

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

Financial Statements

For the Year Ended December 31, 2013

(With Summarized Financial Information for the Year Ended December 31, 2012)



**and
Report Thereon**





INDEPENDENT AUDITOR'S REPORT

To the Grand Council of the
Mount Vernon Ladies' Association of
the Union

Report on the Financial Statements

We have audited the accompanying financial statements of the Mount Vernon Ladies' Association of the Union (the Association), which comprise the statement of financial position as of December 31, 2013, 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, 2013, 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.

Summarized Comparative Information

The summarized comparative information of the Association as of December 31, 2012, was audited by other auditors whose report dated April 29, 2013, expressed an unmodified opinion on those statements.

Raffa, P.C.

Raffa, P.C.

Washington, DC
June 9, 2014

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

STATEMENT OF FINANCIAL POSITION

December 31, 2013

(With Summarized Financial Information as of December 31, 2012)

	2013	2012
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 10,130,373	\$ 16,759,079
Investments	10,416,206	3,917,824
Accounts receivable	896,186	835,789
Promises to give, net	9,540,777	21,602,961
Inventories	3,275,112	3,792,000
Prepaid expenses and other assets, net	<u>562,111</u>	<u>1,332,384</u>
Total Current Assets	34,820,765	48,240,037
Noncurrent Assets		
Investments	149,188,264	132,473,508
Split interest agreements	2,519,399	2,305,526
Promises to give, net	10,718,756	10,708,462
Note receivable	500,000	-
Property and equipment, net	102,375,513	61,431,236
Capital projects in process	761,585	29,093,626
Historic properties	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 300,884,282</u>	<u>\$ 284,252,395</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Current Liabilities		
Accounts payable and accrued expenses	\$ 4,740,857	\$ 7,415,286
Deferred income	<u>637,365</u>	<u>526,329</u>
Total Current Liabilities	5,378,222	7,941,615
Noncurrent Liabilities		
Bonds payable	15,000,000	15,000,000
Interest rate swap agreement	3,435,853	6,147,178
Other liabilities	<u>1,338,843</u>	<u>881,055</u>
TOTAL LIABILITIES	<u>25,152,918</u>	<u>29,969,848</u>
Net Assets		
Unrestricted		
Undesignated	114,537,154	68,509,042
Board designated	<u>32,595,827</u>	<u>33,832,295</u>
Total Unrestricted Net Assets	147,132,981	102,341,337
Temporarily restricted	91,811,160	124,286,823
Permanently restricted	<u>36,787,223</u>	<u>27,654,387</u>
TOTAL NET ASSETS	<u>275,731,364</u>	<u>254,282,547</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 300,884,282</u>	<u>\$ 284,252,395</u>

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, 2013

(With Summarized Financial Information for the Year Ended December 31, 2012)

	2013						2012 Total
	Unrestricted			Temporarily Restricted	Permanently Restricted	Total	
	Undesignated	Board- Designated	Total Unrestricted				
OPERATING REVENUE AND SUPPORT							
Contributions	\$ 4,382,081	\$ 137,450	\$ 4,519,531	\$ 11,504,617	\$ 8,898,582	\$ 24,922,730	\$ 18,757,364
Admission fees	13,847,364	-	13,847,364	-	-	13,847,364	13,319,672
Product sales	7,869,607	-	7,869,607	-	-	7,869,607	7,833,291
Food sales	6,593,769	-	6,593,769	-	-	6,593,769	6,431,781
Royalties	206,410	-	206,410	-	-	206,410	209,416
Miscellaneous	483,983	-	483,983	-	-	483,983	576,364
Investment return used in operations	-	2,680,555	2,680,555	5,237,907	-	7,918,462	4,036,402
Net assets released from designation	2,680,555	(2,680,555)	-	-	-	-	-
Net assets released from restrictions	7,838,430	-	7,838,430	(7,838,430)	-	-	-
TOTAL OPERATING REVENUE AND SUPPORT	43,902,199	137,450	44,039,649	8,904,094	8,898,582	61,842,325	51,164,290
EXPENSES							
Program services	44,650,468	-	44,650,468	-	-	44,650,468	50,485,525
Management and general	2,764,262	-	2,764,262	-	-	2,764,262	2,627,636
Fundraising	2,571,809	-	2,571,809	-	-	2,571,809	3,107,040
TOTAL EXPENSES	49,986,539	-	49,986,539	-	-	49,986,539	56,220,201
CHANGE IN NET ASSETS FROM OPERATIONS	(6,084,340)	137,450	(5,946,890)	8,904,094	8,898,582	11,855,786	(5,055,911)
NONOPERATING ACTIVITIES							
Investment return in excess of amounts designated for current operations	4,020,634	(287,417)	3,733,217	3,189,194	234,254	7,156,665	9,262,097
Change in value of interest rate swap agreement	2,711,325	-	2,711,325	-	-	2,711,325	211,206
Change in value of split interest agreements	(188,902)	-	(188,902)	(86,057)	-	(274,959)	-
Transfers to/from board-designated, net	(992,034)	992,034	-	-	-	-	-
Net assets released for long-term capital projects	46,561,429	(2,078,535)	44,482,894	(44,482,894)	-	-	-
CHANGE IN NET ASSETS	46,028,112	(1,236,468)	44,791,644	(32,475,663)	9,132,836	21,448,817	4,417,392
NET ASSETS, BEGINNING OF YEAR	68,509,042	33,832,295	102,341,337	124,286,823	27,654,387	254,282,547	249,865,155
NET ASSETS, END OF YEAR	\$ 114,537,154	\$ 32,595,827	\$ 147,132,981	\$ 91,811,160	\$ 36,787,223	\$ 275,731,364	\$ 254,282,547

