

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

Financial Statements

For the Year Ended December 31, 2020

(With Summarized Financial Information for the Year Ended December 31, 2019)



**and
Report Thereon**



MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

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For the Year Ended December 31, 2020

(With Summarized Financial Information for the Year Ended December 31, 2019)

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Mount Vernon Ladies' Association of the Union (the Association), which comprise the statement of financial position as of December 31, 2020, and the related statements of activities, functional expenses 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 2020 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, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter*Report on Summarized Comparative Information*

We have previously audited the Association's 2019 financial statements, and in our report dated September 22, 2020, we expressed an unmodified audit opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Marcum LLP

Washington, DC
July 2, 2021

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION
STATEMENT OF FINANCIAL POSITION
December 31, 2020
(With Summarized Financial Information as of December 31, 2019)

| | 2020 | 2019 |
|---------------------------------------|-----------------------|-----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 22,151,000 | \$ 21,282,736 |
| Investments | 206,678,698 | 189,760,991 |
| Accounts receivable | 1,483,504 | 458,263 |
| Promises to give, net | 20,606,061 | 25,146,262 |
| Inventories, net | 3,666,849 | 2,770,849 |
| Prepaid expenses and other assets | 3,078,301 | 742,229 |
| Split-interest agreements | 2,950,791 | 2,756,266 |
| Note receivable | - | 500,000 |
| Property and equipment, net | 80,804,981 | 85,729,311 |
| Capital projects in process | 625,175 | - |
| | \$ 342,045,360 | \$ 329,146,907 |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 2,251,801 | \$ 3,966,473 |
| Deferred income | 270,176 | 265,312 |
| Bonds payable | 15,000,000 | 15,000,000 |
| Interest rate swap agreement | 7,320,572 | 5,918,420 |
| Other liabilities | 3,270,889 | 1,448,919 |
| | 28,113,438 | 26,599,124 |
| Net Assets | | |
| Without donor restriction | 131,925,105 | 137,653,243 |
| With donor restriction | 182,006,817 | 164,894,540 |
| | 313,931,922 | 302,547,783 |
| | \$ 342,045,360 | \$ 329,146,907 |

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

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2020

(With Summarized Financial Information for the Year Ended December 31, 2019)

| | Without Donor Restrictions | With Donor Restrictions | 2020 Total | 2019 Total |
|---|----------------------------------|-------------------------------|-----------------------|-----------------------|
| OPERATING REVENUE AND SUPPORT | | | | |
| Contributions | \$ 12,143,252 | \$ 9,449,820 | \$ 21,593,072 | \$ 32,366,514 |
| Admission fees | 3,580,510 | - | 3,580,510 | 14,415,038 |
| Product sales | 3,468,603 | - | 3,468,603 | 9,034,980 |
| Food sales | 1,914,402 | - | 1,914,402 | 7,354,436 |
| Other income | 606,556 | - | 606,556 | 1,585,041 |
| Appropriations from endowments | 2,382,326 | 5,709,205 | 8,091,531 | 6,469,761 |
| Net assets released from restrictions | 12,792,858 | (12,792,858) | - | - |
| | 36,888,507 | 2,366,167 | 39,254,674 | 71,225,770 |
| EXPENSES | | | | |
| Program Services: | | | | |
| Education | 20,524,936 | - | 20,524,936 | 32,937,610 |
| Preservation | 14,793,799 | - | 14,793,799 | 16,330,210 |
| | 35,318,735 | - | 35,318,735 | 49,267,820 |
| Supporting Services: | | | | |
| Management and general | 3,760,264 | - | 3,760,264 | 3,913,378 |
| Fundraising | 3,732,119 | - | 3,732,119 | 4,244,570 |
| | 7,492,383 | - | 7,492,383 | 8,157,948 |
| | 42,811,118 | - | 42,811,118 | 57,425,768 |
| CHANGE IN NET ASSETS FROM OPERATIONS | (5,922,611) | 2,366,167 | (3,556,444) | 13,800,002 |
| NONOPERATING ACTIVITIES | | | | |
| Investment return, net | 3,978,951 | 20,165,122 | 24,144,073 | 35,523,548 |
| Endowment funds appropriated for operations | (2,382,326) | (5,709,205) | (8,091,531) | (6,469,761) |
| Change in value of interest rate swap agreement | (1,402,152) | - | (1,402,152) | (1,311,905) |
| Change in value of split-interest agreements | - | 290,193 | 290,193 | 346,673 |
| | (5,728,138) | 17,112,277 | 11,384,139 | 41,888,557 |
| CHANGE IN NET ASSETS | (5,728,138) | 17,112,277 | 11,384,139 | 41,888,557 |
| NET ASSETS, BEGINNING OF YEAR | 137,653,243 | 164,894,540 | 302,547,783 | 260,659,226 |
| NET ASSETS, END OF YEAR | \$ 131,925,105 | \$ 182,006,817 | \$ 313,931,922 | \$ 302,547,783 |

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

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2020

(With Summarized Financial Information for the Year Ended December 30, 2019)

