

Reynolda House, Inc.

Financial Report
June 30, 2011

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, 2011 and 2010 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, 2011 and 2010, 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 20, 2011

Reynolda House, Inc.

**Statements of Financial Position
June 30, 2011 and 2010**

	2011	2010
Assets		
Cash and cash equivalents	\$ 1,215,233	\$ 1,419,544
Accounts receivable	9,697	8,887
Grants receivable	333,734	170,567
Contributions receivable, net (Notes 2 and 8)	246,289	395,269
Investments (Notes 3 and 10)	30,618,107	28,183,772
Land, buildings and equipment, net (Note 4)	12,120,174	12,526,721
Other assets	212,886	182,930
Works of art and historical treasures (Note 1)	-	-
Total assets	\$ 44,756,120	\$ 42,887,690
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 240,152	\$ 262,819
Deferred revenue	22,160	21,920
Due to WFU (Note 8)	202,646	272,830
Total liabilities	464,958	557,569
Commitments and Contingencies (Note 7)		
Net assets:		
Unrestricted (Note 6):		
Undesignated	11,061,315	11,248,728
Designated for:		
Long-term investment	23,423,286	21,561,952
Maintenance reserve	150,555	172,064
	34,635,156	32,982,744
Temporarily restricted (Notes 5 and 6)	1,326,006	997,692
Permanently restricted (Note 6)	8,330,000	8,349,685
Total net assets	44,291,162	42,330,121
Total liabilities and net assets	\$ 44,756,120	\$ 42,887,690

See Notes to Financial Statements.

Reynolda House, Inc.

Statement of Activities
Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains and other support:				
Grants and contributions (Notes 2 and 8)	\$ 602,561	\$ 366,401	\$ -	\$ 968,962
Grants from WFU (Note 8)	450,000	-	-	450,000
Admissions and sales	180,918	-	-	180,918
Program income	68,945	-	-	68,945
Dividends and interest (Note 6)	384,033	116,384	-	500,417
Net realized and unrealized appreciation (depreciation) on investments (Notes 3 and 6)	3,073,165	496,536	(19,685)	3,550,016
Other	36,615	-	-	36,615
Net assets released from restrictions (Note 5)	651,007	(651,007)	-	-
Total revenue, appreciation (depreciation) and other support	5,447,244	328,314	(19,685)	5,755,873
Expenses:				
Education and program	547,419	-	-	547,419
Exhibitions and curatorial	256,553	-	-	256,553
Collections management and security	740,135	-	-	740,135
Facilities management	610,297	-	-	610,297
Marketing and public relations	311,295	-	-	311,295
Retail and visitor services	183,060	-	-	183,060
Administrative (Note 8)	798,548	-	-	798,548
Development and fund raising	347,525	-	-	347,525
Total expenses	3,794,832	-	-	3,794,832
Increase (decrease) in net assets	1,652,412	328,314	(19,685)	1,961,041
Net assets:				
Beginning	32,982,744	997,692	8,349,685	42,330,121
Ending	\$ 34,635,156	\$ 1,326,006	\$ 8,330,000	\$ 44,291,162

See Notes to Financial Statements.

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, appreciation 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 (Note 8)	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	\$ 32,982,744	\$ 997,692	\$ 8,349,685	\$ 42,330,121

See Notes to Financial Statements.

Reynolda House, Inc.