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, 2013

(With Summarized Financial Information for the Year Ended December 31, 2012)

Increase (Decrease) in Cash and Cash Equivalents

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 21,448,817	\$ 4,417,392
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Bad debt expense on promises to give and accounts receivable	-	(3,000)
(Decrease) increase in allowance for obsolete inventory	(300,000)	300,000
Change in discount on promises to give	235,177	(216,508)
Depreciation and amortization expense	6,395,330	6,219,541
Amortization of bond issuance costs	4,704	4,704
Impairment loss on capital projects in process	823,540	-
Realized and unrealized gains on investments and split interest agreements	(13,843,639)	(12,200,009)
Cash received for endowment	(12,708,579)	(3,841,682)
Cash restricted for long-term projects	(14,879,743)	(35,262,733)
Investment income restricted for long-term projects	(2,296,087)	(4,550,444)
Change in value of interest rate swap agreement	(2,711,325)	(211,208)
Changes in assets and liabilities:		
Accounts receivable	(60,397)	95,960
Promises to give	11,316,713	28,415,595
Inventories	816,888	(94,335)
Prepaid expenses and other assets	765,569	(101,219)
Accounts payable and accrued expenses	(2,674,429)	2,956,385
Deferred income	111,036	(57,547)
Other liabilities	257,788	(2,420)
NET CASH USED IN OPERATING ACTIVITIES	<u>(7,298,637)</u>	<u>(14,131,528)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, equipment, and capital projects in process	(19,631,106)	(23,833,713)
Purchases of investments	(148,056,071)	(21,608,941)
Proceeds from sales of investments	138,472,699	21,871,921
NET CASH USED IN INVESTING ACTIVITIES	<u>(29,214,478)</u>	<u>(23,570,733)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash received for endowment	12,708,579	3,841,682
Cash restricted for long-term projects	14,879,743	35,262,733
Investment income restricted for long-term projects	2,296,087	4,550,444
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>29,884,409</u>	<u>43,654,859</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(6,628,706)</u>	<u>5,952,598</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>16,759,079</u>	<u>10,806,481</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 10,130,373</u>	<u>\$ 16,759,079</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 595,927</u>	<u>\$ 614,912</u>
NONCASH INVESTING AND FINANCING ACTIVITIES		
Property, equipment and capital projects in process included in accounts payable	<u>\$ 998,295</u>	<u>\$ 3,586,459</u>
Note receivable issued to fulfill pledge	<u>\$ 500,000</u>	<u>\$ -</u>
Land purchased with note payable	<u>\$ 200,000</u>	<u>\$ -</u>

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

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2013

(With Summarized Financial Information for the Year Ended December 31, 2012)

1. Organization and Summary of Significant Accounting Policies

Organization

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. 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 greater 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, 2013

(With Summarized Financial Information for the Year Ended December 31, 2012)

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

Bond Issuance Costs

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

Investments

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

The Association maintains investment accounts for its endowment funds. Realized and unrealized gains and losses and interest and dividends from the investment accounts are allocated monthly to the individual endowments 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.

Investment return classified as operating revenue consists 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 nonoperating activities.