| | Program Services | | | Supporting Services | | | 2020 Total | 2019 Total |
|----------------------------------|----------------------|----------------------|---------------------------|---------------------------|---------------------|------------------------------|----------------------|----------------------|
| | Education | Preservation | Total Program Services | Management and General | Fundraising | Total Supporting Services | | |
| Compensation | \$ 8,771,958 | \$ 4,606,702 | \$ 13,378,660 | \$ 1,739,625 | \$ 1,408,673 | \$ 3,148,298 | \$ 16,526,958 | \$ 19,659,433 |
| Employee benefits | 1,312,728 | 689,395 | 2,002,123 | 260,336 | 210,809 | 471,145 | 2,473,268 | 4,969,041 |
| Employee costs – total | 10,084,686 | 5,296,097 | 15,380,783 | 1,999,961 | 1,619,482 | 3,619,443 | 19,000,226 | 24,628,474 |
| Depreciation and amortization | 2,408,326 | 2,058,548 | 4,466,874 | 228,728 | 228,728 | 457,456 | 4,924,330 | 5,391,186 |
| Acquisitions | - | 3,265,259 | 3,265,259 | - | - | - | 3,265,259 | 662,388 |
| Repairs and maintenance | 865,867 | 1,752,020 | 2,617,887 | 15,327 | 3,262 | 18,589 | 2,636,476 | 5,269,216 |
| Cost of goods sold | 2,350,188 | - | 2,350,188 | - | - | - | 2,350,188 | 6,059,621 |
| Professional services | 834,218 | 482,328 | 1,316,546 | 576,529 | 415,395 | 991,924 | 2,308,470 | 2,901,478 |
| Supplies | 498,190 | 375,024 | 873,214 | 371,694 | 25,744 | 397,438 | 1,270,652 | 2,213,774 |
| Printing and copying | 520,433 | 44,582 | 565,015 | 77,160 | 555,398 | 632,558 | 1,197,573 | 1,415,609 |
| Advertising | 741,789 | 267,798 | 1,009,587 | 621 | 69,095 | 69,716 | 1,079,303 | 1,125,840 |
| Utilities and telecommunications | 453,001 | 453,001 | 906,002 | 50,333 | 50,333 | 100,666 | 1,006,668 | 1,252,100 |
| Interest expense | 262,016 | 468,024 | 730,040 | - | - | - | 730,040 | 588,637 |
| Events | 265,031 | 14,640 | 279,671 | 1,041 | 326,792 | 327,833 | 607,504 | 1,948,340 |
| Credit card fees | 267,774 | - | 267,774 | 144 | 56,344 | 56,488 | 324,262 | 723,020 |
| Travel and lodging | 58,222 | 14,256 | 72,478 | 1,058 | 12,803 | 13,861 | 86,339 | 594,583 |
| Other expenses | 915,195 | 302,222 | 1,217,417 | 437,668 | 368,743 | 806,411 | 2,023,828 | 2,651,502 |
| TOTAL EXPENSES | \$ 20,524,936 | \$ 14,793,799 | \$ 35,318,735 | \$ 3,760,264 | \$ 3,732,119 | \$ 7,492,383 | \$ 42,811,118 | \$ 57,425,768 |

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

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2020

(With Summarized Financial Information for the Year Ended December 31, 2019)

| | 2020 | 2019 |
|--|----------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 11,384,139 | \$ 41,888,557 |
| Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities: | | |
| Change in discount on promises to give | (389,718) | 71,519 |
| Depreciation and amortization expense | 4,924,330 | 5,391,186 |
| Realized and unrealized gains on investments | (16,946,986) | (28,566,586) |
| Change in value of split-interest agreements | (290,193) | (346,673) |
| Cash received for endowment | (8,916,849) | (5,745,235) |
| Proceeds from sales of collection items | (9,603) | (26,109) |
| Cash disbursed for historical collections | 3,265,259 | 699,782 |
| Change in value of interest rate swap agreement | 1,402,152 | 1,311,905 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (1,025,241) | 128,973 |
| Promises to give, including note receivable | 5,429,919 | (7,735,523) |
| Inventories | (896,000) | 56,441 |
| Prepaid expenses and other assets | 184,470 | 28,802 |
| Accounts payable and accrued expenses | (1,763,237) | (84,952) |
| Deferred income | 4,864 | (63,116) |
| Other liabilities | 42,638 | 57,867 |
| NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES | (3,600,056) | 7,066,838 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property, equipment and capital projects in process | (576,610) | (2,286,497) |
| Purchase of land held for sale | (645,542) | - |
| Purchases of investments | (18,702,601) | (17,892,812) |
| Proceeds from sales of investments | 19,127,927 | 13,880,630 |
| Cash disbursed for historical collections | (3,265,259) | (699,782) |
| Proceeds from sales of collection items | 9,603 | 26,109 |
| NET CASH USED IN INVESTING ACTIVITIES | (4,052,482) | (6,972,352) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Cash received for endowment | 8,916,849 | 5,745,235 |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 8,916,849 | 5,745,235 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 1,264,311 | 5,839,721 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 21,544,454 | 15,704,733 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ 22,808,765 | \$ 21,544,454 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | |
| Cash and cash equivalents | \$ 22,151,000 | \$ 21,282,736 |
| Cash and cash equivalents held within investments | 657,765 | 261,718 |
| TOTAL CASH AND CASH EQUIVALENTS | \$ 22,808,765 | \$ 21,544,454 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash paid for interest | \$ 730,040 | \$ 588,636 |
| NONCASH INVESTING ACTIVITIES | | |
| Capital projects in process included in accounts payable | \$ 48,565 | \$ - |
| Obligation associated with land held for sale included in other liabilities | \$ 1,875,000 | \$ - |
| Collection items purchased included in accounts payable | \$ 2,500 | \$ 12,606 |

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

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2020

(With Summarized Financial Information for the Year Ended December 31, 2019)

1. Organization and Summary of Significant Accounting Policies

Organization

The Mount Vernon Ladies' Association of the Union (the Association) is a 501(c)(3) nonprofit corporation founded in 1853 by Ann Pamela Cunningham. The mission of the Association is to preserve, restore and manage the estate of George Washington to the highest standards and to educate visitors and people throughout the world about the life and legacies of George Washington, so that his example of character and leadership will continue to inform and inspire future generations.

Basis of Accounting

The financial statements have been prepared using the accrual basis of accounting. Revenue, other than contributions, is recognized when earned; expenses are recorded when the obligation is incurred. Unconditional contributions are recorded as without donor restrictions or with donor restrictions depending upon the existence and/or nature of donor-imposed restrictions. All donor-restricted contributions are reported initially as an increase in donor-restricted net assets and then reclassified to net assets without donor restrictions when restrictions have been met.

Cash Equivalents

Cash equivalents include demand deposits and money market accounts and all highly liquid investments with initial maturities of three months or less.

Accounts Receivable

Trade receivables are carried at original invoice amounts less an estimate made for doubtful receivables based on the review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by reviewing all outstanding receivables for possible uncollectibility. Receivables are charged to the allowance account when deemed uncollectible.

Promises to Give

Unconditional promises to give are recorded at their fair value. For those due in more than one year, fair value is estimated by discounting estimated future cash flows at rates approximating the current rate for risk-free returns. Management determines the allowance for doubtful pledges by reviewing all outstanding pledges for possible uncollectibility. Pledges are charged to the allowance account when deemed uncollectible.

