

**The Board of Regents of Gunston Hall,  
Incorporated and Affiliate**

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

**June 30, 2015 and 2014**

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**COHN  REZNICK**  
ACCOUNTING • TAX • ADVISORY

## TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Consolidated Financial Statements	
Consolidated Statements of Financial Position	2
Consolidated Statements of Activities and Change in Net Assets	3
Consolidated Statements of Cash Flows	4
Notes to Consolidated Financial Statements	5

### Independent Auditor's Report

To the Board of Regents  
The Board of Regents of Gunston Hall, Incorporated  
and Affiliate  
Mason Neck, Virginia

We have audited the accompanying consolidated financial statements of The Board of Regents of Gunston Hall, Incorporated and Affiliate (the Organization), which comprise the consolidated statement of financial position as of June 30, 2015, the related consolidated statement of activities and change in net assets, the consolidated statement of cash flows for the year then ended, and the related notes to the consolidated financial statements.

#### **Management's Responsibility for the Consolidated Financial Statements**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Board of Regents of Gunston Hall, Incorporated and Affiliate as of June 30, 2015, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Prior Period Consolidated Financial Statements**

The consolidated financial statements of The Board of Regents of Gunston Hall, Incorporated and Affiliate as of June 30, 2014 were audited by other auditors, whose report dated October 28, 2014 expressed an unmodified opinion on those statements.



Bethesda, Maryland  
October 30, 2015

THE BOARD OF REGENTS OF GUNSTON HALL, INCORPORATED AND AFFILIATE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30,	
	2015	2014
<u>ASSETS</u>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 828,697	\$ 1,013,503
Inventory, Net of Reserve of \$0 in 2015 and \$10,102 in 2014	56,817	80,283
Total Current Assets	885,514	1,093,786
<b>INVESTMENTS</b>		
Unrestricted Reserve	6,023,582	6,124,857
Endowment	433,106	424,046
Total Investments	6,456,688	6,548,903
<b>PROPERTY</b>		
Educational Film	101,646	101,646
Furniture, Fixtures and Equipment	68,347	68,347
Improvements	21,730	21,730
Total	191,723	191,723
Less: Accumulated Depreciation	191,723	191,723
Net Property	-	-
<b>OTHER ASSETS</b>		
Antique Fixtures	298,819	298,819
Manuscripts and Rare Books	723,568	723,568
Cash Surrender Value of Life Insurance Policy	829,122	797,588
Total Other Assets	1,851,509	1,819,975
	\$ 9,193,711	\$ 9,462,664
<u>LIABILITIES AND NET ASSETS</u>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Expenses	\$ 23,158	\$ 34,616
Due to Commonwealth of Virginia	12,523	26,550
Total Current Liabilities	35,681	61,166
<b>NET ASSETS</b>		
Unrestricted	8,059,419	7,809,727
Temporarily Restricted	710,092	1,203,252
Permanently Restricted	388,519	388,519
Total Net Assets	9,158,030	9,401,498
	\$ 9,193,711	\$ 9,462,664

