

Reynolda House, Inc.

Financial Report
June 30, 2010

Reynolda House, Inc.

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Independent Auditor's Report

To the Board of Directors
Reynolda House, Inc.
Winston-Salem, North Carolina

We have audited the accompanying statements of financial position of Reynolda House, Inc. as of June 30, 2010 and 2009 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Reynolda House, Inc.'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 audit 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Reynolda House, Inc. as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Greensboro, North Carolina
October 13, 2010

Reynolda House, Inc.

**Statements of Financial Position
June 30, 2010 and 2009**

	2010	2009
Assets		
Cash and cash equivalents	\$ 1,419,544	\$ 1,579,054
Accounts receivable	8,887	9,362
Grants receivable	170,567	130,402
Contributions receivable, net (Note 2)	395,269	9,790
Investments (Notes 3 and 10)	28,183,772	27,140,075
Land, buildings and equipment, net (Note 4)	12,526,721	12,965,241
Other assets	182,930	181,015
Works of art and historical treasures (Note 1)	-	-
Total assets	\$ 42,887,690	\$ 42,014,939
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 262,819	\$ 207,176
Deferred revenue	21,920	18,396
Due to WFU (Note 8)	272,830	844,435
Total liabilities	557,569	1,070,007
Commitments and Contingencies (Note 7)		
Net assets:		
Unrestricted (Note 6):		
Undesignated	11,248,728	11,214,421
Designated for:		
Long-term investment	21,561,952	20,799,894
Maintenance reserve	172,064	150,309
	32,982,744	32,164,624
Temporarily restricted (Notes 5 and 6)	997,692	433,750
Permanently restricted (Note 6)	8,349,685	8,346,558
Total net assets	42,330,121	40,944,932
Total liabilities and net assets	\$ 42,887,690	\$ 42,014,939

Reynolda House, Inc.

Statement of Activities
Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains and other support:				
Grants and contributions (Notes 2 and 8)	\$ 888,282	\$ 605,805	\$ -	\$ 1,494,087
Grants from WFU (Note 8)	450,000	-	-	450,000
Admissions and sales	182,443	-	-	182,443
Program income	65,681	-	-	65,681
Dividends and interest (Note 6)	214,738	64,966	-	279,704
Net realized and unrealized appreciation on investments (Notes 3 and 6)	2,126,622	465,594	3,127	2,595,343
Other	100,098	-	-	100,098
Net assets released from restrictions (Note 5)	572,423	(572,423)	-	-
Total revenue, gains and other support	4,600,287	563,942	3,127	5,167,356
Expenses:				
Education and program	531,968	-	-	531,968
Exhibitions and curatorial	295,424	-	-	295,424
Collections management and security	671,011	-	-	671,011
Facilities management	671,373	-	-	671,373
Marketing and public relations	298,959	-	-	298,959
Retail and visitor services	171,501	-	-	171,501
Administrative	830,314	-	-	830,314
Development and fund raising	311,617	-	-	311,617
Total expenses	3,782,167	-	-	3,782,167
Increase in net assets	818,120	563,942	3,127	1,385,189
Net assets:				
Beginning	32,164,624	433,750	8,346,558	40,944,932
Ending	<u>\$ 32,982,744</u>	<u>\$ 997,692</u>	<u>\$ 8,349,685</u>	<u>\$ 42,330,121</u>

See Notes to Financial Statements.

Reynolda House, Inc.

**Statement of Activities
Year Ended June 30, 2009**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains and other support:				
Grants and contributions (Notes 2 and 8)	\$ 771,253	\$ 10,397	\$ -	\$ 781,650
Grants from WFU (Note 8)	500,000	-	-	500,000
Admissions and sales	184,435	1,022	-	185,457
Program income	62,429	-	-	62,429
Dividends and interest (Note 6)	739,851	219,108	-	958,959
Net realized and unrealized depreciation on investments (Notes 3 and 6)	(14,756,165)	(1,416,897)	(5,375)	(16,178,437)
Other	17,230	-	-	17,230
Net assets released from restrictions (Note 5)	641,911	(641,911)	-	-
Total revenue, gains and other support	(11,839,056)	(1,828,281)	(5,375)	(13,672,712)
Expenses:				
Education and program	715,148	-	-	715,148
Exhibitions and curatorial	446,563	-	-	446,563
Collections management and security	701,789	-	-	701,789
Facilities management	673,662	-	-	673,662
Marketing and public relations	350,295	-	-	350,295
Retail and visitor services	198,112	-	-	198,112
Administrative	874,734	-	-	874,734
Development and fund raising	331,113	-	-	331,113
Total expenses	4,291,416	-	-	4,291,416
Decrease in net assets	(16,130,472)	(1,828,281)	(5,375)	(17,964,128)
Net assets:				
Beginning	48,295,096	2,262,031	8,351,933	58,909,060
Ending	\$ 32,164,624	\$ 433,750	\$ 8,346,558	\$ 40,944,932

