

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

Financial Statements

For the Year Ended December 31, 2016

(With Summarized Financial Information for the Year Ended December 31, 2015)



**and
Report Thereon**





Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

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, 2016, 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 Mount Vernon Ladies' Association of the Union as of December 31, 2016, 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 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 18, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, 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 13, 2017

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION
STATEMENT OF FINANCIAL POSITION
December 31, 2016
(With Summarized Financial Information as of December 31, 2015)

	2016	2015
ASSETS		
Cash and cash equivalents	\$ 11,441,529	\$ 22,532,340
Investments	154,143,460	142,018,408
Accounts receivable	820,868	426,485
Promises to give, net	10,973,947	9,898,440
Inventories, net	2,760,830	2,735,195
Prepaid expenses and other assets, net	527,395	695,261
Split-interest agreements	2,447,124	2,416,044
Note receivable	500,000	500,000
Property and equipment, net	83,944,189	89,955,083
Capital projects in process	9,765,194	4,247,863
Historical properties	-	-
TOTAL ASSETS	\$ 277,324,536	\$ 275,425,119
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 4,704,300	\$ 3,723,239
Deferred income	263,668	670,882
Bonds payable	15,000,000	15,000,000
Interest rate swap agreement	5,654,745	6,028,082
Other liabilities	1,570,300	1,193,557
TOTAL LIABILITIES	27,193,013	26,615,760
Net Assets		
Unrestricted		
Undesignated	6,657,427	6,591,064
Board-designated	27,018,606	31,735,430
Property and equipment and capital projects in process	93,709,383	94,202,946
Total Unrestricted Net Assets	127,385,416	132,529,440
Temporarily restricted	80,827,035	75,397,159
Permanently restricted	41,919,072	40,882,760
TOTAL NET ASSETS	250,131,523	248,809,359
TOTAL LIABILITIES AND NET ASSETS	\$ 277,324,536	\$ 275,425,119

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, 2016

(With Summarized Financial Information for the Year Ended December 31, 2015)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2016 Total</u>	<u>2015 Total</u>
OPERATING REVENUE AND SUPPORT					
Contributions	\$ 6,634,328	\$ 10,714,875	\$ 105,000	\$ 17,454,203	\$ 14,133,861
Admission fees	14,413,099	-	-	14,413,099	13,642,763
Product sales	8,362,470	-	-	8,362,470	8,647,331
Food sales	8,039,088	-	-	8,039,088	7,346,889
Other income	1,483,878	-	-	1,483,878	1,324,943
Appropriations from endowments	1,501,744	5,231,288	-	6,733,032	6,451,530
Net assets released from restrictions	11,977,873	(11,977,873)	-	-	-
TOTAL OPERATING REVENUE AND SUPPORT	<u>52,412,480</u>	<u>3,968,290</u>	<u>105,000</u>	<u>56,485,770</u>	<u>51,547,317</u>
EXPENSES					
Program Services:					
Education	34,283,365	-	-	34,283,365	31,520,968
Historic preservation and collections	18,261,101	-	-	18,261,101	14,890,833
Support Services:					
Management and general	3,877,680	-	-	3,877,680	3,764,727
Fundraising	3,476,945	-	-	3,476,945	3,289,883
TOTAL EXPENSES	<u>59,899,091</u>	<u>-</u>	<u>-</u>	<u>59,899,091</u>	<u>53,466,411</u>
CHANGE IN NET ASSETS FROM OPERATIONS	(7,486,611)	3,968,290	105,000	(3,413,321)	(1,919,094)
NONOPERATING ACTIVITIES					
Investment return (loss)	4,225,097	7,592,874	-	11,817,971	(4,345,091)
Endowment funds appropriated for operations	(1,501,744)	(5,231,288)	-	(6,733,032)	(6,451,530)
Change in donor intent	-	(900,000)	900,000	-	-
Change in value of interest rate swap agreement	373,337	-	-	373,337	(218,200)
Change in value of split-interest agreements	(488,631)	-	31,312	(457,319)	(125,178)
Loss on disposal of property and equipment	(265,472)	-	-	(265,472)	-
CHANGE IN NET ASSETS	(5,144,024)	5,429,876	1,036,312	1,322,164	(13,059,093)
NET ASSETS, BEGINNING OF YEAR	<u>132,529,440</u>	<u>75,397,159</u>	<u>40,882,760</u>	<u>248,809,359</u>	<u>261,868,452</u>
NET ASSETS, END OF YEAR	<u>\$ 127,385,416</u>	<u>\$ 80,827,035</u>	<u>\$ 41,919,072</u>	<u>\$ 250,131,523</u>	<u>\$ 248,809,359</u>

