u>

Interest and dividend income includes \$115,684 and \$57,736 of interest earned on operating cash and cash equivalents, and is presented net of \$427,260 and \$506,475 of investment expenses for the years ended December 31, 2015 and 2014, respectively.

4. Note Receivable

In August 2013, the Association accepted a note receivable from a company owned by a donor as payment of a pledge by that donor. The interest rate on the note is 3.3%. Interest will be paid quarterly and the full principal of the note is scheduled to be paid on August 1, 2023. As of December 31, 2015 and 2014, the principal balance on the note was \$500,000.

5. Property and Equipment and Accumulated Depreciation and Amortization

The Association's property and equipment consisted of the following as of December 31, 2015 and 2014:

	<u>Estimated Useful Lives</u>	<u>2015</u>	<u>2014</u>
Buildings	40 years	\$ 75,614,205	\$ 75,614,205
Building improvements	10-20 years	30,922,004	30,801,202
Furniture, fixtures and equipment	5-7 years	45,775,135	45,275,153
Exhibitions	2-3 years	3,278,988	3,278,988
Computer software	3-4 years	1,982,600	1,480,047
Land	-	<u>963,362</u>	<u>963,362</u>
Total Property and Equipment		158,536,294	157,412,957
Less: Accumulated Depreciation and Amortization		<u>(68,581,211)</u>	<u>(60,683,483)</u>
Property and Equipment, Net		<u>\$ 89,955,083</u>	<u>\$ 96,729,474</u>

Depreciation and amortization expense for the years ended December 31, 2015 and 2014, was \$7,897,728 and \$7,549,867, respectively.

Continued

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2015

(With Summarized Financial Information for the Year Ended December 31, 2014)

6. Historical Properties

The Association's collections are made up of land, the mansion and related outbuildings, museum collections, memorabilia, and support buildings that are held for the educational purpose of the Association. Each of the items is preserved and cared for, and assessments of their condition are performed continually. No items held in collections were disposed of during the years ended December 31, 2015 and 2014.

7. Bond Issuance Costs

Bond issuance costs of \$101,026 and \$105,730, net of accumulated amortization of \$39,978 and \$35,274, respectively, are included in prepaid expenses and other assets as of December 31, 2015 and 2014. Amortization expense for the years ended December 31, 2015 and 2014, was \$4,704.

8. Bonds Payable

In June 2007, the Fairfax County Economic Development Authority (FCEDA) issued \$15,000,000 in variable rate unsecured revenue bonds, expiring in June 2037, for the benefit of the Association. The bonds shall bear interest at a weekly variable rate. The net proceeds of the bonds are restricted for financing all or part of (i) refund of the FCEDA Series 1998 revenue bonds used for cost of construction, renovation, acquisition and capital improvements at Mount Vernon; \$2,143,956 of bonds payable that was outstanding as of December 31, 2006, was repaid during this \$15,000,000 bond issuance, (ii) reimbursing the borrower for capital expenditures from September 1, 2006, through the date of issuance related to the construction, renovation, acquisition and capital improvement costs, (iii) financing new cost of construction and (iv) other associated expenditures to the extent that they can be refinanced, including costs of issuance and credit enhancements. To facilitate the issuance of the bonds, FCEDA entered into an agreement with U.S. Bank (Trustee) and SunTrust Bank (the credit facility), such that the bonds shall be payable from an irrevocable direct-pay letter of credit, issued by SunTrust Bank. The letter of credit is guaranteed by the Association. At December 31, 2015 and 2014, the amount of the letter of credit was \$15,200,000. The letter of credit, among other provisions, requires the Association to meet certain financial ratio tests, restricts liens of any kind and the acquisition of additional loans, and expires in June 2019 with a renewal option.

In connection with the bond issuance, the Association entered into a floating-to-fixed interest rate swap agreement with SunTrust Bank, providing for an interest rate no higher than 3.86% applied to a notional amount equal to \$15,000,000. The underlying rate is based upon 67% of monthly USD LIBOR-BBA rates. The swap was effective on July 1, 2007, and terminates July 1, 2037. The interest rate swap qualifies as a derivative financial instrument, and is used to mitigate the effect of interest rate fluctuations. The swap is reported at fair value on the statement of financial position as a liability in the amount of \$6,028,082 and \$5,809,882 as of December 31, 2015 and 2014, respectively. During the years ended December 31, 2015 and 2014, the Association recorded a noncash loss on the change in derivative valuation in the amount of \$218,200 and \$2,374,029, respectively, due to interest rate fluctuations.

