

Gunston Hall Regents Fund

FINANCIAL STATEMENTS – MODIFIED CASH BASIS
AND INDEPENDENT AUDITORS' REPORT
JUNE 30, 2013 AND 2012

WATKINS | MEEGAN

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Statements of Assets, Liabilities and Net Assets – Modified Cash Basis	2
Statements of Revenue, Expenses and Change in Net Assets – Modified Cash Basis	3
Statements of Cash Flows – Modified Cash Basis	4
Notes to Financial Statements	5

Independent Auditors' Report

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

We have audited the accompanying financial statements of Gunston Hall Regents Fund (the Regents Fund), which comprise the statements of assets, liabilities and net assets – modified cash basis as of June 30, 2013 and 2012, 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, 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 the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 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 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 auditors consider 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 assets, liabilities and net assets – modified cash basis of Gunston Hall Regents Fund as of June 30, 2013 and 2012, 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 accordance with the cash basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.



Bethesda, Maryland
October 29, 2013

GUNSTON HALL REGENTS FUND

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

	June 30,	
	2013	2012
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,074,368	\$ 1,301,911
Inventory, Net of Reserve of \$10,102 in 2013 and \$0 in 2012	92,014	103,331
Due from Foundation	146,858	146,858
Total Current Assets	<u>1,313,240</u>	<u>1,552,100</u>
INVESTMENTS		
Unrestricted Reserve	2,625,996	2,404,639
Endowment	53,300	51,766
Total Investments	<u>2,679,296</u>	<u>2,456,405</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	191,612	190,403
Net Property	<u>111</u>	<u>1,320</u>
OTHER ASSETS		
Antique Fixtures	298,819	298,819
Manuscripts and Rare Books	723,568	723,568
Total Other Assets	<u>1,022,387</u>	<u>1,022,387</u>
	<u>\$ 5,015,034</u>	<u>\$ 5,032,212</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Due to Commonwealth of Virginia	\$ 7,763	\$ 4,719
NET ASSETS		
Unrestricted	3,653,907	3,578,221
Temporarily Restricted	1,300,064	1,395,972
Permanently Restricted	53,300	53,300
Total Net Assets	<u>5,007,271</u>	<u>5,027,493</u>
	<u>\$ 5,015,034</u>	<u>\$ 5,032,212</u>

GUNSTON HALL REGENTS FUND

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

	Year Ended June 30,							
	2013				2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE								
Contributions	\$ 174,363	\$ 157,827	\$ -	\$ 332,190	\$ 217,375	\$ 175,642	\$ -	\$ 393,017
Museum Shop Sales	137,353	-	-	137,353	126,567	-	-	126,567
Manager's Fund Revenues:								
Catering and Rental Income	2,028	-	-	2,028	1,388	-	-	1,388
Regents Meetings	33,368	-	-	33,368	46,426	-	-	46,426
Educational Programs	13,579	-	-	13,579	32,696	-	-	32,696
Total Manager's Fund Revenues	48,975	-	-	48,975	80,510	-	-	80,510
Interest and Dividends	57,565	1,320	-	58,885	55,024	1,456	-	56,480
Realized Gains (Losses) on Sale of Investments	108,224	2,487	-	110,711	(245,844)	(6,540)	-	(252,384)
Field Trip	11,248	-	-	11,248	11,025	-	-	11,025
Other	(6,450)	6,714	-	264	2,543	-	-	2,543
Net Assets Released from Restrictions:								
Satisfaction of Program Restrictions	267,160	(267,160)	-	-	347,357	(347,357)	-	-
Total Revenue	798,438	(98,812)	-	699,626	594,557	(176,799)	-	417,758
EXPENSES								
Program Services:								
Archaeology	46,058	-	-	46,058	40,951	-	-	40,951
Buildings and Maintenance	72,875	-	-	72,875	67,639	-	-	67,639
Collections Management	10,957	-	-	10,957	19,884	-	-	19,884
Education	33,512	-	-	33,512	21,173	-	-	21,173
Gardens and Grounds	38,193	-	-	38,193	53,821	-	-	53,821
Library, Archives and Technology	96,477	-	-	96,477	92,939	-	-	92,939
Museum Shop	184,744	-	-	184,744	172,535	-	-	172,535
Meetings and Events	43,883	-	-	43,883	79,039	-	-	79,039
Programs	37,685	-	-	37,685	7,767	-	-	7,767
Public Relations	24,190	-	-	24,190	26,367	-	-	26,367
Restoration	29,940	-	-	29,940	102,431	-	-	102,431
Total Program Services	618,514	-	-	618,514	684,546	-	-	684,546
Supporting Services:								
Management and General	224,731	-	-	224,731	162,217	-	-	162,217
Fundraising	5,899	-	-	5,899	22,777	-	-	22,777
Total Supporting Services	230,630	-	-	230,630	184,994	-	-	184,994
Total Expenses	849,144	-	-	849,144	869,540	-	-	869,540
CHANGE IN NET ASSETS BEFORE UNREALIZED GAIN ON INVESTMENTS	(50,706)	(98,812)	-	(149,518)	(274,983)	(176,799)	-	(451,782)
Unrealized Gain on Investments	126,392	2,904	-	129,296	236,032	6,279	-	242,311
CHANGE IN NET ASSETS	75,686	(95,908)	-	(20,222)	(38,951)	(170,520)	-	(209,471)
NET ASSETS, Beginning of Year	3,578,221	1,395,972	53,300	5,027,493	3,617,172	1,566,492	53,300	5,236,964
NET ASSETS, End of Year	\$ 3,653,907	\$ 1,300,064	\$ 53,300	\$ 5,007,271	\$ 3,578,221	\$ 1,395,972	\$ 53,300	\$ 5,027,493

