

Mount Vernon Ladies' Association of the Union

**Financial Statements and
Independent Auditor's Report**

December 31, 2012

Mount Vernon Ladies' Association of the Union

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Independent Auditor's Report

The Grand Council
Mount Vernon Ladies' Association of the Union

We have audited the accompanying financial statements of Mount Vernon Ladies' Association of the Union, which comprise the statement of financial position as of December 31, 2012, 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 of 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, 2012, and the results of its activities and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The financial statements of Mount Vernon Ladies' Association of the Union as of and for the year ended December 31, 2011, were audited by Reznick Group, P.C. (Reznick) whose report dated April 27, 2012, expressed an unmodified opinion on those statements. CohnReznick LLP is the current auditor as a result of a business combination between Reznick, who is referred to herein as other auditors, and J.H. Cohn LLP. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in cursive script that reads "CohnReznick LLP".

Bethesda, Maryland
April 29, 2013

Mount Vernon Ladies' Association of the Union

Statement of Financial Position

December 31, 2012 (with comparative totals for 2011)

	<u>Assets</u>	
	<u>2012</u>	<u>2011</u>
Current Assets		
Cash and cash equivalents	\$ 16,759,079	\$ 10,806,481
Investments	3,751,146	4,501,283
Accounts receivable, net	904,657	999,617
Promises to give, net	21,602,961	28,295,527
Inventories, net	3,751,556	3,957,221
Prepaid expenses and other assets, net	1,372,828	1,276,313
Total current assets	<u>48,142,227</u>	<u>49,836,442</u>
Noncurrent Assets		
Investments	132,640,186	120,132,221
Split interest agreements	2,305,526	2,126,325
Promises to give, net	10,708,462	32,212,983
Property and equipment, net	61,431,236	65,450,139
Projects in process	29,093,626	7,460,551
Historic properties	-	-
Total noncurrent assets	<u>236,179,036</u>	<u>227,382,219</u>
Total assets	<u>\$ 284,321,263</u>	<u>\$ 277,218,661</u>

(continued)

Mount Vernon Ladies' Association of the Union

Statement of Financial Position - Continued

December 31, 2012 (with comparative totals for 2011)

	<u>2012</u>	<u>2011</u>
Current Liabilities		
Accounts payable and accrued expenses	\$ 7,442,451	\$ 4,486,066
Deferred income	591,712	649,259
Total current liabilities	<u>8,034,163</u>	<u>5,135,325</u>
Noncurrent Liabilities		
Bonds payable	15,000,000	15,000,000
Interest rate swap agreement	6,147,178	6,358,386
Other liabilities	857,375	859,795
Total noncurrent liabilities	<u>22,004,553</u>	<u>22,218,181</u>
Total liabilities	<u>30,038,716</u>	<u>27,353,506</u>
Net Assets		
Unrestricted		
Undesignated	68,509,042	69,718,595
Board designated	33,832,295	37,311,899
Unrestricted	102,341,337	107,030,494
Temporarily restricted	124,286,823	118,231,064
Permanently restricted	27,654,387	24,603,597
Total net assets	<u>254,282,547</u>	<u>249,865,155</u>
Commitments and contingencies	-	-
Total liabilities and net assets	<u>\$ 284,321,263</u>	<u>\$ 277,218,661</u>

See notes to financial statements

Mount Vernon Ladies' Association of the Union

Statement of Activities

Year ended December 31, 2012 (with comparative totals for 2011)

