

Gunston Hall Regents Fund

FINANCIAL STATEMENTS – MODIFIED CASH BASIS
AND INDEPENDENT AUDITORS' REPORT
JUNE 30, 2011 AND 2010

WATKINS | MEEGAN

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Independent Auditors' Report

To the Board of Regents
Gunston Hall Regents Fund
Mason Neck, Virginia

We have audited the accompanying statements of assets, liabilities, and net assets – modified cash basis of Gunston Hall Regents Fund (the Regents Fund) as of June 30, 2011 and 2010, and the related statements of revenue, expenses, and change in net assets – modified cash basis and statements of cash flows – modified cash basis for the years then ended. These financial statements are the responsibility of the Regents Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets – modified cash basis of Gunston Hall Regents Fund at June 30, 2011 and 2010, and its revenue, expenses, and change in net assets – modified cash basis and its cash flows – modified cash basis for the years then ended, in conformity with the basis of accounting described in Note 1.



Bethesda, Maryland
October 20, 2011

GUNSTON HALL REGENTS FUND

STATEMENTS OF ASSETS, LIABILITIES, AND NET ASSETS – MODIFIED CASH BASIS

	June 30,	
	2011	2010
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,676,164	\$ 1,710,864
Inventory	102,406	105,489
Due from Foundation	159,529	275,659
Total Current Assets	<u>1,938,099</u>	<u>2,092,012</u>
INVESTMENTS		
Unrestricted Reserve	2,225,291	1,164,228
Endowment	53,236	47,124
Total Investments	<u>2,278,527</u>	<u>1,211,352</u>
PROPERTY		
Educational Film	101,646	101,646
Furniture, Fixtures, and Equipment	68,347	68,347
Improvements	21,730	21,730
Total	<u>191,723</u>	<u>191,723</u>
Less: Accumulated Depreciation	189,085	187,767
Net Property	<u>2,638</u>	<u>3,956</u>
OTHER ASSETS		
Antique Fixtures	298,819	298,819
Manuscripts and Rare Books	723,568	715,093
Total Other Assets	<u>1,022,387</u>	<u>1,013,912</u>
	<u>\$ 5,241,651</u>	<u>\$ 4,321,232</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Due to Commonwealth of Virginia	\$ 4,687	\$ 17,418
NET ASSETS		
Unrestricted	3,617,172	3,256,707
Temporarily Restricted	1,566,492	993,807
Permanently Restricted	53,300	53,300
Total Net Assets	<u>5,236,964</u>	<u>4,303,814</u>
	<u>\$ 5,241,651</u>	<u>\$ 4,321,232</u>