GUNSTON HALL REGENTS FUND

STATEMENTS OF CASH FLOWS – MODIFIED CASH BASIS

	Year Ended June 30,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (20,222)	\$ (209,471)
Adjustments to Reconcile Change in Net Assets to Net Cash		
Used in Operating Activities:		
Depreciation	1,209	1,318
Unrealized Gain on Investments	(129,296)	(242,311)
Realized (Gains) Losses on Sale of Investments	(110,711)	252,384
Donations of Equity Investments	(9,609)	(7,898)
Increase in Inventory Reserve	10,102	-
Changes in:		
Inventory	1,215	(925)
Due from Foundation	-	12,671
Due to Commonwealth of Virginia	3,044	32
Net Cash Used in Operating Activities	(254,268)	(194,200)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments	(1,115,896)	(1,715,405)
Redemption/Sales of Investments	1,142,621	1,535,352
Net Cash Provided by (Used in) Investing Activities	26,725	(180,053)
 NET DECREASE IN CASH AND CASH EQUIVALENTS	(227,543)	(374,253)
 CASH AND CASH EQUIVALENTS, Beginning of Year	1,301,911	1,676,164
 CASH AND CASH EQUIVALENTS, End of Year	\$ 1,074,368	\$ 1,301,911
 SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES		
Donations of Equity Investments	\$ 9,609	\$ 7,898

GUNSTON HALL REGENTS FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

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 and to utilize fully the physical and scholarly resources of Gunston Hall to stimulate continuing public exploration of democratic ideals as first presented by George Mason in the 1776 *Virginia Declaration of Rights*. Additionally, the Regents Fund operates a museum shop on the premises and has facilities available for rent for banquets, receptions and social gatherings.

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

In April 2013, the Board of Regents of the Regents Fund created a new entity, The Board of Regents of Gunston Hall, Incorporated, to manage and supervise Gunston Hall. There was no activity or transactions occurring for this new organization during year ended June 30, 2013.

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. The Regents Fund recognizes certain non-cash transactions as assets; due from Foundation is recognized, investments are presented at fair value, inventories are recorded at lower of cost or market, property is depreciated, antique furniture and manuscripts have been capitalized, due from Foundation are presented, and donated stock is presented, which represent a modification from the full cash basis of accounting.

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.

GUNSTON HALL REGENTS FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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; three to 10 years for furniture, fixtures and equipment; and six to 40 years for improvements. All acquisitions by the Regents Fund greater than or equal to \$5,000 with expected lives greater than one year are capitalized. Acquisitions on behalf of the Commonwealth of Virginia are not capitalized.

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.

GUNSTON HALL REGENTS FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

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.

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, 2013 and 2012; therefore, no provision for income tax has been recorded in the financial statements. The Regents Fund believes that it has appropriate support for any tax positions taken, and, as such, it does not have any uncertain tax positions that are material to the financial statements. The Regents Fund recognizes interest expense and penalties related to income taxes in management and general expenses on the statements of revenue, expenses and change in net assets – modified cash basis. There is no provision in these financial statements for penalties and interest related to income taxes for the years ended June 30, 2013 and 2012. Tax years prior to 2009 are no longer subject to examination by the IRS or the tax jurisdiction of Virginia.

GUNSTON HALL REGENTS FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 29, 2013, 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 \$818,000 at June 30, 2013. Management believes the risk of loss to be minimal at June 30, 2013.