	2012						2011
	Unrestricted		Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
	Undesignated	Board Designated					
Operating activities							
Revenue and support							
Contributions	\$ 4,304,045	\$ -	\$ 4,304,045	\$ 10,550,437	\$ 3,902,882	\$ 18,757,364	\$ 15,986,763
Admission fees	13,319,672	-	13,319,672	-	-	13,319,672	11,762,249
Product sales	7,833,291	-	7,833,291	-	-	7,833,291	7,632,152
Food sales	6,431,781	-	6,431,781	-	-	6,431,781	6,169,718
Royalties	209,416	-	209,416	-	-	209,416	295,328
Miscellaneous	576,364	-	576,364	-	-	576,364	708,730
Investment return designated for current operations	-	1,115,805	1,115,805	1,497,207	-	2,613,012	2,002,299
	<u>32,674,569</u>	<u>1,115,805</u>	<u>33,790,374</u>	<u>12,047,644</u>	<u>3,902,882</u>	<u>49,740,900</u>	<u>44,557,239</u>
Net assets released from designation	8,608,875	(8,608,875)	-	-	-	-	-
Net assets released from restriction	<u>10,980,960</u>	<u>-</u>	<u>10,980,960</u>	<u>(9,982,365)</u>	<u>(998,595)</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>52,264,404</u>	<u>(7,493,070)</u>	<u>44,771,334</u>	<u>2,065,279</u>	<u>2,904,287</u>	<u>49,740,900</u>	<u>44,557,239</u>
Expenses							
Program services	50,485,525	-	50,485,525	-	-	50,485,525	36,783,719
Fundraising	2,627,636	-	2,627,636	-	-	2,627,636	2,698,630
Management and general	<u>3,107,040</u>	<u>-</u>	<u>3,107,040</u>	<u>-</u>	<u>-</u>	<u>3,107,040</u>	<u>2,724,434</u>
Total expenses	<u>56,220,201</u>	<u>-</u>	<u>56,220,201</u>	<u>-</u>	<u>-</u>	<u>56,220,201</u>	<u>42,206,783</u>
Changes in net assets before nonoperating activities	(3,955,797)	(7,493,070)	(11,448,867)	2,065,279	2,904,287	(6,479,301)	2,350,456
Nonoperating activities							
Investment return in excess of amounts designated for current operations	5,143,617	1,404,887	6,548,504	3,990,480	146,503	10,685,487	(7,512,050)
Change in value of derivative	211,206	-	211,206	-	-	211,206	(3,310,705)
Transfer to board designated	<u>(2,608,579)</u>	<u>2,608,579</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Changes in net assets	(1,209,553)	(3,479,604)	(4,689,157)	6,055,759	3,050,790	4,417,392	(8,472,299)
Net assets, beginning of year	<u>69,718,595</u>	<u>37,311,899</u>	<u>107,030,494</u>	<u>118,231,064</u>	<u>24,603,597</u>	<u>249,865,155</u>	<u>258,337,454</u>
Net assets, end of year	<u>\$ 68,509,042</u>	<u>\$ 33,832,295</u>	<u>\$ 102,341,337</u>	<u>\$ 124,286,823</u>	<u>\$ 27,654,387</u>	<u>\$ 254,282,547</u>	<u>\$ 249,865,155</u>

See notes to financial statements

Mount Vernon Ladies' Association of the Union

Statement of Cash Flows

Year ended December 31, 2012 (with Comparative Totals for 2011)

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Changes in net assets	\$ 4,417,392	\$ (8,472,299)
Adjustments to reconcile changes in net assets to cash (used in) provided by		
Bad debt expense on promises to give and accounts receivables	(3,000)	(167,000)
Increase in allowance for obsolete inventory	300,000	-
Change in discount on promises to give	(216,508)	(507,773)
Contributions of stock	(4,145,365)	(2,951,591)
Depreciation and amortization expense	6,224,245	6,265,340
Realized and unrealized (gains) losses on investments and split interest agreements	(12,200,009)	6,620,800
Contributions received for endowment	(3,841,682)	(2,059,242)
Contributions restricted for long-term projects	(35,262,733)	(9,497,236)
Investment income restricted for long-term projects	(4,550,444)	1,610,304
Change in value of derivative	(211,208)	3,310,705
Change in assets (increase) decrease in:		
Accounts receivable	95,960	(273,430)
Promises to give	28,415,595	5,749,096
Inventories	(94,335)	(110,030)
Prepaid expenses and deposits	(101,219)	(196,860)
Change in liabilities increase (decrease) in:		
Accounts payable and accrued expenses	2,956,385	795,347
Deferred income	(57,547)	(6,248)
Other liabilities	(2,420)	152,258
Net cash (used in) provided by operating activities	<u>(18,276,893)</u>	<u>262,141</u>
Cash flows from investing activities		
Purchases of property, equipment, and projects in progress	(23,833,713)	(5,627,728)
Purchases of investments	(17,463,576)	(33,610,009)
Proceeds from sale of investments	<u>21,871,921</u>	<u>22,779,374</u>
Net cash used in investing activities	<u>(19,425,368)</u>	<u>(16,458,363)</u>
Cash flows from financing activities		
Contributions received for endowment	3,841,682	2,059,242
Contributions restricted for long-term projects	35,262,733	9,497,236
Investment income restricted for long-term projects	<u>4,550,444</u>	<u>(1,610,304)</u>
Net cash provided by financing activities	<u>43,654,859</u>	<u>9,946,174</u>
Net increase (decrease) in cash and cash equivalents	5,952,598	(6,250,048)
Cash and cash equivalents, beginning of year	<u>10,806,481</u>	<u>17,056,529</u>
Cash and cash equivalents, end of year	<u>\$ 16,759,079</u>	<u>\$ 10,806,481</u>
Significant noncash investing activities:		
Projects in progress included in payable	<u>\$ 3,586,459</u>	<u>\$ 731,037</u>
Fully depreciated property and equipment disposed	<u>\$ -</u>	<u>\$ 772,047</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 614,912</u>	<u>\$ 651,807</u>