GUNSTON HALL REGENTS FUND

STATEMENTS OF REVENUE, EXPENSES, AND CHANGE IN NET ASSETS – MODIFIED CASH BASIS

	Year Ended June 30,							
	2011				2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE								
Contributions	\$ 205,077	\$ 951,424	\$ -	\$ 1,156,501	\$ 161,121	\$ 538,752	\$ -	\$ 699,873
Museum Shop Sales	142,474	-	-	142,474	123,947	-	-	123,947
Manager's Fund Revenues:								
Catering and Rental Income	2,312	-	-	2,312	1,000	-	-	1,000
Regents Meetings	41,775	-	-	41,775	58,210	-	-	58,210
Educational Programs	47,911	-	-	47,911	34,868	-	-	34,868
Total Manager's Fund Revenues	91,998	-	-	91,998	94,078	-	-	94,078
Interest and Dividends	47,154	1,248	-	48,402	32,501	1,458	-	33,959
Realized Gains on Sale of Investments	103,113	3,002	-	106,115	79,544	231	-	79,775
Field Trip	8,232	-	-	8,232	33,201	-	-	33,201
Miscellaneous	6,387	-	-	6,387	2,735	-	-	2,735
Net Assets Released from Restrictions:								
Satisfaction of Program Restrictions	387,516	(387,516)	-	-	321,582	(321,582)	-	-
Total Revenue	991,951	568,158	-	1,560,109	848,709	218,859	-	1,067,568
EXPENSES								
Program Services:								
Archaeology	44,836	-	-	44,836	34,045	-	-	34,045
Buildings and Maintenance	147,985	-	-	147,985	83,771	-	-	83,771
Collections Management	10,546	-	-	10,546	29,478	-	-	29,478
Education	22,385	-	-	22,385	25,232	-	-	25,232
Gardens and Grounds	39,355	-	-	39,355	65,220	-	-	65,220
Library, Archives, and Technology	70,175	-	-	70,175	66,339	-	-	66,339
Museum Shop	187,349	-	-	187,349	152,035	-	-	152,035
Manager's Fund	82,832	-	-	82,832	99,389	-	-	99,389
Programs	10,988	-	-	10,988	11,791	-	-	11,791
Public Relations	18,923	-	-	18,923	20,913	-	-	20,913
Restoration	37,247	-	-	37,247	36,750	-	-	36,750
Total Program Services	672,621	-	-	672,621	624,963	-	-	624,963
Supporting Services:								
Management and General	91,976	-	-	91,976	97,429	-	-	97,429
Fundraising	22,365	-	-	22,365	1,908	-	-	1,908
Total Supporting Services	114,341	-	-	114,341	99,337	-	-	99,337
Total Expenses	786,962	-	-	786,962	724,300	-	-	724,300
CHANGE IN NET ASSETS BEFORE UNREALIZED GAIN ON INVESTMENTS	204,989	568,158	-	773,147	124,409	218,859	-	343,268
Unrealized Gain on Investments	155,476	4,527	-	160,003	15,427	976	-	16,403
CHANGE IN NET ASSETS	360,465	572,685	-	933,150	139,836	219,835	-	359,671
NET ASSETS, Beginning of Year	3,256,707	993,807	53,300	4,303,814	3,116,871	773,972	53,300	3,944,143
NET ASSETS, End of Year	<u>\$ 3,617,172</u>	<u>\$ 1,566,492</u>	<u>\$ 53,300</u>	<u>\$ 5,236,964</u>	<u>\$ 3,256,707</u>	<u>\$ 993,807</u>	<u>\$ 53,300</u>	<u>\$ 4,303,814</u>

GUNSTON HALL REGENTS FUND

STATEMENTS OF CASH FLOWS – MODIFIED CASH BASIS

	Year Ended June 30,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 933,150	\$ 359,671
Adjustments to Reconcile Change in Net Assets to Net Cash		
Provided by Operating Activities:		
Depreciation	1,318	1,767
Unrealized Gain on Investments	(160,003)	(16,403)
Realized Gains on Sale of Investments	(106,115)	(79,775)
Donations of Equity Investments	(22,891)	(15,460)
Changes in:		
Inventory	3,083	6,012
Due from Foundation	116,130	31,388
Due from Commonwealth of Virginia	-	55,465
Due to Commonwealth of Virginia	(12,731)	17,418
Net Cash Provided by Operating Activities	751,941	360,083
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments	(2,715,764)	(1,419,084)
Redemption/Sales of Investments	1,937,598	1,491,233
Purchases of Manuscripts and Rare Books	(8,475)	-
Net Cash Provided by (Used in) Investing Activities	(786,641)	72,149
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(34,700)	432,232
 CASH AND CASH EQUIVALENTS, Beginning of Year	1,710,864	1,278,632
 CASH AND CASH EQUIVALENTS, End of Year	\$ 1,676,164	\$ 1,710,864
 SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES		
Donations of Equity Investments	\$ 22,891	\$ 15,460

GUNSTON HALL REGENTS FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization Purpose

The Gunston Hall Regents Fund (the Regents Fund) was incorporated October 29, 1982, to provide money and expertise to restore and refurbish George Mason's former residence, Gunston Hall, located in Mason Neck, Virginia. Additionally, the Regents Fund operates a museum shop on the premises and has facilities available for rent for banquets, receptions, and social gatherings.

