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ACCOUNTING ▪ TAX ▪ BUSINESS ADVISORY

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

DECEMBER 31, 2010

Mount Vernon Ladies' Association of the Union

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INDEPENDENT AUDITORS' REPORT

The Grand Council
Mount Vernon Ladies' Association of the Union

We have audited the accompanying statement of financial position of the Mount Vernon Ladies' Association of the Union as of December 31, 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior-year summarized comparative information has been derived from the Association's 2009 financial statements and, in our report dated April 21, 2010, we expressed an unqualified opinion on those statements. The 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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31, 2009, from which the summarized information was derived.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2010, and changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Reznick Group, P.C.

Bethesda, Maryland
April 28, 2011

Mount Vernon Ladies' Association of the Union

STATEMENT OF FINANCIAL POSITION

As of December 31, 2010 (with comparative totals for 2009)

ASSETS

	2010	2009
Current Assets		
Cash and cash equivalents	$ 17,056,529	$ 7,299,429
Investments	3,031,193	35,305,882
Accounts receivable, net	724,187	665,574
Promises to give, net	22,599,408	1,401,989
Inventories	3,847,191	4,244,555
Prepaid expenses and other assets, net	1,084,157	988,087
Total current assets	48,342,665	49,905,516
Noncurrent Assets		
Investments	114,253,405	71,864,370
Split interest agreements	2,313,805	613,655
Promises to give, net	42,985,425	3,528,023
Property and equipment, net	69,035,600	70,969,304
Projects in process	4,507,998	3,433,475
Historic properties	-	-
Total noncurrent assets	233,096,233	150,408,827
Total assets	$ 281,438,898	$ 200,314,343

(continued)

Mount Vernon Ladies' Association of the Union

STATEMENT OF FINANCIAL POSITION - CONTINUED

As of December 31, 2010 (with comparative totals for 2009)

LIABILITIES AND NET ASSETS

	2010	2009
Current Liabilities		
Accounts payable and accrued expenses	$ 3,690,719	$ 3,664,166
Deferred income	655,507	570,665
Total current liabilities	4,346,226	4,234,831
Noncurrent Liabilities		
Bonds payable	15,000,000	15,000,000
Interest rate swap agreement	3,047,681	2,276,725
Other liabilities	707,537	777,645
Total noncurrent liabilities	18,755,218	18,054,370
Total liabilities	23,101,444	22,289,201
Net Assets		
Unrestricted		
Undesignated	80,601,460	80,856,376
Board designated	38,237,730	30,997,461
Unrestricted	118,839,190	111,853,837
Temporarily restricted	116,962,619	48,831,571
Permanently restricted	22,535,645	17,339,734
Total net assets	258,337,454	178,025,142
Commitments and contingencies	-	-
Total liabilities and net assets	$ 281,438,898	$ 200,314,343

See notes to financial statements

Mount Vernon Ladies' Association of the Union

STATEMENT OF ACTIVITIES

Year ended December 31, 2010 (with comparative totals for 2009)

	2010						
	Unrestricted						
	Undesignated	Board Designated	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2009
Operating activities							
Revenue and support							
Contributions	$ 4,285,067	$ -	$ 4,285,067	$ 69,467,075	$ 5,068,616	$ 78,820,758	$ 9,567,932
Admission fees	12,238,783	-	12,238,783	-	-	12,238,783	12,169,956
Product sales	7,777,335	7,475	7,784,810	-	-	7,784,810	7,610,672
Food sales	6,350,636	-	6,350,636	-	-	6,350,636	6,138,996
Royalties	-	305,774	305,774	-	-	305,774	322,377
Miscellaneous	503,186	-	503,186	-	-	503,186	380,582
Investment return designated for current operations	-	820,542	820,542	1,055,681	-	1,876,223	2,692,917
	31,155,007	1,133,791	32,288,798	70,522,756	5,068,616	107,880,170	38,883,432
Net assets released from designation	835,042	(835,042)	-				
Net assets released from restriction	6,655,040	-	6,655,040	(6,655,040)	-	-	-
Total revenue and support	38,645,089	298,749	38,943,838	63,867,716	5,068,616	107,880,170	38,883,432
Expenses							
Program services	33,567,211	264,605	33,831,816	-	-	33,831,816	33,673,588
Fundraising	1,906,329	-	1,906,329	-	-	1,906,329	2,085,416
Management and general	3,098,037	34,714	3,132,751	-	-	3,132,751	3,017,646
Total expenses	38,571,577	299,319	38,870,896	-	-	38,870,896	38,776,650
Changes in net assets before nonoperating activities	73,512	(570)	72,942	63,867,716	5,068,616	69,009,274	106,782
Nonoperating activities							
Investment return in excess of amounts designated for current operations	5,625,711	2,057,656	7,683,367	4,263,332	127,295	12,073,994	16,079,445
Change in value of derivative	(770,956)	-	(770,956)	-	-	(770,956)	3,747,769
Transfer to board designated	(5,183,183)	5,183,183	-	-	-	-	-
Changes in net assets	(254,916)	7,240,269	6,985,353	68,131,048	5,195,911	80,312,312	19,933,996
Net assets, beginning of year	80,856,376	30,997,461	111,853,837	48,831,571	17,339,734	178,025,142	158,091,146
Net assets, end of year	$ 80,601,460	$ 38,237,730	$ 118,839,190	$ 116,962,619	$ 22,535,645	$ 258,337,454	$ 178,025,142