See notes to financial statements

Mount Vernon Ladies' Association of the Union

Notes to Financial Statements

December 31, 2012

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.

Mount Vernon Ladies' Association of the Union

Notes to Financial Statements - Continued

December 31, 2012

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 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 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 the allowance account when deemed uncollectible. An allowance for doubtful accounts related to trade receivables of \$3,013 and \$4,013 was recorded at December 31, 2012 and 2011, respectively.

Mount Vernon Ladies' Association of the Union

Notes to Financial Statements - Continued

December 31, 2012

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 \$0 and \$2,000 was recorded at December 31, 2012 and 2011, 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. Based on management's evaluation of inventory, an allowance for obsolete inventory of \$300,000 and \$0 was recorded at December 31, 2012 and 2011, respectively.

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, 2012 and 2011 was \$4,704. Aggregate amortization expense is \$4,704 per year for the next five years ending December 31, 2017. Bond issuance costs of \$115,138 and \$119,842, net of accumulated amortization of \$25,866 and \$21,162, are included in prepaid expenses and other assets as of December 31, 2012 and 2011, respectively.

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. Depreciation expense for the years ended December 31, 2012 and 2011 was \$6,219,541 and \$6,260,636, respectively.

Projects in Process

Projects in process consist of various construction projects and are stated at cost of \$29,093,626 and \$7,460,551 at December 31, 2012 and 2011, respectively.

Mount Vernon Ladies' Association of the Union

Notes to Financial Statements - Continued

December 31, 2012

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, 2012 and 2011.

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, 2012, 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

Mount Vernon Ladies' Association of the Union

Notes to Financial Statements - Continued

December 31, 2012

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 Measurements accounting guidance of the Accounting Standards 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).

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

Mount Vernon Ladies' Association of the Union

Notes to Financial Statements - Continued

December 31, 2012

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.

The Association's tax returns are subject to review and examination by federal, state and local authorities. The tax returns for the years 2012 to 2009 are open to examination by federal, local, and state authorities.

The Association has implemented 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 2012 and 2011, 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.

Mount Vernon Ladies' Association of the Union

Notes to Financial Statements - Continued

December 31, 2012

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, 2012, the uninsured portion held is approximately \$16,389,157. The Association has not experienced any losses with respect to its deposit balances in excess of government provided insurance.

Reclassifications

Certain reclassifications have been made to the 2011 balances to conform to the 2012 presentation.