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MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2015

(With Summarized Financial Information for the Year Ended December 31, 2014)

8. Bonds Payable (continued)

The outstanding bonds payable of \$15,000,000, as of December 31, 2015 and 2014, is due in one lump sum payment in June 2037. Interest expense for the Association for the years ended December 31, 2015 and 2014, was \$627,117 and \$605,840, respectively.

9. Gift Annuities

The Association has received a number of gift annuities from various donors over the years. Under the terms of annuity agreements, each donor will receive a fixed quarterly payment over the term of the donor's life. As of December 31, 2015 and 2014, the Association has recorded a liability totaling \$863,987 and \$921,544, respectively, which is equal to the present value of the future distributions payable to the various donors. This amount is included in other liabilities in the statements of financial position as of December 31, 2015 and 2014.

10. Commitments and Contingencies

Operating Leases

The Association rents storage space on a month-to-month basis. In October 2015, the Association entered into a noncancelable operating lease for temporary office space that will expire on February 28, 2017.

The future minimum rental payments required under the operating lease as of December 31, 2015 are as follows:

<u>For the Year Ending December 31,</u>	
2016	\$ 114,700
2017	<u>9,675</u>
Total	<u>\$ 124,375</u>

Rent expense totaled \$83,675 and \$76,639 for the years ended December 31, 2015 and 2014, respectively.

11. Concentration of Risk

Credit Risk

Financial instruments, which potentially subject the Association to concentration of credit risk, consist principally of cash balances maintained at various creditworthy financial institutions. While the amount at a given bank at times exceeds the amount guaranteed by the Federal

Continued

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2015

(With Summarized Financial Information for the Year Ended December 31, 2014)

11. Concentration of Risk (continued)

Credit Risk (continued)

Deposit Insurance Corporation and, therefore, bears some risk, the Association has not experienced, nor does it anticipate, any losses on its funds. As of December 31, 2015 and 2014, the amount in excess of the insured limit of \$250,000 was \$21,760,667 and \$9,977,705, respectively.

Financial Risk

The Association invests in a professionally managed investment portfolio that is exposed to various risks such as interest rate, market volatility and credit risks. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

12. Temporarily Restricted Net Assets

Net assets were released from restrictions by satisfying the program restrictions. The Association's temporarily restricted net assets were available for the following programs or purposes as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Education	\$ 35,657,413	\$ 39,587,237
Visitor engagement	31,134,713	33,800,506
Historic preservation and collections	3,440,582	2,739,569
Pooled income fund, life insurance and other	2,386,582	2,714,199
General endowment	2,358,743	2,947,624
Capital projects	<u>419,126</u>	<u>1,421,220</u>
Total Temporarily Restricted Net Assets	<u>\$ 75,397,159</u>	<u>\$ 83,210,355</u>

Education – The majority of these funds are donor-restricted funds solicited for the operation of the Fred W. Smith National Library for the Study of George Washington, the acquisition of historical books, and various education and leadership programs.

Visitor engagement – The majority of these funds are donor-restricted funds solicited for the operation of the Ford Orientation Center and the Donald W. Reynolds Museum and Education Center, as well as funds raised to support summer intern programs and visitor-related programs including private and public events.

Historic preservation and collections – These funds represent donations to support (1) various efforts related to preserving the mansion and adjoining structures and other historic buildings and areas and (2) acquisition, conservation or preservation of memorabilia, artifacts and other collection items.

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MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2015

(With Summarized Financial Information for the Year Ended December 31, 2014)

12. Temporarily Restricted Net Assets (continued)

Pooled income fund – The Association is a trustee for the Pooled Income Fund (the Fund), a fund within the meaning of Section 642(c)(5) of the Internal Revenue Code (the IRC) of 1986. The Fund makes it possible for those interested in the advantages of life income gifts (charitable remainder trusts) to fund such gifts initially with \$10,000 or more and to make additions to such gifts in amounts of \$5,000 or more. The Fund provides a way for individuals to make gifts to the Association while allowing the donor, or designated beneficiary of the donor, to receive lifetime income earned by the donated funds. For financial statement purposes, such contributions under the charitable remainder trusts, liability for the amounts due under the trusts and their related investments have been shown at their net present value using a discount rate between 2% and 2.2% in the temporarily restricted fund. The net balance as of December 31, 2015 and 2014, was \$552,644.