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, 2016

(With Summarized Financial Information for the Year Ended December 31, 2015)

Increase (Decrease) in Cash and Cash Equivalents

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,322,164	\$ (13,059,093)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Decrease in allowance for obsolete inventory	(31,549)	(222,866)
Change in discount on promises to give	146,783	-
Loss on disposal of property and equipment	265,472	-
Depreciation and amortization expense	7,661,628	7,897,728
Amortization of bond issuance costs	4,704	4,704
Realized and unrealized losses (gains) on investments and split-interest agreements	(8,870,846)	6,090,867
Cash received for endowment	(2,104,173)	(11,262,935)
Proceeds from sales of collection items	(210,218)	-
Cash disbursed for historical collections	3,361,114	265,526
Change in value of interest rate swap agreement	(373,337)	218,200
Changes in assets and liabilities:		
Accounts receivable	(394,383)	336,825
Promises to give	(1,222,290)	6,165,754
Inventories	5,914	231,240
Prepaid expenses and other assets	163,162	(193,982)
Accounts payable and accrued expenses	981,061	230,185
Deferred income	(407,214)	89,916
Other liabilities	376,743	(48,936)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	674,735	(3,256,867)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, equipment and capital projects in process	(7,718,348)	(3,817,499)
Proceeds from sale of land	284,811	-
Purchases of investments	(22,087,073)	(131,117,392)
Proceeds from sales of investments	18,801,787	139,178,995
Collection items purchased	(3,361,114)	(265,526)
Proceeds from sales of collection items	210,218	-
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(13,869,719)	3,978,578
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash received for endowment	2,104,173	11,262,935
NET CASH PROVIDED BY FINANCING ACTIVITIES	2,104,173	11,262,935
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(11,090,811)	11,984,646
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	22,532,340	10,547,694
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 11,441,529	\$ 22,532,340
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 580,715	\$ 632,717
NONCASH INVESTING AND FINANCING ACTIVITIES		
Securities distributed from private equity fund investments	\$ 1,751,265	\$ -
Property, equipment and capital projects in process included in accounts payable	\$ 396,062	\$ 375,406

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, 2016

(With Summarized Financial Information for the Year Ended December 31, 2015)

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, 2016

(With Summarized Financial Information for the Year Ended December 31, 2015)

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. Therefore, unamortized costs are included in prepaid expenses and other assets in the accompanying statement of financial position.

Investments

Investments consist of cash equivalents, fixed-income investments, equity investments, 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 measurement 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 measurement, 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.

Continued

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

(With Summarized Financial Information for the Year Ended December 31, 2015)

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) 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value (NAV) per Share (or Its Equivalent)*, and therefore has not classified its investment funds measured at NAV within the fair value hierarchy.

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.

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.

Continued

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

(With Summarized Financial Information for the Year Ended December 31, 2015)

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

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, 2016 and 2015.

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.

Historical Properties and Collections

Historical properties and collections owned by the Association have been 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.

Continued

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

(With Summarized Financial Information for the Year Ended December 31, 2015)

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

Historical Properties and Collections (continued)

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, 2016 and 2015, 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.

Unconditional promises to give that are expected to be collected within a year are recorded at their fair value. Unconditional promises to give that are expected to be collected in future years are recorded at their fair value by discounting their estimated future cash flows at rates approximating the current rate for risk-free returns. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

(With Summarized Financial Information for the Year Ended December 31, 2015)

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

Revenue Recognition (continued)

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.

New Accounting Pronouncement

The Association has adopted FASB ASU 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, and therefore has not classified its investment funds measured at NAV within the fair value hierarchy.

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 loss on sale of real property held for conservation purposes.

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

(With Summarized Financial Information for the Year Ended December 31, 2015)

2. Promises to Give

The following are unconditional promises to give as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Education	\$ 5,731,864	\$ 3,323,264
Historic preservation and collections	3,608,274	4,596,114
Life insurance policies	2,150,000	2,150,000
Capital projects and other	<u>224,000</u>	<u>422,470</u>
Promises to Give Before Unamortized Discount	11,714,138	10,491,848
Less: Unamortized Discounts Between 0.65% and 2.47%	<u>(740,191)</u>	<u>(593,408)</u>
Promises to Give, Net	<u>\$ 10,973,947</u>	<u>\$ 9,898,440</u>
	<u>2016</u>	<u>2015</u>
Amounts due in:		
Less than one year	\$ 5,541,637	\$ 3,898,393
One to five years	4,948,831	6,000,047
Thereafter	<u>483,479</u>	<u>-</u>
Total	<u>\$ 10,973,947</u>	<u>\$ 9,898,440</u>

All amounts were deemed to be fully collectible as of December 31, 2016 and 2015.