THE BOARD OF REGENTS OF GUNSTON HALL, INCORPORATED AND AFFILIATE

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS

	Year Ended June 30,							
	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUE</b>								
Contributions	\$ 351,041	\$ 96,822	\$ -	\$ 447,863	\$ 325,423	\$ 107,977	\$ -	\$ 433,400
Business Enterprise:								
Museum Shop Sales	75,412	-	-	75,412	118,044	-	-	118,044
Catering and Rental Income	11,092	-	-	11,092	14,608	-	-	14,608
	86,504	-	-	86,504	132,652	-	-	132,652
Regents Meetings	45,552	-	-	45,552	38,366	-	-	38,366
Special Events and Programs	4,745	-	-	4,745	12,956	-	-	12,956
Interest and Dividends	128,197	7,452	-	135,649	105,539	6,501	-	112,040
Realized Gains on Sale of Investments	361,729	29,432	-	391,161	328,775	20,716	-	349,491
Field Trip	18,932	-	-	18,932	6,598	-	-	6,598
Other	34,870	-	-	34,870	32,931	-	-	32,931
Net Assets Released from Restrictions:								
Satisfaction of Program Restrictions	618,468	(618,468)	-	-	260,206	(260,206)	-	-
Total Revenue	1,650,038	(484,762)	-	1,165,276	1,243,446	(125,012)	-	1,118,434
<b>EXPENSES</b>								
Program Services:								
Archaeology	47,787	-	-	47,787	55,945	-	-	55,945
Buildings and Maintenance	89,988	-	-	89,988	26,617	-	-	26,617
Collections Management	1,159	-	-	1,159	1,279	-	-	1,279
Education	107,917	-	-	107,917	95,160	-	-	95,160
Gardens and Grounds	7,124	-	-	7,124	36,715	-	-	36,715
Library, Archives and Technology	47,878	-	-	47,878	111,823	-	-	111,823
Museum Shop	113,445	-	-	113,445	119,612	-	-	119,612
Meetings and Events	46,829	-	-	46,829	39,786	-	-	39,786
Programs	27,869	-	-	27,869	28,919	-	-	28,919
Public Relations	38,657	-	-	38,657	27,973	-	-	27,973
Restoration	461,677	-	-	461,677	49,603	-	-	49,603
Total Program Services	990,330	-	-	990,330	593,432	-	-	593,432
Supporting Services:								
Management and General	227,582	-	-	227,582	238,953	-	-	238,953
Fundraising	36,960	-	-	36,960	31,596	-	-	31,596
Total Supporting Services	264,542	-	-	264,542	270,549	-	-	270,549
Total Expenses	1,254,872	-	-	1,254,872	863,981	-	-	863,981
<b>CHANGE IN NET ASSETS BEFORE UNREALIZED GAIN (LOSS) ON INVESTMENTS</b>	395,166	(484,762)	-	(89,596)	379,465	(125,012)	-	254,453
Unrealized Gain (Loss) on Investments	(145,474)	(8,398)	-	(153,872)	342,633	27,736	-	370,369
<b>CHANGE IN NET ASSETS</b>	249,692	(493,160)	-	(243,468)	722,098	(97,276)	-	624,822
<b>NET ASSETS, Beginning of Year</b>	7,809,727	1,203,252	388,519	9,401,498	7,087,629	1,300,528	388,519	8,776,676
<b>NET ASSETS, End of Year</b>	\$ 8,059,419	\$ 710,092	\$ 388,519	\$ 9,158,030	\$ 7,809,727	\$ 1,203,252	\$ 388,519	\$ 9,401,498

THE BOARD OF REGENTS OF GUNSTON HALL, INCORPORATED AND AFFILIATE

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended June 30,	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ (243,468)	\$ 624,822
Adjustments to Reconcile Change in Net Assets to Net Cash		
Used in Operating Activities:		
Depreciation	-	111
Unrealized (Gain) Loss on Investments	153,872	(341,144)
Realized Gain on Sale of Investments	(391,161)	(370,369)
Donations of Equity Investments	(3,741)	(13,002)
Change in Cash Surrender Value of Life Insurance Policy	(31,534)	(29,106)
Changes in:		
Inventory	23,466	11,731
Accounts Payable and Accrued Expenses	(11,458)	(9,362)
Due to Commonwealth of Virginia	(14,027)	18,787
Net Cash Used in Operating Activities	(518,051)	(107,532)
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of Investments	(2,641,341)	(3,863,902)
Redemption/Sales of Investments	2,974,586	3,718,852
Net Cash Provided by (Used in) Investing Activities	333,245	(145,050)
 <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(184,806)	(252,582)
 <b>CASH AND CASH EQUIVALENTS, Beginning of Year</b>	1,013,503	1,266,085
 <b>CASH AND CASH EQUIVALENTS, End of Year</b>	\$ 828,697	\$ 1,013,503
 <b>SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES</b>		
Donations of Equity Investments	\$ 3,741	\$ 13,002

