

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

Financial Statements

For the Year Ended December 31, 2017

(With Summarized Financial Information for the Year Ended December 31, 2016)



**and
Report Thereon**





Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

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, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mount Vernon Ladies' Association of the Union as of December 31, 2017, 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.

Continued

Other Matter

Report on Summarized Comparative Information

We have previously audited the Association's 2016 financial statements, and our report dated July 13, 2017, expressed an unmodified audit opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Raffa P.C.

Raffa, P.C.

Washington, DC
May 15, 2018

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION
STATEMENT OF FINANCIAL POSITION
December 31, 2017
(With Summarized Financial Information as of December 31, 2016)

	2017	2016
ASSETS		
Cash and cash equivalents	\$ 16,971,121	\$ 11,441,529
Investments	171,897,084	154,143,460
Accounts receivable	829,171	820,868
Promises to give, net	7,176,275	10,973,947
Inventories, net	2,752,572	2,760,830
Prepaid expenses and other assets, net	233,281	527,395
Split-interest agreements	2,690,229	2,447,124
Note receivable	500,000	500,000
Property and equipment, net	88,840,078	83,944,189
Capital projects in process	3,278,338	9,765,194
	\$ 295,168,149	\$ 277,324,536
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 4,209,175	\$ 4,704,300
Deferred income	391,870	263,668
Bonds payable	15,000,000	15,000,000
Interest rate swap agreement	5,406,892	5,654,745
Other liabilities	1,459,113	1,570,300
	26,467,050	27,193,013
Net Assets		
Unrestricted		
Undesignated	10,450,398	6,657,427
Board-designated	31,740,300	27,018,606
Property and equipment and capital projects in process	92,118,416	93,709,383
	134,309,114	127,385,416
Total Unrestricted Net Assets		
Temporarily restricted	92,122,324	80,827,035
Permanently restricted	42,269,661	41,919,072
	268,701,099	250,131,523
TOTAL NET ASSETS		
	\$ 295,168,149	\$ 277,324,536

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, 2017

(With Summarized Financial Information for the Year Ended December 31, 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total	2016 Total
OPERATING REVENUE AND SUPPORT					
Contributions	\$ 7,445,896	\$ 3,493,788	\$ 117,300	\$ 11,056,984	\$ 17,454,203
Admission fees	15,074,747	-	-	15,074,747	14,413,099
Product sales	8,945,220	-	-	8,945,220	8,362,470
Food sales	8,290,229	-	-	8,290,229	8,039,088
Other income	1,180,189	-	-	1,180,189	1,483,878
Appropriations from endowments	1,023,509	5,614,793	-	6,638,302	6,733,032
Net assets released from restrictions	12,524,610	(12,524,610)	-	-	-
TOTAL OPERATING REVENUE AND SUPPORT	54,484,400	(3,416,029)	117,300	51,185,671	56,485,770
EXPENSES					
Program Services:					
Education	33,204,475	-	-	33,204,475	34,283,365
Historic preservation and collections	15,665,325	-	-	15,665,325	18,261,101
Total Program Services	48,869,800	-	-	48,869,800	52,544,466
Support Services:					
Management and general	3,920,944	-	-	3,920,944	3,877,680
Fundraising	3,494,193	-	-	3,494,193	3,476,945
Total Support Services	7,415,137	-	-	7,415,137	7,354,625
TOTAL EXPENSES	56,284,937	-	-	56,284,937	59,899,091
Change in net assets from operations	(1,800,537)	(3,416,029)	117,300	(5,099,266)	(3,413,321)
NONOPERATING ACTIVITIES					
Investment return, net	9,537,899	20,316,295	-	29,854,194	11,817,971
Endowment funds appropriated for operations	(1,023,509)	(5,614,793)	-	(6,638,302)	(6,733,032)
Change in value of interest rate swap agreement	247,853	-	-	247,853	373,337
Change in value of split-interest agreements	-	9,816	233,289	243,105	(457,319)
Loss on disposal of property and equipment	(38,008)	-	-	(38,008)	(265,472)
CHANGE IN NET ASSETS	6,923,698	11,295,289	350,589	18,569,576	1,322,164
NET ASSETS, BEGINNING OF YEAR	127,385,416	80,827,035	41,919,072	250,131,523	248,809,359
NET ASSETS, END OF YEAR	\$ 134,309,114	\$ 92,122,324	\$ 42,269,661	\$ 268,701,099	\$ 250,131,523