General endowment fund – These are endowment fund investment earnings that are available to be spent toward the general operations of the Association in accordance with the Association's endowment spending policy.

Capital projects – These funds represent donations to support capital projects and significant repair work related to the mansion and other historic areas.

13. Permanently Restricted Net Assets

Permanently restricted net assets represent donor-restricted contributions in which the donor has stipulated that the principal be maintained intact. Unless otherwise stated by the donor, investment income is recorded as temporarily restricted net assets to be used for specific purposes.

The Association's permanently restricted net assets consisted of the following as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Education	\$ 17,894,283	\$ 17,894,283
Historic preservation and collections	13,710,722	8,735,826
General endowment	5,069,611	5,064,611
Visitor engagement	<u>4,208,144</u>	<u>4,208,144</u>
Total Permanently Restricted Net Assets	<u>\$ 40,882,760</u>	<u>\$ 35,902,864</u>

14. Board-Designated Net Assets

Funds designated by the Board of Regents represent the portion of unrestricted funds that have been set aside for specific purposes. All such amounts are designated by the Board of Regents to be spent for the designated purposes.

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MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2015

(With Summarized Financial Information for the Year Ended December 31, 2014)

14. Board-Designated Net Assets (continued)

Board-designated net assets consisted of the following as of December 31:

	<u>2015</u>	<u>2014</u>
Board reserves	\$ 24,318,113	\$ 26,303,840
Capital projects	5,257,568	7,606,480
Collections conservation	1,993,709	2,394,750
Other projects	<u>166,040</u>	<u>345,036</u>
Total Board-Designated Net Assets	<u>\$ 31,735,430</u>	<u>\$ 36,650,106</u>

During 2015 and 2014, the Board of Regents approved net transfers of \$1,374,900 and \$1,610,390, respectively, from undesignated funds to board-designated funds to support various projects.

15. Endowment Funds

The Association's endowment consists of 77 individual funds established for a variety of purposes. Its endowment includes donor-restricted endowment funds and funds designated by the Board of Regents to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Regents to function as endowments, are classified and reported based on the existence of donor-imposed restrictions.

Funds with Deficiencies

The investment policy of the Association indicates that the corpus of any restricted donor or general endowment funds shall not be expended under any circumstances as it represents the endowment funds designated by donor-restricted contributions. Due to investment losses, the fair value of assets associated with some individual donor-restricted endowment funds fell below the original contribution amount. As a result, the Association transferred these endowment deficiencies to unrestricted net assets to restore the endowment values to their full donor gift amount. During 2015 and 2014, the Association transferred \$754,127 and \$78,303, respectively, related to endowment deficiencies. As of December 31, 2015 and 2014, the cumulative unrecovered amount was \$1,360,053 and \$605,926, respectively.

Interpretation of Relevant Law

The Virginia General Assembly issued the Virginia Uniform Prudent Management of Institutional Funds Act (UPMIFA). Unless there are explicit donor instructions, this law gives the boards of nonprofit associations the flexibility to determine the appropriate use of endowment principal and related investment income.

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2015

(With Summarized Financial Information for the Year Ended December 31, 2014)

15. Endowment Funds (continued)

Interpretation of Relevant Law (continued)

Boards should consider the following factors in determining a prudent use of investment income and endowment principal:

- 1) The duration and preservation of the fund
- 2) The purpose of the Association 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 Association
- 7) The investment policies of the Association

The Board of Regents of the Association continually reviews its policies regarding the use of endowment principal and makes any necessary modifications to the investment policy statement.

The changes in endowment net assets for the years ended December 31, 2015 and 2014, were:

	2015				2014
	Board- Designated	Temporarily Restricted	Permanently Restricted	Total	
Endowment net assets, beginning of year	\$ 36,650,106	\$ 73,447,143	\$ 35,902,864	\$ 146,000,113	\$151,676,248
Investment return (loss)	(809,258)	(3,222,622)	(125,189)	(4,157,069)	2,580,194
Contributions	98,094	-	5,105,085	5,203,179	1,509,399
Appropriation of endowment assets for expenditure	(5,578,412)	(3,533,225)	-	(9,111,637)	(8,584,136)
Return to donor	-	-	-	-	(2,788,982)
Transfers to board- designated funds	1,374,900	-	-	1,374,900	1,610,390
Endowment Net Assets, End of Year	\$ 31,735,430	\$ 66,691,296	\$ 40,882,760	\$ 139,309,486	\$ 146,000,113

As of December 31, 2015, amounts classified as permanently restricted net assets are permanently restricted either by explicit donor stipulation or by UPMIFA, and amounts classified as temporarily restricted net assets are subject to purpose restrictions only.