See notes to financial statements

Mount Vernon Ladies' Association of the Union

STATEMENT OF CASH FLOWS

Year ended December 31, 2010 (with comparative totals for 2009)

	2010	2009
Cash flows from operating activities		
Changes in net assets	$ 80,312,312	$ 19,933,996
Adjustments to reconcile changes in net assets to cash (used in) provided by operating activities:		
Bad debt expense on promises to give and accounts receivables	(207,237)	9,931
Change in discount on promises to give	232,959	(121,275)
Contributions of stock	(1,519,487)	-
Depreciation and amortization expense	6,177,826	5,481,312
Realized and unrealized (gains) losses on investments	(12,019,906)	(16,830,247)
Contributions received for endowment	(5,068,616)	(1,383,358)
Contributions restricted for long-term projects	(29,056,675)	(1,304,725)
Investment income restricted for long-term projects	(928,422)	(1,158,824)
Change in value of derivative	770,956	(3,747,769)
Change in value of split interest agreements	(1,700,150)	-
Change in assets (increase) decrease in:		
Accounts receivable	(30,257)	109,329
Promises to give	(60,708,899)	3,820,961
Inventories	397,364	96,471
Prepaid expenses and deposits	(100,774)	(141,479)
Change in liabilities increase (decrease) in:		
Accounts payable and accrued expenses	(145,802)	319,408
Deferred income	84,842	-
Other liabilities	(70,108)	17,561
Net cash (used in) provided by operating activities	(23,580,074)	5,101,292
Cash flows from investing activities		
Purchases of property, equipment, and projects in progress	(5,141,586)	(3,737,352)
Purchases of investments	(102,415,697)	(98,843,998)
Proceeds from sale of investments	105,840,744	81,955,178
Withdrawals from restricted deposits	-	1,572,859
Net cash used in investing activities	(1,716,539)	(19,053,313)

(continued)

Mount Vernon Ladies' Association of the Union

STATEMENT OF CASH FLOWS - CONTINUED

Year ended December 31, 2010 (with comparative totals for 2009)

	2010	2009
Cash flows from financing activities		
Contributions received for endowment	5,068,616	1,383,358
Contributions restricted for long-term projects	29,056,675	1,304,725
Investment income restricted for long-term projects	928,422	1,158,824
Net cash provided by financing activities	35,053,713	3,846,907
Net increase (decrease) in cash and cash equivalents	9,757,100	(10,105,114)
Cash and cash equivalents, beginning of year	7,299,429	17,404,543
Cash and cash equivalents, end of year	$ 17,056,529	$ 7,299,429
Significant noncash investing activities		
Projects in progress included in payable	$ 731,037	$ 558,682
Fully depreciated property and equipment disposed	$ 772,047	$ 99,929
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 626,850	$ 702,382

See notes to financial statements

1. ORGANIZATION AND PURPOSE

Nature of Operations

The Mount Vernon Ladies' Association of the Union (the Association) is a 501(c)3 non-profit corporation founded in 1853 by Ann Pamela Cunningham. Its mission is to manage and preserve Mount Vernon Estate, the home of George Washington, and to educate visitors about his life and his leadership qualities. The Association's primary revenue sources are admissions, retail and food sales and contributions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER MATTERS

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 are reported initially as an increase in temporarily restricted net assets and then reclassified to unrestricted net assets when restrictions have been met.