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, 2017

(With Summarized Financial Information for the Year Ended December 31, 2016)

Increase (Decrease) in Cash and Cash Equivalents

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 18,569,576	\$ 1,322,164
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Decrease in allowance for obsolete inventory	-	(31,549)
Change in discount on promises to give	(2,664)	146,783
Loss on disposal of property and equipment	38,008	265,472
Depreciation and amortization expense	5,901,301	7,666,332
Realized and unrealized gains on investments and split-interest agreements	(25,632,762)	(8,870,846)
Cash received for endowment	(1,975,768)	(2,104,173)
Proceeds from sales of collection items	(9,984)	(210,218)
Cash disbursed for historical collections	1,293,338	3,361,114
Change in value of interest rate swap agreement	(247,853)	(373,337)
Changes in assets and liabilities:		
Accounts receivable	(8,303)	(394,383)
Promises to give	3,800,336	(1,222,290)
Inventories	8,258	5,914
Prepaid expenses and other assets	197,400	163,162
Accounts payable and accrued expenses	(534,617)	981,061
Deferred income	128,202	(407,214)
Other liabilities	(111,187)	376,743
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,413,281</u>	<u>674,735</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, equipment and capital projects in process	(4,708,652)	(7,718,348)
Proceeds from sale of land, net of selling expenses	496,516	284,811
Purchases of investments	(11,100,390)	(22,087,073)
Proceeds from sales of investments	18,736,423	18,801,787
Collection items purchased	(1,293,338)	(3,361,114)
Proceeds from sales of collection items	9,984	210,218
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>2,140,543</u>	<u>(13,869,719)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash received for endowment	<u>1,975,768</u>	<u>2,104,173</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>1,975,768</u>	<u>2,104,173</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,529,592	(11,090,811)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>11,441,529</u>	<u>22,532,340</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 16,971,121</u>	<u>\$ 11,441,529</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 586,813</u>	<u>\$ 580,715</u>
NONCASH INVESTING AND FINANCING ACTIVITIES		
Securities distributed from private equity fund investments	<u>\$ -</u>	<u>\$ 1,751,265</u>
Property, equipment and capital projects in process included in accounts payable	<u>\$ 435,554</u>	<u>\$ 396,062</u>

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

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

(With Summarized Financial Information for the Year Ended December 31, 2016)

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 Mount Vernon Ladies' Association is to preserve, restore and manage the estate of George Washington to the highest standards and to educate visitors and people throughout the world about the life and legacies of George Washington, so that his example of character and leadership will continue to inform and inspire future generations.

Basis of Accounting

The financial statements have been prepared using the accrual basis of accounting. Revenue, other than contributions, is recognized when earned; expenses are recorded when the obligation is incurred. Contributions are recorded as unrestricted, temporarily restricted or permanently restricted support depending upon the existence and/or nature of donor-imposed restrictions. All donor-restricted contributions, other than permanently restricted contributions, are reported initially as an increase in temporarily restricted net assets and then reclassified to unrestricted net assets when restrictions have been met.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits and money market accounts and all highly liquid investments with initial maturities of three months or less. Cash and cash equivalents held in investment accounts are excluded, as they are considered to be held for long-term purposes.

Accounts Receivable

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

Promises to Give

Unconditional promises to give are recorded at their fair value. For those due in 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 the lower of cost (as determined by the first-in, first-out method) or market. Management periodically adjusts the value for slow-moving or obsolete inventory.

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS For the Year Ended December 31, 2017

(With Summarized Financial Information for the Year Ended December 31, 2016)

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 market value at the date of donation.

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

Continued

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2017**

(With Summarized Financial Information for the Year Ended December 31, 2016)

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 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 Accounting Standards Update (ASU) 2015-07, *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.

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

Promises to give – Fair value is estimated based on the donor's verifiable pledge. For those due in greater than one year, fair value is estimated by discounting estimated future cash flows at rates approximating the current rate for risk-free returns 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. The cost of property and equipment retired or disposed of is removed from the accounts along

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

(With Summarized Financial Information for the Year Ended December 31, 2016)

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

Property and Equipment and Related Depreciation and Amortization (continued)

with the related accumulated depreciation or amortization, and any gain or loss is reflected in revenue and support, or expenses, in the accompanying statement of activities. Major additions are capitalized while replacements, maintenance and repairs that do not improve or extend the lives of the respective assets are expensed as incurred.