NOTE 3 – INVESTMENTS

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

	June 30,			
	2013		2012	
	Cost	Fair Value	Cost	Fair Value
Deposit Account	\$ 403,249	\$ 403,249	\$ 41,389	\$ 41,389
U.S. Government Securities and Corporate Bonds	555,291	563,933	725,925	747,295
Mutual Funds – Equity	159,476	160,273	137,967	141,467
Certificate of Deposit	100,000	98,750	100,000	96,500
Exchange-Traded Funds	345,786	347,878	306,621	307,693
Equities	858,852	1,105,213	1,017,157	1,122,061
	<u>\$ 2,422,654</u>	<u>\$ 2,679,296</u>	<u>\$ 2,329,059</u>	<u>\$ 2,456,405</u>

Investments include endowments which had a fair value of \$53,300 and \$51,766 at June 30, 2013 and 2012, 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.

GUNSTON HALL REGENTS FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

NOTE 4 – OTHER ASSETS (Continued)

During the years ended June 30, 2013 and 2012, the Regents Fund expended \$0 and \$42,770, 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, 2013 and 2012, the Regents Fund expended \$20,040 and \$102,390, 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.

NOTE 6 – RESTRICTED NET ASSETS

The changes in each fund within temporarily restricted net assets for the years ended June 30, 2013 and 2012 are as follows:

	Balance July 1, 2012	Revenue	Expenses/ Net Assets Released from Restriction	Reclassifications/ Transfers/Other	Balance June 30, 2013
Temporarily Restricted:					
Administrative	\$ 150	\$ -	\$ -	\$ -	\$ 150
Archaeology	17,066	-	(7,500)	-	9,566
Buildings	59,053	-	(42,360)	-	16,693
Collections/Antiques	633	3,353	(3,986)	-	-
Development	-	1,492	-	-	1,492
Education	6,409	-	(936)	-	5,473
Endowment	-	6,711	(6,711)	-	-
Friends	552,568	137,110	(170,009)	-	519,669
Gardens	-	3,100	(508)	8,496	11,088
George Mason Memorial	18,626	-	(1,650)	-	16,976
Leased Operations	100	-	(100)	-	-
Library	190,084	6,147	(12,269)	-	183,962
Programs	-	2,925	(1,091)	-	1,834
Public Relations	-	-	-	6,714	6,714
Restoration	551,283	3,700	(20,040)	(8,496)	526,447
Total Temporarily Restricted	<u>\$ 1,395,972</u>	<u>\$ 164,538</u>	<u>\$ (267,160)</u>	<u>\$ 6,714</u>	<u>\$ 1,300,064</u>

GUNSTON HALL REGENTS FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

NOTE 6 – RESTRICTED NET ASSETS (Continued)

	Balance July 1, 2011	Revenue	Expenses/ Net Assets Released from Restriction	Reclassifications/ Transfers/Other	Balance June 30, 2012
Temporarily Restricted:					
Administrative	\$ 2,520	\$ 1,150	\$ (1,020)	\$ (2,500)	\$ 150
Archaeology	20,209	170	(3,313)	-	17,066
Buildings	97,879	5,180	(41,506)	(2,500)	59,053
Collections/Antiques	633	-	-	-	633
Development	600	327	(927)	-	-
Education	5,984	550	(125)	-	6,409
Endowment	6,112	1,195	(7,307)	-	-
Friends	556,847	133,797	(138,076)	-	552,568
Gardens	6,939	3,390	(10,329)	-	-
George Mason Memorial	18,626	-	-	-	18,626
Leased Operations	100	-	-	-	100
Library	200,306	7,948	(23,170)	5,000	190,084
Programs	556	440	(996)	-	-
Public Relations	15,707	2,450	(18,157)	-	-
Restoration	633,474	20,240	(102,431)	-	551,283
Total Temporarily Restricted	<u>\$ 1,566,492</u>	<u>\$ 176,837</u>	<u>\$ (347,357)</u>	<u>\$ -</u>	<u>\$ 1,395,972</u>

There were no changes to permanently restricted net assets for the years ended June 30, 2013 and 2012.

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.

GUNSTON HALL REGENTS FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

NOTE 7 – ENDOWMENT (Continued)

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

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 \$1,534 at June 30, 2012. These deficiencies resulted from market fluctuations that occurred during the year ended June 30, 2012 and previous years and the continued appropriation of expenditures as deemed prudent by the Board of Regents. There was no deficiency at June 30, 2013.

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.

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 12 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.