Basis of Presentation

These financial statements present net assets, revenue, expenses, gains and losses based on the existence of donor-imposed restrictions. Accordingly, net assets and the changes therein are classified as follows:

Unrestricted - Net assets that are not subject to donor-imposed stipulations. Revenues from sources other than contributions and investment income are reported as increases in unrestricted net assets.

Temporarily Restricted - Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met by the actions of the Association and/or passage of time.

Permanently Restricted - Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by the Association. Generally, the investment income is temporarily restricted until appropriated for expenditure.

Comparative Financial Information

The 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 accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Association considers all highly liquid investments, purchased with a maturity of three months or less to be cash equivalents. Cash and cash equivalents held in investment accounts are excluded as they are considered to be held for long-term purposes.

Investments

Investments with readily determinable fair values are reflected at fair market value. Income is recognized from interest and dividends as earned. The Association maintains investment accounts for its endowment and similar funds. Realized and unrealized gains and losses from securities in the investment accounts are allocated monthly to the individual endowments and similar funds based on the relationship of the fair value of each endowment and similar fund to the total fair value of the investment accounts, as adjusted for additions to or deductions from these accounts.

Investment income classified as operating revenue consist of interest and dividend income on investments and any gains approved for use in operations (Note 3). All other realized and unrealized gains or losses are classified as non-operating activity.

The Association reports its investments in a commingled commodity fund, certain commingled international equity funds, hedge funds, and a common trust fund at fair value as determined and reported by the investment managers.

Accounts Receivable

Trade receivables are carried at original invoice amounts less an estimate made for doubtful receivables based on 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 allowance account when deemed uncollectible. An allowance for doubtful accounts related to trade receivables of $6,013 and $34,369 was recorded at December 31, 2010 and 2009, respectively.

Unconditional promises to give are recorded at their fair value. 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. Based on management's evaluation of collectability of promises to give, an allowance for doubtful promises to give of $167,000 and $345,881 was recorded at December 31, 2010 and 2009, respectively.

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. There was no allowance for obsolete inventory at December 31, 2010 and 2009, as management believes all items are fully salable.

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. Amortization expense for the years ended December 31, 2010 and 2009 was $4,704 and $4,704, respectively. Aggregate amortization expense is $4,704 per year for the next five years ending December 31, 2015. Bond issuance costs of $124,546, net of accumulated amortization of $16,458, are included in prepaid expenses and other assets as of December 31, 2010.

Property and Equipment

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 lives of each asset. The Association capitalizes all property and equipment purchased with a cost of $2,500 or more.

Projects in Process

Projects in process consist of various construction projects and are stated at cost of $4,507,998 and $3,433,475 at December 31, 2010 and 2009, respectively.

Impairment of Long-Lived Assets

The Association reviews its long-lived assets for impairment whenever events and 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, 2010 and 2009.

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.

Derivative Financial Instruments and Hedging Activities

During the year ended December 31, 2010, the Association had one 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 loan.

Revenue Recognition

Revenue, other than contributions, is recognized when earned.

Contributions received are recorded as permanently restricted, temporary 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 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.

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

Fair Value of Financial Instruments

The Association has adopted the Fair Value Measurement topic of the Codification.

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 investments 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 commingled funds and alternative investment funds are reported at estimated fair values. In accordance with Accounting Standards Update, *Investment in Certain Entities that Calculate Net Asset Value per Share,* net asset value is used as a practical expedient to estimate fair value of these funds (Note 15). The private equity investments are recorded at cost. The fair value of the private equity investments were $1,057,902 and $1,080,646 at December 31, 2010 and 2009, respectively.

Inventories: Fair value is based on 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. Fair value is adjusted for the allowance for doubtful promises to give.

Bonds payable: The fair value of the bonds payable is the amount payable at the reporting date.

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

Use of Estimates

The preparation of financial statements in conformity with GAAP requires the Association to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include allowance for uncollectible receivables and allowance for uncollectible promises to give.