Mount Vernon Ladies' Association of the Union

Notes to Financial Statements - Continued

December 31, 2012

3. Investments

Investments consist of the following as of December 31, 2012 and 2011:

	2012	2011
Short-term:		
Cash equivalents	\$ 3,751,146	\$ 4,501,283
Long-term:		
U.S. Treasury fixed income mutual funds	13,847,112	11,770,546
Inflation protected securities mutual fund	-	1,966,244
Global fixed income mutual funds	3,646,056	3,215,937
Global fixed income commingled fund	3,837,095	5,846,028
Corporate bonds	640,156	643,065
U.S. equity securities	5,130,137	5,553,812
U.S. equities mutual funds	17,582,717	14,278,522
U.S. equities commingled fund	6,170,182	5,309,983
Global equity securities	2,712,840	-
Global equities mutual funds	10,352,630	9,940,407
Global equities commingled funds	12,883,991	10,553,727
Emerging markets equities mutual funds	12,764,632	10,990,909
Global commodities mutual fund	3,206,168	2,771,248
Global commodities equities common trust fund	7,505,134	6,548,409
Global commodities commingled fund	3,788,572	2,839,436
Event driven hedge funds	10,958,440	11,155,643
Equity long/short hedge funds	13,102,501	13,747,498
Distressed debt hedge funds	3,588,898	2,978,864
Real estate investment trusts	150,175	-
Private equity funds	772,750	21,943
Total long-term	132,640,186	120,132,221
Total investments	\$ 136,391,332	\$ 124,633,504

The Association's endowment consists of approximately 65 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 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 2012, \$459,406 of

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Notes to Financial Statements - Continued

December 31, 2012

investment earnings was transferred from these endowments to unrestricted net assets to repay a portion of the cumulative unrecovered balance. As of December 31, 2012 and 2011, the cumulative unrecovered amount was \$743,515 and \$1,202,921, 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 - Continued

December 31, 2012

The changes in endowment net assets for the years ended December 31, 2012 and 2011, and endowment net assets at December 31, 2012 were:

	2012			Total	2011
	Board-designated	Temporarily Restricted	Permanently Restricted		
Endowment net assets, beginning of year	\$ 37,311,899	\$ 72,502,993	\$ 24,603,597	\$ 134,418,489	\$ 131,023,770
Investment return	2,520,692	5,454,989	146,503	8,122,184	(4,798,880)
Contributions	-	5,775,481	3,902,882	9,678,363	8,822,930
Appropriation of endowment assets for expenditure	(8,608,875)	(4,825,564)	(998,595)	(14,433,034)	(4,179,331)
Transfers to Board Designated funds	2,608,579	-	-	2,608,579	3,550,000
Endowment net assets, end of year	<u>\$ 33,832,295</u>	<u>\$ 78,907,899</u>	<u>\$ 27,654,387</u>	<u>\$ 140,394,581</u>	<u>\$ 134,418,489</u>

As of December 31, 2012, 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 or for a donor-specified 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 its outside investment professionals, and makes any necessary changes.

Mount Vernon Ladies' Association of the Union

Notes to Financial Statements - Continued

December 31, 2012

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 June 30 of the previous year. The Grand Council approved Spending Policy was 4% and 3% for the years ended December 31, 2012 and 2011, 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, 2012 and 2011:

	2012			
	Operating	Nonoperating	Total	2011
Interest and dividends, net	\$ 1,098,490	\$ -	\$ 1,098,490	\$ 1,111,049
Realized and unrealized gains (losses)	<u>1,514,522</u>	<u>10,685,487</u>	<u>12,200,009</u>	<u>(6,620,800)</u>
Net investment gain (loss)	<u>\$ 2,613,012</u>	<u>\$ 10,685,487</u>	<u>\$ 13,298,499</u>	<u>\$ (5,509,751)</u>

Interest and dividends are presented net of \$611,637 and \$610,465 in investment expenses for the years ended December 31, 2012 and 2011, 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, 2012:

Mount Vernon Ladies' Association of the Union

Notes to Financial Statements - Continued

December 31, 2012

	2011	Additions	Investment gains (losses)	Restrictions accomplished	2012
Building operation funds	\$ 66,758,249	\$ 5,775,481	\$ 2,968,009	\$ (3,136,803)	\$ 72,364,936
Site improvement funds	38,771,724	512,581	59,953	(317,854)	39,026,404
General endowment funds	2,340,632	-	647,182	(265,371)	2,722,443
Program, education and pooled income funds	6,667,912	798,737	1,256,468	(971,525)	7,751,592
Collection and conservation funds	3,692,547	3,463,638	556,075	(5,290,812)	2,421,448
	<u>\$ 118,231,064</u>	<u>\$ 10,550,437</u>	<u>\$ 5,487,687</u>	<u>\$ (9,982,365)</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. 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 1.2% in the temporarily restricted fund.