Inventories

Inventories consist of gift shop and food service items and are valued at net realizable value. Management periodically adjusts the value for slow-moving or obsolete inventory.

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2020

(With Summarized Financial Information for the Year Ended December 31, 2019)

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

Investments

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

The Association maintains investment accounts for its endowment funds. Realized and unrealized gains and losses, and interest and dividends from the investment accounts, are allocated monthly to the individual endowment funds based on the relationship of the fair value of each endowment to the total fair value of the investment accounts, as adjusted for additions to or deductions from these accounts.

Fair Value of Financial Instruments

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States of America (GAAP) and requires disclosures about fair value measurement for assets and liabilities measured at fair value on a recurring basis. The ASC emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurement, the ASC established a fair value hierarchy based upon the transparency of the inputs to the valuation of an asset or liability. These inputs may be observable, whereby market participant assumptions are developed based on market data obtained from independent sources, and unobservable, whereby market participant assumptions are developed by the reporting entity based on the best information available in the circumstances.

The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities accessible at the measurement date.

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets.

Level 3 – Unobservable inputs for the asset or liability, including the reporting entity's own assumptions in determining the fair value measurement.

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2020

(With Summarized Financial Information for the Year Ended December 31, 2019)

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

Fair Value of Financial Instruments (continued)

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, which is cost plus accrued interest, is a reasonable estimate of fair value.

Investments – For securities held for investment purposes, fair values are based on quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities. Certain hedge and private equity funds are reported at estimated fair values. The estimated fair value of investments in hedge and private equity funds, which are not readily marketable, is based on the ownership percentage of the underlying fund as of the measurement date. The funds value underlying securities and other financial instruments on a fair value basis of accounting. The estimated fair values of certain investments of the underlying investment funds, which may include private placements and other securities for which prices are not readily available, are determined by the investment manager of the fund, and may not reflect amounts that could be realized upon immediate sale nor amounts that may be ultimately realized. The Association follows the fair value measurement provisions of FASB ASC Topic 820, *Fair Value Measurement, Disclosures for Investments in Certain Entities That Calculate Net Asset Value (NAV) per Share (or Its Equivalent)*, and therefore has not classified its investment funds measured at NAV within the fair value hierarchy.

Promises to give – Fair value is estimated based on the donor's verifiable pledge. For pledges due in greater than one year, fair value is estimated by discounting estimated future cash flows at rates approximating the current rate for risk-free returns on the date of the gift. Fair value is adjusted for the allowance for doubtful promises to give.

Bonds payable – The fair value of the variable-rate bonds is the amount payable at the reporting date.

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

Property and Equipment and Related Depreciation and Amortization

Property and equipment used to conduct the business of the Association are recorded on the statement of financial position of the Association at cost, with depreciation computed on a straight-line basis over the estimated useful life of each asset. The Association capitalizes all buildings, building improvements and exhibitions with an original cost of \$250,000 or greater and equipment, furniture and computer software with an original cost of \$125,000 or greater and a useful life of more than one year. The cost of property and equipment retired or disposed of is removed from the accounts along with the related accumulated depreciation or amortization, and any gain or loss is reflected in revenue and support, or expenses, in the accompanying statement of activities. Major additions are capitalized while replacements, maintenance and repairs that do not improve or extend the lives of the respective assets are expensed as incurred.

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2020

(With Summarized Financial Information for the Year Ended December 31, 2019)

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

Capital Projects in Process

Capital projects in process consist of various construction projects and are stated at cost.

Impairment of Long-Lived Assets

The Association reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying value of an asset, an impairment loss is recognized for the difference. The Association did not record an impairment loss during the year ended December 31, 2020.

Split-Interest Agreements

The Association's split-interest agreements with donors consist of charitable gift annuities, a pooled income fund and a perpetual trust held by a third party.

The Association initially records revenue from charitable annuity contributions in the year in which the agreement is executed. The amount of the revenue recognized in the first year is the difference between the amount of the assets received and the fair value of the future cash flows expected to be paid to the designated beneficiaries. In succeeding years, revenue is recorded for the reduction in the present value of future cash payments to the beneficiaries.

The charitable gift annuity assets are included in investments and the liabilities are included in other liabilities in the accompanying statement of financial position.

Historical Properties and Collections

Historical properties and collections owned by the Association have been acquired through purchases and contributions since the Association's inception. These historical properties and collections are not included as assets in the statement of financial position. The cost of the properties is not readily available, and the Association is of the opinion that, because of the intrinsic value of the properties, it is impractical to assign values to the components.

In conformity with accounting policies generally followed for historical properties, the value of collections as well as repairs and improvements to historical properties have been excluded from the statement of financial position.

Purchases of collection items are recorded as decreases in net assets without donor restriction in the year in which the items are acquired, or as decreases in net assets with donor restriction if the assets used to purchase the items are restricted by donors. The financial statements do not reflect any contributed collection items.

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2020

(With Summarized Financial Information for the Year Ended December 31, 2019)

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

Derivative Financial Instruments and Hedging Activities

During the year ended December 31, 2020, the Association had an interest rate swap outstanding that is used to mitigate the economic impact of changes in interest rates. The Association does not enter into derivative transactions for trading or other speculative purposes. The swap is designated as a cash flow hedge and is being used to offset the risk of changes in cash flows associated with benchmark interest payments on its variable rate bonds.

Classification of Net Assets

The Association's net assets, support and revenue, expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Association are classified and reported as follows:

- *Without donor restrictions* – Net assets without donor restrictions represent the portion of expendable funds that are available for any purpose in performing the primary objectives of the Association at the discretion of the Association's management and the Board of Directors (the Board). The Board has designated a portion of these net assets for specific purposes, which makes them unavailable for use at management's discretion. The Board has designated \$43,876,008 of net assets without donor restrictions to secure the Association's long-term financial viability.
- *With donor restrictions* – Net assets with donor restrictions represent funds that are specifically restricted by donors for use in various programs and/or for specific periods of time. These donor restrictions can be temporary in nature in that they will be met by actions of the Association or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated that the funds be maintained in perpetuity.