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.

Income Taxes

The Association is exempt from federal income taxes under the provision of Section 501(c)(3) of the Internal Revenue Code (IRC). The Association is subject to income taxes on revenue generated from other sources unrelated to its exempt purpose. The Association is required to file and does file tax returns with the IRS and other taxing authorities.

During 2009, the Association elected to implement the provision of ASC 740, Income Taxes (formerly, Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes). During the years ended 2010 and 2009, the Association did not identify any uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

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. Financial statements do not reflect any contributed collection items.

Proceeds from the sale or insurance recoveries are reflected as increases in the appropriate net asset classes.

Financial Risk

The Association invests in a professionally managed portfolio that contains U.S. equity securities, mutual funds, fixed income securities, hedge funds and other alternative investments, and certificates of deposits. Such investments are 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.

Concentration of Credit Risk

Cash and cash equivalents are held primarily in checking accounts, and overnight repurchase agreements with carefully selected financial institutions, and accordingly management does not believe that there is exposure due to significant credit risk with respect to cash and cash equivalents. As of December 31, 2010, the uninsured portion held is approximately $16,385,411. The Organization has not experienced any losses with respect to its deposit balances in excess of government provided insurance.

New Accounting Pronouncements

In January 2010, the FASB issued guidance that amends the current disclosure requirements under the existing fair value accounting standard. It requires entities to disclose separately the amounts of significant transfers into and out of Level 1 and Level 2 fair value measurements along with the reasons for those transfers. In addition, it also requires entities to present separately information about purchase, sales, issuances, and settlements on gross basis rather than as one net number in the reconciliation for fair value measurements using significant unobservable inputs (level 3). The amended guidance became effective for fiscal years and interim periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010.

Reclassifications

Certain reclassifications have been made to the 2009 balances to conform to the 2010 presentation.

3. INVESTMENTS

Investments consist of the following as of December 31, 2010 and 2009:

	2010	2009
Short-term:		
Cash equivalents	$ 2,225,586	$ 1,199,714
Certificates of deposits (at cost)	805,607	34,106,168
Total short-term	3,031,193	35,305,882
Long-term:		
U.S. equity securities	3,781,571	25,123,285
Private equities (at cost)	199,611	430,519
Limited partnerships	-	2,901,326
U.S. equity mutual funds	25,905,763	9,377,227
Event driven hedge funds	8,314,801	-
Equity long/short hedge funds	9,379,567	-
Distressed debt hedge funds	3,107,292	-
Inflation protected mutual funds	2,291,443	-
Commingled commodity fund	2,526,945	-
Commingled international equity funds	11,739,443	
Bond mutual funds	20,993,361	27,786,683
International equity mutual funds	10,293,058	-
Emerging markets mutual funds	9,152,455	-
Common trust fund	5,980,563	5,099,572
Certificates of deposits (at cost)	-	567,631
Corporate bonds	587,532	578,127
Total long-term	114,253,405	71,864,370
Total investments	$117,284,598	$107,170,252

The Association's endowment consists of approximately 53 individual funds established for a variety of purposes. Its endowment includes donor-restricted endowment funds and funds designated by the Grand Council to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Grand Council 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 the significant stock market losses during 2008, 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 $2,869,035 of these endowment deficiencies to unrestricted net assets at December 31, 2008 to restore the endowment values to their full donor gift amount. The fair value of the endowment funds was partially recovered and $303,541 and $1,946,678 was transferred back to unrestricted net assets during 2010 and 2009, 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 non-profit organizations 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 Grand Council 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, 2010 and 2009, and endowment net assets at December 31, 2010 were:

	2010				
	Board-designated	Temporarily Restricted	Permanently Restricted	Total	2009
Endowment net assets beginning of year	$ 30,997,461	$ 36,862,517	$ 17,339,734	$ 85,199,712	$ 76,929,789
Investment return	2,878,198	5,289,565	127,295	8,295,058	9,850,876
Contributions	-	29,531,447	5,068,616	34,600,063	1,383,358
Transfer	-	-	-	-	(62,293)
Royalties	305,774	-	-	305,774	322,377
Miscellaneous	7,475	-	-	7,475	6,972
Appropriation of endowment assets for expenditure	(1,134,361)	(1,469,505)	-	(2,603,866)	(3,231,367)
Transfers to Board Designated funds	5,183,183	-	-	5,183,183	-
Endowment net assets, end of year	$ 38,237,730	$ 70,214,024	$ 22,535,645	$ 130,987,399	$ 85,199,712

As of December 31, 2010, 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.