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

Mount Vernon Ladies' Association of the Union

Notes to Financial Statements - Continued

December 31, 2012

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. During 2012, a donor redirected their permanently restricted contribution of \$998,595 to support a temporarily restricted project.

Permanently restricted net assets consist of the following at December 31, 2012:

	2011	Additions	Restrictions redirected	2012
Endowments				
Site improvement funds	\$ 674,313	\$ 4,300	\$ -	\$ 678,613
General endowment funds	4,279,614	-	-	4,279,614
Program and education funds	15,165,136	4,045,085	(998,595)	18,211,626
Collection and conservation funds	4,484,534	-	-	4,484,534
	<u>\$ 24,603,597</u>	<u>\$ 4,049,385</u>	<u>\$ (998,595)</u>	<u>\$ 27,654,387</u>

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, 2012 and 2011:

	2012	2011
Board reserves	\$ 26,001,291	\$ 28,892,063
Collections conservation	500,000	500,000
Capital projects	5,459,499	7,692,191
Other projects	1,871,505	227,645
Total Board designated net assets	<u>\$ 33,832,295</u>	<u>\$ 37,311,899</u>

During 2012 and 2011, the Grand Council approved transfers of \$2,608,579 and \$3,550,000, respectively, from undesignated funds to board-designated funds to support various projects.

Mount Vernon Ladies' Association of the Union

Notes to Financial Statements - Continued

December 31, 2012

5. Property and Equipment

Property and equipment and accumulated depreciation as of December 31, 2012 and 2011 were:

Asset category	Estimated useful lives	2012	2011
Buildings	40 years	\$ 41,456,390	\$ 41,456,390
Building improvements	10-20 years	27,563,079	25,948,981
Land	-	428,838	-
Furniture, fixtures and equipment	5-7 years	47,893,059	47,735,357
		117,341,366	115,140,728
Less: Accumulated depreciation		(55,910,130)	(49,690,589)
Property and equipment, net		<u>\$ 61,431,236</u>	<u>\$ 65,450,139</u>

6. Promises to Give

The following are unconditional promises to give at December 31, 2012 and 2011:

	2012	2011
Building operations funds	\$ 14,005,427	\$ 23,716,798
Life insurance policies	2,150,000	2,150,000
Programs, collections and education funds	1,574,799	1,814,996
GW Library construction	15,209,366	33,643,594
Unrestricted fund	9,600	39,400
Unconditional promises to give before unamortized discount and allowance for doubtful accounts	32,949,192	61,364,788
Less: Unamortized discounts between .16% and 1.86%	(637,769)	(854,278)
	32,311,423	60,510,510
Less allowance for doubtful accounts	-	(2,000)
Net unconditional promises to give	<u>\$ 32,311,423</u>	<u>\$ 60,508,510</u>
Amounts due in:		
Less than one year	\$ 21,602,961	\$ 28,295,527
One to five years	10,708,462	32,212,983
Total	<u>\$ 32,311,423</u>	<u>\$ 60,508,510</u>

Mount Vernon Ladies' Association of the Union

Notes to Financial Statements - Continued

December 31, 2012

7. Bonds Payable

In June 2007, the Fairfax County Economic Development Authority (FCEDA) issued \$15,000,000 in variable rate unsecured revenue bonds, expiring in June 2037 for the benefit of the 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, 2012, 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 the statement of financial position as a liability in the amount of \$6,147,178 and \$6,358,386 as of December 31, 2012 and 2011, respectively. During the years ended December 31, 2012 and 2011, the Association recorded a non-cash gain (loss) on the change in derivative valuation in the amount of \$211,206 and (\$3,310,705), respectively, due to interest rate fluctuations.

Mount Vernon Ladies' Association of the Union

Notes to Financial Statements - Continued

December 31, 2012

Future principal payments of bonds payable outstanding at December 31, 2012 are as follows:

<u>Year ending December 31,</u>	<u>Amount</u>
2013	\$ -
2014	-
2015	-
2016	-
2017	-
Thereafter	<u>15,000,000</u>
Total	<u>\$ 15,000,000</u>

Interest expense for the Association for the years ended December 31, 2012 and 2011 was \$612,713 and \$641,974, respectively.