THE BOARD OF REGENTS OF GUNSTON HALL, INCORPORATED AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization Purpose and Merger

The Gunston Hall Regents Fund (the Regents Fund) was incorporated October 29, 1982 to provide money and expertise to restore and refurbish George Mason's former residence, Gunston Hall, located in Mason Neck, Virginia and to utilize fully the physical and scholarly resources of Gunston Hall to stimulate continuing public exploration of democratic ideals as first presented by George Mason in the 1776 *Virginia Declaration of Rights*. Additionally, the Regents Fund operates a museum shop on the premises and has facilities available for rent for banquets, receptions and social gatherings.

Program services represent costs associated with the general education of the public at large as it relates to the life and historical impact of George Mason and costs related to the restoration, preservation and promotion of Gunston Hall.

Effective May 9, 2014, The Board of Regents of Gunston Hall, Incorporated (the "Merged Entity") merged with and into Gunston Hall Regents Fund. Gunston Hall Regents Fund was the surviving entity and as a result of the merger changed its name to The Board of Regents of Gunston Hall, Incorporated as shown on the articles of restatement and amended and restated articles of incorporation. The Gunston Hall Regents Fund, as renamed to The Board of Regents of Gunston Hall, Incorporated, continues in existence as the sole surviving member of the corporation and the separate existence of Merged Entity and the entity name of Gunston Hall Regents Fund ceased.

On the effective date of the merger, The Board of Regents of Gunston Hall, Incorporated acquired and assumed all of the assets, obligations and liabilities of Merged Entity. As of the effective date of the merger and for the period from July 1, 2013 through the effective date of the merger, the Merged Entity had no assets or liabilities and had no operating activity, respectively. The articles of incorporation and bylaws of Merged Entity, as amended and restated at the effective date of the merger, became the articles of incorporation and bylaws of The Board of Regents of Gunston Hall, Incorporated after the effective date of the merger. The directors and officers of the Merged Entity prior to the effective date were the directors and officers of The Board of Regents of Gunston Hall, Incorporated on and subsequent to the effective date of the merger.

The merger transaction was accounted for as a change in legal organization not a change in reporting entity. The assets, liabilities and change in net assets of the Merged Entity were transferred at the carrying amounts in the accounts at the date of transfer. All material inter-entity amounts were eliminated in consolidation.

The Gunston Hall Foundation (the Foundation) was incorporated on October 26, 1972 to provide money and expertise for the restoration, preservation and promotion of Gunston Hall.

The financial statements of The Board of Regents of Gunston Hall, Incorporated and Gunston Hall Foundation (collectively, the Organization) have been consolidated because they are under common control.

Principles of Consolidation

The accompanying consolidated financial statements reflect the financial activity of The Board of Regents of Gunston Hall, Incorporated and Gunston Hall Foundation. All significant intercompany accounts and transactions between the organizations have been eliminated in consolidation.

THE BOARD OF REGENTS OF GUNSTON HALL, INCORPORATED AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

The consolidated financial statements have been prepared using the accrual basis of accounting. Accordingly, revenue is recognized when earned and expenses are recognized when the obligation is incurred.

Measure of Operations

The Organization considers unrealized gain and loss on investments to be other items not included in its operations.

Estimates

Management uses estimates and assumptions in preparing these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Cash and Cash Equivalents

For financial statement purposes, cash in bank, all investments with maturities of three months or less at the time of purchase and money market funds not invested within the investment portfolios are considered to be cash and cash equivalents.

Inventory

Inventory consists of items for sale in the museum shop, and is valued at the lower of cost (average cost method) or market.

Investments

Investments purchased by the Organization are initially recorded at their cost and donated investments are recorded at fair value on the date they are received as a donation. Subsequent to their acquisition, investments in marketable securities with readily determinable fair values and all investments in debt securities are adjusted to their fair values as of the date of the consolidated statements of financial position. Realized gains and losses are calculated based on the specific identification method and reported in revenue and unrealized gains and losses are reported as a non-operating item in the consolidated statements of activities and change in net assets.