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, 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 maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Association must hold in perpetuity or for a donorspecified period(s) as well as board-designated funds. Under this policy, as approved by the Grand Council, 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 Grand Council periodically reviews this, based on current market conditions and advice from their outside investment professionals, and makes any necessary changes.

The Investment Policy of the Association approves the appropriation of up to 5 percent each year of the average fair value of each endowment fund as of the trailing 12 quarters ending on December 31st of the previous year. The Grand Council approved Spending Policy was 3% and 4% for the years ended December 31, 2010 and 2009, respectively.

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.

The following summarizes investment return and its classification in the statement of activities for the years ended December 31, 2010 and 2009:

	2010			
	Operating	Nonoperating	Total	2009
Interest and dividends, net	$ 1,876,223	$ 54,088	$ 1,930,311	$ 1,942,115
Realized and unrealized gains (losses)	-	12,019,906	12,019,906	16,830,247
Net investment gain (loss)	$ 1,876,223	$ 12,073,994	$ 13,950,217	$ 18,772,362

Interest and dividends are presented net of $471,979 and $286,750 in investment expenses for the years ended December 31, 2010 and 2009, respectively.

4. RESTRICTED AND BOARD DESIGNATED NET ASSETS

Temporarily Restricted

Net assets were released from restrictions by satisfying the program restrictions. Temporarily restricted net assets consist of the following at December 31, 2010.

	2009	Additions	Investment gains (losses)	Restrictions accomplished	2010
Building operation funds	$31,389,408	$29,056,675	$ 3,068,383	$ (928,422)	$ 62,586,044
Site improvement funds	812,753	38,258,445	83,300	(515,938)	38,638,560
General endowment funds	2,400,496	14,109	691,677	(196,671)	2,909,611
Program, education and pooled income funds	11,360,274	1,022,085	983,295	(4,445,415)	8,920,239
Collection and library	2,868,640	1,115,761	492,358	(568,594)	3,908,165
	$ 48,831,571	$ 69,467,075	$ 5,319,013	$ (6,655,040)	$ 116,962,619

Building operation and site improvement funds: The majority of these funds are donor-restricted funds solicited for the construction and operation of the Fred W. Smith National Library for the Study of George Washington, the Ford Orientation Center and the Donald W. Reynolds Museum, and Education Center. There are also balances for continuing improvements of the mansion and adjoining structures and other construction projects of the estate.

Program and education funds: These funds represent donations to support various education programs on the Mount Vernon estate and outreach to students. They include teachers' institutes, biography lessons, Colonial Days events and Distance Learning broadcasts.

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 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 the discount rate of 1.8% in the temporarily restricted fund.

Collection and library funds: These funds are restricted for the acquisition, conservation or preservation of memorabilia, artifacts, museum and library collection items.

Permanently Restricted

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 into the temporarily restricted net assets to be used for specific purposes.

Permanently restricted net assets consist of the following at December 31, 2010:

	2009	Additions	2010
Endowments			
Site improvement funds	$ 481,185	$ 106,312	$ 587,497
General endowment funds	4,278,614	-	4,278,614
Program and education funds	9,860,616	3,235,561	13,096,177
Collection and library funds	2,719,319	1,854,038	4,573,357
	$ 17,339,734	$ 5,195,911	$ 22,535,645

Board Designated

Funds designated by the Grand Council represent the portion of unrestricted funds that have been set aside for specific purposes.

Board designated net assets consist of the following at December 31, 2010 and 2009:

	2010	2009
Board reserves	$ 29,912,506	$27,854,850
George Washington Library project	-	2,240,640
Collections conservation	500,000	500,000
Capital projects	6,440,000	-
Other projects	1,385,224	401,971
Total Board designated net assets	$ 38,237,730	$ 30,997,461

5. TRANSFERS

The Grand Council approved a transfer of $5,183,183 during 2010 from undesignated funds to board designated funds to support different projects. There were no such transfers in 2009.