Revenue Recognition

The Association recognizes all unconditional promises to give in the period in which the commitment is made and the value is measurable. Unconditional contributions received are recorded without donor restrictions or with donor restrictions depending on the existence and/or nature of donor restrictions. All unconditional promises to give are considered to be available for use unless specifically noted by the donor. Amounts received that are designated for future periods or restricted for specific purposes are recorded with donor restrictions.

Unconditional promises to give that are expected to be collected within a year are recorded at their fair value. Unconditional promises to give that are expected to be collected in future years are recorded at their estimated fair value by discounting expected future cash flows at rates approximating the current rate for risk-free returns. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met.

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2020

(With Summarized Financial Information for the Year Ended December 31, 2019)

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

Revenue Recognition (continued)

Membership dues are treated as contributions. The Association recognizes revenue from ticket sales at the time of admission. Product sales and food sales are recognized at the time the products and food are provided to customers. Any unredeemed gift cards, advance ticket sales, and food sales related to future events are recorded as deferred income in the accompanying statement of financial position.

Functional Allocation of Expenses

The costs of providing programs and other activities have been summarized on a functional basis in the accompanying statement of functional expenses. Expenses directly attributed to a specific functional category of the Association are reported as expenses of that functional category, while shared costs that benefit multiple functional categories, which include depreciation and amortization, repairs and maintenance and utilities and telecommunications, have been allocated among the functional categories based on estimates determined by management to be equitable. Costs of goods sold primarily consist of cost of products and food sold to customers.

Estimates

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

Contributed Services and Donated Assets

A substantial number 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.

Noncash contributions of goods and services, other than donations to the collection, are recorded at fair value on the date of the gift.

Measurement of Operations

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

Nonoperating activities include investment returns, endowment fund appropriations, unrealized gains or losses from the interest rate swap agreement, and the change in value of split-interest agreements.

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2020

(With Summarized Financial Information for the Year Ended December 31, 2019)

2. Promises to Give

Unconditional promises to give as of December 31, 2020 and 2019, were as follows:

| | <u>2020</u> | <u>2019</u> |
|---|----------------------|----------------------|
| General endowment | \$ 7,567,300 | \$ 10,682,200 |
| Future operating expenses | 5,977,700 | 7,089,900 |
| Capital projects and other | 1,383,783 | 4,112,033 |
| Life insurance | 2,050,000 | 2,050,000 |
| Preservation | 2,598,300 | 1,003,500 |
| Education | <u>1,581,400</u> | <u>1,340,400</u> |
| Promises to Give Before Unamortized Discount | 21,158,483 | 26,278,033 |
| Less: Unamortized Discounts between 0.1% and 1.83% | <u>(552,422)</u> | <u>(1,131,771)</u> |
| Promises to Give, Net | <u>\$ 20,606,061</u> | <u>\$ 25,146,262</u> |
| | <u>2020</u> | <u>2019</u> |
| Amounts due in: | | |
| Less than one year | \$ 5,253,783 | \$ 7,858,759 |
| One to five years | 13,299,333 | 15,482,294 |
| Thereafter | <u>2,052,945</u> | <u>1,805,209</u> |
| Total | <u>\$ 20,606,061</u> | <u>\$ 25,146,262</u> |

A significant portion of promises to give are concentrated among five donors, making up 63% of the promises to give as of December 31, 2020. All amounts were deemed to be fully collectible as of December 31, 2020 and 2019.

3. Investments

Investments consisted of the following as of December 31, 2020 and 2019:

| | <u>2020</u> | <u>2019</u> |
|--------------------------------|-----------------------|-----------------------|
| Cash equivalents | \$ 657,765 | \$ 261,718 |
| Fixed-income investments | 41,820,901 | 38,643,336 |
| Equity investments | 159,797,251 | 143,847,449 |
| Hedge and private equity funds | <u>4,402,781</u> | <u>7,008,488</u> |
| Total Investments | <u>\$ 206,678,698</u> | <u>\$ 189,760,991</u> |

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2020

(With Summarized Financial Information for the Year Ended December 31, 2019)

3. Investments (continued)

The following summarizes investment return and its classification in the statement of activities, in accordance with the Association's endowment spending policy as disclosed in Note 13, for the years ended December 31, 2020 and 2019:

| | <u>2020</u> | <u>2019</u> |
|-------------------------------|----------------------|----------------------|
| Realized and unrealized gains | \$ 16,946,986 | \$ 28,566,586 |
| Interest and dividends, net | <u>7,197,087</u> | <u>6,956,962</u> |
| Investment Return | <u>\$ 24,144,073</u> | <u>\$ 35,523,548</u> |

Interest and dividend income is presented net of \$93,157 and \$92,705 of investment expenses for the years ended December 31, 2020 and 2019, respectively.

4. Note Receivable

In August 2013, the Association accepted a note receivable from a company owned by a donor as payment of a pledge by that donor. The interest rate on the note was 3.3%. The full principal was paid on March 6, 2020.

5. Property and Equipment and Accumulated Depreciation and Amortization

The Association's property and equipment consisted of the following as of December 31, 2020 and 2019:

| | <u>Estimated Useful Lives</u> | <u>2020</u> | <u>2019</u> |
|--|-----------------------------------|----------------------|----------------------|
| Buildings | 40 years | \$ 87,939,298 | \$ 87,939,298 |
| Building improvements | 10-20 years | 30,787,260 | 30,787,260 |
| Exhibitions | 2-10 years | 5,137,781 | 5,137,781 |
| Equipment and furniture | 5-7 years | 44,126,860 | 44,126,860 |
| Computer software | 3-4 years | 2,156,541 | 2,156,541 |
| Land | | <u>637,798</u> | <u>637,798</u> |
| Total Property and Equipment | | 170,785,538 | 170,785,538 |
| Less: Accumulated Depreciation and Amortization | | <u>(89,980,557)</u> | <u>(85,056,227)</u> |
| Property and Equipment, Net | | <u>\$ 80,804,981</u> | <u>\$ 85,729,311</u> |

Depreciation and amortization expense for the years ended December 31, 2020 and 2019 was \$4,924,330 and \$5,391,186, respectively.

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2020

(With Summarized Financial Information for the Year Ended December 31, 2019)

5. Property and Equipment and Accumulated Depreciation and Amortization (continued)

Land held for sale of \$2,520,542, included in prepaid expenses and other assets on the statement of financial position, is excluded from the table above. On June 25, 2021, the Association finalized the sale of the land to Fairfax County for \$2,600,000.