Capital Projects in Process

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

Impairment of Long-Lived Assets

The Association reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying value of an asset, an impairment loss is recognized for the difference. The Association did not record an impairment loss during the years ended December 31, 2017 and 2016.

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.

Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired, or as decreases in temporarily or permanently restricted net assets if the assets used to purchase the items are restricted by donors. The financial statements do not reflect any contributed collection items.

Continued

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

(With Summarized Financial Information for the Year Ended December 31, 2016)

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

Derivative Financial Instruments and Hedging Activities

During the years ended December 31, 2017 and 2016, the Association had an interest rate swap outstanding that is used to mitigate the economic impact of changes in interest rates. The Association does not enter into derivative transactions for trading or other speculative purposes. The swap is designated as a cash flow hedge and is being used to offset the risk of changes in cash flows associated with benchmark interest payments on its variable rate bonds.

Net Assets

The net assets of the Association are reported as follows:

- Unrestricted net assets represent the portion of expendable funds that are available for support of the Association's operations.
- Temporarily restricted net assets represent amounts that are specifically restricted by donors or grantors for various purposes or time periods.
- Permanently restricted net assets represent gifts requiring that the principal be invested in perpetuity and that only the income be expended as designated by the donor.

Revenue Recognition

The Association recognizes all unconditional contributions in the period in which the commitment is made and the value of the contribution is measurable. Contributions received are recorded as permanently restricted, temporarily restricted or unrestricted revenue, depending on the existence and/or nature of donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted for specific purposes are reported as permanently or temporarily restricted support that increases those net asset classes.

Unconditional promises to give that are expected to be collected within a year are recorded at their 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 are recognized when the conditions on which they depend are substantially met.

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

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

Functional Allocation of Expenses

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

Continued

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2017**

(With Summarized Financial Information for the Year Ended December 31, 2016)

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

Estimates

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

Measurement of Operations

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

Nonoperating activities include investment returns, endowment fund appropriations, unrealized gains or losses from the interest rate swap agreement, change in value of split-interest agreements, and loss on sale of real property held for conservation purposes.

2. Promises to Give

The following are unconditional promises to give as of December 31, 2017 and 2016:

	2017	2016
Education	\$ 3,196,810	\$ 5,731,864
Historic preservation and collections	2,155,814	3,608,274
Life insurance	1,599,653	1,599,653
Capital projects and other	961,525	774,347
Promises to Give Before Unamortized Discount	7,913,802	11,714,138
Less: Unamortized Discounts Between 1.76% and 2.33%	(737,527)	(740,191)
Promises to Give, Net	\$ 7,176,275	\$ 10,973,947
	2017	2016
Amounts due in:		
Less than one year	\$ 2,772,802	\$ 5,541,637
One to five years	3,900,553	4,948,831
Thereafter	502,920	483,479
Total	\$ 7,176,275	\$ 10,973,947

All amounts were deemed to be fully collectible as of December 31, 2017 and 2016.

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

(With Summarized Financial Information for the Year Ended December 31, 2016)

3. Investments

Investments consisted of the following as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Cash equivalents	\$ 517,672	\$ 997,109
Fixed-income investments	31,056,929	30,095,457
Equity investments	128,128,280	111,941,539
Hedge and private equity funds	<u>12,194,203</u>	<u>11,109,355</u>
Total Investments	<u>\$ 171,897,084</u>	<u>\$ 154,143,460</u>

The following summarizes investment return and its classification in the statement of activities, in accordance with the Association's endowment spending policy as disclosed in Note 13, for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Realized and unrealized gains	\$ 25,389,658	\$ 8,839,766
Interest and dividends	<u>4,464,536</u>	<u>2,978,205</u>
Investment Return	<u>\$ 29,854,194</u>	<u>\$ 11,817,971</u>

Interest and dividend income includes \$87,189 and \$82,769 of interest earned on operating cash and cash equivalents, and is presented net of \$88,873 and \$84,744 of investment expenses for the years ended December 31, 2017 and 2016, respectively.