See Notes to Financial Statements.

Reynolda House, Inc.

Statements of Cash Flows
Years Ended June 30, 2010 and 2009

	2010	2009
Cash Flows From Operating Activities		
Increase (decrease) in net assets	\$ 1,385,189	\$(17,964,128)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Depreciation	559,725	672,153
Net realized and unrealized (appreciation) depreciation on investments	(2,595,343)	16,178,437
(Income) loss from private gifts restricted for long-term investment	(3,127)	5,375
Noncash gifts	(14,313)	(11,000)
Loss on disposal of property and equipment	14,157	32,203
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	475	3,336
Grants receivable	(40,165)	179,939
Contributions receivable	(385,479)	16,165
Other assets	(1,915)	117,770
Increase (decrease) in:		
Accounts payable and accruals	55,643	(70,617)
Deferred revenue	3,524	1,546
Due to WFU	(571,605)	193,954
Net cash used in operating activities	(1,593,234)	(644,867)
Cash Flows From Investing Activities		
Purchases of land, buildings and equipment	(135,362)	(71,033)
Purchases of investments	(274,237)	(72,292,710)
Net proceeds from sales and maturities of investments	1,840,196	73,740,023
Net cash provided by investing activities	1,430,597	1,376,280
Cash Flows Provided By (Used In) Financing Activities		
Income (loss) from private gifts restricted for long-term investment	3,127	(5,375)
Net increase (decrease) in cash and cash equivalents	(159,510)	726,038
Cash and cash equivalents:		
Beginning	1,579,054	853,016
Ending	\$ 1,419,544	\$ 1,579,054
Supplemental Disclosures of Cash Flow Information		
Noncash gift of land, buildings and equipment	\$ -	\$ 11,000
Noncash gifts of stock	\$ 14,313	\$ -

See Notes to Financial Statements.

Reynolda House, Inc.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities and organization: Reynolda House, Inc. ("Reynolda House") is a nonprofit corporation organized under the laws of the State of North Carolina for the purpose of preserving and interpreting an American country home and a premier collection of American art. Through innovative public programs and exhibitions, Reynolda House offers a deep understanding of American culture to diversified audiences.

Reynolda House's board of directors is elected by Wake Forest University ("WFU"). Therefore, Reynolda House's accounts are included in WFU's consolidated financial statements. See Note 7 for further information regarding transactions between Reynolda House and WFU.

A summary of Reynolda House's significant accounting policies follows:

Basis of presentation: Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Reynolda House and changes therein are classified and reported as follows:

Unrestricted net assets are not subject to donor-imposed stipulations. Reynolda House's Board of Directors has designated a portion of the unrestricted net assets for long-term investment and maintenance.

Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met either by actions of Reynolda House and/or the passage of time.

Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by Reynolda House. Generally, the donors of these assets permit Reynolda House to use all of, or a portion of, the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. When restrictions are met in the year of contribution receipt, such contributions are shown as unrestricted contributions. Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year, net of an allowance for uncollectible contributions receivable, are discounted to their present value at a risk adjusted rate. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment, based on such factors as prior collection history, type of contribution and nature of fundraising activity.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Income and realized and unrealized gains on investments of permanently restricted net assets are reported as follows:

- As increases in permanently restricted net assets if the terms of the gifts require that they be added to the principal of a permanent endowment fund;
- As increases in temporarily restricted net assets if the terms of the gifts impose temporary restrictions on their use; or
- As increases in unrestricted net assets in all other cases.