8. 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, 2012 and 2011, the Association has recorded a liability totaling \$781,509 and \$760,392, 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, 2012 and 2011.

9. 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 \$766,996 and \$667,200 for the years ended December 31, 2012 and 2011, respectively. These amounts are included in accounts payable and accrued expenses in the statement of financial position at December 31, 2012 and 2011.

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

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Notes to Financial Statements - Continued

December 31, 2012

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 \$232,203 and \$199,232 during the years ended December 31, 2012 and 2011, 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 \$17,000 and \$16,500 to the plan in 2012 and 2011, respectively. No amounts were deferred by the employees. In 2012, the only participant in the plan retired and all of the assets of the fund were liquidated and disbursed to the participant.

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 \$0 and \$25,000 in 2012 and 2011, respectively. In 2012, the only participant in the plan retired and all of the assets of the fund were liquidated and disbursed to the participant.

As of December 31, 2012 and 2011, total 457(b) and 457(f) plan asset and liability were \$0, and \$190,217, respectively.

10. 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 2012 and 2011, the Association incurred \$1,746,922 and \$1,273,287 of joint costs for these activities, respectively. Of these costs, \$1,013,214 and \$572,979 were allocated to program, \$52,408 and \$38,199 were allocated to management and general, and \$681,300 and \$662,109 were allocated to fundraising in 2012 and 2011, respectively.

11. 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, 2012 and 2011.

Mount Vernon Ladies' Association of the Union

Notes to Financial Statements - Continued

December 31, 2012

12. 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.

13. 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 2011 and 2012 if certain conditions are met. On April 4, 2012, the Association executed an amendment to the lease to extend the term of the lease through December 31, 2013.

Rent expense for the years ended December 31, 2012 and 2011 was \$71,167 and \$70,000, respectively.

Future minimum lease payments required under the lease are \$72,000 in 2013.

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, 2012 totaled \$32,668,789. As of December 31, 2012, the Association incurred \$20,044,698 of construction costs related to the contract, \$3,259,348 remains payable and is included in accounts payable and accrued expenses on the accompanying statement of financial position.

Mount Vernon Ladies' Association of the Union

Notes to Financial Statements - Continued

December 31, 2012

14. Fair Value Measurement

The Association has adopted the Fair Value Measurements accounting guidance of the Accounting Standards 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.

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Notes to Financial Statements - Continued

December 31, 2012

The following tables present the fair value of assets measured on a recurring basis at December 31, 2012 and 2011:

Description	Balance at 12/31/2012	Fair Value Measurements as of December 31, 2012 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Fixed income investments:</u>				
Corporate bond	\$ 640,156	\$ 640,156	\$ -	\$ -
U.S. Treasury fixed income mutual funds	13,847,112	13,847,112	-	-
Global fixed income mutual funds	3,646,056	3,646,056	-	-
Global fixed income commingled fund	3,837,095	-	3,837,095	-
Total fixed income investments	<u>\$ 21,970,419</u>	<u>\$ 18,133,324</u>	<u>\$ 3,837,095</u>	<u>\$ -</u>
<u>Equity investments:</u>				
U.S. equity securities	\$ 5,130,137	\$ 5,130,137	\$ -	\$ -
Global equity securities	2,712,840	2,712,840	-	-
U.S. equities mutual funds	17,582,717	17,582,717	-	-
Global equities mutual funds	10,352,630	10,352,630	-	-
Emerging markets equities mutual funds	12,764,632	12,764,632	-	-
U.S. equities commingled fund	6,170,182	-	6,170,182	-
Global equities commingled funds	12,883,991	-	12,883,991	-
Total equity investments	<u>\$ 67,597,129</u>	<u>\$ 48,542,956</u>	<u>\$ 19,054,173</u>	<u>\$ -</u>
<u>Real asset investments</u>				
Inflation protected securities mutual fund	\$ -	\$ -	\$ -	\$ -
Global commodities mutual fund	3,206,168	3,206,168	-	-
Global commodities commingled fund	3,788,572	-	3,788,572	-
Global commodities equities common trust fund	7,505,134	-	7,505,134	-
Total real asset investments	<u>\$ 14,499,874</u>	<u>\$ 3,206,168</u>	<u>\$ 11,293,706</u>	<u>\$ -</u>
<u>Hedge funds & private equity investments:</u>				
Event driven hedge funds	\$ 10,958,440	\$ -	\$ -	\$ 10,958,440
Equity long/short hedge funds	13,102,501	-	-	13,102,501
Distressed debt hedge funds	3,588,898	-	-	3,588,898
Real estate investment trusts	150,175	150,175	-	-
Private equity funds	772,750	-	-	772,750
Total hedge funds & private investments	<u>\$ 28,572,764</u>	<u>\$ 150,175</u>	<u>\$ -</u>	<u>\$ 28,422,589</u>
<u>Other assets measured at fair value:</u>				
Split interest agreements	\$ 2,305,526	\$ 2,305,526	\$ -	\$ -
Promises to give	32,311,423	-	32,311,423	-
Total other assets measured at fair value	<u>\$ 33,381,785</u>	<u>\$ 2,305,526</u>	<u>\$ 31,076,259</u>	<u>\$ -</u>
Total Assets	<u>\$ 166,021,971</u>	<u>\$ 72,338,149</u>	<u>\$ 65,261,233</u>	<u>\$ 28,422,589</u>