4. Note Receivable

In August 2013, the Association accepted a note receivable from a company owned by a donor as payment of a pledge by that donor. The interest rate on the note is 3.3%. Interest will be paid quarterly and the full principal of the note is scheduled to be paid on August 1, 2023. As of December 31, 2017 and 2016, the principal balance on the note was \$500,000.

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2017**

(With Summarized Financial Information for the Year Ended December 31, 2016)

5. Property and Equipment and Accumulated Depreciation and Amortization

The Association's property and equipment consisted of the following as of December 31, 2017 and 2016:

	<u>Estimated Useful Lives</u>	<u>2017</u>	<u>2016</u>
Buildings	40 years	\$ 84,576,296	\$ 75,614,205
Building improvements	10-20 years	31,690,825	31,156,137
Exhibitions	2-10 years	5,017,209	3,278,988
Equipment and furniture	5-7 years	46,157,440	46,157,440
Computer software	3-4 years	2,928,732	2,928,732
Land	-	-	<u>534,524</u>
Total Property and Equipment		170,370,502	159,670,026
Less: Accumulated Depreciation and Amortization		<u>(81,530,424)</u>	<u>(75,725,837)</u>
Property and Equipment, Net		<u>\$ 88,840,078</u>	<u>\$ 83,944,189</u>

Depreciation and amortization expense for the years ended December 31, 2017 and 2016, was \$5,804,587 and \$7,661,628, respectively.

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, 2017, and 2016. All proceeds from the sale of deaccessioned collections items are recorded as temporarily restricted and are expended to purchase new items for the collections.

7. Bonds Payable

In June 2007, the Fairfax County Economic Development Authority (FCEDA) issued \$15,000,000 in variable rate unsecured revenue bonds, expiring in June 2037, for the benefit of the 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,

Continued

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

(With Summarized Financial Information for the Year Ended December 31, 2016)

7. Bonds Payable (continued)

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, 2017 and 2016, the amount of the letter of credit was \$15,200,000. The letter of credit, among other provisions, requires the Association to meet certain financial ratio tests, restricts liens of any kind and the acquisition of additional loans, and expires in June 2019 with a renewal option.

In connection with the bond issuance, the Association entered into a floating-to-fixed interest rate swap agreement with SunTrust Bank, providing for an interest rate no higher than 3.86% applied to a notional amount equal to \$15,000,000. The underlying rate is based upon 67% of monthly USD 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 \$5,406,892 and \$5,654,745 as of December 31, 2017 and 2016, respectively. During the years ended December 31, 2017 and 2016, the Association recorded a noncash gain of \$247,853 and \$373,337, respectively, on the change in derivative valuation due to interest rate fluctuations.

The outstanding bonds payable of \$15,000,000, as of December 31, 2017 and 2016, are due in one lump sum payment in June 2037. Interest expense for the Association for the years ended December 31, 2017 and 2016, was \$586,813 and \$580,715, respectively.

8. Gift Annuities

The Association has received a number of gift annuities from various donors over the years. Under the terms of annuity agreements, each donor will receive a fixed quarterly payment over the term of the donor's life. As of December 31, 2017 and 2016, the Association has recorded a liability totaling \$1,329,553 and \$1,240,730, 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, 2017 and 2016.

9. 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 bank at times exceeds the amount guaranteed by the Federal Deposit Insurance Corporation and, therefore, bears some risk, the Association has not experienced, nor does it anticipate, any losses on those funds. As of December 31, 2017 and 2016, the amount in excess of the insured limit of \$250,000 was \$16,678,591 and \$10,108,155, respectively.

Continued

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

(With Summarized Financial Information for the Year Ended December 31, 2016)

9. Concentration of Risk (continued)

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.

10. Temporarily Restricted Net Assets

The Association's temporarily restricted net assets were available for the following programs or purposes as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Education	\$ 78,703,561	\$ 66,302,918
Historic preservation and collections	5,016,652	3,350,781
General endowment	3,927,724	2,665,579
Capital projects	2,187,197	6,234,535
Pooled income fund, life insurance and other	<u>2,287,190</u>	<u>2,273,222</u>
Total Temporarily Restricted Net Assets	<u>\$ 92,122,324</u>	<u>\$ 80,827,035</u>

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 acquisition of historical books, and various education and leadership programs.