6. Historical Properties and Collections

The Association's collections consist of land, the mansion and related historic outbuildings, decorative arts collections, historic books and manuscripts, memorabilia, and support buildings that are held for the preservation and educational purposes of the Association. Each of the items is preserved and cared for, and assessments of their condition are performed continually. In accordance with the Association's policies various items held in the collections were deaccessioned and sold at auction during the years ended December 31, 2020, and 2019. All proceeds from the sale of deaccessioned collections items are recorded as with donor restriction and are expended to purchase new items for the collections.

7. Bonds and Mortgage Payable

In June 2007, the Fairfax County Economic Development Authority (FCEDA) issued \$15,000,000 in variable rate unsecured revenue bonds, expiring in June 2037, for the benefit of the Association. The bonds bear interest at a weekly variable rate. The net proceeds of the bonds are restricted for financing all or part of (i) refund of the FCEDA Series 1998 revenue bonds used for cost of construction, renovation, acquisition and capital improvements at Mount Vernon; \$2,143,956 of bonds payable that was outstanding as of December 31, 2006, and was repaid during this \$15,000,000 bond issuance; (ii) reimbursing the borrower for capital expenditures from September 1, 2006, through the date of issuance related to the construction, renovation, acquisition and capital improvement costs; (iii) financing new cost of construction and (iv) other associated expenditures to the extent that they can be refinanced, including costs of issuance and credit enhancements. To facilitate the issuance of the bonds, FCEDA entered into an agreement with U.S. Bank (Trustee) and SunTrust Bank (the credit facility), such that the bonds would be payable from an irrevocable direct-pay letter of credit, issued by SunTrust Bank. The letter of credit is guaranteed by the Association. At December 31, 2020 and 2019, the amount of the letter of credit was \$15,200,000. The letter of credit, among other provisions, requires the Association to meet certain financial ratio tests, restricts liens of any kind and the acquisition of additional loans, and expires in June 2022. The Association is in compliance with these financial covenants.

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

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

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For the Year Ended December 31, 2020

(With Summarized Financial Information for the Year Ended December 31, 2019)

7. Bonds and Mortgage Payable (continued)

monthly USD British Bankers' Association London Interbank Offered Rate. The swap was effective on July 1, 2007, and terminates July 1, 2037. The interest rate swap qualifies as a derivative financial instrument, and is used to mitigate the effect of interest rate fluctuations. The swap is reported at fair value on the statement of financial position as a liability in the amount of \$7,320,572 and \$5,918,420 as of December 31, 2020 and 2019, respectively. During the years ended December 31, 2020 and 2019, the Association recorded a noncash loss of \$1,402,152 and \$1,311,905, respectively, on the change in derivative valuation due to interest rate fluctuations.

The outstanding bonds payable of \$15,000,000 as of December 31, 2020 and 2019, are due in one lump sum payment in June 2037. Interest expense for the Association for the years ended December 31, 2020 and 2019, was \$655,040 and \$588,637, respectively.

In January 2020, the Association acquired a \$1,875,000 mortgage in association with a purchase of land. The mortgage has a 4% annual interest rate and is scheduled to be repaid in three annual installments with the final payment due in January 2023. No principal was repaid during the year, and interest expense was \$75,000 for the year ended December 31, 2020. Mortgage payable is included as part of other liabilities in the statement of financial position. As of the date of the financial statements, the Association has an agreement to sell the land to Fairfax County and the mortgage expected be paid-off from the sales proceeds at the time of the sale.

8. Gift Annuities

The Association has received a number of gift annuities from various donors over the years. Under the terms of annuity agreements, each donor will receive a fixed quarterly payment over the term of the donor's life. As of December 31, 2020 and 2019, the Association has recorded a liability totaling \$1,361,996 and \$1,319,359, respectively, which is equal to the present value of the future distributions payable to the various donors. This amount is included in other liabilities in the statements of financial position as of December 31, 2020 and 2019.

9. Pooled Income Fund

The Association is a trustee for the Pooled Income Fund (the Fund), a fund within the meaning of Section 642(c)(5) of the Internal Revenue Code (the IRC) of 1986. The Fund makes it possible for those interested in the advantages of life income gifts (charitable remainder trusts) to fund such gifts initially with \$10,000 or more and to make additions to such gifts in amounts of \$5,000 or more. The Fund provides a way for individuals to make gifts to the Association while allowing the donor, or designated beneficiary of the donor, to receive lifetime income earned on the donated funds. In the statements of financial position, the assets of the fund are included in split-interest agreements at their fair value and the liabilities are included in other liabilities at their net present value using discount rates between 2% and 2.2%. The net balance as of December 31, 2020 and 2019, was \$617,698 and \$490,846, respectively.

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2020

(With Summarized Financial Information for the Year Ended December 31, 2019)

10. Net Assets

Net Assets Without Donor Restrictions

As of December 31, 2020, the Association's net assets without donor restrictions were composed of:

| | <u>2020</u> | <u>2019</u> |
|---|----------------------|----------------------|
| Undesignated | \$ 6,618,941 | \$ 12,467,849 |
| Investment in property and equipment and capital projects in process | <u>81,430,156</u> | <u>85,729,311</u> |
| Board-designated: | | |
| Quasi-endowment | 42,076,336 | 37,004,128 |
| Preservation | <u>1,799,672</u> | <u>2,451,955</u> |
| Board-Designated Subtotal | <u>43,876,008</u> | <u>39,456,083</u> |
| Total Net Assets Without Donor Restrictions | <u>\$131,925,105</u> | <u>\$137,653,243</u> |

During 2020 and 2019, the Board approved net transfers from the Board quasi-endowment of \$1,412,071 and \$1,332,996, respectively, to support operations. Per board policy, realized undesignated bequests of \$414,084 and \$1,814,767, were transferred into the Board quasi-endowment in 2020 and 2019, respectively.

