



**REYNOLDA HOUSE, INC.**

Financial Statements

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

## REYNOLDA HOUSE, INC.

### Board of Directors (2012 – 2013)

Barbara B. Millhouse  
Founding President  
New York, New York

Bruce M. Babcock  
Winston-Salem, North Carolina

Dianne N. Blixt  
Winston-Salem, North Carolina

Grace M. Broughton  
Winston-Salem, North Carolina

Malcolm M. Brown  
Winston-Salem, North Carolina

Lee A. Chaden  
Winston-Salem, North Carolina

Susan K. Conger  
Winston-Salem, North Carolina

John W. Davis III  
Winston-Salem, North Carolina

Noel L. Dunn  
Winston-Salem, North Carolina

W. Randy Eaddy  
Winston-Salem, North Carolina

McDara P. Folan, III  
Winston-Salem, North Carolina

Sue L. Henderson  
Winston-Salem, North Carolina

Beverly C. Jennings  
Winston-Salem, North Carolina

Joia M. Johnson  
Winston-Salem, North Carolina

Thomas W. Lambeth  
Winston-Salem, North Carolina

Susan W. Mann  
Winston-Salem, North Carolina

M. Melinda McConnell  
Winston-Salem, North Carolina

Nancy T. Pleasants  
Winston-Salem, North Carolina

E. Gray Smith, III  
Winston-Salem, North Carolina

Lloyd P. Tate, Jr.  
Southern Pines, North Carolina

Gwynne S. Taylor  
Winston-Salem, North Carolina

Mary Craig Tennille  
Winston-Salem, North Carolina

Cristin Tierney  
New York, New York

David G. Townsend  
Winston-Salem, North Carolina

H. Vernon Winters  
Winston-Salem, North Carolina

### Ex Officio

Docent Board Chair  
Louise A. Bazemore  
Winston-Salem, North Carolina

### Officers

Chair  
Thomas W. Lambeth

Chair-Elect  
Dianne N. Blixt

Secretary  
W. Randy Eaddy

Treasurer  
H. Vernon Winters

President of Wake Forest University  
Nathan O. Hatch

**Executive Director**  
Allison C. Perkins

**REYNOLDA HOUSE, INC.**

Financial Statements

June 30, 2013 and 2012

**Table of Contents**

	<b>Page(s)</b>
Independent Auditors' Report	1 – 2
Statements of Financial Position	3
Statements of Activities	4 – 5
Statements of Cash Flows	6
Notes to Financial Statements	7 – 18



KPMG LLP  
Suite 400  
300 North Greene Street  
Greensboro, NC 27401

## Independent Auditors' Report

The Board of Directors  
Reynolda House, Inc.:

### Report on the Financial Statements

We have audited the accompanying financial statements of Reynolda House, Inc., which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

### *Opinion*

In our opinion, the 2013 financial statements referred to above present fairly, in all material respects, the financial position of Reynolda House, Inc. as of June 30, 2013, and the results of its operations and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.



***Other Matter***

The accompanying financial statements of Reynolda House, Inc. as of June 30, 2012, and for the year then ended, were audited by other auditors. Those auditors expressed an unmodified opinion on those financial statements in their report dated October 25, 2012.

KPMG LLP

Greensboro, North Carolina  
October 17, 2013

**REYNOLDA HOUSE, INC.**  
**Statements of Financial Position**  
June 30, 2013 and 2012

<b>Assets</b>	<b>2013</b>	<b>2012</b>
Cash and cash equivalents	\$ 1,694,437	1,009,283
Accounts receivable	11,522	7,023
Grants receivable	51,574	20,561
Contributions receivable, net (notes 2 and 7)	459,722	249,289
Investments (notes 3 and 9)	29,783,282	29,330,283
Land, buildings and equipment, net (note 4)	11,479,763	11,665,847
Other assets	180,170	173,848
Works of art and historical treasures (note 1(j))	—	—
Total assets	\$ 43,660,470	42,456,134
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 285,968	201,520
Deferred revenue	83,265	107,485
Due to Wake Forest University (note 7)	231,129	213,478
Total liabilities	600,362	522,483
Net assets:		
Unrestricted:		
Undesignated	10,400,263	10,191,633
Designated for:		
Long-term investment	22,772,671	22,426,934
Maintenance reserve	159,083	167,420
	33,332,017	32,785,987
Temporarily restricted (notes 5 and 6)	1,398,091	817,664
Permanently restricted (note 6)	8,330,000	8,330,000
Total net assets	43,060,108	41,933,651
Total liabilities and net assets	\$ 43,660,470	42,456,134
Commitments and contingencies (note 4)		

See accompanying notes to financial statements.