Property

Acquisitions of property by the Organization are recorded at cost and depreciated using the straight-line method over the useful lives of 15 years for the educational film; three to 10 years for furniture, fixtures and equipment; and six to 40 years for improvements. All acquisitions by the Organization greater than or equal to \$5,000 with expected lives greater than one year are capitalized. Acquisitions on behalf of the Commonwealth of Virginia are not capitalized.



THE BOARD OF REGENTS OF GUNSTON HALL, INCORPORATED AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Antique Fixtures, Manuscripts and Rare Books

Contributions of antiques and other items to the Organization are recorded at fair market value when received. Antiques, manuscripts and rare books are not subject to depreciation. Acquisitions on behalf of the Commonwealth of Virginia are not capitalized.

Due to Commonwealth of Virginia

Amounts payable to the Commonwealth of Virginia are comprised of admission fees collected by the Organization which have not been remitted to the Commonwealth at year-end. Admission fees are charged by the Commonwealth of Virginia for entrance into the Gunston Hall Plantation. The Organization collects these fees on behalf of the Commonwealth.

Revenue Recognition

Contributions of cash and other assets are recorded at estimated fair value as unrestricted, temporarily restricted or permanently restricted support depending on the existence or absence of donor-imposed restrictions in the period received. Museum shop revenue is recorded gross, excluding sales tax, when the items are sold and managers fund revenue is recognized when earned. Revenue received in advance of goods and services being provided is deferred.

Net Assets

Resources for various purposes are classified for accounting and reporting purposes into net asset groups established according to their nature and purpose and based upon the existence or absence of donor-imposed restrictions.

Unrestricted: Represents resources available to support the Organization's general operations.

Temporarily Restricted Net Assets: Represents contributions received from donors that are restricted for a specific purpose.

Permanently Restricted Net Assets: Represents contributions to be held in perpetuity as an endowment. The investment income earned from the investments, including interest, dividends and unrealized and realized gains and losses, are recorded as temporarily restricted revenue until appropriated for expenditure by the Board of Regents or the Board of Trustees and are used to support the programs of the Organization. Upon appropriation, the amounts for current year expenditures are classified to unrestricted net assets, subject to any purpose restrictions. All other investment income is reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or law.

Temporarily Restricted Support

The Organization's policy is to report all donor-restricted contributions as temporarily restricted support even if those restrictions are met in the same reporting period the contributions are received. When a restriction expires (that is, when a stipulated time restriction ends or the purpose for restriction is accomplished or an appropriation is made by the Board of Regents or the Board of Trustees), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities and change in net assets as net assets released from restrictions.

THE BOARD OF REGENTS OF GUNSTON HALL, INCORPORATED AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Endowment

If losses reduce the net assets of a donor-restricted endowment fund below the level required by the donor stipulations or the law, unrestricted net assets are reduced. Gains that restore the fair value of the net assets of the endowment fund to the required level shall be classified as increases in unrestricted net assets. The fair value of the endowment assets was not less than the levels required by donor stipulations or law at June 30, 2015 or 2014.

Allocation of Functional Expenses

Functional expenses have been directly coded to specific unrestricted functions whenever possible. Expenses which cannot be directly identified to a specific function are allocated between unrestricted program services and supporting services based on an analysis of personnel time.

Income Taxes

The Board of Regents of Gunston Hall, Incorporated is exempt from the payment of income taxes on its exempt activities under Section 501(c)(3) of the Internal Revenue Code (IRC). The Board of Regents of Gunston Hall, Incorporated is classified as a public charity under Section 509(a)(1) of the IRC. The Foundation is exempt from the payment of income taxes on its exempt activities under Section 501(c)(3) of the IRC. The Foundation is classified as a public charity under Section 509(a)(3) of the IRC.