Fair Value of Financial Instruments

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

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2013

(With Summarized Financial Information for the Year Ended December 31, 2012)

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

Fair Value of Financial Instruments (continued)

based on market data obtained from independent sources, and unobservable, whereby assumptions about market participant assumptions are developed by the reporting entity based on the best information available in the circumstances.

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

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

Continued

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2013

(With Summarized Financial Information for the Year Ended December 31, 2012)

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

Fair Value of Financial Instruments (continued)

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 using current market interest rate data adjusted for interest credit risk.

Property and Equipment and Related Depreciation and Amortization

Property and equipment used to conduct the business of the Association are recorded on the statement of financial position of the Association at cost, with depreciation computed on a straight-line basis over the estimated useful lives 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, 2013 and 2012.

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.

Continued

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2013

(With Summarized Financial Information for the Year Ended December 31, 2012)

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

Split-Interest Agreements (continued)

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 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.

Derivative Financial Instruments and Hedging Activities

During the year ended December 31, 2013 and 2012, 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, 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.

Continued

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2013

(With Summarized Financial Information for the Year Ended December 31, 2012)

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

Revenue Recognition (continued)

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

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

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

Functional Allocation of Expenses

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

Estimates

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

Measurement of Operations

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

Nonoperating activities include investment return in excess of amounts designated for current operations, unrealized gains or losses from the interest rate swap agreement, change in value of split interest agreements, transfers to and from board-designated net assets, and net assets released for long-term capital projects.

Change in Accounting Principle

The Association adopted the FASB ASU 2012-05, *Statement of Cash Flows: Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*, which requires the recognition of donated securities that have no donor-imposed restriction and that are nearly immediately converted into cash, as cash from operating activities. During the year ended December 31, 2013, the Association received \$2,548,431

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MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2013

(With Summarized Financial Information for the Year Ended December 31, 2012)

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

Change in Accounting Principle (continued)

of donated securities that were immediately converted into cash and recognized as cash from operating activities in the accompanying statement of cash flows. The statement of cash flows for the year ended December 31, 2012, which previously reported \$4,145,365 of donated securities as investing activities, has been adjusted to report this amount in operating activities.

2. Promises to Give

The following are unconditional promises to give as of December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Building operations fund	\$ 13,775,261	\$ 14,005,427
Programs, collections and education funds	4,872,795	1,574,799
Life insurance policies	2,150,000	2,150,000
Fred W. Smith National Library for the Study of George Washington	329,623	15,209,366
Unrestricted funds	<u>4,800</u>	<u>9,600</u>
Promises to give before unamortized discount	21,132,479	32,949,192
Less: Unamortized discounts between 0.13% and 3.04%	<u>(872,946)</u>	<u>(637,769)</u>
Promises to Give, Net	<u>\$ 20,259,533</u>	<u>\$ 32,311,423</u>
Amounts due in:		
Less than one year	\$ 9,540,777	\$ 21,602,961
One to five years	<u>10,718,756</u>	<u>10,708,462</u>
Total	<u>\$ 20,259,533</u>	<u>\$ 32,311,423</u>

All amounts are deemed to be fully collectible as of December 31, 2013 and 2012.

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MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2013

(With Summarized Financial Information for the Year Ended December 31, 2012)

3. Investments

Investments consisted of the following as of December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Short-term:		
Cash equivalents	\$ <u>10,416,206</u>	\$ <u>3,917,824</u>
Long-term:		
Fixed income investments	21,026,018	21,970,419
Equity investments	72,194,541	67,597,129
Real asset investments	9,006,463	14,499,874
Real estate investment trusts	148,455	150,175
Hedge and private equity funds	<u>46,812,787</u>	<u>28,255,911</u>
Total long-term	<u>149,188,264</u>	<u>132,473,508</u>
Total Investments	\$ <u>159,604,470</u>	\$ <u>136,391,332</u>

The following summarizes investment return and its classification in the statement of activities, in accordance with the Association's endowment spending policy as disclosed in Note 15, for the years ended December 31, 2013 and 2012:

	<u>2013</u>			<u>2012</u>
	<u>Operating</u>	<u>Nonoperating</u>	<u>Total</u>	
Realized and unrealized gains	\$ 6,764,114	\$ 7,156,665	\$ 13,920,779	\$ 12,200,009
Interest and dividends	<u>1,154,348</u>	<u>-</u>	<u>1,154,348</u>	<u>1,098,490</u>
Investment Return	\$ <u>7,918,462</u>	\$ <u>7,156,665</u>	\$ <u>15,075,127</u>	\$ <u>13,298,499</u>

Interest and dividend income includes \$84,474 and \$108,458 of interest earned on operating cash and cash equivalents, and is presented net of \$421,938 and \$611,637 of investment expenses for the years ended December 31, 2013 and 2012, 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, 2013, the principal balance on the note was \$500,000.