**REYNOLDA HOUSE, INC.**

## Statement of Activities

Year ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenue, gains and other support:				
Grants and contributions (notes 2 and 7)	\$ 1,547,178	844,270	—	2,391,448
Grants from Wake Forest University (note 7)	490,000	—	—	490,000
Admissions and sales	214,468	—	—	214,468
Program income	59,692	—	—	59,692
Dividends and interest	676,213	71,698	—	747,911
Net realized and unrealized appreciation (depreciation) on investments	1,261,912	134,162	—	1,396,074
Other	61,391	—	—	61,391
Net assets released from restrictions (note 5)	469,703	(469,703)	—	—
Total revenue, appreciation (depreciation) and other support	<u>4,780,557</u>	<u>580,427</u>	<u>—</u>	<u>5,360,984</u>
Expenses:				
Education and program	550,098	—	—	550,098
Exhibitions and curatorial	432,111	—	—	432,111
Collections management and security	789,182	—	—	789,182
Facilities management	659,928	—	—	659,928
Marketing and public relations	247,176	—	—	247,176
Retail and visitor services	198,493	—	—	198,493
Administrative (note 7)	847,652	—	—	847,652
Development and fund raising	509,887	—	—	509,887
Total expenses	<u>4,234,527</u>	<u>—</u>	<u>—</u>	<u>4,234,527</u>
Change in net assets	<u>546,030</u>	<u>580,427</u>	<u>—</u>	<u>1,126,457</u>
Net assets at the beginning of the year	<u>32,785,987</u>	<u>817,664</u>	<u>8,330,000</u>	<u>41,933,651</u>
Net assets at the end of the year	<u>\$ 33,332,017</u>	<u>1,398,091</u>	<u>8,330,000</u>	<u>43,060,108</u>

See accompanying notes to financial statements.

**REYNOLDA HOUSE, INC.**

## Statement of Activities

Year ended June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenue, gains and other support:				
Grants and contributions (notes 2 and 7)	\$ 619,276	116,556	—	735,832
Grants from Wake Forest University (note 7)	450,000	—	—	450,000
Admissions and sales	213,017	—	—	213,017
Program income	67,970	—	—	67,970
Dividends and interest (note 6)	440,438	46,549	—	486,987
Net realized and unrealized (depreciation) appreciation on investments	(299,828)	(31,988)	—	(331,816)
Other	28,007	—	—	28,007
Net assets released from restrictions (note 5)	639,459	(639,459)	—	—
Total revenue, appreciation (depreciation) and other support	<u>2,158,339</u>	<u>(508,342)</u>	<u>—</u>	<u>1,649,997</u>
Expenses:				
Education and program	525,448	—	—	525,448
Exhibitions and curatorial	409,073	—	—	409,073
Collections management and security	749,483	—	—	749,483
Facilities management	619,152	—	—	619,152
Marketing and public relations	313,783	—	—	313,783
Retail and visitor services	193,519	—	—	193,519
Administrative (note 7)	804,725	—	—	804,725
Development and fund raising	392,325	—	—	392,325
Total expenses	<u>4,007,508</u>	<u>—</u>	<u>—</u>	<u>4,007,508</u>
Change in net assets	<u>(1,849,169)</u>	<u>(508,342)</u>	<u>—</u>	<u>(2,357,511)</u>
Net assets at the beginning of the year	<u>34,635,156</u>	<u>1,326,006</u>	<u>8,330,000</u>	<u>44,291,162</u>
Net assets at the end of the year	<u>\$ 32,785,987</u>	<u>817,664</u>	<u>8,330,000</u>	<u>41,933,651</u>

See accompanying notes to financial statements.