Mount Vernon Ladies' Association of the Union

Notes to Financial Statements - Continued

December 31, 2012

Fair Value Measurements as of December 31, 2012 Using

Description	Balance at 12/31/2012	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	\$ 6,147,178	\$ -	\$ 6,147,178	\$ -
Split-interest agreements	857,375	-	857,375	-
Total Liabilities	\$ 7,004,553	\$ -	\$ 7,004,553	\$ -

Fair Value Measurements as of December 31, 2011 Using

Description	Balance at 12/31/2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Fixed income investments:</u>				
Corporate bond	\$ 643,065	\$ 643,065	\$ -	\$ -
U.S. Treasury fixed income mutual funds	11,770,546	11,770,546	-	-
Global fixed income mutual funds	3,215,937	3,215,937	-	-
Global fixed income commingled fund	5,846,028	-	5,846,028	-
Total fixed income investments	\$ 21,475,576	\$ 15,629,548	\$ 5,846,028	\$ -
<u>Equity investments:</u>				
U.S. equity securities	\$ 5,553,812	\$ 5,553,812	\$ -	\$ -
Global equity securities	-	-	-	-
U.S. equities mutual funds	14,278,522	14,278,522	-	-
Global equities mutual funds	9,940,407	9,940,407	-	-
Emerging markets equities mutual funds	10,990,909	10,990,909	-	-
U.S. equities commingled fund	5,309,983	-	5,309,983	-
Global equities commingled funds	10,553,727	-	10,553,727	-
Total equity investments	\$ 56,627,360	\$ 40,763,650	\$ 15,863,710	\$ -
<u>Real asset investments:</u>				
Inflation protected securities mutual fund	\$ 1,966,244	\$ 1,966,244	\$ -	\$ -
Global commodities mutual fund	2,771,248	2,771,248	-	-
Global commodities equities common trust fund	6,548,409	-	6,548,409	-
Global commodities commingled fund	2,839,436	-	2,839,436	-
Total real asset investments	\$ 14,125,337	\$ 4,737,492	\$ 9,387,845	\$ -
<u>Hedge funds & private equity investments:</u>				
Event driven hedge funds	\$ 11,155,643	\$ -	\$ -	\$ 11,155,643
Equity long/short hedge funds	13,747,498	-	-	13,747,498
Distressed debt hedge funds	2,978,864	-	-	2,978,864
Real estate investment trusts	-	-	-	-
Private equity funds	21,943	-	-	21,943
Total hedge funds & private investments	\$ 27,903,948	\$ -	\$ -	\$ 27,903,948
<u>Other assets measured at fair value:</u>				
Split interest agreements	\$ 2,126,325	\$ 2,126,325	\$ -	\$ -
Promises to give	60,510,510	-	60,508,510	-
Total other assets measured at fair value	\$ 62,636,835	\$ 2,126,325	\$ 60,508,510	\$ -
Total Assets	\$ 182,769,056	\$ 63,257,015	\$ 91,606,093	\$ 27,903,948