Statements of Cash Flows
Years Ended June 30, 2011 and 2010

	2011	2010
Cash Flows From Operating Activities		
Increase in net assets	\$ 1,961,041	\$ 1,385,189
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation	478,717	559,725
Net realized and unrealized appreciation on investments	(3,550,016)	(2,595,343)
(Income) loss from private gifts restricted for long-term investment	19,685	(3,127)
Noncash gifts	(2,550)	(14,313)
Loss on disposal of property and equipment	2,704	14,157
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(810)	475
Grants receivable	(163,167)	(40,165)
Contributions receivable	148,980	(385,479)
Other assets	(29,956)	(1,915)
Increase (decrease) in:		
Accounts payable and accruals	(22,667)	55,643
Deferred revenue	240	3,524
Due to WFU	(70,184)	(571,605)
Net cash used in operating activities	(1,227,983)	(1,593,234)
Cash Flows From Investing Activities		
Purchases of land, buildings and equipment	(74,874)	(135,362)
Purchases of investments	(496,995)	(274,237)
Net proceeds from sales and maturities of investments	1,615,226	1,840,196
Net cash provided by investing activities	1,043,357	1,430,597
Cash Flows Provided By (Used In) Financing Activities		
Income (loss) from private gifts restricted for long-term investment	(19,685)	3,127
Net decrease in cash and cash equivalents	(204,311)	(159,510)
Cash and cash equivalents:		
Beginning	1,419,544	1,579,054
Ending	\$ 1,215,233	\$ 1,419,544
Supplemental Disclosures of Cash Flow Information		
Noncash gifts of stock	\$ 2,550	\$ 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 8 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 appreciation (depreciation) 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, 2011, Reynolda House had bank and other deposits that 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 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. 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 year ended June 30, 2011 was 5.64%, calculated as a percentage of the market value per unit as of December 31, 2009 (see Note 6). The approved endowment spending rate for the year ended June 30, 2010 was 4.92%, calculated as a percentage of the average of the previous three-year semiannual moving market value per unit.

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. Several historical books, magazines, and other printed materials were deaccessed in fiscal year 2011. No proceeds were received and the fair values associated with the items were immaterial to the financial statements. No works of art or historical treasures were deaccessed in fiscal year 2010.

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.

Reynolda House adheres to the *Accounting for Uncertain in Income Taxes* Topic of the FASB Accounting Standards Codification. 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 2008.

Subsequent events: Reynolda House has evaluated its subsequent events (events occurring after June 30, 2011) through October 20, 2011, which represents the date the financial statements were available to be issued.

Recently issued accounting standard: In May 2011, the FASB issued *Accounting Standards Update 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U. S. GAAP and IFRSs* ("ASU 2011-04"). ASU 2011-04 clarifies existing fair value measurement requirements, changes certain fair value measurement principles and expands disclosure requirements that will be effective for the fiscal year ending June 30, 2013. Management has not yet determined the impact that ASU 2011-04 will have on Reynolda House's financial statements.

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, 2011 and 2010:

	2011	2010
One year or less	\$ 146,625	\$ 188,250
Between one and five years	115,000	235,000
Gross contributions receivable	261,625	423,250
Less estimated uncollectible amounts	13,081	21,162
Less discount	2,255	6,819
Contributions receivable, net	\$ 246,289	\$ 395,269

Discount rates were 1.81% and 2.00% for the years ending June 30, 2011 and 2010, respectively.

Note 3. Investments

Investments at June 30, 2011 and 2010 consist of the following:

	2011	2010
WFU investment pool	\$ 30,618,107	\$ 28,149,774
Other investments	-	33,998
Total investments	\$ 30,618,107	\$ 28,183,772

Reynolda House owned 613,307 and 610,730 units in the WFU investment pool with a fair value of \$49.92 and \$46.09 per unit at June 30, 2011 and 2010, respectively. Realized and unrealized appreciation on investments are recorded net of investment expenses of \$248,922 in the year ending June 30, 2011 statement of activities. Realized and unrealized appreciation on investments are recorded net of investment expenses of \$230,574 in the year ending June 30, 2010 statement of activities.

The WFU investment pool is a professionally managed portfolio that contains U. S. and foreign common shares and bonds of publicly traded companies, mutual funds, private equity and various other partnership interests. Such investments are exposed to various risks such as interest rate, market and credit risk. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

Note 4. Land, Buildings and Equipment

Land, buildings and equipment are summarized as follows at June 30, 2011 and 2010:

	2011	2010
Land	\$ 1,122,000	\$ 1,122,000
Buildings and other improvements	14,294,940	14,254,773
Equipment	1,515,219	1,511,290
Vehicles	3,450	3,450
Software	18,300	-
	16,953,909	16,891,513
Less accumulated depreciation	(4,833,735)	(4,364,792)
	\$ 12,120,174	\$ 12,526,721

Reynolda House, Inc.