Cash and cash equivalents: For purposes of reporting cash flows, Reynolda House considers interest-bearing deposits in financial institutions with remaining maturities at date of purchase of three months or less to be cash equivalents. Cash equivalents consist primarily of money market accounts. At June 30, 2010, Reynolda House had bank and other deposits which exceeded federally insured limits. Reynolda House has not experienced any financial loss on such balances and does not believe it is exposed to any significant credit risk on its cash and cash equivalents.

Contribution receivable: Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on contributions receivable made before June 30, 2008, are computed using a risk-free interest rate applicable to the year in which the promise was received. The discounts on contributions receivable made after July 1, 2008, are computed using a rate commensurate with the risk of the contributions receivable in accordance with fair value accounting standards. Conditional promises to give are not included as support until the conditions are substantially met.

Investments: Investments are stated at fair value. In accordance with accounting principles generally accepted in the United States of America ("GAAP"), fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments include units purchased in the WFU investment pool and financial instruments with short maturities that are held and actively managed as part of the Reynolda House's investment portfolio. Investment in the WFU investment pool is determined on a market unit valuation basis. Investment in other investments are determined by quoted prices.

The Reynolda House Board of Directors approves the endowment spending rate annually. The approved endowment spending rate for the years ended June 30, 2010 and 2009 was 4.92% and 6.25%, respectively, calculated as a percentage of the average of the previous three-year semiannual moving market value per unit (see Note 3).

Land, buildings, and equipment: Land, buildings, and equipment are recorded at cost at date of acquisition or estimated fair market value on the date received for donated items. Depreciation is calculated on a straight-line basis over the estimated useful life of each class or component of depreciable asset. Estimated lives range from three to 40 years.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Other assets: Other assets include museum store inventory, prepaid expenses and other assets. Inventories consisting of primarily prints, books and catalogues are valued at cost on a first-in, first-out basis, which is not in excess of market.

Works of art and historical treasures: Reynolda House has various works of art and historical treasures, which include the original Reynolda House and its contents, as well as paintings and other items subsequently acquired. In accordance with accounting for contributions, an entity need not recognize such items in its financial statements if the items are added to collections held for public exhibition, education, or research in furtherance of public service rather than financial gain. If purchased, the collection items are expensed, and if donated, they are not reflected in the financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes. The works of art and historical treasures are subject to a policy that requires proceeds from their sales to be used to acquire other items for works of art and historical treasures. Reynolda House's paintings are cataloged for educational, research, scientific, and curatorial purposes, and activities verifying their existence and assessing their condition are performed on an ongoing basis. No works of art or historical treasures were deaccessioned in fiscal years 2010 or 2009.

Estimates: The financial statements are prepared in accordance with GAAP which require management to make estimates and assumptions that affect the reporting of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income taxes: Reynolda House is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and is generally exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. Accordingly, no provision for income taxes is recorded in the financial statements.

The Financial Accounting Standards Board ("FASB") issued new guidance on Accounting for Uncertainty in Income Taxes. Reynolda House adopted this new guidance for the year ending June 30, 2010. Management evaluated Reynolda House's tax positions and concluded that Reynolda House had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. With few exceptions, the Reynolda House is no longer subject to income tax examinations by the U. S. federal tax authorities for years before 2007.

Subsequent events: Reynolda House has evaluated its subsequent events (events occurring after June 30, 2010) through October 13, 2010, which represents the date the financial statements were available to be issued.

Reynolda House, Inc.

Notes to Financial Statements

Note 2. Contributions Receivable

The following is an analysis of the maturities of Reynolda House's contributions receivable at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
One year or less	\$ 188,250	\$ 8,500
Between one and five years	235,000	2,500
Gross contributions receivable	423,250	11,000
Less estimated uncollectible amounts	21,162	1,088
Less discount	6,819	122
Contributions receivable, net	\$ 395,269	\$ 9,790

Discount rates were 2.00% and 3.53% for the years ending June 30, 2010 and 2009, respectively.

Note 3. Investments

Investments at June 30, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
WFU investment pool	\$ 28,149,774	\$ 27,123,517
Other investments	33,998	16,558
Total investments	\$ 28,183,772	\$ 27,140,075

Reynolda House owned 610,730 and 611,220 units in the WFU Endowment Pool with a fair value of \$46.09 and \$44.38 per unit at June 30, 2010 and 2009, respectively. Realized and unrealized gains on investments are recorded net of investment expenses of \$230,574 in the year ending June 30, 2010 statement of activities. There were no investment expenses included in the June 30, 2009 realized and unrealized depreciation of investments.