GUNSTON HALL REGENTS FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

NOTE 7 – ENDOWMENT (Continued)

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

The following is a summary of donor-restricted endowment funds subject to SPMIFA for the years ended June 30, 2013 and 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Endowment Net Assets, June 30, 2011	\$ (64)	\$ -	\$ 53,300
Investment Return:			
Interest and Dividends	-	1,456	-
Net Appreciation (Realized and Unrealized)	<u>(1,470)</u>	<u>1,209</u>	<u>-</u>
Total Investment Return	(1,470)	2,665	-
Appropriation of Endowment Assets for Expenditure	<u>-</u>	<u>(2,665)</u>	<u>-</u>
Endowment Net Assets, June 30, 2012	(1,534)	-	53,300
Investment Return:			
Interest and Dividends	-	1,320	-
Net Appreciation (Depreciation) (Realized and Unrealized)	<u>1,534</u>	<u>3,857</u>	<u>-</u>
Total Investment Return	1,534	5,177	-
Appropriation of Endowment Assets for Expenditure	<u>-</u>	<u>(5,177)</u>	<u>-</u>
Endowment Net Assets, June 30, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 53,300</u>

NOTE 8 – RELATED PARTY

The Gunston Hall Foundation (the Foundation), which is exempt from taxation under IRC Section 501(c)(3), was established as a supporting organization to the Regents Fund.

During the years ended June 30, 2013 and 2012, the Regents Fund received a contribution from the Foundation totaling \$92,865 and \$98,950, respectively, which is included in contributions in the statements of revenue, expenses and change in net assets – modified cash basis. At June 30, 2013 and 2012, the amounts due to the Regents Fund by the Foundation totaled \$146,858 and relate to support obligated by the Foundation not yet paid.

GUNSTON HALL REGENTS FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

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 which expired October 31, 2012. A new lease was entered into in November 2012, for \$1 annually, which expires October 31, 2015. 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 \$58,139 and \$38,363 on Plantation and library improvements during the years ended June 30, 2013 and 2012, 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 five full-time and nine part-time employees at Gunston Hall for the year ended June 30, 2013. The Commonwealth provided approximately \$585,000 and \$611,000 during the years ended June 30, 2013 and 2012, 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, 2013 and 2012, specialized historical services and board oversight and strategic planning services were provided by volunteers to the Regents Fund and were valued at approximately \$211,000 and \$167,000, respectively. Donated specialized historical services totaled approximately \$141,600 and \$119,000, while board oversight and strategic planning services totaled approximately \$63,800 and \$48,000, respectively. 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 \$9,726 and \$7,754 to the plan for the years ended June 30, 2013 and 2012, respectively.

GUNSTON HALL REGENTS FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

NOTE 12 – FAIR VALUE MEASUREMENTS

The Regents Fund has determined the fair value of certain assets through application of FASB Accounting Standards Codification (FASB ASC) Topic 820, *Fair Value Measurement*. Fair value of assets and liabilities measured on a recurring basis at June 30, 2013 and 2012 is as follows:

	<u>Fair Value Measurements at Reporting Date Using</u>			
	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>June 30, 2013</u>				
<u>Assets</u>				
Deposit Account	\$ 403,249	\$ 403,249	\$ -	\$ -
U.S. Government Securities and Corporate Bonds	563,933	-	563,933	-
Mutual Funds – Equity	160,273	160,273	-	-
Certificate of Deposit	98,750	-	98,750	-
Exchange-Traded Funds	347,878	347,878	-	-
Equities	1,105,213	1,105,213	-	-
	<u>\$ 2,679,296</u>	<u>\$ 2,016,613</u>	<u>\$ 662,683</u>	<u>\$ -</u>
<u>June 30, 2012</u>				
<u>Assets</u>				
Deposit Account	\$ 41,389	\$ 41,389	\$ -	\$ -
U.S. Government Securities and Corporate Bonds	747,295	-	747,295	-
Mutual Funds – Equity	141,467	141,467	-	-
Certificate of Deposit	96,500	-	96,500	-
Exchange-Traded Funds	307,693	307,693	-	-
Equities	1,122,061	1,122,061	-	-
	<u>\$ 2,456,405</u>	<u>\$ 1,612,610</u>	<u>\$ 843,795</u>	<u>\$ -</u>

FASB ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and provide the highest quality inputs. Level 2 inputs are based primarily on quoted prices for identical or similar assets in active or inactive markets as significant other observable inputs. Level 3 inputs provide the lowest quality inputs because there are no significant observable inputs. 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. U.S. government securities, corporate bonds, and the certificate of deposit are classified as Level 2, as they are not exchange-traded investments and are valued based on quoted prices for similar assets in active markets from pricing sources utilized by investment managers.

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