6. PROPERTY AND EQUIPMENT

Property and equipment and accumulated depreciation as of December 31, 2010 and 2009 were:

Asset category	Estimated useful lives	2010	2009
Buildings	40 years	$ 41,456,390	$ 41,487,158
Building improvements	10-20 years	24,418,788	23,983,127
Equipment	7 years	39,489,582	39,363,908
Furniture and fixtures	5 years	5,824,789	2,985,411
Vehicles	5-7 years	1,276,004	1,178,578
		112,465,553	108,998,182
Less: Accumulated depreciation		(43,429,953)	(38,028,878)
Property and equipment, net		$ 69,035,600	$ 70,969,304

7. PROMISES TO GIVE

The following are unconditional promises to give at December 31, 2010 and 2009:

	2010	2009
Capital campaign (Orientation Center and Education Center)	$ 857,000	$ 1,047,819
Life insurance policies	2,150,000	2,150,000
Education fund	1,331,598	2,056,066
GW Library fund	62,714,987	1,000,000
Unrestricted fund	60,299	151,100
Unconditional promises to give before unamortized discount and allowance for doubtful accounts	67,113,884	6,404,985
Less: Unamortized discounts between .29% and 3.63%	(1,362,051)	(1,129,092)
	65,751,833	5,275,893
Less allowance for doubtful accounts	(167,000)	(345,881)
Net unconditional promises to give	$ 65,584,833	$ 4,930,012
Amounts due in:		
Less than one year	$ 22,655,408	$ 1,734,370
One to five years	44,458,476	4,670,615
Total	$ 67,113,884	$ 6,404,985

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 Mount Vernon Ladies' Association of the Union. 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, 2010, the amount of 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 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 is 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 balance sheet as a liability in the amount of $3,047,681 and $2,276,725 as of December 31, 2010 and 2009, respectively. During the years ended December 31, 2010 and 2009, the Association recorded a non-cash (loss)/gain on the change in derivative valuation in the amount of $(770,956) and $3,747,769, respectively, due to interest rate fluctuations.

Future principal payments of bonds payable outstanding at December 31, 2010 are as follows:

Year ending December 31,	Amount
2011	$ -
2012	-
2013	-
2014	-
2015	-
Thereafter	15,000,000
Total	$15,000,000

Interest expense for the Association for the years ended December 31, 2010 and 2009 was $635,990 and $702,382, 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, the donors will receive a fixed quarterly payment over the term of their lives. As of December 31, 2010 and 2009, the Association has recorded a liability totaling $587,042 and $574,099, 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 statement of financial position as of December 31, 2010 and 2009.

10. RETIREMENT PLANS

The Association has 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 $601,416 and $618,410 for the years ended December 31, 2010 and 2009, respectively. These amounts are included in accounts payable and accrued expenses in the statement of financial position at December 31, 2010 and 2009.

The Association sponsors a 403 (b) plan for eligible employees. Employees are eligible to participate in the plan on the 1st 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 Association contributes $.50 for every $1 contributed by employees 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 $193,761 and $182,459 during the years ended December 31, 2010 and 2009, respectively.

The Association provides certain management employees the ability to elect to defer receipt of current compensation from the Association in order to provide retirement and other benefits on behalf of such employees. This Executive Retirement Plan is a nonqualified deferred compensation plan that complies with the provisions of Section 457(b) of the Internal Revenue Code. The Association contributed $16,500 and $15,500 to the plan in 2010 and 2009, respectively. No amounts were deferred by the employees.

The Association entered into an agreement which provides for the Association to make a contribution maintained in an Executive Retirement Plan which complies with section 457(f) of the Internal Revenue Code. The Association contributed $25,000 and $50,000 in 2010 and 2009, respectively.

As of December 31, 2010 and 2009, total 457(b) and 457(f) plan asset and liability were $153,647, and $92,272, respectively.

11. 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 2010 and 2009, the Association incurred $1,157,617 and $1,114,512 of joint costs for these activities, respectively. Of these costs, $557,803 and $568,401 were allocated to program, $39,136 and $44,580 were allocated to management and general, and $560,678 and $501,531 were allocated to fundraising in 2010 and 2009, respectively.

12. HISTORICAL PROPERTIES

The Association's collections are made up of land, 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 continuously. No collections items were disposed of during the years ended December 31, 2010 and 2009.