The Organization is subject to federal and state income taxes on its unrelated business activities. There was no unrelated business income tax for the years ended June 30, 2015 and 2014; therefore, no provision for income tax has been recorded in the consolidated financial statements. The Organization believes that it has appropriate support for any tax positions taken, and, as such, it does not have any uncertain tax positions that are material to the consolidated financial statements. The Organization recognizes interest expense and penalties related to income taxes on uncertain tax positions in management and general expenses on the consolidated statements of activities and change in net assets and accounts payable and accrued expenses on the consolidated statements of financial position. There is no provision in these consolidated financial statements for penalties and interest related to income taxes on uncertain tax positions for the years ended June 30, 2015 and 2014. Tax years prior to 2011 are no longer subject to examination by the IRS or the tax jurisdiction of Virginia.

Subsequent Events

The Organization has evaluated events and transactions for potential recognition or disclosure through October 30, 2015, the date the consolidated financial statements were available to be issued.

NOTE 2 – CONCENTRATION OF CREDIT RISK

Financial instruments, which potentially subject the Organization to concentrations of credit risk, consist primarily of cash placed with a financial institution. Funds in excess of federal insurance limits totaled approximately \$517,000 at June 30, 2015. Management believes the risk of loss to be minimal at June 30, 2015.

THE BOARD OF REGENTS OF GUNSTON HALL, INCORPORATED AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

NOTE 3 – INVESTMENTS

Investments are stated at their fair value and consist of the following at June 30:

	2015		2014	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Deposit Account	\$ 371,567	\$ 371,567	\$ 874,831	\$ 875,731
U.S. Government Securities and Corporate Bonds	1,455,024	1,431,257	1,279,321	1,228,378
Mutual Funds – Fixed Income	137,002	132,989	121,623	121,746
Mutual Funds – Equity	40,838	38,874	161,848	175,660
Certificate of Deposit	-	-	100,000	99,625
Exchange-Traded Funds	397,514	398,600	388,411	406,233
Equities	3,201,546	4,083,401	2,622,290	3,641,530
	<u>\$ 5,603,491</u>	<u>\$ 6,456,688</u>	<u>\$ 5,548,324</u>	<u>\$ 6,548,903</u>

Investments include endowments which had a fair value of \$433,106 and \$424,046 at June 30, 2015 and 2014, respectively.

NOTE 4 – OTHER ASSETS

Objects acquired by gift for which the Organization can reasonably estimate fair market value are reported as contributions in the consolidated statements of activities and change in net assets. Objects acquired by purchase are recorded at cost.

During the years ended June 30, 2015 and 2014, the Organization expended \$0 and \$3,900, respectively, for additions to the antique collection. These amounts were reimbursed by the Commonwealth of Virginia, which holds ownership; therefore, they are not reflected in the Organization's consolidated financial statements. Additions not reimbursed during the year are recorded as "Due from Commonwealth of Virginia" on the consolidated statement of financial position. There were no additions which were not reimbursed at June 30, 2015 and 2014.

NOTE 5 – STRUCTURAL IMPROVEMENTS – GUNSTON HALL

During the years ended June 30, 2015 and 2014, the Organization expended \$416,260 and \$10,000, respectively, for structural improvements to the Gunston Hall home. These improvements are expensed rather than capitalized as the Organization does not own or lease the Gunston Hall home.

THE BOARD OF REGENTS OF GUNSTON HALL, INCORPORATED AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

NOTE 6 – RESTRICTED NET ASSETS

The changes in each fund within temporarily restricted net assets for the years ended June 30, 2015 and 2014 are as follows:

	Balance July 1, 2014	Revenue	Expenses/ Net Assets Released from Restriction	Balance June 30, 2015
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Temporarily Restricted:				
Regents				
Administrative	\$ 3,993	\$ -	\$ -	\$ 3,993
Archaeology	1,875	600	(2,475)	-
Buildings	3,540	-	-	3,540
Collections/Antiques	-	4,038	(3,726)	312
Education	5,473	-	-	5,473
Endowment	3,267	1,729	(2,665)	2,331
First Regent	10,759	-	-	10,759
Friends	420,589	-	(165,000)	255,589
Gardens	14,188	3,350	-	17,538
George Mason Memorial	16,976	-	-	16,976
Library	179,827	46,143	-	225,970
Programs	5,991	1,040	(1,266)	5,765
Marketing & Public Relations	11,589	-	(4,778)	6,811
Restoration	492,825	-	(416,260)	76,565
Residence Rent	-	11,800	-	11,800
Galbraith Bench	-	2,000	-	2,000
Cooking Program	-	900	-	900
Quad Consultant	-	1,200	-	1,200
240th Celebration VDR	-	20,240	-	20,240
Naturalization	-	2,500	(2,500)	-
Travel Reimbursements	-	3,011	(3,011)	-
Foundation				
Endowment	32,260	26,757	(16,761)	42,256
Hartman Meyers Memorial	100	-	(26)	74
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Temporarily Restricted	\$ 1,203,252	\$ 125,308	\$ (618,468)	\$ 710,092

THE BOARD OF REGENTS OF GUNSTON HALL, INCORPORATED AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

NOTE 6 – RESTRICTED NET ASSETS (Continued)

	Balance July 1, 2013	Revenue	Expenses/ Net Assets Released from Restriction	Balance June 30, 2014
Temporarily Restricted:				
Regents				
Administrative	\$ 150	\$ 8,447	\$ (4,604)	\$ 3,993
Archaeology	9,566	6,755	(14,446)	1,875
Buildings	16,693	-	(13,153)	3,540
Collections/Antiques	-	14	(14)	-
Development	1,492	-	(1,492)	-
Education	5,473	-	-	5,473
Endowment	-	5,932	(2,665)	3,267
First Regent	-	16,235	(5,476)	10,759
Friends	519,669	50,920	(150,000)	420,589
Gardens	11,088	4,410	(1,310)	14,188
George Mason Memorial	16,976	-	-	16,976
Library	183,962	95	(4,230)	179,827
Programs	1,834	6,276	(2,119)	5,991
Public Relations	6,714	7,120	(2,245)	11,589
Restoration	526,447	7,300	(40,922)	492,825
Foundation				
Endowment	-	49,021	(16,761)	32,260
Hartman Meyers Memorial	464	405	(769)	100
Total Temporarily Restricted	<u>\$ 1,300,528</u>	<u>\$ 162,930</u>	<u>\$ (260,206)</u>	<u>\$ 1,203,252</u>

There were no changes to permanently restricted net assets for the years ended June 30, 2015 and 2014.

NOTE 7 – ENDOWMENT

The Organization's endowment consists of individual funds established for the restoration of Gunston Hall and related activities. Their endowments include donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Permanently Restricted Net Assets – Interpretation of Relevant Law

The respective Boards have interpreted the State Prudent Management of Institutional Funds Act (SPMIFA), as enacted into law in Virginia during October 2008, as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the endowment. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard prudence prescribed by SPMIFA.

THE BOARD OF REGENTS OF GUNSTON HALL, INCORPORATED AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

NOTE 7 – ENDOWMENT (Continued)

Permanently Restricted Net Assets – Interpretation of Relevant Law (Continued)

In accordance with SPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization 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/depreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

Funds with Deficiencies

From time to time, the fair value of the assets associated with individual donor-restricted endowments may fall below the level that the donor or SPMIFA requires the organization to retain as a fund of perpetual duration. Appropriations come first from temporarily restricted net assets not appropriated and then from unrestricted net assets. The fair value of the assets associated with the endowments was not less than the level required by donor stipulations or SPMIFA at June 30, 2015 and 2014.

Permanently Restricted Net Assets – Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the respective Boards, the endowment assets are invested in a manner intended to produce results that exceed inflation and the S&P 500 Index while assuming a relative level of investment risk.