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

Basis of Accounting

The Regents Fund prepares its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under that basis, certain revenues and the related assets are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when the obligation is incurred. Consequently, the Regents Fund has not recognized pledges receivable from donors, accounts payable to vendors, and their related effects on the change in net assets in the accompanying financial statements.

Estimates

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

Cash and Cash Equivalents

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

Inventory

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

Investments

Investments purchased by the Regents Fund are initially recorded at their cost, and donated investments are recorded at fair value on the date they are received as a donation. Subsequent to their acquisition, investments in marketable securities with readily determinable fair values and all investments in debt securities are adjusted to their fair values as of the date of the statement of assets, liabilities and net assets – modified cash basis. Unrealized gains and losses are included in the change in net assets.

GUNSTON HALL REGENTS FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property

Acquisitions of property by the Regents Fund are recorded at cost and depreciated using the straight-line method over the useful lives of 15 years for the educational film; 3 to 10 years for furniture, fixtures, and equipment; and 6 to 40 years for improvements. All acquisitions by the Regents Fund greater than or equal to \$5,000 and \$500 for the years ended June 30, 2011 and 2010, respectively, with expected lives greater than one year are capitalized. Acquisitions on behalf of the Commonwealth of Virginia are not capitalized.

Antique Fixtures, Manuscripts, and Rare Books

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

Due to Commonwealth of Virginia

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

Revenue Recognition

Contributions of cash and other assets are recorded at estimated fair value as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or absence of donor-imposed restrictions. Museum shop revenue is recorded gross, excluding sales tax, when the items are sold and managers fund revenue is recognized when cash is received for the activity.

Net Assets

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

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

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

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

GUNSTON HALL REGENTS FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Temporarily Restricted Support

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

Endowment

If losses reduce the net assets of a donor-restricted endowment fund below the level required by the donor stipulations or the law, unrestricted net assets are reduced. Gains that restore the fair value of the net assets of the endowment fund to the required level shall be classified as increases in unrestricted net assets.

Allocation of Functional Expenses

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

Income Taxes

The Regents Fund is exempt from the payment of income taxes on its exempt activities under Section 501(c)(3) of the Internal Revenue Code (IRC). The Regents Fund is classified as a public charity under Section 509(a)(1) of the IRC. The Regents Fund is subject to federal and state income taxes on its unrelated business activities. There was no unrelated business income tax for the years ended June 30, 2011 and 2010; therefore, no provision for income tax has been recorded in the financial statements. Tax years prior to 2007 are no longer subject to examination by the IRS and the tax jurisdiction of Virginia.

Measure of Operations

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

Subsequent Events

The Regents Fund has evaluated events and transactions for potential recognition or disclosure through October 20, 2011, the date the financial statements were available to be issued.

NOTE 2 – CONCENTRATION OF CREDIT RISK

Financial instruments, which potentially subject the Regents Fund to concentrations of credit risk, consist primarily of cash placed with a financial institution. Funds in excess of federal insurance limits totaled approximately \$1,412,000 at June 30, 2011. Management believes the risk of loss to be minimal at June 30, 2011.

GUNSTON HALL REGENTS FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

NOTE 3 – INVESTMENTS

Investments are stated at their fair value and are comprised of the following:

	June 30,			
	2011		2010	
	Cost	Fair Value	Cost	Fair Value
Deposit Account	\$ 231,870	\$ 231,870	\$ 87,064	\$ 87,064
U.S. Government Securities and Corporate Bonds	708,015	746,528	439,611	477,875
Certificate of Deposit	100,000	95,625	-	-
Equities	1,353,607	1,204,504	959,645	646,413
	<u>\$ 2,393,492</u>	<u>\$ 2,278,527</u>	<u>\$ 1,486,320</u>	<u>\$ 1,211,352</u>

Investments include endowments which had a fair value of \$53,236 and \$47,124 at June 30, 2011 and 2010, respectively.