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MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2013

(With Summarized Financial Information for the Year Ended December 31, 2012)

5. Property and Equipment and Accumulated Depreciation and Amortization

The Association's property and equipment consisted of the following as of December 31, 2013 and 2012:

	Estimated useful lives	2013	2012
Buildings	40 years	\$ 75,286,715	\$ 41,280,610
Building improvements	10-20 years	29,980,046	27,416,041
Exhibitions	2-3 years	44,915,797	43,945,596
Furniture, fixtures and equipment	5-7 years	3,278,988	3,278,988
Computer software	3-4 years	1,084,221	1,134,786
Land	-	<u>963,362</u>	<u>428,838</u>
Total Property and Equipment		155,509,129	117,484,859
Less: Accumulated Depreciation and Amortization		<u>(53,133,616)</u>	<u>(56,053,623)</u>
Property and Equipment, Net		<u>\$ 102,375,513</u>	<u>\$ 61,431,236</u>

Depreciation and amortization expense for the years ended December 31, 2013 and 2012 was \$6,395,330 and \$6,219,541, respectively.

6. 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 items held in collections were disposed of during the years ended December 31, 2013 and 2012.

7. Bond Issuance Costs

Bond issuance costs of \$110,434 and \$115,138, net of accumulated amortization of \$30,570 and \$25,866, respectively, are included in prepaid expenses and other assets as of December 31, 2013 and 2012. Amortization expense for the years ended December 31, 2013 and 2012 was \$4,704.

8. Bonds Payable

In June 2007, the Fairfax County Economic Development Authority (FCEDA) issued \$15,000,000 in variable rate unsecured revenue bonds, expiring in June 2037, for the benefit of the Association. The bonds shall bear interest at a weekly variable rate. The net proceeds of the bonds are restricted for financing all or part of (i) refund of the FCEDA Series 1998 revenue bonds used for cost of construction, renovation, acquisition and capital improvements

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2013

(With Summarized Financial Information for the Year Ended December 31, 2012)

8. Bonds Payable (continued)

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, 2013 and 2012, the amount of the letter of credit was \$15,200,000. The letter of credit, among other provisions, requires the Association to meet certain financial ratio tests, restricts liens of any kind and the acquisition of additional loans and expires in June 2019 with a renewal option.

In connection with the bond issuance, the Association entered into a floating-to-fixed interest rate-swap agreement with SunTrust Bank, providing for an interest rate no higher than 3.86% applied to a notional amount equal to \$15,000,000. The underlying rate is based upon 67% of monthly USD LIBOR-BBA rates. The swap 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 the statement of financial position as a liability in the amount of \$3,435,853 and \$6,147,178 as of December 31, 2013 and 2012, respectively. During the years ended December 31, 2013 and 2012, the Association recorded a non-cash gain on the change in derivative valuation in the amount of \$2,711,325 and \$211,206, respectively, due to interest rate fluctuations.

The outstanding bonds payable of \$15,000,000, at December 31, 2013, is due in one lump sum payment in June 2037. Interest expense for the Association for the years ended December 31, 2013 and 2012 was \$595,927 and \$612,713, 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 life. As of December 31, 2013 and 2012, the Association has recorded a liability totaling \$953,067 and \$781,509, 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, 2013 and 2012.

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2013

(With Summarized Financial Information for the Year Ended December 31, 2012)

10. Commitments and Contingencies

Operating Lease

In May 2007, the Association executed a three year, non-cancellable 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 provided the Association with two, one-year renewal options in 2011 and 2012 if certain conditions were met. On December 13, 2012, the Association executed an amendment to the lease to extend the term of the lease through June 30, 2014. Monthly rental payments will remain at \$6,000 during the extension period.

Rent expense totaled \$73,060 and \$71,167 for the years ended December 31, 2013 and 2012, respectively.

Future minimum lease payments required under the lease will total \$36,000 for the year ending December 31, 2014.