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MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2015

(With Summarized Financial Information for the Year Ended December 31, 2014)

15. Endowment Funds (continued)

Interpretation of Relevant Law (continued)

Amounts in the temporarily restricted endowment include donor contributions received in connection with the Ford Orientation Center and Donald W. Reynolds Education Center capital campaign, the Fred W. Smith National Library for the Study of George Washington capital campaign and net earnings from permanently restricted funds.

Return Objectives and Spending Policy

The Association 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 increase the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Association must hold in perpetuity, as well as board-designated funds and temporarily restricted funds functioning as endowments, and unspent temporarily restricted earnings. Under this policy, as approved by the Board of Regents, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The current investment policy of the Association anticipates that its endowment funds' annual real total return (net of investment management fees) will be equal to or greater than the spending rate over the long term, with moderate return volatility. The Board of Regents periodically reviews this policy, based on current market conditions and advice from its outside investment professionals, and makes any necessary changes.

The investment policy of the Association approves the appropriation of up to 5% each year of the average fair value of each endowment fund as of the trailing 12 quarters ending on June 30 of the previous year. The Board of Regents' approved spending policy was 4.5% of its operating endowments for the years ended December 31, 2015 and 2014. The Board of Regents approves spending on program-restricted endowments as part of its annual budget approval process. The average approved spending on program-restricted endowments was 4.7% and 4.0% for the years ended December 31, 2015 and 2014, respectively.

In addition, the Board of Regents also approves, as part of its annual budgetary approval process, the transfer and expenditure of additional board-designated funds for capital improvements, collection acquisitions or special projects.

During the years ended December 31, 2015 and 2014, the Association spent \$1,921,878 and \$7,218,388, respectively, of temporarily restricted endowment funds towards the new library's construction and initial operating expenditures.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Association 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 Association targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2015

(With Summarized Financial Information for the Year Ended December 31, 2014)

16. Contributed Services – Volunteer Program

Substantial numbers of unpaid volunteers have made significant contributions of their time and skills to supplement the Association's programs, principally in educational, archaeological and maintenance projects as well as in certain administrative functions. The value of this contributed time is not reflected in these statements.

17. Fair Value Measurement

The table below summarizes, by level within the fair value hierarchy, the Association's investments as of December 31, 2015 and 2014:

	2015			
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments:				
Cash equivalents	\$ 2,379,147	\$ 2,379,147	\$ -	\$ -
Fixed-income investments:				
Developed markets mutual funds	26,618,417	26,618,417	-	-
Corporate bonds	606,958	-	606,958	-
U.S. government agency bonds	3,011	-	3,011	-
Total Fixed-Income Investments	27,228,386	26,618,417	609,969	-
Equity investments:				
Developed markets mutual funds	91,744,426	91,744,426	-	-
U.S. securities	267,932	267,932	-	-
Total Equity Investments	92,012,358	92,012,358	-	-
Hedge and private equity funds:				
Long/short equity hedge	7,671,155	-	-	7,671,155
Private equity	5,599,271	-	-	5,599,271
Distressed debt hedge	3,754,583	-	-	3,754,583
Event-driven hedge	3,373,508	-	-	3,373,508
Total Hedge and Private Equity Funds	20,398,517	-	-	20,398,517
Total Investments	142,018,408	121,009,922	609,969	20,398,517
Other assets measured at fair value:				
Split-interest agreements	2,416,044	2,416,044	-	-
Total Assets	\$ 144,434,452	\$ 123,425,966	\$ 609,969	\$ 20,398,517
Liabilities:				
Interest rate swap agreement	\$ 6,028,082	\$ -	\$ 6,028,082	\$ -
Split-interest agreements	985,744	-	985,744	-
Total Liabilities	\$ 7,013,826	\$ -	\$ 7,013,826	\$ -

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MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2015

(With Summarized Financial Information for the Year Ended December 31, 2014)