Net Assets With Donor Restrictions

As of December 31, 2020, net assets with donor restrictions were restricted for the following purposes or period:

| | <u>Restricted In Perpetuity Subject To Spending Policy</u> | <u>Subject To Purpose Restriction</u> | <u>Subject To Release For Specific Event</u> | <u>Subject To Time Restriction</u> | <u>Total</u> |
|------------------|--|---|--|--|-----------------------|
| Education | \$ 118,127,164 | \$ 4,405,899 | \$ - | \$ - | \$ 122,533,063 |
| Preservation | 20,439,388 | 4,973,658 | - | - | 25,413,046 |
| Operations | 25,174,320 | - | 1,988,123 | 5,977,700 | 33,140,143 |
| Capital projects | <u>-</u> | <u>920,565</u> | <u>-</u> | <u>-</u> | <u>920,565</u> |
| Total | <u>\$ 163,740,872</u> | <u>\$10,300,122</u> | <u>\$ 1,988,123</u> | <u>\$ 5,977,700</u> | <u>\$ 182,006,817</u> |

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2020

(With Summarized Financial Information for the Year Ended December 31, 2019)

10. Net Assets (continued)

Net Assets With Donor Restrictions (continued)

As of December 31, 2019, net assets with donor restrictions were restricted for the following purposes or period:

| | Restricted In Perpetuity Subject To Spending Policy | Subject To Purpose Restriction | Subject To Release For Specific Event | Subject To Time Restriction | Total |
|------------------|---|--------------------------------------|--|-----------------------------------|----------------|
| Education | \$ 105,516,847 | \$ 4,649,745 | \$ - | \$ - | \$ 110,166,592 |
| Preservation | 18,124,843 | 4,176,565 | - | - | 22,301,408 |
| Operations | 21,677,924 | - | 1,861,272 | 7,320,000 | 30,859,196 |
| Capital projects | - | 1,567,344 | - | - | 1,567,344 |
| Total | \$ 145,319,614 | \$ 10,393,654 | \$ 1,861,272 | \$ 7,320,000 | \$ 164,894,540 |

Education – The majority of these funds are donor-restricted funds solicited for the operation of the Fred W. Smith National Library for the Study of George Washington, the operation of the Ford Orientation Center and Donald W. Reynolds Museum and Education Center, the George Washington Teacher’s Institute, the acquisition of historical books, and various education and leadership programs.

Preservation – These funds represent donations to support (1) various efforts related to preserving the mansion and adjoining structures and other historic buildings and areas; and (2) acquisition, conservation and preservation of decorative arts, artifacts, manuscripts and other collection items.

Operations – These funds are available to be spent toward the general operations of the Association.

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

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2020

(With Summarized Financial Information for the Year Ended December 31, 2019)

11. Availability of Resources and Liquidity

The Association regularly monitors liquidity required to meet its annual operating needs and other contractual commitments, while also striving to preserve the principal and return on the investment of its funds. The Association's available financial assets as of December 31, 2020 were:

Available Financial Assets:

| | |
|------------------------------------|-------------------|
| Cash and cash equivalents | \$ 22,151,000 |
| Investments redeemable in one year | 202,275,917 |
| Accounts receivable | 1,483,504 |
| Pledges receivable | <u>20,606,061</u> |
| Total Available Financial Assets | 246,516,482 |

Less:

| | |
|---|---------------------|
| Financial assets unavailable for general expenditure within one year: | |
| Financial assets with donor restrictions | (179,492,517) |
| Financial assets unavailable without Board approval | <u>(43,876,008)</u> |

| | |
|--|----------------------|
| Financial Assets Available to Meet General Expenditures Within One Year | <u>\$ 23,147,957</u> |
|--|----------------------|

The Association has various sources of liquidity at its disposal, including cash and cash equivalents and investments, which are available for general expenditures, liabilities and other obligations as they come due. Management is focused on sustaining the financial liquidity of the Association throughout the year. This is done through regular monitoring and reviewing the Association's cash flow needs. As a result, management is aware of the cyclical nature of the Association's cash flow related to the Association's various funding sources and is therefore able to ensure that there is cash available to meet current liquidity needs. As part of the Association's liquidity plan, excess cash is invested in publicly traded investment vehicles, including mutual funds and equity securities, or available to support organizational initiatives. The Association can liquidate the majority of its investments anytime, and therefore those investments are available to meet current cash flow needs. Additionally, the Association has board-designated net assets that could be available for current operations with Board approval.

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2020

(With Summarized Financial Information for the Year Ended December 31, 2019)

12. Concentration of Risk

Credit Risk

Financial instruments, which potentially subject the Association to a concentration of credit risk, consist principally of cash balances maintained at various creditworthy financial institutions. While the amount at a given financial institution at times exceeds the amount guaranteed by the Federal Deposit Insurance Corporation and, therefore, bears some risk, the Association has not experienced, nor does it anticipate, any losses on those funds. As of December 31, 2020 and 2019, the amount in excess of the insured limit of \$250,000 was \$9,187,000 and \$5,618,000, respectively.

Financial Risk

The Association invests in a professionally managed investment portfolio that is exposed to various risks such as interest rate, market volatility and credit risks. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

13. Endowment Funds

The Association's endowment consists of 71 individual funds established for a variety of purposes. Its endowment includes donor-restricted endowment funds and funds designated by the Board to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence of donor-imposed restrictions.

Interpretation of Relevant Law

The Virginia General Assembly issued the Virginia Uniform Prudent Management of Institutional Funds Act (UPMIFA). Unless there are explicit donor instructions, this law gives the boards of nonprofit associations the flexibility to determine the appropriate use of endowment principal and related investment income.

Boards should consider the following factors in determining a prudent use of investment income and endowment principal:

- 1) The duration and preservation of the fund
- 2) The purpose of the association and the donor-restricted endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of the association
- 7) The investment policies of the association

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2020

(With Summarized Financial Information for the Year Ended December 31, 2019)

13. Endowment Funds (continued)

The Board of the Association continually reviews its policies regarding the use of endowment principal and makes any necessary modifications to the investment policy statement.

Return Objectives and Spending Policy

The Association has adopted an investment policy for endowment assets that attempts to provide a predictable stream of funding to programs supported by its endowment while seeking to increase the long-term purchasing power of the endowment assets.

Endowment assets include those assets of donor-restricted funds that the Association must hold in perpetuity, as well as board-designated funds. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The current investment policy of the Association anticipates that its endowment funds' annual real total return (net of investment management fees) will be equal to or greater than the spending rate over the long term, with moderate return volatility. The Board annually reviews this policy, based on current market conditions and advice from its outside investment professionals, and makes any necessary changes.