Construction Contract

On May 27, 2011, the Association entered into a construction contract with The Whiting Turner Contracting Company, to perform general contractor services in connection with the construction of the Fred W. Smith National Library for the Study of George Washington. The total contract as of December 31, 2013 totaled \$33,803,458. As of December 31, 2013, the Association incurred \$33,344,196 of construction costs related to the contract; \$942,474 remained payable and is included in accounts payable and accrued expenses in the accompanying statement of financial position.

11. Concentration of Risk

Credit Risk

Financial instruments, which potentially subject the Association to concentration of credit risk, consist principally of cash balances maintained at various creditworthy financial institutions. While the amount at a given bank at times exceeds the amount guaranteed by the Federal Deposit Insurance Corporation and, therefore, bears some risk, the Association has not experienced, nor does it anticipate, any losses on its funds. At December 31, 2013 and 2012, the amount in excess of the insured limit of \$250,000 was \$9,531,676 and \$16,389,157, 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.

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MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2013

(With Summarized Financial Information for the Year Ended December 31, 2012)

12. Temporarily Restricted Net Assets

Net assets were released from restrictions by satisfying the program restrictions. The Association's temporarily restricted net assets were available for the following programs or purposes as of December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Building operation fund	\$ 73,633,597	\$ 72,364,936
Program, education and pooled income funds	10,920,060	7,751,592
General endowment fund	3,105,154	2,722,443
Collection and conservation funds	3,035,578	2,421,448
Site improvement fund	<u>1,116,771</u>	<u>39,026,404</u>
Total Temporarily Restricted Net Assets	<u>\$ 91,811,160</u>	<u>\$ 124,286,823</u>

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. These donor-restricted funds are included first in the site improvement fund until the construction projects are completed. All remaining funds are transferred to the building operation fund to provide for continuing improvements of the mansion and adjoining structures.

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 Internal Revenue Code (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 2% in the temporarily restricted fund. The net balance as of December 31, 2013 and 2012 is \$494,674 and \$601,112, respectively.

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

13. Permanently Restricted Net Assets

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

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MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2013

(With Summarized Financial Information for the Year Ended December 31, 2012)

13. Permanently Restricted Net Assets (continued)

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

	<u>2013</u>	<u>2012</u>
Program and education funds	\$ 19,802,597	\$ 18,065,123
Collection and conservation funds	11,214,102	4,631,037
General endowment fund	5,062,011	4,279,614
Site improvement fund	<u>708,513</u>	<u>678,613</u>
Total Permanently Restricted Net Assets	<u>\$ 36,787,223</u>	<u>\$ 27,654,387</u>

14. Board-Designated Net Assets

Funds designated by the Grand Council represent the portion of unrestricted funds that have been set aside for specific purposes. All such amounts are designated by the Grand Council to function as endowments, with earnings to be spent for the designated purposes.

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

	<u>2013</u>	<u>2012</u>
Board reserves	\$ 27,248,960	\$ 26,001,291
Capital projects	2,428,318	5,459,499
Collections conservation	2,731,099	500,000
Other projects	<u>187,450</u>	<u>1,871,505</u>
Total Board-Designated Net Assets	<u>\$ 32,595,827</u>	<u>\$ 33,832,295</u>

During 2013 and 2012, the Grand Council approved net transfers of \$992,034 and \$2,608,579, respectively, from undesignated funds to board-designated funds to support various projects.

15. Endowment Funds

The Association's endowment consists of 68 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.

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2013

(With Summarized Financial Information for the Year Ended December 31, 2012)

15. Endowment Funds (continued)

Funds with Deficiencies

The investment policy of the Association indicates that the corpus of any restricted donor or general endowment funds shall not be expended under any circumstances as it represents the endowment funds designated by donor-restricted contributions. Due to investment losses the fair value of assets associated with some individual donor-restricted endowment funds fell below the original contribution amount. As a result, the Association transferred these endowment deficiencies to unrestricted net assets to restore the endowment values to their full donor gift amount. During 2013, \$215,892 of investment earnings was transferred from these endowments to unrestricted net assets to repay a portion of the cumulative unrecovered balance. As of December 31, 2013 and 2012, the cumulative unrecovered amount was \$527,623 and \$743,515, 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 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 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.