3. Investments

Investments consisted of the following as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Equity investments	\$ 111,941,539	\$ 92,012,358
Fixed-income investments	30,095,457	27,228,386
Hedge and private equity funds	11,109,355	20,398,517
Cash equivalents	<u>997,109</u>	<u>2,379,147</u>
Total Investments	<u>\$ 154,143,460</u>	<u>\$ 142,018,408</u>

Continued

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2016**

(With Summarized Financial Information for the Year Ended December 31, 2015)

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 14, for the years ended December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Realized and unrealized gains (losses)	\$ 8,839,766	\$ (5,965,689)
Interest and dividends	<u>2,978,205</u>	<u>1,620,598</u>
Investment Return (Loss)	<u>\$11,817,971</u>	<u>\$ (4,345,091)</u>

Interest and dividend income includes \$82,769 and \$115,684 of interest earned on operating cash and cash equivalents, and is presented net of \$84,744 and \$427,260 of investment expenses for the years ended December 31, 2016 and 2015, 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, 2016 and 2015, 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, 2016 and 2015:

	<u>Estimated Useful Lives</u>	<u>2016</u>	<u>2015</u>
Buildings	40 years	\$ 75,614,205	\$ 75,614,205
Building improvements	10-20 years	31,156,137	30,922,004
Furniture, fixtures and equipment	5-7 years	46,157,440	45,775,135
Exhibitions	2-3 years	3,278,988	3,278,988
Computer software	3-4 years	2,928,732	1,982,600
Land	-	<u>534,524</u>	<u>963,362</u>
Total Property and Equipment		159,670,026	158,536,294
Less: Accumulated Depreciation and Amortization		<u>(75,725,837)</u>	<u>(68,581,211)</u>
Property and Equipment, Net		<u>\$ 83,944,189</u>	<u>\$ 89,955,083</u>

Depreciation and amortization expense for the years ended December 31, 2016 and 2015, was \$7,661,628 and \$7,897,728, respectively.

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2016**

(With Summarized Financial Information for the Year Ended December 31, 2015)

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. Various items held in collections were sold at auction during the year ended December 31, 2016, and the proceeds were temporarily restricted for the purchase of new collection items. No items held in collections were disposed of during the year ended December 31, 2015.

7. 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 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, and 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 would 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, 2016 and 2015, 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 British Bankers' Association London Interbank Offered Rate. 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 \$5,654,745 and \$6,028,082 as of December 31, 2016 and 2015, respectively. During the years ended December 31, 2016 and 2015, the Association recorded a noncash gain of \$373,337 and a noncash loss of \$218,200 on the change in derivative valuation due to interest rate fluctuations.

The outstanding bonds payable of \$15,000,000, as of December 31, 2016 and 2015, are due in one lump sum payment in June 2037. Interest expense for the Association for the years ended December 31, 2016 and 2015, was \$580,715 and \$627,117, respectively.

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MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS For the Year Ended December 31, 2016

(With Summarized Financial Information for the Year Ended December 31, 2015)

8. 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, 2016 and 2015, the Association has recorded a liability totaling \$1,240,730 and \$863,987, 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, 2016 and 2015.

9. Commitments and Contingencies

Operating Leases

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

As of December 31, 2016, the future minimum rental payments required under the operating lease for the year ending December 31, 2017, was \$9,675. Rent expense totaled \$121,644 and \$83,675 for the years ended December 31, 2016 and 2015, respectively.

10. 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 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, 2016 and 2015, the amount in excess of the insured limit of \$250,000 was \$10,108,155 and \$21,760,667, 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.

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

(With Summarized Financial Information for the Year Ended December 31, 2015)

11. 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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Education	\$ 66,302,918	\$ 66,792,126
Capital projects	6,234,535	419,126
Historic preservation and collections	3,350,781	3,440,582
General endowment	2,665,579	2,358,743
Pooled income fund, life insurance and other	<u>2,273,222</u>	<u>2,386,582</u>
Total Temporarily Restricted Net Assets	<u>\$ 80,827,035</u>	<u>\$ 75,397,159</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 operation of the Ford Orientation Center and Donald W. Reynolds Museum and Education, the acquisition of historical books, and various education and leadership programs.

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

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.

General endowment – This consists of 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.

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, 2016 and 2015, was \$452,578 and \$452,810, respectively.