17. Fair Value Measurement (continued)

	2014			
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments:				
Cash equivalents	\$ 1,143,967	\$ 1,143,967	\$ -	\$ -
Fixed-income investments:				
Developed markets mutual funds	24,177,304	24,177,304	-	-
Emerging market mutual funds	4,375,133	4,375,133	-	-
Corporate bonds	639,518	-	639,518	-
U.S. government agency bonds	32,389	-	32,389	-
Total Fixed-Income Investments	29,224,344	28,552,437	671,907	-
Equity investments:				
Developed markets mutual funds	43,308,057	43,308,057	-	-
Emerging market mutual funds	9,322,886	9,322,886	-	-
U.S. securities	9,248,085	9,248,085	-	-
Total Equity Investments	61,879,028	61,879,028	-	-
Real asset investments:				
Global commodities mutual funds	8,999,356	8,999,356	-	-
Total Real Asset Investments	8,999,356	8,999,356	-	-
Hedge and private equity funds:				
Long/short equity hedge	21,704,280	-	-	21,704,280
Private equity	12,088,771	-	-	12,088,771
Distressed debt hedge	3,064,602	-	-	3,064,602
Event-driven hedge	17,941,341	-	-	17,941,341
Total Hedge and Private Equity Funds	54,798,994	-	-	54,798,994
Total Investments	156,045,689	100,574,788	671,907	54,798,994
Other assets measured at fair value:				
Split-interest agreements	2,541,233	2,541,233	-	-
Total Assets	\$ 158,586,922	\$ 103,116,021	\$ 671,907	\$ 54,798,994
Liabilities:				
Interest rate swap agreement	\$ 5,809,882	\$ -	\$ 5,809,882	\$ -
Split-interest agreements	1,043,301	-	1,043,301	-
Total Liabilities	\$ 6,853,183	\$ -	\$ 6,853,183	\$ -

Continued

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2015

(With Summarized Financial Information for the Year Ended December 31, 2014)

17. Fair Value Measurement (continued)

The following table presents changes in the fair value measurement of assets measured using Level 3 inputs for the year ended December 31, 2015:

	Long/Short Equity Hedge Funds	Event-Driven Hedge Funds	Private Equity	Distressed Debt Hedge Funds	Total
Beginning of year	\$ 21,704,280	\$ 17,941,341	\$ 12,088,771	\$ 3,064,602	\$ 54,798,994
Total gains or losses (realized/unrealized)	(1,258,883)	(683,596)	(1,721,164)	(165,019)	(3,828,662)
Purchases	43,082	-	1,853,087	855,000	2,751,169
Sales	<u>(12,817,324)</u>	<u>(13,884,237)</u>	<u>(6,621,423)</u>	<u>-</u>	<u>(33,322,984)</u>
End of Year	<u>\$ 7,671,155</u>	<u>\$ 3,373,508</u>	<u>\$ 5,599,271</u>	<u>\$ 3,754,583</u>	<u>\$ 20,398,517</u>

The following table presents the amount of gains or losses for the year ended December 31, 2015, included in the change in net assets, attributable to the change in unrealized gains or losses relating to assets still held at December 31, 2015:

	Long/Short Equity Hedge Funds	Event-Driven Hedge Funds	Private Equity	Distressed Debt Hedge Funds	Total
Unrealized losses	<u>\$ (602,146)</u>	<u>\$ (652,167)</u>	<u>\$ (864,514)</u>	<u>\$ (165,019)</u>	<u>\$ (2,265,846)</u>

The following table discloses information concerning the fair value measurement of investments calculated using net asset value per share as of December 31, 2015:

	Number of Funds	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Long/short equity hedge funds ^(a)	5	\$ 7,671,155	\$ -	Quarterly, annually, and every 2 or 3 years on the anniversary date	45-90 days
Event-driven hedge funds ^(b)	5	3,373,508	-	Quarterly and annually	45-90 days
Private equity funds ^(c)	8	5,599,271	4,319,407	N/A	N/A
Distressed debt hedge funds ^(d)	2	<u>3,754,583</u>	<u>645,000</u>	Annually	90 days
Total		<u>\$ 20,398,517</u>	<u>\$ 4,964,407</u>		

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MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2015

(With Summarized Financial Information for the Year Ended December 31, 2014)

17. Fair Value Measurement (continued)

a) *Long/short equity hedge funds* – This category includes investments in hedge funds that invest in both long and short U.S. and international equities. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. The Association submitted redemption requests for all investments in this category and will receive the proceeds from these investments over 19 months beginning March 2016.

b) *Event-driven hedge funds* – This category includes investments in hedge funds that invest in securities that are undervalued compared to their underlying assets due to specific economic, political and government-driven events. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. The Association submitted redemption requests for all investments in this category and will receive the proceeds from these investments over five months beginning March 2016.