The investment policy of the Association allows the Board to approve spending up to 5% of the spending base of each endowment annually. The spending base is equal to the average fair value of the 12 quarters ending on June 30. The Board-approved spending policy was 5% and 4.4% of its operating endowments for the years ended December 31, 2020 and 2019. The Board approves spending on program-restricted endowments as part of its annual budget approval process. The average approved spending on program-restricted endowments was 5% and 4.0% for the years ended December 31, 2020 and 2019, respectively.

In addition, the Board periodically approves the expenditure of additional board-designated funds for capital improvements, collection acquisitions or special projects.

Strategies Employed for Achieving Objectives

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

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For the Year Ended December 31, 2020

(With Summarized Financial Information for the Year Ended December 31, 2019)

13. Endowment Funds (continued)

Changes in Endowment Net Assets

The changes in endowment net assets for the years ended December 31, 2020 and 2019, were:

| | 2020 | | | 2019 |
|--|-------------------------------|----------------------------|---------------|----------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | |
| Endowment net assets, beginning of year | \$ 39,456,083 | \$145,319,614 | \$184,775,697 | \$ 144,135,983 |
| Investment return | 5,940,426 | 20,328,463 | 26,268,889 | 31,947,910 |
| Contributions and transfers | 861,825 | 3,802,000 | 4,663,825 | 15,161,566 |
| Appropriation of endowment assets for expenditure | (2,382,326) | (5,709,205) | (8,091,531) | (6,469,761) |
| Endowment Net Assets, End of Year | \$ 43,876,008 | \$163,740,872 | \$207,616,880 | \$ 184,775,698 |

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA require the Association to retain as a fund of perpetual duration. The Association has a policy that permits spending from underwater endowment funds. As of December 31, 2020, and 2019 the Association's underwater funds were:

| | 2020 | 2019 |
|--|--------------|--------------|
| Original gift corpus | \$ 1,127,123 | \$ 3,243,323 |
| Fair value of endowment funds underwater | (1,057,603) | (3,002,419) |
| Underwater Deficiency | \$ 69,520 | \$ 240,904 |

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2020

(With Summarized Financial Information for the Year Ended December 31, 2019)

14. Fair Value Measurement

The tables below summarize, by level within the fair value hierarchy, the Association's assets and liabilities as of December 31, 2020 and 2019:

| | 2020 | | | |
|--|----------------|---|---|--|
| | Fair Value | Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets measured at fair value: | | | | |
| Investments: | | | | |
| Cash equivalents | \$ 657,765 | \$ 657,765 | \$ - | \$ - |
| Fixed-income investments: | | | | |
| Developed markets mutual funds | 41,106,155 | 41,106,155 | - | - |
| Corporate bonds | 682,036 | - | 682,036 | - |
| State bonds | 32,710 | - | 32,710 | - |
| Total Fixed-Income Investments | 41,820,901 | 41,106,155 | 714,746 | - |
| Equity investments: | | | | |
| Developed markets mutual funds | 159,797,251 | 159,797,251 | - | - |
| Total Investments In the Fair Value Hierarchy | 202,275,917 | 201,561,171 | 714,746 | - |
| Other investments measured at NAV ^(a) | 4,402,781 | | | |
| Total Investments | 206,678,698 | 201,561,171 | 714,746 | - |
| Other assets: | | | | |
| Cash equivalents | \$ 12,621,967 | \$ 12,621,967 | \$ - | \$ - |
| Split-interest agreements | 2,950,791 | 2,950,791 | - | - |
| Total Assets | \$ 222,251,456 | \$ 217,133,929 | \$ 714,746 | \$ - |
| Liabilities measured at fair value: | | | | |
| Interest rate swap agreement | \$ 7,320,572 | \$ - | \$ 7,320,572 | \$ - |
| Split-interest agreements | 1,388,075 | - | 1,388,075 | - |
| Total Liabilities | \$ 8,708,647 | \$ - | \$ 8,708,647 | \$ - |

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2020

(With Summarized Financial Information for the Year Ended December 31, 2019)

14. Fair Value Measurement (continued)

| | 2019 | | | |
|--|----------------|---|---|--|
| | Fair Value | Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets measured at fair value: | | | | |
| Investments: | | | | |
| Cash equivalents | \$ 261,718 | \$ 261,718 | \$ - | \$ - |
| Fixed-income investments: | | | | |
| Developed markets mutual funds | 37,968,263 | 37,968,263 | - | - |
| Corporate bonds | 642,700 | - | 642,700 | - |
| State bonds | 32,373 | - | 32,373 | - |
| Total Fixed-Income Investments | 38,643,336 | 37,968,263 | 675,073 | - |
| Equity investments: | | | | |
| Developed markets mutual funds | 143,847,449 | 143,847,449 | - | - |
| Total Investments In the Fair Value Hierarchy | 182,752,503 | 182,077,430 | 675,073 | - |
| Other investments measured at NAV ^(a) | 7,008,488 | | | |
| Total Investments | 189,760,991 | 182,077,430 | 675,073 | - |
| Other assets: | | | | |
| Cash equivalents | \$ 14,995,752 | \$ 14,995,752 | \$ - | \$ - |
| Split-interest agreements | 2,756,266 | 2,756,266 | - | - |
| Total Assets | \$ 207,513,009 | \$ 199,829,448 | \$ 675,073 | \$ - |
| Liabilities measured at fair value: | | | | |
| Interest rate swap agreement | \$ 5,918,420 | \$ - | \$ 5,918,420 | \$ - |
| Split-interest agreements | 1,441,106 | - | 1,441,106 | - |
| Total Liabilities | \$ 7,359,526 | \$ - | \$ 7,359,526 | \$ - |

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

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For the Year Ended December 31, 2020

(With Summarized Financial Information for the Year Ended December 31, 2019)