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

(With Summarized Financial Information for the Year Ended December 31, 2015)

12. Permanently Restricted Net Assets

Permanently restricted net assets represent donor-restricted contributions of 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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Education	\$ 23,002,427	\$ 22,102,427
Historic preservation and collections	13,847,034	13,710,722
General endowment	<u>5,069,611</u>	<u>5,069,611</u>
Total Permanently Restricted Net Assets	<u>\$41,919,072</u>	<u>\$40,882,760</u>

13. 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.

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

	<u>2016</u>	<u>2015</u>
Endowment:		
Board reserves	\$ 25,148,458	\$ 24,318,113
Collections conservation	1,603,135	1,936,014
Other projects	238,118	166,040
Appropriated for expenditure:		
Collections conservation	28,895	57,695
Capital projects	<u>-</u>	<u>5,257,568</u>
Total Board-Designated Net Assets	<u>\$27,018,606</u>	<u>\$31,735,430</u>

During 2016 and 2015, the Board of Regents approved net transfers of \$890,991 and \$1,374,900, respectively, from undesignated funds to board-designated funds to support various projects.

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2016**

(With Summarized Financial Information for the Year Ended December 31, 2015)

14. Endowment Funds

The Association's endowment consists of 73 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 may 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 2016, the endowments with deficiencies transferred investment earnings of \$268,916 to repay unrestricted net assets a portion of the cumulative unrecovered balance. During 2015, the Association transferred \$754,127 from unrestricted net assets to restore endowment values below their original donor gift amount. As of December 31, 2016 and 2015, the cumulative unrecovered amount was \$1,091,137 and \$1,360,053, 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.

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.

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

(With Summarized Financial Information for the Year Ended December 31, 2015)

14. Endowment Funds (continued)

Interpretation of Relevant Law (continued)

The changes in endowment net assets for the years ended December 31, 2016 and 2015, were:

	2016				2015
	Board- Designated	Temporarily Restricted	Permanently Restricted	Total	
Endowment net assets, beginning of year	\$ 26,420,167	\$ 66,741,876	\$ 40,882,760	\$ 134,044,803	\$ 138,029,918
Investment return (loss)	1,979,844	7,592,874	31,312	9,604,030	(4,157,069)
Change in donor intent	-	-	900,000	900,000	-
Contributions	91,444	-	105,000	196,444	5,203,179
Uncollectible pledge	-	(50,000)	-	(50,000)	-
Appropriation of endowment assets for expenditure	<u>(1,501,744)</u>	<u>(5,231,288)</u>	<u>-</u>	<u>(6,733,032)</u>	<u>(5,031,225)</u>
Endowment Net Assets, End of Year	<u>\$ 26,989,711</u>	<u>\$ 69,053,462</u>	<u>\$ 41,919,072</u>	<u>\$ 137,962,245</u>	<u>\$ 134,044,803</u>

As of December 31, 2016, amounts classified as permanently restricted net assets were permanently restricted either by explicit donor stipulation or by UPMIFA, and amounts classified as temporarily restricted net assets were subject to purpose restrictions only.

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.

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MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

(With Summarized Financial Information for the Year Ended December 31, 2015)

14. Endowment Funds (continued)

Return Objectives and Spending Policy (continued)

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 3.5% and 4.5% of its operating endowments for the years ended December 31, 2016 and 2015, respectively. 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 4.4% and 4.7% for the years ended December 31, 2016 and 2015, 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.

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.

15. 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.

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

(With Summarized Financial Information for the Year Ended December 31, 2015)

16. Fair Value Measurement

The table below summarizes, by level within the fair value hierarchy, the Association's investments as of December 31, 2016 and 2015:

	2016			
	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	\$ 997,109	\$ 997,109	\$ -	\$ -
Fixed-income investments:				
Developed markets mutual funds	29,453,252	29,453,252	-	-
Corporate bonds	639,205	-	639,205	-
U.S. government agency bonds	<u>3,000</u>	<u>-</u>	<u>3,000</u>	<u>-</u>
Total Fixed-Income Investments	<u>30,095,457</u>	<u>29,453,252</u>	<u>642,205</u>	<u>-</u>
Equity investments:				
Developed markets mutual funds	108,403,988	108,403,988	-	-
U.S. securities	<u>3,537,551</u>	<u>3,537,551</u>	<u>-</u>	<u>-</u>
Total Equity Investments	<u>111,941,539</u>	<u>111,941,539</u>	<u>-</u>	<u>-</u>
Total Investments In the Fair Value Hierarchy	<u>143,034,105</u>	<u>142,391,900</u>	<u>642,205</u>	<u>-</u>
Other investments measured at NAV ^(a) :				
Long/short equity hedge	5,452,019			
Private equity	3,828,615			
Distressed debt hedge	1,761,099			
Event-driven hedge	<u>67,622</u>			
Total Other Investments Measured at NAV	<u>11,109,355</u>			
Total Investments	154,143,460	142,391,900	642,205	-
Other assets:				
Split-interest agreements	<u>2,447,124</u>	<u>2,447,124</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 156,590,584</u>	<u>\$ 144,839,024</u>	<u>\$ 642,205</u>	<u>\$ -</u>
Liabilities measured at fair value:				
Interest rate swap agreement	\$ 5,654,745	\$ -	\$ 5,654,745	\$ -
Split-interest agreements	<u>1,362,487</u>	<u>-</u>	<u>1,362,487</u>	<u>-</u>
Total Liabilities	<u>\$ 7,017,232</u>	<u>\$ -</u>	<u>\$ 7,017,232</u>	<u>\$ -</u>