NOTE 4 – OTHER ASSETS

Objects acquired by gift for which Gunston Hall can reasonably estimate fair market value are reported as contributions in the statements of revenue, expenses, and change in net assets – modified cash basis. Objects acquired by purchase are recorded at cost.

During the years ended June 30, 2011 and 2010, the Regents Fund expended \$19,819 and \$123,744, respectively, for additions to the antique collection. These amounts were reimbursed by the Commonwealth of Virginia, which holds ownership; therefore, they are not reflected in the Regents Fund's financial statements. Additions not reimbursed during the year are recorded as "Due from Commonwealth of Virginia" on the statements of assets, liabilities, and nets assets – modified cash basis.

NOTE 5 – STRUCTURAL IMPROVEMENTS – GUNSTON HALL

During the years ended June 30, 2011 and 2010, the Regents Fund expended \$24,960 and \$67,718, respectively, for structural improvements to the Gunston Hall home. These improvements are expensed rather than capitalized, as the Regents Fund does not own or lease the Gunston Hall home.

GUNSTON HALL REGENTS FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

NOTE 6 – RESTRICTED NET ASSETS

The changes in each fund within temporarily restricted net assets for the years ended June 30, 2011 and 2010, are as follows:

	Balance July 1, 2010	Revenue	Expenses/ Net Assets Released from Restriction	Transfers to Unrestricted	Balance June 30, 2011
Temporarily Restricted:					
Administrative	\$ -	\$ 4,200	\$ (1,680)	\$ -	\$ 2,520
Archaeology	25,203	570	(5,564)	-	20,209
Buildings	88,990	122,354	(113,465)	-	97,879
Collections/Antiques	8,473	200	(8,040)	-	633
Development	-	600	-	-	600
Education	8,137	340	(2,493)	-	5,984
Endowment	-	8,777	(2,665)	-	6,112
Friends	553,462	142,213	(138,828)	-	556,847
Gardens	-	21,500	(14,561)	-	6,939
George Mason Memorial	48,626	-	(30,000)	-	18,626
Leased Operations	-	100	-	-	100
Library	33,424	179,742	(12,860)	-	200,306
Programs	3,118	3,165	(5,727)	-	556
Public Relations	25,992	4,100	(14,385)	-	15,707
Restoration	198,382	472,340	(37,248)	-	633,474
Total Temporarily Restricted	\$ 993,807	\$ 960,201	\$ (387,516)	\$ -	\$ 1,566,492

	Balance July 1, 2009	Revenue	Expenses/ Net Assets Released from Restriction	Transfers from Unrestricted	Balance June 30, 2010
Temporarily Restricted:					
Archaeology	\$ 25,203	\$ -	\$ -	\$ -	\$ 25,203
Buildings	-	134,168	(45,178)	-	88,990
Collections/Antiques	1,576	25,942	(19,045)	-	8,473
Education	6,320	7,515	(5,698)	-	8,137
Endowment	-	2,665	(2,665)	-	-
Friends	552,649	142,980	(142,167)	-	553,462
Gardens	11,600	12,570	(24,170)	-	-
George Mason Memorial	48,626	-	-	-	48,626
Library	45,580	12,502	(24,658)	-	33,424
Programs	6,250	6,489	(9,621)	-	3,118
Public Relations	17,397	25,000	(16,405)	-	25,992
Restoration	58,771	171,586	(31,975)	-	198,382
Total Temporarily Restricted	\$ 773,972	\$ 541,417	\$ (321,582)	\$ -	\$ 993,807

There were no changes to permanently restricted net assets for the years ended June 30, 2011 and 2010.