13. 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.

14. COMMITMENTS AND CONTINGENCIES

In May 2007, the Association executed a three year lease, commencing June 1, 2007, for storage purposes, in Alexandria, Virginia. The lease requires monthly minimum rental payments in the first year in the amount of $4,667. The minimum rental payments are subject to an increase of $0.50 per square foot every twelve months beginning June 1, 2008. The lease provides the Association with two, one-year renewal options in 2010 and 2011 if certain conditions are met.

During the year ended December 31, 2010, the Association exercised its one-year renewal option.

Rent expense for the years ended December 31, 2010 and 2009 was $67,083 and $61,542, respectively.

Future minimum lease payments required under the lease are $29,167 for the year ending December 31, 2011.

15. FAIR VALUE MEASUREMENT

The Association has adopted the Fair Value Measurements topic of the Codification. The guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. It also establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three levels. The following summarizes the three levels of inputs and hierarchy of fair value the Association uses when measuring fair value:

1. Level 1 inputs - quoted prices (unadjusted) in active markets for identical assets or liabilities that the Association has the ability to access;

2. Level 2 inputs - quoted prices for similar assets and liabilities in active markets, as well as interest rates and yield curves that are observable at commonly quoted intervals; and

3. Level 3 inputs - unobservable inputs for the asset or liability that are typically based on an entity's own assumptions as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the fair value measurement will fall within the lowest level input that is significant to the fair value measurement in its entirety. Management's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The following tables presents the fair value of assets measured on a recurring basis at December 31, 2010 and 2009:

		Fair Value Measurements as of December 31, 2010 Using		
Description	Balance at 12/31/2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual Funds:				
U.S. equity mutual funds	$ 25,905,763	$ 25,905,763	$ -	$ -
Inflation protected mutual funds	2,291,443	2,291,443	-	-
Bond mutual funds	20,993,361	20,993,361	-	-
International equity mutual funds	10,293,058	10,293,058	-	-
Emerging markets mutual funds	9,152,455	9,152,455	-	-
Total mutual Funds	$ 68,636,080	$ 68,636,080	$ -	$ -
Equity Securities:				
US Equity Securities	$ 3,781,571	$ 3,781,571	$ -	$ -
Hedge Fund Investments:				
Event driven hedge funds	$ 8,314,801	$ -	$ -	$ 8,314,801
Equity long/short hedge funds	9,379,567	-	-	9,379,567
Distressed debt hedge funds	3,107,292	-	-	3,107,292
Total hedge funds	$ 20,801,660	$ -	$ -	$ 20,801,660
Commingled Funds:				
Commingled commodity fund	$ 2,526,945	$ -	$ 2,526,945	-
Commingled international equity funds	11,739,443	-	11,739,443	-
Total commingled funds	$ 14,266,388	$ -	$ 14,266,388	$ -
Fixed Income securities:				
Corporate bonds	$ 587,532	$ 587,532	$ -	$ -
Split interest agreements	$ 2,313,805	$ 2,313,805	$ -	$ -
Common trust fund	5,980,563	-	5,980,563	-
Promises to give	65,751,833	-	65,751,833	-
Total Assets	$182,119,432	$ 75,318,988	$ 85,998,784	$ 20,801,660

Description	Balance at 12/31/2010	Fair Value Measurements as of December 31, 2010 Using: Quoted Prices in Active Markets for Identical Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest rate swap agreement	$ 3,047,681	$ -	$ 3,047,681	$ -
Split-interest agreements	707,537	-	707,537	-
Total Liabilities	$ 3,755,218	$ -	$ 3,755,218	$ -

Description	Balance at 12/31/2009	Fair Value Measurements as of December 31, 2009 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual Funds:				
U.S. equity mutual funds	$ 9,377,227	$ 9,377,227	$ -	$ -
Bond mutual funds	27,786,683	27,786,683	-	-
Total mutual funds	$ 37,163,910	$ 37,163,910	$ -	$ -
Equity Securities:				
U.S. equity securities	$ 25,123,285	$ 25,123,285	$ -	$ -
Fixed Income securities:				
Corporate bonds	$ 578,127	$ 578,127	$ -	$ -
Split interest agreements	$ 613,655	$ 613,655	$ -	$ -
Limited partnerships	2,901,326	-	2,901,326	-
Common trust fund	5,099,572	-	5,099,572	-
Promises to give	5,275,893	-	5,275,893	-
Total Assets	$ 76,755,768	$ 63,478,977	$ 13,276,791	$ -