Permanently Restricted Net Assets – Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization has a policy of appropriating for expenditure each year up to 5 percent of the average market value of the endowment assets utilizing the previous 12 quarterly periods. In establishing this policy, the Organization considered the long-term expected return on its endowment net assets. Accordingly, the Organization expects the endowment to grow by at least inflation annually.

THE BOARD OF REGENTS OF GUNSTON HALL, INCORPORATED AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

NOTE 7 – ENDOWMENT (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy (Continued)

The following is a summary of donor-restricted endowment funds subject to SPMIFA for the years ended June 30, 2015 and 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Endowment Net Assets, July 1, 2013	\$ (861)	\$ -	\$ 388,519
Investment Return:			
Interest and Dividends	-	6,502	-
Net Appreciation (Realized and Unrealized)	<u>861</u>	<u>48,451</u>	<u>-</u>
Total Investment Return	861	54,953	-
Appropriation of Endowment Assets for Expenditure	<u>-</u>	<u>(19,426)</u>	<u>-</u>
Endowment Net Assets, June 30, 2014	-	35,527	388,519
Investment Return:			
Interest and Dividends	-	7,452	-
Net Appreciation (Realized and Unrealized)	<u>-</u>	<u>21,034</u>	<u>-</u>
Total Investment Return	-	28,486	-
Appropriation of Endowment Assets for Expenditure	<u>-</u>	<u>(19,426)</u>	<u>-</u>
Endowment Net Assets, June 30, 2015	<u>\$ -</u>	<u>\$ 44,587</u>	<u>\$ 388,519</u>

NOTE 8 – FACILITIES AND SERVICES PROVIDED BY COMMONWEALTH OF VIRGINIA

The Gunston Hall buildings and surrounding land are owned and maintained by the Commonwealth of Virginia. The Organization operates the museum shop and banquet facilities under three-year Concession Agreements (Agreements) from the Commonwealth of Virginia, for \$1 annually, which expire October 31, 2015. As of October 30, 2015, The Board of Regents of Gunston Hall, Incorporated expects to execute a multiyear lease extension with the Commonwealth of Virginia through October 31, 2018. The below-market Agreements and associated donation are non-cash items which have not been recorded. Due to the historic nature of the facilities owned by the Commonwealth of Virginia under the Agreements, it is not practicable to determine the fair value of the donated rent.

Services and facilities are provided by the Commonwealth of Virginia, but are not reflected in these consolidated financial statements, as the ownership of the Gunston Hall Plantation resides with the Commonwealth.

THE BOARD OF REGENTS OF GUNSTON HALL, INCORPORATED AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

NOTE 8 – FACILITIES AND SERVICES PROVIDED BY COMMONWEALTH OF VIRGINIA (Continued)

The Commonwealth expended \$11,195 (unaudited) and \$60,661 (unaudited) on Plantation and library improvements during the years ended June 30, 2015 and 2014, respectively. Additionally, the Commonwealth of Virginia operates the Gunston Hall Plantation and provides certain management and administrative support to the Organization at no charge, including the employment of four full-time employees at Gunston Hall for the years ended June 30, 2015 and 2014, and 17 part-time employees at June 30, 2015 and 19 part-time employees at June 30, 2014. The Commonwealth provided approximately \$377,593 (unaudited) and \$402,265 (unaudited) in labor and support to the Gunston Hall Plantation during the years ended June 30, 2015 and 2014, net of the \$111,379 donated salaries provided to the Organization for each of the years ended June 30, 2015 and 2014.

NOTE 9 – DONATED SERVICES

Donated services are recorded in the consolidated financial statements to the extent that those services create or enhance a nonfinancial asset, or the services require specialized skills, the service is provided by individuals who possess those skills, and the service would typically need to be purchased if not contributed. Donated executive services of \$111,379 that meet these criteria were recorded for each year ended June 30, 2015 and 2014 within contributions revenue and program, management and general and fundraising expenses in the statements of activities and change in net assets.