Historic preservation and collections – 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 or preservation of memorabilia, artifacts and other collection items.

General endowment – This consists of endowment fund investment earnings that are available to be spent toward the general operations of the Association in accordance with the Association's endowment spending policy.

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

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

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2017**

(With Summarized Financial Information for the Year Ended December 31, 2016)

10. Temporarily Restricted Net Assets (continued)

Association while allowing the donor, or designated beneficiary of the donor, to receive lifetime income earned on the donated funds. In the statement 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, 2017 and 2016, was \$462,404 and \$452,578, respectively.

11. Permanently Restricted Net Assets

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

The Association's permanently restricted net assets consisted of the following as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Education	\$ 23,003,927	\$ 23,002,427
Historic preservation and collections	14,191,123	13,847,034
General endowment	<u>5,074,611</u>	<u>5,069,611</u>
Total Permanently Restricted Net Assets	<u>\$42,269,661</u>	<u>\$41,919,072</u>

12. Board-Designated Net Assets

Board-designated net assets represent unrestricted funds designated by the Board to support specific projects or function as endowments. All such amounts are designated by the Board to be spent for the designated purposes.

Board-designated net assets consisted of the following as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Board reserves	\$ 29,090,890	\$ 25,148,458
Collections conservation	2,026,721	1,632,030
Other projects	<u>622,689</u>	<u>238,118</u>
Total Board-Designated Net Assets	<u>\$ 31,740,300</u>	<u>\$ 27,018,606</u>

During 2017 and 2016, the Board approved net transfers of \$1,813,252 and \$890,991, respectively, from undesignated funds to board-designated funds to support various projects.

Continued

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

(With Summarized Financial Information for the Year Ended December 31, 2016)

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.

Funds with Deficiencies

The investment policy of the Association indicates that the corpus of any restricted donor or the general endowment fund may not be expended under any circumstances. Due to investment losses, the fair value of assets associated with some individual donor-restricted endowment funds fell below the original corpus amount. As a result, the Association transferred these endowment deficiencies to unrestricted net assets to restore the endowment values to their original corpus amount. During 2017 and 2016, the endowments with deficiencies transferred investment earnings of \$731,818 and \$268,916, respectively, to repay unrestricted net assets a portion of the cumulative unrecovered balance. As of December 31, 2017 and 2016, the cumulative unrecovered amount was \$359,319 and \$1,091,137, respectively.

Interpretation of Relevant Law

The Virginia General Assembly issued the Virginia Uniform Prudent Management of Institutional Funds Act (UPMIFA). Unless there are explicit donor instructions, this law gives the boards of 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

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.

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2017**

(With Summarized Financial Information for the Year Ended December 31, 2016)

13. Endowment Funds (continued)

The changes in endowment net assets for the years ended December 31, 2017 and 2016, were:

	2017				2016
	Board- Designated	Temporarily Restricted	Permanently Restricted	Total	
Endowment net assets, beginning of year	\$ 26,989,711	\$ 69,053,462	\$ 41,919,072	\$ 137,962,245	\$134,044,803
Investment return	5,228,160	20,316,295	233,289	25,777,744	9,604,030
Change in donor intent	-	-	-	-	900,000
Contributions	432,886	-	117,300	550,186	196,444
Uncollectible pledge	-	-	-	-	(50,000)
Appropriation of endowment assets for expenditure	(1,023,509)	(5,614,793)	-	(6,638,302)	(6,733,032)
Endowment Net Assets, End of Year	<u>\$ 31,627,248</u>	<u>\$ 83,754,964</u>	<u>\$ 42,269,661</u>	<u>\$ 157,651,873</u>	<u>\$ 137,962,245</u>

As of December 31, 2017, amounts classified as permanently restricted net assets were permanently restricted either by explicit donor stipulation or by UPMIFA, and amounts classified as temporarily restricted net assets were subject to time or purpose restrictions under UPMIFA.

Amounts in the temporarily restricted endowment include donor contributions received in connection with the Ford Orientation Center and Donald W. Reynolds Education Center capital campaign, the Fred W. Smith National Library for the Study of George Washington capital campaign and net earnings from permanently restricted funds.

Return Objectives and Spending Policy

The Association has adopted 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 and temporarily restricted funds functioning as endowments, and unspent temporarily restricted earnings. 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.