Mount Vernon Ladies' Association of the Union

Notes to Financial Statements - Continued

December 31, 2012

Description	Fair Value Measurements as of December 31, 2011 Using			
	Balance at 12/31/2011	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	\$ 6,358,386	\$ -	\$ 6,358,386	\$ -
Split-interest agreements	859,795	-	859,795	-
Total Liabilities	<u>\$ 7,218,181</u>	<u>\$ -</u>	<u>\$ 7,218,181</u>	<u>\$ -</u>

The following table presents changes in the fair value measurement of assets measured using Level 3 inputs for the year ended December 31, 2012:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)				
	Event Driven Hedge Funds	Long/Short Hedge Funds	Distressed Debt Hedge Funds	Private Equity	Total
Beginning balance	\$ 11,155,643	\$ 13,747,498	\$ 2,978,864	\$ 21,943	\$ 27,903,948
Transfers in (out) of level 3	-	-	-	-	-
Total gains or (losses) included in net assets	613,094	1,105,003	610,034	750,807	3,078,938
Purchases (sales)	<u>(810,297)</u>	<u>(1,750,000)</u>	<u>-</u>	<u>-</u>	<u>(2,560,297)</u>
Ending balance	<u>\$ 10,958,440</u>	<u>\$ 13,102,501</u>	<u>\$ 3,588,898</u>	<u>\$ 772,750</u>	<u>\$ 28,422,589</u>

Mount Vernon Ladies' Association of the Union

Notes to Financial Statements - Continued

December 31, 2012

The following table discloses information concerning the fair value measurement of investments calculated using net asset value per share as of December 31, 2012:

	<u>Fair Value</u>		<u>Redemption Frequency (If Currently Eligible)</u>	<u>Redemption Notice Period</u>
Global fixed income commingled fund	\$ 3,837,095	(a)	monthly	15 days
U.S. equities commingled fund	6,170,182	(b)	monthly	10-15 days
Global equities commingled funds	12,883,991	(c)	monthly	10-15 days
Global commodities equities common trust fund	7,505,134	(d)	monthly	9 days
Global commodities commingled fund	3,788,572	(e)	monthly	5 days
Event driven hedge funds	10,958,440	(f)	quarterly, annually	30-90 days
Equity long/short hedge funds	13,102,501	(g)	quarterly, annually	30-90 days
Distressed debt hedge funds	3,588,898	(h)	annually	90 days
Private equity funds	<u>772,750</u>	(i)	quarterly	90 days
Total	<u>\$ 62,607,563</u>			

- a) 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.
- b) U.S. equities commingled fund - This category includes actively managed commingled U.S. 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.
- c) Global equities commingled funds - This category includes actively managed commingled global 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.

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Notes to Financial Statements - Continued

December 31, 2012

- d) Global commodities equities 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 fair value of the investment in this category has been estimated using the net asset value per share of the investments.
- e) Global commodities commingled 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.
- f) 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 3-14 months at December 31, 2012.
- g) 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. The investments in this category can be redeemed within varying periods ranging from 3-12 months at December 31, 2012.
- h) Distressed debt 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. The investments in this category can be redeemed within varying periods ranging from 6-12 months at December 31, 2012.
- i) 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. 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, 2012.

Net asset value, in many instances may not equal fair value that would be calculated pursuant to ASC 820. The Association does not intend to sell any of the funds at an amount different from the net asset value per share at December 31, 2012. The Association reviews and evaluates the net asset values provided by the general partner

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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, 2012, the impact of the credit valuation adjustments was not significant to the overall valuation of the swap. As a result, the fair value of the swap is considered to be based primarily on Level 2 inputs. See Note 7 for additional information regarding the swap.

15. Subsequent Events

Events that occur after the statement of financial position 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 statement of financial position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the statement of financial position date require disclosure in the accompanying notes. Management evaluated the activity of the Association through April 29, 2013 (the date the financial statements were available to be issued) 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.