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2013

(With Summarized Financial Information for the Year Ended December 31, 2012)

15. Endowment Funds (continued)

The changes in endowment net assets for the years ended December 31, 2013 and 2012 were:

	2013				
	Board- Designated	Temporarily Restricted	Permanently Restricted	Total	2012
Endowment net assets, beginning of year	\$ 33,832,295	\$ 78,907,899	\$ 27,654,387	\$ 140,394,581	\$ 134,418,489
Investment return	2,393,138	8,447,479	234,254	11,074,871	8,122,184
Contributions	137,450	6,665,026	8,898,582	15,701,058	9,678,363
Appropriation of endowment assets for expenditure	(4,759,090)	(11,727,206)	-	(16,486,296)	(14,433,034)
Transfers to board- designated funds	992,034	-	-	992,034	2,608,579
Endowment net assets, end of year	<u>\$ 32,595,827</u>	<u>\$ 82,293,198</u>	<u>\$ 36,787,223</u>	<u>\$ 151,676,248</u>	<u>\$ 140,394,581</u>

As of December 31, 2013, 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 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 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 its outside investment professionals, and makes any necessary changes.

The investment policy of the Association approves the appropriation of up to 5% each year of the average fair value of each endowment fund as of the trailing 12 quarters ending on June 30 of the previous year. The Grand Council's approved spending policy was 4% on its

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MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2013

(With Summarized Financial Information for the Year Ended December 31, 2012)

15. Endowment Funds (continued)

Return Objectives and Spending Policy (continued)

operating endowments for each of the years ended December 31, 2013 and 2012. The Grand Council approves spending on program restricted endowments as part of its annual budget approval process. The average approved spending on program restricted endowments was 3.6% and 3.3% for the years ended December 31, 2013 and 2012, respectively.

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

During the year ended December 31, 2013, the Association spent an additional \$9,188,484 of temporarily restricted endowment funds towards the new library's construction and initial operating expenditures.

Strategies Employed for Achieving Objectives

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

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2013

(With Summarized Financial Information for the Year Ended December 31, 2012)

16. Fair Value Measurements

The table below summarizes, by level within the fair value hierarchy, the Association's investments as of December 31, 2013 and 2012:

	2013			
	Total	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	\$ 10,416,206	\$ 10,416,206	\$ -	\$ -
Fixed income investments:				
U.S. mutual funds	2,971,271	2,971,271	-	-
Global mutual funds	8,193,882	8,193,882	-	-
Emerging markets mutual funds	5,378,802	5,378,802	-	-
Global commingled fund	3,840,280	-	3,840,280	-
Corporate bonds	615,973	-	615,973	-
U.S. Treasury bonds	25,810	25,810	-	-
Total fixed income investments	<u>21,026,018</u>	<u>16,569,765</u>	<u>4,456,253</u>	<u>-</u>
Equity investments:				
U.S. mutual funds	27,443,196	27,443,196	-	-
Global mutual funds	24,108,208	24,108,208	-	-
Emerging markets mutual funds	12,150,252	12,150,252	-	-
U.S. securities	8,492,381	8,492,381	-	-
Global securities	504	504	-	-
Total equity investments	<u>72,194,541</u>	<u>72,194,541</u>	<u>-</u>	<u>-</u>
Real asset investments:				
Global commodities mutual funds	9,006,463	9,006,463	-	-
Real estate investment trusts	148,455	148,455	-	-
Hedge and private equity funds:				
Long/short equity hedge	21,251,537	-	-	21,251,537
Event driven hedge	18,954,962	-	-	18,954,962
Distressed debt hedge	5,079,432	-	-	5,079,432
Private equity	1,526,856	-	-	1,526,856
Total hedge and private equity funds	<u>46,812,787</u>	<u>-</u>	<u>-</u>	<u>46,812,787</u>
Total investments	159,604,470	108,335,430	4,456,253	46,812,787
Other assets measured at fair value:				
Split interest agreements	2,519,399	2,519,399	-	-
Total Assets	<u>\$ 162,123,869</u>	<u>\$ 110,854,829</u>	<u>\$ 4,456,253</u>	<u>\$ 46,812,787</u>
Liabilities:				
Interest rate swap agreement	\$ 3,435,853	\$ -	\$ 3,435,853	\$ -
Split-interest agreements	1,114,991	-	1,114,991	-
Total Liabilities	<u>\$ 4,550,844</u>	<u>\$ -</u>	<u>\$ 4,550,844</u>	<u>\$ -</u>

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MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2013

(With Summarized Financial Information for the Year Ended December 31, 2012)