Continued

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2017**

(With Summarized Financial Information for the Year Ended December 31, 2016)

13. Endowment Funds (continued)

Return Objectives and Spending Policy (continued)

The investment policy of the Association approves the appropriation of up to 5% each year of the average fair value of each endowment fund as of the trailing 12 quarters ending on June 30 of the previous year. The Board-approved spending policy was 3.5% of its operating endowments for the years ended December 31, 2017 and 2016. 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 4.0% and 4.4% for the years ended December 31, 2017 and 2016, 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.

14. Contributed Services – Volunteer Program

Substantial numbers of unpaid volunteers have made significant contributions of their time and skills to supplement the Association's programs, principally in educational, archaeological and maintenance projects as well as in certain administrative functions. The value of this contributed time is not reflected in these statements.

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

(With Summarized Financial Information for the Year Ended December 31, 2016)

15. Fair Value Measurement

The table below summarizes, by level within the fair value hierarchy, the Association's investments as of December 31, 2017 and 2016:

	2017			
	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	\$ 517,672	\$ 517,672	\$ -	\$ -
Fixed-income investments:				
Developed markets mutual funds	30,416,605	30,416,605	-	-
Corporate bonds	637,324	-	637,324	-
U.S. government agency bonds	3,000	-	3,000	-
Total Fixed-Income Investments	31,056,929	30,416,605	640,324	-
Equity investments:				
Developed markets mutual funds	128,011,128	128,011,128	-	-
U.S. securities	117,152	117,152	-	-
Total Equity Investments	128,128,280	128,128,280	-	-
Total Investments In the Fair Value Hierarchy	159,702,881	159,062,557	640,324	-
Other investments measured at NAV ^(a) :				
Long/short equity hedge	6,279,615			
Private equity	4,026,093			
Distressed debt hedge	1,886,002			
Event-driven hedge	2,493			
Total Other Investments Measured at NAV	12,194,203			
Total Investments	171,897,084	159,062,557	640,324	-
Other assets:				
Split-interest agreements	2,690,229	2,690,229	-	-
Total Assets	\$ 174,587,313	\$ 161,752,786	\$ 640,324	\$ -
Liabilities measured at fair value:				
Interest rate swap agreement	\$ 5,406,892	\$ -	\$ 5,406,892	\$ -
Split-interest agreements	1,451,300	-	1,451,300	-
Total Liabilities	\$ 6,858,192	\$ -	\$ 6,858,192	\$ -

Continued

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

(With Summarized Financial Information for the Year Ended December 31, 2016)

15. Fair Value Measurement (continued)

	2016			
	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:				
Investments:				
Cash equivalents	\$ 997,109	\$ 997,109	\$ -	\$ -
Fixed-income investments:				
Developed markets mutual funds	29,453,252	29,453,252	-	-
Corporate bonds	639,205	-	639,205	-
U.S. government agency bonds	3,000	-	3,000	-
Total Fixed-Income Investments	30,095,457	29,453,252	642,205	-
Equity investments:				
Developed markets mutual funds	108,403,988	108,403,988	-	-
U.S. securities	3,537,551	3,537,551	-	-
Total Equity Investments	111,941,539	111,941,539	-	-
Total Investments In the Fair Value Hierarchy	143,034,105	142,391,900	642,205	-
Other investments measured at NAV ^(a) :				
Long/short equity hedge	5,452,019			
Private equity	3,828,615			
Distressed debt hedge	1,761,099			
Event-driven hedge	67,622			
Total Other Investments Measured at NAV	11,109,355			
Total Investments	154,143,460	142,391,900	642,205	-
Other assets:				
Split-interest agreements	2,447,124	2,447,124	-	-
Total Assets	\$ 156,590,584	\$ 144,839,024	\$ 642,205	\$ -
Liabilities measured at fair value:				
Interest rate swap agreement	\$ 5,654,745	\$ -	\$ 5,654,745	\$ -
Split-interest agreements	1,362,487	-	1,362,487	-
Total Liabilities	\$ 7,017,232	\$ -	\$ 7,017,232	\$ -

(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 statement of financial position.