Continued

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

(With Summarized Financial Information for the Year Ended December 31, 2015)

16. Fair Value Measurement (continued)

	2015			
	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	-	-
Total Investments In the Fair Value Hierarchy	121,619,891	121,009,922	609,969	-
Other investments measured at NAV ^(a) :				
Long/short equity hedge	7,671,155			
Private equity	5,599,271			
Distressed debt hedge	3,754,583			
Event-driven hedge	3,373,508			
Total Other Investments Measured at NAV	20,398,517			
Total Investments	142,018,408	121,009,922	609,969	-
Other assets:				
Split-interest agreements	2,416,044	2,416,044	-	-
Total Assets	\$ 144,434,452	\$ 123,425,966	\$ 609,969	\$ -
Liabilities measured at fair value:				
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	\$ -

(a) These investments are measured at NAV or its equivalent as a practical expedient and have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statement of financial position.

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MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

(With Summarized Financial Information for the Year Ended December 31, 2015)

16. Fair Value Measurement (continued)

The following table discloses information concerning the fair value measurement of investments calculated using NAV per share as of December 31, 2016:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If Currently Eligible)</u>	<u>Redemption Notice Period</u>
Long/short equity hedge funds ^(a)	\$ 5,452,019	\$ -	Quarterly, annually and every 2 or 3 years on the anniversary date	45-90 days
Private equity funds ^(b)	3,828,615	3,605,264	N/A	N/A
Distressed debt hedge funds ^(c)	1,761,099	-	Annually	90 days
Event-driven hedge funds ^(d)	<u>67,622</u>	<u>-</u>	Quarterly and annually	45-90 days
Total	<u>\$ 11,109,355</u>	<u>\$ 3,605,264</u>		

(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 NAV 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 10 months from December 31, 2016.

(b) *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 NAV 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, 2016, it is estimated that the underlying assets of these funds will be liquidated over a period of 15 years.

(c) *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 NAV per share of the investments. The investment in this category is illiquid and will be received over a period of up to five years as of December 31, 2016.

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MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

(With Summarized Financial Information for the Year Ended December 31, 2015)

16. Fair Value Measurement (continued)

- (d) *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 NAV 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 10 months from December 31, 2016.

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, 2016, 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 7 for additional information regarding the swap.

17. 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 \$957,877 and \$747,600 for the years ended December 31, 2016 and 2015, respectively. These amounts are included in accounts payable and accrued expenses in the statement of financial position at December 31, 2016 and 2015.

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 \$328,053 and \$309,766 during the years ended December 31, 2016 and 2015, respectively.

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

(With Summarized Financial Information for the Year Ended December 31, 2015)

18. 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 2016 and 2015, the Association incurred \$1,308,993 and \$1,325,022, respectively, of joint costs for these activities. Of these costs, \$654,496 and \$642,674 were allocated to the education program, \$26,810 and \$33,989 were allocated to management and general, and \$627,687 and \$648,359 were allocated to fundraising in 2016 and 2015, respectively.

19. 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, 2016 and 2015, as the Association had no net unrelated business income.

The Association evaluated its uncertainty in income taxes for the years ended December 31, 2016 and 2015, 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, 2016, the statute of limitations for tax years 2013 through 2015 remains open with the U.S. federal jurisdiction and/or the various states and local jurisdictions in which the Association files tax returns. It is the Association's policy to recognize interest and penalties related to uncertainty in income taxes, if any, in income tax expense. As of December 31, 2016 and 2015, the Association had no accruals for interest and/or penalties.

20. 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, 2015, from which the summarized information was derived.

21. Reclassifications

Certain 2015 amounts have been reclassified to conform to the 2016 financial statement presentation.

22. Subsequent Events

The Association's management has evaluated subsequent events through July 13, 2017, 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.