c) *Private equity funds* – This category includes investments in private equity funds. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. Investments in this category are not subject to redemption. The fund values are reduced through distributions that are received from liquidation of the underlying assets. As of December 31, 2015, it is estimated that the underlying assets of these funds will be liquidated over a period of 15 years.

d) *Distressed debt hedge funds* – This category includes investments in hedge funds that utilize different investment strategies to invest in the most attractive value-oriented investments on a global basis. The fair value of the investments in this category has been estimated using the net asset value per share of the investments. The Association submitted a redemption request for an investment in this category and will receive the proceeds from this investment in January 2016. An additional investment in this category is illiquid and will be received over a period of up to five years as of December 31, 2015.

On a recurring basis, the Association measures its interest rate swap at its estimated fair value. In determining the fair value of the interest rate swap derivative, the present value of expected cash flows is utilized, since the market observable interest rate yield curve is adjusted to appropriately reflect both its own nonperformance risk and that of the respective counterparty in the fair value measurement. The credit valuation adjustments utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by either the respective counterparty or the Association. However, it was determined that as of December 31, 2015, the impact of the credit valuation adjustments was not significant to the overall valuation of the swap. As a result, the fair value of the swap is considered to be based primarily on Level 2 inputs. See Note 8 for additional information regarding the swap.

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2015

(With Summarized Financial Information for the Year Ended December 31, 2014)

18. Retirement Plans

The Association sponsors a defined contribution retirement plan covering all employees who work over 1,000 hours in a plan year after one year of service. On an annual basis, the Association contributes 6% of a participant's eligible compensation to the defined contribution retirement plan. Contributions to the plan were \$747,600 and \$732,143 for the years ended December 31, 2015 and 2014, respectively. These amounts are included in accounts payable and accrued expenses in the statement of financial position at December 31, 2015 and 2014.

The Association sponsors a 403(b) plan for eligible employees. Employees are eligible to participate in the plan on the first day of the month following their date of hire. Participants may contribute a portion of their eligible compensation to the plan, subject to limits approved by the Internal Revenue Service (the IRS). The Association contributes \$0.50 for every \$1 contributed by employees up to a maximum of 2% of each participant's eligible compensation. Participants are immediately vested in their own contributions. Participants vest in employer contributions at a rate of 20% per year and are 100% vested after five years of credited service. The Association made matching contributions to the 403(b) plan in the amount of \$309,766 and \$289,454 during the years ended December 31, 2015 and 2014, respectively.

19. Allocation of Joint Costs for Direct Mail

The Association conducts education program activities that include appeals for contributions, primarily direct mail campaigns, which qualify for allocation among the functions benefited. In 2015 and 2014, the Association incurred \$1,325,022 and \$1,274,750, respectively, of joint costs for these activities. Of these costs, \$642,674 and \$639,296 were allocated to the education program, \$33,989 and \$36,320 were allocated to management and general, and \$648,359 and \$599,134 were allocated to fundraising in 2015 and 2014, respectively.

20. Income Taxes

The Association qualifies as a tax-exempt organization under Section 501(c)(3) of the IRC and is classified as a publicly supported organization under Section 509(a)(1) of the IRC. No provision for income taxes was required for the years ended December 31, 2015 and 2014, as the Association had no net unrelated business income.

The Association performed an evaluation of uncertain tax positions for the years ended December 31, 2015 and 2014, and determined that there are no matters that would require recognition in the financial statements or that may have an effect on its tax-exempt status. As of December 31, 2015, the statute of limitations for tax years 2012 through 2014 remains open with the U.S. federal jurisdiction and/or the various states and local jurisdictions in which the Association files tax returns. The Association is not currently under audit by the IRS as of December 31, 2015. It is the Association's policy to recognize interest and penalties related to uncertain tax positions, if any, in income tax expense. As of December 31, 2015 and 2014, the Association had no accruals for interest and/or penalties.

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2015

(With Summarized Financial Information for the Year Ended December 31, 2014)

21. Prior Year Summarized Financial Information

The accompanying financial statements include certain prior year summarized comparative information in total but not by net 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 Association's financial statements for the year ended December 31, 2014, from which the summarized information was derived.

22. Reclassifications

Certain 2014 amounts have been reclassified to conform to the 2015 financial statement presentation.

23. Subsequent Events

The Association's management has evaluated subsequent events through July 18, 2016, the date the financial statements were available to be issued. There were no subsequent events identified that are required to be disclosed in these financial statements.