16. Fair Value Measurements (continued)

	2012			
	Total	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	\$ 3,917,824	\$ 3,917,824	\$ -	\$ -
Fixed income investments:				
U.S. Treasury mutual funds	13,847,112	13,847,112	-	-
Global mutual funds	3,646,056	3,646,056	-	-
Global commingled funds	3,837,095	-	3,837,095	-
Corporate bonds	640,156	640,156	-	-
Total fixed income investments	<u>21,970,419</u>	<u>18,133,324</u>	<u>3,837,095</u>	<u>-</u>
Equity investments:				
U.S. mutual funds	17,582,717	17,582,717	-	-
Global mutual funds	10,352,630	10,352,630	-	-
Emerging markets mutual funds	12,764,632	12,764,632	-	-
U.S. commingled funds	6,170,182	-	6,170,182	-
Global commingled funds	12,883,991	-	12,883,991	-
U.S. securities	5,130,137	5,130,137	-	-
Global securities	2,712,840	2,712,840	-	-
Total equity investments	<u>67,597,129</u>	<u>48,542,956</u>	<u>19,054,173</u>	<u>-</u>
Real asset investments:				
Global commodities mutual funds	3,206,168	3,206,168	-	-
Commodities commingled equities common trust	7,505,134	-	7,505,134	-
Global commodities commingled funds	3,788,572	-	3,788,572	-
Total real asset investments	<u>14,499,874</u>	<u>3,206,168</u>	<u>11,293,706</u>	<u>-</u>
Real estate investment trusts	<u>150,175</u>	<u>150,175</u>	<u>-</u>	<u>-</u>
Hedge and private equity funds:				
Long/short equity hedge	13,102,501	-	-	13,102,501
Event driven hedge	10,958,440	-	-	10,958,440
Distressed debt hedge	3,588,898	-	-	3,588,898
Private equity	606,072	-	-	606,072
Total hedge and private equity funds	<u>28,255,911</u>	<u>-</u>	<u>-</u>	<u>28,255,911</u>
Total investments	136,391,332	73,950,447	34,184,974	28,255,911
Other assets measured at fair value:				
Split interest agreements	2,305,526	2,305,526	-	-
Total Assets	<u>\$ 138,696,858</u>	<u>\$ 76,255,973</u>	<u>\$ 34,184,974</u>	<u>\$ 28,255,911</u>
Liabilities:				
Interest rate swap agreement	\$ 6,147,178	\$ -	\$ 6,147,178	\$ -
Split-interest agreements	857,375	-	857,375	-
Total Liabilities	<u>\$ 7,004,553</u>	<u>\$ -</u>	<u>\$ 7,004,553</u>	<u>\$ -</u>

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MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2013

(With Summarized Financial Information for the Year Ended December 31, 2012)

16. Fair Value Measurements (continued)

The following table presents changes in the fair value measurement of assets measured using Level 3 inputs for the year ended December 31, 2013:

	Long/Short Equity Hedge Funds	Event Driven Hedge Funds	Distressed Debt Hedge Funds	Private Equity	Total
Beginning of year	\$ 13,102,501	\$ 10,958,440	\$ 3,588,898	\$ 606,072	\$ 28,255,911
Total gains or losses (realized/unrealized)	2,007,042	1,794,965	690,534	57,883	4,550,424
Purchases	11,700,000	9,200,000	800,000	1,163,180	22,863,180
Sales	<u>(5,558,006)</u>	<u>(2,998,443)</u>	<u>-</u>	<u>(300,279)</u>	<u>(8,856,728)</u>
End of year	<u>\$ 21,251,537</u>	<u>\$ 18,954,962</u>	<u>\$ 5,079,432</u>	<u>\$ 1,526,856</u>	<u>\$ 46,812,787</u>

The following table presents the amount of gains or losses for the year ended December 31, 2013 included in change in net assets, attributable to the change in unrealized gains or losses relating to assets still held at December 31, 2013:

	Long/Short Equity Hedge Funds	Event Driven Hedge Funds	Distressed Debt Hedge Funds	Private Equity	Total
Unrealized gains	<u>\$ 1,627,331</u>	<u>\$ 1,622,521</u>	<u>\$ 690,534</u>	<u>\$ 57,883</u>	<u>\$ 3,998,269</u>

The following table discloses information concerning the fair value measurement of investments calculated using net asset value per share as of December 31, 2013:

	Number of funds	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Long/short equity hedge funds ^(a)	14	\$ 21,251,537	\$ -	Quarterly, semi-annually, annually, and every 2 or 3 years on the anniversary date	45-90 days
Event driven hedge funds ^(b)	7	18,954,962	-	Monthly, quarterly, and annually	7-90 days
Distressed debt hedge funds ^(c)	2	5,079,432	-	Annually	90 days
Global fixed income commingled fund ^(d)	1	3,840,280	-	Monthly	15 days
Private equity funds ^(e)	3	<u>1,526,856</u>	<u>1,923,868</u>	N/A	N/A
Total		<u>\$ 50,653,067</u>	<u>\$ 1,923,868</u>		

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MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2013

(With Summarized Financial Information for the Year Ended December 31, 2012)

16. Fair Value Measurements (continued)

a) *Long/short equity hedge funds* – This category includes investments in hedge funds that invest in both long and short U.S. and international equities. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. The investments in this category can be redeemed within varying periods ranging from 3-31 months at December 31, 2013.

b) *Event driven hedge funds* – This category includes investments in hedge funds that invest in securities that are undervalued compared to their underlying assets due to specific economic, political and government driven events. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. The investments in this category can be redeemed within varying periods ranging from 1-14 months at December 31, 2013.

c) *Distressed debt hedge funds* – This category includes investments in hedge funds that utilizes different investment strategies to invest in the most attractive value oriented investments on a global basis. The fair value of the investments in this category has been estimated using the net asset value per share of the investments. The investments in this category can be redeemed within varying periods ranging from 6-12 months at December 31, 2013.

d) *Global fixed income commingled fund* – This category includes an actively managed commingled global fixed income investment program. The fair value of the investment in this category has been estimated using the net asset value per share of the investments.

e) *Private equity funds* – This category includes investments in private equity funds. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. A portion of the investments in this category have been redeemed and the proceeds from these investments will be received over a period of up to five years as of December 31, 2013.

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, 2013, the impact of the credit valuation adjustments was not significant to the overall valuation of the swap. As a result, the fair value of the swap is considered to be based primarily on Level 2 inputs. See Note 8 for additional information regarding the swap.

Continued

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2013

(With Summarized Financial Information for the Year Ended December 31, 2012)

17. 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.

18. Retirement Plans

The Association sponsors a defined contribution retirement plan covering all employees who work over 1,000 hours in a plan year after one year of service. On an annual basis, the Association contributes 6% of a participant's eligible compensation to the defined contribution retirement plan. Contributions to the plan were \$642,320 and \$766,996 for the years ended December 31, 2013 and 2012, respectively. These amounts are included in accounts payable and accrued expenses in the statement of financial position at December 31, 2013 and 2012.

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 (IRS). 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 \$249,523 and \$232,203 during the years ended December 31, 2013 and 2012, respectively.

19. Allocation of Joint Costs for Direct Mail

The Association conducts education program activities that include appeals for contributions, primarily direct mail campaigns, which qualify for allocation among the functions benefited. In 2013 and 2012, the Association incurred \$1,262,304 and \$1,746,922, respectively, of joint costs for these activities. Of these costs, \$694,267 and \$1,013,214 were allocated to program, \$37,869 and \$52,408 were allocated to management and general, and \$530,168 and \$681,300 were allocated to fundraising in 2013 and 2012, respectively.

20. Income Taxes

The Association qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is classified as a publicly supported organization under Section 509(a)(1) of the Internal Revenue Code. No provision for income taxes is required for the year ended December 31, 2013 and 2012, as the Association had no net unrelated business income.

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2013

(With Summarized Financial Information for the Year Ended December 31, 2012)

20. Income Taxes (continued)

The Association performed an evaluation of uncertain tax positions for the years ended December 31, 2013 and 2012, 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, 2013, the statute of limitations for tax years 2010 through 2012 remains open with the U.S. federal jurisdiction and/or the various states and local jurisdictions in which the Association files tax returns. The Association is not currently under audit by the IRS for the year ended December 31, 2013. It is the Association's policy to recognize interest and penalties related to uncertain tax positions, if any, in income tax expense. As of December 31, 2013 and 2012, the Association had no accruals for interest and/or penalties.

21. Prior Year Summarized Financial Information

The accompanying financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31, 2012, from which the summarized information was derived.

22. Reclassification

Certain 2012 amounts have been reclassified to conform to the 2013 financial statement presentation.

23. Subsequent Events

The Association's management has evaluated subsequent events through June 9, 2014, 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.