Notes to Financial Statements

Note 4. Land, Buildings and Equipment (Continued)

Total depreciation expense on buildings and equipment for the years ended June 30, 2011 and 2010 was \$478,717 and \$559,725, respectively.

Note 5. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30, 2011 and 2010:

	2011	2010
Museum operating support	\$ 641,134	\$ 552,398
Senior curator position and curator program expenses	567,137	311,985
Reynolda House education programs	41,495	42,062
House restoration projects	37,969	37,969
Electronic cataloguing	26,354	34,434
Other	11,917	18,844
	<u>\$ 1,326,006</u>	<u>\$ 997,692</u>

During the years ended June 30, 2011 and 2010, net assets of \$651,007 and \$572,423, 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

Reynolda House, Inc.

Notes to Financial Statements

Note 6. Endowments and Quasi Endowment (Continued)

- b. The purposes of Reynolda House and the donor-restricted endowment fund
- c. General economic conditions
- 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 \$1,743,811 and \$2,082,825 as of June 30, 2011 and 2010, respectively. These deficiencies resulted primarily from unfavorable market fluctuations that occurred during the 2009 fiscal year 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 long-term investment 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 market value (calculated semi-annually) of the endowment assets at December 31 of the previous fiscal year, the base to be adjusted for new capital contributions to the endowment. Reynolda House may adjust the spending rate based on the market value at December 31 to reflect a substantial decline in endowment asset value.

Endowment net asset composition by type of fund as of June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (1,743,811)	\$ 608,632	\$ 8,330,000	\$ 7,194,821
Board-designated endowment fund	23,423,286	-	-	23,423,286
	<u>\$ 21,679,475</u>	<u>\$ 608,632</u>	<u>\$ 8,330,000</u>	<u>\$ 30,618,107</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, 2011 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2010	\$ 19,479,127	\$ 340,647	\$ 8,330,000	\$ 28,149,774
Investment return:				
Net realized and unrealized appreciation	3,073,165	496,536	-	3,569,701
Net investment income	380,611	116,384	-	496,995
Total investment return	3,453,776	612,920	-	4,066,696
Appropriation of endowment assets for expenditure	(1,253,428)	(344,935)	-	(1,598,363)
Endowment net assets, June 30, 2011	\$ 21,679,475	\$ 608,632	\$ 8,330,000	\$ 30,618,107

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
	\$ 19,479,127	\$ 340,647	\$ 8,330,000	\$ 28,149,774

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

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 nor 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 \$198,000 and \$172,000 in fiscal years 2011 and 2010, 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.

For fiscal years 2011 and 2010, WFU contributed \$450,000 to Reynolda House primarily in support of Reynolda House's general operations.

During the years ended June 30, 2011 and 2010, members of the Board of Directors contributed cash gifts to Reynolda House totaling approximately \$298,000 and \$250,000, respectively, and noncash gifts totaling approximately \$7,000 and \$26,000, 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 \$237,300 and \$388,250 at June 30, 2011 and 2010, respectively.

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, 2011 and 2010 totaled approximately \$139,000 and \$134,000, respectively.

Notes to Financial Statements

Note 10. Estimated Fair Value of Financial Instruments

GAAP establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy 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). The three levels of the fair value hierarchy under GAAP are described below:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that Reynolda House has the ability to access at the measurement date. The quoted price for these investments is not adjusted, even in situations where Reynolda House holds a large position and a sale could reasonably be expected to impact the quoted price. The types of investments included in Level 1 include listed equities and listed derivatives.

Level 2: Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly, and the fair value is determined through the use of models or other valuation methodologies. Investments that are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities, certain over-the-counter derivatives, and certain general and limited partnership and membership interests in funds that calculate net asset value per share, or its equivalent. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement.