Note 4. Land, Buildings and Equipment

Land, buildings and equipment are summarized as follows at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Land	\$ 1,122,000	\$ 1,122,000
Buildings and other improvements	14,254,773	14,138,510
Equipment	1,511,290	1,478,468
Vehicles	3,450	3,450
Construction in progress	-	13,723
	16,891,513	16,756,151
Less accumulated depreciation	(4,364,792)	(3,790,910)
	\$ 12,526,721	\$ 12,965,241

Total depreciation expense on buildings and equipment for the years ended June 30, 2010 and 2009 was \$559,725 and \$672,153, respectively.

Reynolda House, Inc.

Notes to Financial Statements

Note 5. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Museum operating support	\$ 552,398	\$ 141,779
Senior curator position and curator program expenses	311,985	191,838
Reynolda House education programs	42,062	36,808
House restoration projects	37,969	37,968
Electronic cataloguing	34,434	-
Other	18,844	25,357
	<u>\$ 997,692</u>	<u>\$ 433,750</u>

During the years ended June 30, 2010 and 2009, net assets of \$572,423 and \$641,911, respectively, were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the passage of time.

Note 6. Endowments and Quasi Endowment

In March 2009, North Carolina passed a version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). UPMIFA provides for standards of prudence to be utilized by organizations in making determinations to appropriate or accumulate donor-restricted endowment funds. UPMIFA also requires that earnings from donor restricted endowments, unless otherwise instructed by the gift instrument, be classified as donor restricted for legal purposes until they are appropriated for expenditure. In accordance with accounting for endowments, this results in earnings from donor-restricted endowments being reported as temporarily restricted until appropriated.

Reynolda House's endowments consist of several donor-restricted funds established to support art initiatives, maintenance and other restricted purposes. Reynolda House's Board of Directors also maintains a board-designated endowment, which is designated for long-term investment. As required by GAAP net assets associated with endowment funds, including net assets designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law: The Board of Directors of Reynolda House has interpreted the North Carolina enacted version of UPMIFA ("SPMIFA") 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, Reynolda House classifies as permanently restricted net assets (a) the original value of gifts donated 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 fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets, until those amounts are appropriated for expenditure by Reynolda House in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, Reynolda House considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- a. The duration and preservation of the fund
- b. The purposes of Reynolda House and the donor-restricted endowment fund
- c. General economic conditions

Reynolda House, Inc.

Notes to Financial Statements

Note 6. Endowments and Quasi Endowment (Continued)

- d. The possible effects of inflation and deflation
- e. The expected total return from income and the appreciation of investments
- f. Other resources of Reynolda House
- g. The investment policies of Reynolda House

Funds with deficiencies: From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires Reynolda House to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$2,082,825 and \$2,221,622 as of June 30, 2010 and 2009, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred during the prior fiscal year, which is due to the short period of time that the funds have been invested and the continued appropriation for the current period which was deemed prudent by the Board of Directors.

Return objective and risk parameters: Reynolda House has adopted investment and spending policies for endowment assets that support the objective of providing a sustainable and increasing level of endowment income distribution to support the Reynolda House's activities through the annual operating budget while preserving the real (inflation adjusted) purchasing power of the endowment exclusive of gift additions. The Reynolda House's primary investment objective is to maximize total return within reasonable and prudent levels of risk while maintaining sufficient liquidity to meet disbursement needs and ensure preservation of capital.

Strategies employed for achieving objectives: To satisfy its long-term rate-of-return objectives, Reynolda House relies on a total return strategy, the objective of which is to achieve a return consisting of a combination of current income and capital appreciation, without regard to an emphasis on either, recognizing that changes in market conditions and interest rates will result in varying strategies in an attempt to optimize results. The endowment portfolio is diversified among various asset classes and strategies to help reduce risk.

Spending policy and how the objectives relate to spending policy: Reynolda House will appropriate for expenditure in its annual budget a board-approved percentage (generally 4.9% to 6.5%) of the rolling average of the market value (calculated semi-annually) of the endowment assets over the preceding 3 years, the base to be adjusted for new capital contributions to the endowment. Reynolda House may adjust the spending rate based on the rolling average to reflect a substantial decline in endowment asset value. The spending rate is based on the long-term assumption of an average annual total return (net of fees) that would allow the endowment to grow annually.