During the years ended June 30, 2015 and 2014, specialized historical services and board oversight and strategic planning services were provided by volunteers to the Organization and were valued at approximately \$180,200 and \$174,100, respectively. Donated specialized historical services totaled approximately \$131,400 and \$125,300, respectively, while board oversight and strategic planning services totaled approximately \$48,800 for each of the years ended. Such amounts are not included as contributed services revenue and program expenses on the accompanying consolidated statement of activities and change in net assets.

NOTE 10 – RETIREMENT PLAN

The Board of Regents of Gunston Hall, Incorporated has a 401(k) plan. Any employee who has completed six months of service is eligible to participate in the plan. Participants may make contributions up to 15 percent of their compensation, subject to statutory limits. The Board of Regents of Gunston Hall, Incorporated may elect to make discretionary contributions. Participants are vested immediately with respect to participant contributions. Participants are fully vested in employer contributions after three years. The Board of Regents of Gunston Hall, Incorporated contributed \$6,949 and \$9,610 to the plan for the years ended June 30, 2015 and 2014, respectively.

NOTE 11 – CASH SURRENDER VALUE OF LIFE INSURANCE POLICY

A life insurance policy was purchased by a former regent naming the Foundation as the beneficiary. The Foundation owns the policy and the premiums on the insurance policy are funded by the Foundation and by dividends earned on the policy. The related expenses are recorded to the consolidated statement of activities and change in net assets as fundraising expense. The cash surrender value of the policy increased \$31,534 to \$829,122 and \$29,106 to \$797,588 for the years ended and as of June 30, 2015 and 2014, respectively. The change in the cash surrender value is reported in other revenue in the consolidated statement of activities and change in net assets.



THE BOARD OF REGENTS OF GUNSTON HALL, INCORPORATED AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

NOTE 12 – FAIR VALUE MEASUREMENTS

The Organization has determined the fair value of certain assets through application of FASB Accounting Standards Codification (FASB ASC) Topic 820, *Fair Value Measurement*. Fair value of assets measured on a recurring basis at June 30, 2015 and 2014 is as follows:

	Fair Value	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>June 30, 2015</u>				
Deposit Account	\$ 371,567	\$ 371,567	\$ -	\$ -
U.S. Government Securities and Corporate Bonds	1,431,257	-	1,431,257	-
Mutual Funds – Fixed Income	132,989	132,989	-	-
Mutual Funds – Equity	38,874	38,874	-	-
Exchange-Traded Funds	398,600	398,600	-	-
Equities	4,083,401	4,083,401	-	-
	<u>\$ 6,456,688</u>	<u>\$ 5,025,431</u>	<u>\$ 1,431,257</u>	<u>\$ -</u>
<u>June 30, 2014</u>				
Deposit Account	\$ 875,731	\$ 875,731	\$ -	\$ -
U.S. Government Securities and Corporate Bonds	1,228,378	-	1,228,378	-
Mutual Funds – Fixed Income	121,746	121,746	-	-
Mutual Funds – Equity	175,660	175,660	-	-
Certificate of Deposit	99,625	-	99,625	-
Exchange-Traded Funds	406,233	406,233	-	-
Equities	3,641,530	3,641,530	-	-
	<u>\$ 6,548,903</u>	<u>\$ 5,220,900</u>	<u>\$ 1,328,003</u>	<u>\$ -</u>

This FASB ASC topic establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and provide the highest quality inputs. Level 2 inputs are based primarily on quoted prices for identical assets or liabilities in inactive markets or similar assets in active or inactive markets or other significant observable market inputs. Level 3 inputs provide the lowest quality inputs because there are no significant observable inputs. The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. There have been no changes in the valuation methodologies used during the current year. All assets have been valued using a market approach. U.S. government securities and corporate bonds and certificate of deposit are classified as Level 2, as they are not exchange-traded investments and are valued based on quoted prices for similar assets in active markets from pricing sources utilized by investment managers.

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