Level 3: Inputs that are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation. Investments that are included in this category generally include equity and debt positions in private companies and certain general and limited partnership interests in corporate private equity and real estate funds, debt funds, hedge funds, funds of hedge funds, and distressed debt.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value subsequent to initial recognition. These methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Reynolda House believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

WFU investment pool: 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. Due to these factors and certain withdrawal restrictions in place, Reynolda House considers the investment to be a Level 3 type investment.

Reynolda House, Inc.

Notes to Financial Statements

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

Assets Measured at Fair Value on a Recurring Basis

The following tables summarize Reynolda House's assets and liabilities that are measured at fair value by level within the fair value hierarchy as of June 30, 2011 and 2010:

Description	Total Fair Value	Fair Value as of June 30, 2011		
		Level 1	Level 2	Level 3
Investments:				
WFU investment pool	\$ 30,618,107	-	-	\$ 30,618,107

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
	\$ 28,183,772	\$ 14,313	\$ -	\$ 28,169,459

The WFU investment pool is constructed on a foundation of modern portfolio theory and strategic asset allocation. WFU diversifies its investments amount various asset classes incorporating multiple strategies and investment advisors to help manage risk. Major investment decisions are approved by WFU's Investment Policy Committee, which oversees WFU's investments in accordance with established guidelines. Management and investment decisions are not made in isolation, but in the context of the portfolio investments as a whole and as part of the overall investment strategy. The pooled endowment's four main asset segments are:

Absolute return: Absolute return investments generally include various hedged strategies, such as long/short, event driven, global macro, and multi-strategy.

Equities: Equity investments generally include both long only and hedged equity investments on a global basis, as well as private equity strategies.

Fixed income: Fixed income investments generally include various long only as well as hedged strategies across the credit quality spectrum, both domestic and international.

Inflation hedges: These investments generally include real estate and commodity strategies, both public and private.

Each of these asset segments has a target (default) allocation as well as ranges around the target allocation to allow for tactical adjustments to take advantage of market opportunities. At June 30, 2011 the investments held by WFU were reported in the fair value hierarchy as approximately 35% Level 1, 21% as Level 2, and 44% as Level 3. At June 30, 2010 the investments held by WFU were reported in the fair value hierarchy as approximately 25% Level 1, 25% Level 2, and 50% Level 3.

Redemption of balances held by Reynolda in the WFU investment pool are subject to certain withdrawal restrictions as follows: (a) less than \$2 million: at least 15 days advance notice; (b) \$2 million to \$10 million: at least 45 days advance notice; and (c) greater \$10 million: at least 90 days advance notice. For a complete withdrawal, Reynolda would need to provide at least 120 days advance notice.

Reynolda House, Inc.

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, 2011 and 2010.

	WFU Investment Pool	Other Investments
Balance at July 1, 2009	\$ 27,123,517	\$ 16,558
Investment income included in changes in net assets	274,237	-
Net realized and unrealized appreciation	2,592,216	3,127
Net purchases, sales, issuances, and settlements	(1,840,196)	-
Balance at June 30, 2010	28,149,774	19,685
Investment income included in changes in net assets	496,995	-
Net realized and unrealized appreciation (depreciation)	3,569,701	(19,685)
Net purchases, sales, issuances, and settlements	(1,598,363)	-
Balance at June 30, 2010	<u>\$ 30,618,107</u>	<u>\$ -</u>

The total change in unrealized appreciation included in the statement of activities as net realized and unrealized appreciation on investments attributable to Level 3 investments still held at June 30, 2011 and 2010 includes:

	WFU Investment Pool	Other Investments	Total
Balance at June 30, 2011	<u>\$ 2,702,758</u>	<u>\$ -</u>	<u>\$ 2,683,073</u>
Balance at June 30, 2010	<u>\$ 2,604,531</u>	<u>\$ 3,127</u>	<u>\$ 2,607,658</u>