Endowment net asset composition by type of fund as of June 30, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (2,082,825)	\$ 340,647	\$ 8,330,000	\$ 6,587,822
Board-designated endowment fund	21,561,952	-	-	21,561,952
	<u>\$ 19,479,127</u>	<u>\$ 340,647</u>	<u>\$ 8,330,000</u>	<u>\$ 28,149,774</u>

Reynolda House, Inc.

Notes to Financial Statements

Note 6. Endowments and Quasi Endowment (Continued)

Changes in endowment net assets for the fiscal year ended June 30, 2010 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2009	\$ 18,578,272	\$ 215,245	\$ 8,330,000	\$ 27,123,517
Investment return:				
Net realized and unrealized appreciation	2,126,622	465,594	-	2,592,216
Net investment income	210,249	63,987	-	274,236
Total investment return	2,336,871	529,581	-	2,866,452
Appropriation of endowment assets for expenditure	(1,436,016)	(404,179)	-	(1,840,195)
Endowment net assets, June 30, 2010	\$ 19,479,127	\$ 340,647	\$ 8,330,000	\$ 28,149,774

Endowment net asset composition by type of fund as of June 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (2,221,622)	\$ 215,245	\$ 8,330,000	\$ 6,323,623
Board-designated endowment fund	20,799,894	-	-	20,799,894
	\$ 18,578,272	\$ 215,245	\$ 8,330,000	\$ 27,123,517

Changes in endowment net assets for the fiscal year ended June 30, 2009 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2008	\$ 34,617,809	\$ 1,869,163	\$ 8,330,000	\$ 44,816,972
Investment return:				
Net realized and unrealized depreciation	(14,756,165)	(1,416,897)	-	(16,173,062)
Net investment income	730,984	218,036	-	949,020
Total investment return	(14,025,181)	(1,198,861)	-	(15,224,042)
Appropriation of endowment assets for expenditure	(2,014,356)	(455,057)	-	(2,469,413)
Endowment net assets, June 30, 2009	\$ 18,578,272	\$ 215,245	\$ 8,330,000	\$ 27,123,517

Reynolda House, Inc.

Notes to Financial Statements

Note 7. Commitments and Contingencies

In accordance with Accounting for Conditional Asset Retirement Obligations, Reynolda House identified a conditional asset retirement obligation related to asbestos abatement. Reynolda House did not record a liability for this conditional asset retirement obligation due to Reynolda House being unable to reasonably estimate the fair value of the liability. The fair value of such a liability could not be reasonably estimated as Reynolda House has not specified plans that would require abatement of the asbestos and, therefore, a settlement date for this conditional asset retirement obligation is not known or can it be reasonably estimated.

Note 8. Related-Party Transactions

WFU routinely processes transactions for Reynolda House. Transaction processing includes, but is not limited to, payroll, accounts payable and receipt services. When WFU processes these transactions, the cash received or expended is recorded as an increase or decrease to the due to WFU account included in the statements of financial position.

Reynolda House purchases certain goods and services from WFU. The goods and services purchased include primarily administrative support services. WFU charged Reynolda House approximately \$172,000 and \$132,000 in fiscal years 2010 and 2009, respectively, for these administrative support services. WFU provides certain other support at no charge to Reynolda House. The value of these services is believed to be immaterial to the financial statements.

In accordance with the Affiliation Agreement between WFU and Reynolda House, dated January 15, 2002, WFU agreed to provide funding to pay for a newly constructed wing as well as a restoration project at Reynolda House. In return, Reynolda House agreed to repay WFU with funds received from the capital campaign for this project. Accordingly, the funds received from WFU for this project were recorded as a liability upon receipt. In the event that funds advanced by WFU for this project were not fully repaid with capital campaign proceeds, the agreement indicated that any remaining liability to WFU for this project would be considered fully satisfied at the conclusion of the campaign. Included in due to WFU at June 30, 2010 and 2009 on the statements of financial position is \$0 and \$200,000, respectively, that relates to the capital campaign liability.

For fiscal years 2010 and 2009, WFU contributed approximately \$450,000 and \$500,000, respectively, to Reynolda House primarily in support of Reynolda House's general operations.

Reynolda House liquidated its investment portfolio during the year ended June 30, 2009 and began investing in the WFU endowment pool (see Note 3).