GUNSTON HALL REGENTS FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

NOTE 7 – ENDOWMENT

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

Permanently Restricted Net Assets – Interpretation of Relevant Law

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

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

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

Funds with Deficiencies

From time to time, the fair value of the assets associated with individual donor-restricted endowments may fall below the level that the donor or SPMIFA requires the Regents Fund to retain as a fund of perpetual duration. Appropriations come first from temporarily restricted net assets not appropriated and then from unrestricted net assets. Deficiencies of this nature that are reported as unrestricted net assets were \$64 and \$6,176 at June 30, 2011 and 2010, respectively. These deficiencies resulted from market fluctuations that occurred during the year ended June 30, 2011, and previous years and the continued appropriation of expenditures as deemed prudent by the Board of Regents.

Permanently Restricted Net Assets – Return Objectives and Risk Parameters

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

GUNSTON HALL REGENTS FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

NOTE 7 – ENDOWMENT (Continued)

Permanently Restricted Net Assets – Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Regents Fund has a policy of appropriating for expenditure each year up to 5 percent of the average market value of the endowment assets utilizing the previous twelve (eight for the year ended June 30, 2010) quarterly periods. In establishing this policy, the Regents Fund considered the long-term expected return on its endowment net assets. Accordingly, the Regents Fund expects the endowment to grow by at least inflation annually.

The following is a summary of donor-restricted endowment funds subject to SPMIFA for the years ended June 30, 2011 and 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Endowment Net Assets, June 30, 2009	\$ (9,201)	\$ -	\$ 53,300
Investment Return:			
Interest and Dividends	-	1,458	-
Net Appreciation (Realized and Unrealized)	<u>3,025</u>	<u>1,207</u>	<u>-</u>
Total Investment Return	3,025	2,665	-
Appropriation of Endowment Assets for Expenditure	<u>-</u>	<u>(2,665)</u>	<u>-</u>
Endowment Net Assets, June 30, 2010	(6,176)	-	53,300
Investment Return:			
Interest and Dividends	-	1,248	-
Net Appreciation (Realized and Unrealized)	<u>6,112</u>	<u>1,417</u>	<u>-</u>
Total Investment Return	6,112	2,665	-
Appropriation of Endowment Assets for Expenditure	<u>-</u>	<u>(2,665)</u>	<u>-</u>
Endowment Net Assets, June 30, 2011	<u>\$ (64)</u>	<u>\$ -</u>	<u>\$ 53,300</u>

GUNSTON HALL REGENTS FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

NOTE 8 – RELATED PARTY

A donor relationship exists between the Gunston Hall Foundation (the Foundation), which is exempt from taxation under IRC Section 501(c)(3), and the Regents Fund. The Regents Fund incurs salaries and other related costs on behalf of the Foundation. Such salaries and other related costs are presented as Management and General on the accompanying statements of revenue, expenses, and change in net assets – modified cash basis.

During the years ended June 30, 2011 and 2010, the Regents Fund received funding from the Foundation totaling \$110,624 and \$146,805, respectively, for salary and related costs provided to the Foundation which is included in contributions in the statements of revenue, expenses, and change in net assets – modified cash basis. At June 30, 2011 and 2010, the amounts due to the Regents Fund by the Foundation totaled \$159,529 and \$275,659, respectively, and relate to support obligated by the Foundation not yet paid.

NOTE 9 – FACILITIES AND SERVICES PROVIDED BY COMMONWEALTH OF VIRGINIA

The Gunston Hall buildings and surrounding land are owned and maintained by the Commonwealth of Virginia. The Regents Fund leases the museum shop and banquet facilities from the Commonwealth of Virginia under two three-year leases expiring October 31, 2012, for \$1 annually. The below-market lease and associated donation are non-cash items which have not been recorded under the modified cash basis of accounting.

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

The Commonwealth expended \$66,355 and \$23,145 on Plantation and library improvements during the years ended June 30, 2011 and 2010, respectively. Additionally, the Commonwealth of Virginia operates the Gunston Hall Plantation and provides certain management and administrative support to the Regents Fund at no charge, including the employment of 6 full-time and 22 part-time employees at Gunston Hall for the year ended June 30, 2011. The Commonwealth provided approximately \$676,000 and \$775,000 during the years ended June 30, 2011 and 2010, respectively, of labor and support, which have not been recorded under the modified cash basis of accounting.