14. Fair Value Measurement (continued)

The following table discloses information concerning the fair value measurement of investments calculated using NAV per share as of December 31, 2020:

| | <u>Fair Value</u> | <u>Unfunded Commitments</u> | <u>Redemption Frequency (If Currently Eligible)</u> | <u>Redemption Notice Period</u> |
|---|---------------------|-----------------------------|---|---------------------------------|
| Private equity funds ^(b) | \$ 4,267,233 | \$ 1,193,112 | N/A | N/A |
| Distressed debt hedge fund ^(c) | <u>135,548</u> | <u>-</u> | Annually | 90 days |
| Total | <u>\$ 4,402,781</u> | <u>\$ 1,193,112</u> | | |

The following table discloses information concerning the fair value measurement of investments calculated using NAV per share as of December 31, 2019:

| | <u>Fair Value</u> | <u>Unfunded Commitments</u> | <u>Redemption Frequency (If Currently Eligible)</u> | <u>Redemption Notice Period</u> |
|--|---------------------|-----------------------------|--|---------------------------------|
| Long/short equity hedge funds ^(a) | \$ 2,119,867 | \$ - | Quarterly, annually and every 2 or 3 years on the anniversary date | 45-90 days |
| Private equity funds ^(b) | 4,668,254 | 1,567,781 | N/A | N/A |
| Distressed debt hedge fund ^(c) | 220,085 | - | Annually | 90 days |
| Event-driven hedge fund ^(d) | <u>282</u> | <u>-</u> | Annually | 90 days |
| Total | <u>\$ 7,008,488</u> | <u>\$ 1,567,781</u> | | |

(a) *Long/short equity hedge funds* – This category includes investments in hedge funds that invest in both long and short U.S. and international equities. The fair values of the investments in this category have been estimated using the NAV per share of the investments. The Association submitted redemption requests for all investments in this category and received the proceeds from these investments during the year ended December 31, 2020

(b) *Private equity funds* – This category includes investments in private equity funds. The fair values of the investments in this category have been estimated using the NAV per share of the investments. Investments in this category are not subject to redemption. The fund values are reduced through distributions that are received from liquidation of the underlying assets. As of December 31, 2020, it was estimated that the underlying assets of these funds will be liquidated over a period of 14 years.

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

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For the Year Ended December 31, 2020

(With Summarized Financial Information for the Year Ended December 31, 2019)

14. Fair Value Measurement (continued)

- (c) *Distressed debt hedge funds* – This category includes investments in hedge funds that utilize different investment strategies to invest in the most attractive value-oriented investments on a global basis. The fair value of the investments in this category has been estimated using the NAV per share of the investments. The investment in this category is illiquid and will be received over a period of up to four years as of December 31, 2020.
- (d) *Event-driven hedge funds* – This category includes investments in hedge funds that invest in securities that are undervalued compared to their underlying assets due to specific economic, political and government-driven events. The fair values of the investments in this category have been estimated using the NAV per share of the investments. The Association submitted redemption requests for all investments in this category and received the proceeds from these investments during the year ended December 31, 2020.

On a recurring basis, the Association measures its interest rate swap at its estimated fair value. In determining the fair value of the interest rate swap derivative, the present value of expected cash flows is utilized, since the market observable interest rate yield curve is adjusted to appropriately reflect both its own nonperformance risk and that of the respective counterparty in the fair value measurement. The credit valuation adjustments utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by either the respective counterparty or the Association. However, it was determined that as of December 31, 2020, 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. Retirement Plans

The Association sponsors a 403(b) plan (the Plan) for all employees that allows employees to defer compensation up to the limits of the Internal Revenue Service as of their date of hire. For employees who are 18 years old or older and have worked at least six months, the Association makes discretionary matching contributions of 50% of the participant contribution up to a maximum of 2% of a participant's eligible compensation. For those participants who have worked at least 1,000 hours during the plan year and are employed with the Association at the end of the year, the Association makes discretionary contributions up to a percentage of employees' eligible compensation. Participants are immediately vested in their own contributions. Participants vest in employer contributions at a rate of 20% per year and are 100% vested after five years of credited service. The Association made matching contributions to the 403(b) plan in the amount of \$289,925 and \$334,334 during the years ended December 31, 2020 and 2019, respectively. For the 2019 plan year, the Association recorded a 6% discretionary contribution of \$1,066,552 which is included in accounts payable and accrued expenses in the statements of financial position at December 31, 2019. The Association did not make a discretionary contribution for the 2020 plan year.

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16. 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 2020 and 2019, the Association incurred \$1,610,236 and \$1,572,132, respectively, of joint costs for these activities. Of these costs, \$849,970 and \$918,982 were allocated to the education program, \$22,528 and \$17,333 were allocated to management and general and administrative, and \$737,738 and \$635,817 were allocated to fundraising in 2020 and 2019, respectively.

17. Income Taxes

The Association qualifies as a tax-exempt organization under Section 501(c)(3) of the IRC and is classified as a publicly supported organization under Section 509(a)(1) of the IRC. No provision for income taxes was required for the years ended December 31, 2020 and 2019, as the Association had no net unrelated business income.

The Association evaluated its uncertainty in income taxes for the years ended December 31, 2020 and 2019, and determined that there are no matters that would require recognition in the financial statements or that may have an effect on its tax-exempt status. As of December 31, 2020, the statute of limitations remained open with the U.S. federal jurisdiction and/or the various states and local jurisdictions in which the Association files tax returns; however, there are currently no audits for any tax periods pending or in progress. It is the Association's policy to recognize interest and penalties related to uncertainty in income taxes, if any, in interest or income tax expense. As of December 31, 2020 and 2019, the Association had no accruals for interest and/or penalties.

18. Prior Year Summarized Financial Information

The accompanying financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31, 2019, from which the summarized information was derived.

19. Reclassifications

Certain 2019 amounts have been reclassified to conform to the 2020 financial statement presentation.

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For the Year Ended December 31, 2020

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20. Risk and Uncertainty

The Association is responding to the uncertainty created by the COVID-19 outbreak by adjusting its operations accordingly and will continue to assess and monitor the situation as it evolves; however, at this point, the extent to which COVID-19 will impact the Association's financial condition or results of operations is uncertain and is continually evaluated by management and the Board.

21. Subsequent Events

The Association's management has evaluated subsequent events through July 2, 2021, the date the financial statements were available to be issued. Other than the sale of land discussed in Note 5, there were no other subsequent events identified that require recognition or disclosure in these financial statements.