Description	Balance at 12/31/2009	Fair Value Measurements as of December 31, 2009 Using: Quoted Prices in Active Markets for Identical Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest rate swap agreement	$ 2,276,725	$ -	$ 2,276,725	$ -
Split-interest agreements	777,645	-	777,645	-
Total Liabilities	$ 3,054,370	$ -	$ 3,054,370	$ -

The following table presents changes in the fair value measurement of assets measured using Level 3 inputs for the years ended December 31, 2010 and 2009:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3): Event Driven Hedge Funds	Long/Short Hedge Funds	Distressed Debt Hedge Funds	Total
Beginning balance	$ -	$ -	$ -	$ -
Transfers in (out) of level 3	-	-	-	-
Total gains or (losses) included in net assets	314,802	379,565	107,293	801,660
Purchases (sales)	8,000,000	9,000,000	3,000,000	20,000,000
Ending balance	$ 8,314,802	$ 9,379,565	$ 3,107,293	$ 20,801,660

The following table discloses information concerning the fair value measurement of investments calculated using net asset value per share as of December 31, 2010:

	Fair Value		Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Common trust fund	$ 5,980,563	(a)	monthly	9 days
Commingled commodity fund	2,526,945	(b)	monthly	5 days
Commingled international equity funds	11,739,443	(c)	monthly	10-15 days
Equity long/short hedge funds	9,379,567	(d)	quarterly, annually	30-90 days
Event driven hedge funds	8,314,801	(e)	quarterly, annually	30-90 days
Distressed debt hedge funds	3,107,292	(f)	annually	90 days
Total	$ 41,048,611			

a) Common trust fund-This category consists of an investment in a common trust fund investing in areas that offer strong relative performance in rising inflation environments. The objective of the fund is to generate returns consistent with the U. S. Consumer Price Index plus 5%. The fair value of the investment in this category has been estimated using the net asset value per share of the investments.

b) Commingled commodity fund-This category consists of an actively managed, long only, commingled diversified commodity futures program. The fair value of the investment in this category has been estimated using the net asset value per share of the investments.

c) Commingled international equity funds-This category includes actively managed commingled international equity investment programs. The fair values of the investments in this category have been estimated using the net asset value per share of the investments.

d) Equity long/short hedge funds-This category includes investments in hedge funds that invest both long and short in 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. Investments representing 25% of the value of the investments in this category cannot be redeemed because the investments include restrictions that do not allow for redemption in the first 12-13 months after acquisition. The remaining restriction period for these investments ranged from 9-13 months at December 31, 2010.

e) 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. Investments representing 48% of the value of the investments in this category cannot be redeemed because the investments include restrictions that do not allow for redemption in the first 12-13 months after acquisition. The remaining restriction period for these investments ranged from 6-12 months at December 31, 2010.

f) Multi-strategy hedge funds-This category includes a hedge fund that utilizes different investment strategies to invest in the most attractive value oriented investments on a global basis. The fair value of the investment in this category has been estimated using the net asset value per share of the investments. 100% of the value of the investment in this category cannot be redeemed because the investment includes restrictions that do not allow for redemption in the first 12 months after acquisition. The remaining restriction period for this investment was 9 months as of December 31, 2010.

Net Asset value, in many instances may not equal fair value that would be calculated pursuant to ASC 820. The Organization does not intend to sell any of the funds at an amount different from the net asset value per share at December 31, 2010. The Organization reviews and evaluates the net asset values provided by the general partner and fund managers and agrees with the valuation methods and assumptions used in determining net asset values of these funds.

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 market observable interest rate yield curve commensurate with the term of the instrument. The Association incorporates credit valuation adjustments 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, 2010, the impact of the credit valuation adjustments were 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.

16. SUBSEQUENT EVENTS

Events that occur after the balance sheet date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the balance sheet date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the balance sheet date require disclosure in the accompanying notes. Management evaluated the activity of the Association through April 28, 2011, and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.