NOTE 10 – DONATED SERVICES

During the years ended June 30, 2011 and 2010, specialized historical services were provided by volunteers to the Regents Fund and were valued at approximately \$138,060 and \$154,844, respectively, for each period presented. Such amounts are not included as contributed services revenue and program expenses on the accompanying statements of revenue, expenses, and change in net assets – modified cash basis.

NOTE 11 – RETIREMENT PLAN

The Regents Fund has a 401(k) plan. Any employee who has completed six months of service is eligible to participate in the plan. Participants may make contributions up to 15 percent of their compensation, subject to statutory limits. The Regents Fund may elect to make discretionary contributions. Participants are vested immediately with respect to participant contributions. Participants are fully vested in employer contributions after three years. The Regents Fund contributed \$4,984 and \$7,387 to the plan for the years ended June 30, 2011 and 2010, respectively.

GUNSTON HALL REGENTS FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

NOTE 12 – MANUSCRIPTS AND RARE BOOKS CONTINGENCY

It has been determined that a portion of the manuscripts and rare books recorded as assets in the Regents Fund's financial statements were originally donated to the Commonwealth of Virginia (Gunston Hall) and not the Regents Fund. Management is in the process of determining what portion of its manuscripts and rare books were in fact assets of the Commonwealth of Virginia. Management estimates the cost of the manuscripts and rare books that ultimately could be determined to be the Commonwealth of Virginia's property ranges between \$0 and \$640,000. The effect of this determination will be to reclassify the manuscripts and rare books recorded on the Regents Fund's financial statements to the Commonwealth and would decrease the unrestricted net assets and manuscripts and rare books on the Regents Fund's statements of assets, liabilities, and net assets – modified cash basis.

NOTE 13 – FAIR VALUE MEASUREMENTS

The Regents Fund has determined the fair value of certain assets and liabilities through application of FASC Topic on *Fair Value Measurements and Disclosures*. Fair value of assets and liabilities measured on a recurring basis at June 30, 2011 and 2010, is as follows:

	Fair Value	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>June 30, 2011</u>				
<u>Assets</u>				
Deposit Account	\$ 231,870	\$ 231,870	\$ -	\$ -
U.S. Government Securities and Corporate Bonds	746,528	-	746,528	-
Certificate of Deposit	95,625	-	95,625	-
Equities	1,204,504	1,204,504	-	-
	<u>\$ 2,278,527</u>	<u>\$ 1,436,374</u>	<u>\$ 842,153</u>	<u>\$ -</u>
<u>June 30, 2010</u>				
<u>Assets</u>				
Money Market	\$ 87,064	\$ 87,064	\$ -	\$ -
U.S. Government Securities and Corporate Bonds	477,875	-	477,875	-
Equities	646,413	646,413	-	-
	<u>\$ 1,211,352</u>	<u>\$ 733,477</u>	<u>\$ 477,875</u>	<u>\$ -</u>

GUNSTON HALL REGENTS FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

NOTE 13 – FAIR VALUE MEASUREMENTS (Continued)

This FASC topic establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs are based primarily on quoted prices for identical assets and liabilities in inactive markets and for similar assets or liabilities in active or inactive markets, and Level 3 inputs have the lowest priority and are based on unobservable inputs, including the Regent Fund's own data when there is little or no market activity for the assets and liabilities. The Regents Fund uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Regents Fund measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. There have been no changes in the valuation methodologies used during the current year. All assets have been valued using a market approach.

Level 2 Fair Value Measurements

The fair value of the underlying investments in U.S. government securities, corporate bonds, and the certificate of deposit are not exchange traded investments and are valued based on quoted prices for identical assets in inactive markets and/or similar assets in active or inactive markets.

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