During the years ended June 30, 2010 and 2009, members of the Board of Directors contributed cash gifts to Reynolda House totaling approximately \$250,000 and \$240,000, respectively, and noncash gifts totaling approximately \$26,000 and \$7,000, respectively. From time to time members of the Board of Directors may also contribute works of art to Reynolda House. No amounts associated with such gifts are reflected in the financial statements or footnotes in accordance with Reynolda House's policy for recording works of art and historical treasures (see Note 1). In addition, contributions receivable related to outstanding pledges made by the Board of Directors were \$388,250 and \$6,000 at June 30, 2010 and 2009, respectively.

Reynolda House, Inc.

Notes to Financial Statements

Note 9. Benefit Plan

A tax deferred annuity plan is provided for all eligible employees whereby 10% of the employee's eligible salary is contributed to the plan by Reynolda House. Contributions during the years ended June 30, 2010 and 2009 totaled approximately \$134,000 and \$139,000, respectively.

Note 10. Estimated Fair Value of Financial Instruments

GAAP provides a framework for measuring fair value which applies to all financial instruments that are being measured and reported on a fair value basis. In determining fair values, Reynolda House uses various methods including market, income and cost approaches. Based on these approaches, Reynolda House often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. Reynolda House utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

The hierarchy established under GAAP gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Reynolda House's assets and liabilities are classified within the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement.

The three levels of the fair value hierarchy and its applicability to Reynolda House's assets and liabilities, are described below:

- Level 1 — Valuations for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
- Level 2 — Valuations for assets and liabilities traded in less active markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.
- Level 3 — Valuations for assets and liabilities that are derived from other valuation methodologies, including discounted cash flow models and similar techniques, and are not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

Reynolda House, Inc.

Notes to Financial Statements

Note 10. Estimated Fair Value of Financial Instruments (Continued)

The following table summarizes Reynolda House's assets and liabilities that are measured at fair value by level within the fair value hierarchy as of June 30, 2010 and 2009:

Assets Measured at Fair Value on a Recurring Basis

Description	Total Fair Value	Fair Value as of June 30, 2010		
		Level 1	Level 2	Level 3
Investments:				
WFU investment pool	\$ 28,149,774	\$ -	\$ -	\$ 28,149,774
Other investments	33,998	14,313	-	19,685
	<u>\$ 28,183,772</u>	<u>\$ 14,313</u>	<u>\$ -</u>	<u>\$ 28,169,459</u>

Description	Total Fair Value	Fair Value as of June 30, 2009		
		Level 1	Level 2	Level 3
Investments:				
WFU investment pool	\$ 27,123,517	\$ -	\$ -	\$ 27,123,517
Other investments	16,558	-	-	16,558
	<u>\$ 27,140,075</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,140,075</u>

Reynolda House liquidated investments traded in active markets (Level 1 type investments) shortly before June 30, 2009 and invested in the WFU investment pool (see Note 3). Reynolda House's interest in the WFU investment pool is not traded on an open market and significant information utilized in calculating the unit value is not available to Reynolda House. Therefore, Reynolda House records the investment holdings at unit value as reported by WFU and considers the investment to be a Level 3 type investment.

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Notes to Financial Statements

Note 10. Estimated Fair Value of Financial Instruments (Continued)

The table below sets forth a summary of changes in the fair value of the Plan's level 3 assets for the years ended June 30, 2010 and 2009.

	WFU Investment Pool	Other Investments
Balance at July 1, 2008	\$ -	\$ 21,933
Unrealized loss	-	(5,375)
Purchase of WFU units	27,123,517	-
Balance at June 30, 2009	27,123,517	16,558
Investment income included in changes in net assets	274,237	-
Net realized and unrealized gains	2,592,216	3,127
Net purchases, sales, issuances, and settlements	(1,840,196)	-
Balance at June 30, 2010	<u>\$ 28,149,774</u>	<u>\$ 19,685</u>
The total amount of gain for the period included in changes in net assets attributable to the change in gross unrealized gains or losses relating to assets still held at the reporting date. Amount is reported in net unrealized and realized appreciation (depreciation) on investments:		
2010	<u>\$ 2,604,531</u>	<u>\$ 3,127</u>
2009	<u>\$ -</u>	<u>\$ (5,375)</u>