Continued

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

(With Summarized Financial Information for the Year Ended December 31, 2016)

15. 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, 2017:

	<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)	\$ 6,279,615	\$ -	Quarterly, annually and every 2 or 3 years on the anniversary date	45-90 days
Private equity funds ^(b)	4,026,093	2,983,452	N/A	N/A
Distressed debt hedge funds ^(c)	1,886,002	-	Annually	90 days
Event-driven hedge funds ^(d)	<u>2,493</u>	<u>-</u>	Quarterly and annually	45-90 days
Total	<u>\$12,194,203</u>	<u>\$ 2,983,452</u>		

The following table discloses information concerning the fair value measurement of investments calculated using NAV per share as of December 31, 2016:

	<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)	\$ 5,452,019	\$ -	Quarterly, annually and every 2 or 3 years on the anniversary date	45-90 days
Private equity funds ^(b)	3,828,615	3,605,264	N/A	N/A
Distressed debt hedge funds ^(c)	1,761,099	-	Annually	90 days
Event-driven hedge funds ^(d)	<u>67,622</u>	<u>-</u>	Quarterly and annually	45-90 days
Total	<u>\$11,109,355</u>	<u>\$ 3,605,264</u>		

Continued

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

(With Summarized Financial Information for the Year Ended December 31, 2016)

15. Fair Value Measurement (continued)

- (a) *Long/short equity hedge funds* – This category includes investments in hedge funds that invest in both long and short U.S. and international equities. The fair values of the investments in this category have been estimated using the NAV per share of the investments. The Association submitted redemption requests for all investments in this category and will receive the proceeds from these investments over 10 months from December 31, 2017.
- (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, 2017, it is estimated that the underlying assets of these funds will be liquidated over a period of 14 years.
- (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, 2017.
- (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 will receive the proceeds from these investments over 10 months from December 31, 2017.

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, 2017, 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.

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS For the Year Ended December 31, 2017

(With Summarized Financial Information for the Year Ended December 31, 2016)

16. Retirement Plans

The Association sponsors a defined contribution retirement plan covering all employees who work over 1,000 hours in a plan year after one year of service. On an annual basis, the Association contributes 6% of a participant's eligible compensation to the defined contribution retirement plan. Contributions to the plan were \$899,000 and \$957,877 for the years ended December 31, 2017 and 2016, respectively. These amounts are included in accounts payable and accrued expenses in the statement of financial position at December 31, 2017 and 2016.

The Association sponsors a 403(b) plan for eligible employees. Employees are eligible to participate in the plan on the first day of the month following their date of hire. Participants may contribute a portion of their eligible compensation to the plan, subject to limits approved by the Internal Revenue Service. The Association contributes \$0.50 for every \$1 contributed by employees up to a maximum of 2% of each participant's eligible compensation. Participants are immediately vested in their own contributions. Participants vest in employer contributions at a rate of 20% per year and are 100% vested after five years of credited service. The Association made matching contributions to the 403(b) plan in the amount of \$345,676 and \$328,053 during the years ended December 31, 2017 and 2016, respectively.

17. 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 2017 and 2016, the Association incurred \$1,398,464 and \$1,308,993, respectively, of joint costs for these activities. Of these costs, \$699,232 and \$654,496 were allocated to the education program, \$27,964 and \$26,810 were allocated to management and general, and \$671,268 and \$627,687 were allocated to fundraising in 2017 and 2016, respectively.

18. 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, 2017 and 2016, as the Association had no net unrelated business income.

The Association evaluated its uncertainty in income taxes for the years ended December 31, 2017 and 2016, 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, 2017, the statute of limitations for tax years 2014 through 2016 remains open with the U.S. federal jurisdiction and/or the various states and local jurisdictions in which the Association files tax returns. It is the Association's policy to recognize interest and penalties related to uncertainty in income taxes, if any, in income tax expense. As of December 31, 2017 and 2016, the Association had no accruals for interest and/or penalties.

MOUNT VERNON LADIES' ASSOCIATION OF THE UNION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

(With Summarized Financial Information for the Year Ended December 31, 2016)

19. 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, 2016, from which the summarized information was derived.

20. Reclassifications

Certain 2016 amounts have been reclassified to conform to the 2017 financial statement presentation.

21. Subsequent Events

The Association's management has evaluated subsequent events through May 15, 2018, the date the financial statements were available to be issued. There were no subsequent events identified that require recognition or disclosure in these financial statements.