**REYNOLDA HOUSE, INC.**

## Statements of Cash Flows

Years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,126,457	(2,357,511)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	484,854	481,751
Net realized and unrealized (appreciation) depreciation on investments	(1,396,074)	331,816
Noncash gifts	(118,328)	—
Loss on disposal of property and equipment	9,259	—
Changes in assets and liabilities:		
Accounts receivable	(4,499)	2,674
Grants receivable	(31,013)	313,173
Contributions receivable	(210,433)	(3,000)
Other assets	(6,322)	39,038
Accounts payable and accruals	84,448	(38,632)
Deferred revenue	(24,220)	85,325
Due to Wake Forest University	17,651	10,832
Net cash used in operating activities	<u>(68,220)</u>	<u>(1,134,534)</u>
Cash flows from investing activities:		
Purchases of land, buildings and equipment	(308,029)	(27,424)
Purchases of investments	(746,085)	(484,558)
Proceeds from sales and maturities of investments	1,807,488	1,440,566
Net cash provided by investing activities	<u>753,374</u>	<u>928,584</u>
Net increase (decrease) in cash and cash equivalents	685,154	(205,950)
Cash and cash equivalents at beginning of year	<u>1,009,283</u>	<u>1,215,233</u>
Cash and cash equivalents at end of year	<u>\$ 1,694,437</u>	<u>1,009,283</u>
Supplemental disclosures of cash flow information:		
Noncash gifts of stock	\$ 118,328	—
In-kind contributions	15,743	—

See accompanying notes to financial statements.

**REYNOLDA HOUSE, INC.**

Notes to Financial Statements

June 30, 2013 and 2012

**(1) Organization and Summary of Significant Accounting Policies**

***Description of Reynolda House, Inc.***

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) *Basis of Accounting***

The accompanying financial statements have been prepared on the accrual basis.

**(b) *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 including restrictions on investment income and realized and unrealized appreciation (depreciation) on investments. 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

**REYNOLDA HOUSE, INC.**

Notes to Financial Statements

June 30, 2013 and 2012

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.

**(c) 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. At June 30, 2013 and 2012, 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.

**(d) Contributions 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 measured at the present value of their future cash flows, which approximates fair value. The discounts on contributions receivable are computed using a rate commensurate with the risks involved in accordance with fair value accounting standards. Conditional promises to give are not included as support until the conditions are substantially met.

**(e) Investments**

Investments are reported at fair value on the statement of financial position. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market for the investments existed. Investments include units purchased in the WFU investment pool. Investment in the WFU investment pool is determined on a market unit valuation basis. The fair value of other investments is determined by quoted prices.

**(f) Fair Value Measurements**

The fair value 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 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. The three levels of the fair value hierarchy are described below:

Level 1 – Valuations for assets and liabilities traded in active exchange markets as of the reporting date. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities are determined through direct or indirect observations other than quoted market prices. Level 2 also includes investments in funds reported at their net asset values when these investments are redeemable at net asset value on or near the date of the statement of financial position.

## REYNOLDA HOUSE, INC.

### Notes to Financial Statements

June 30, 2013 and 2012

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies including discounted cash flow models and similar techniques, and not based on market exchange, dealer or broker traded transactions. Level 3 also includes investments in funds reported at their net asset values when these investments are not redeemable at net asset value on or near the date of the statement of financial position.

**(g) *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. Depreciation is not calculated on land and construction in progress. Gains or losses on the disposal of land, buildings, and equipment are included in the statement of activities.

**(h) *Impairment of Long-Lived Assets***

Reynolda House periodically assesses the realizability of its long-lived assets and evaluates such assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. For assets to be held, impairment is determined to exist if estimated future cash flows, undiscounted and without interest charges, are less than the carrying amount. Reynolda House did not incur any impairment losses for the year ended June 30, 2013 and 2012.

**(i) *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.

**(j) *Works of Art and Historical Treasures***

Reynolda House has various works of art and historical treasures (approximately 4,250 items), which include the original Reynolda House (approximately 30,000 square feet) 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. There were no proceeds from sale of collection items or proceeds from insurance recoveries of collection items, and there were no purchases of collection items in fiscal year 2013 or 2012.

**REYNOLDA HOUSE, INC.**

Notes to Financial Statements

June 30, 2013 and 2012

**(k) Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts 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. Significant items subject to such estimates and assumptions include the useful lives of fixed assets, allowance for contributions receivable, and valuation of investments.

**(l) 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. During the years ended June 30, 2013 and 2012, Reynolda House was not subject to unrelated business income taxes.

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. Reynolda House is no longer subject to income tax examinations for years prior to June 30, 2010.

**(2) Contributions Receivable**

The following is an analysis of the maturities of Reynolda House's contributions receivable at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
One year or less	\$ 276,070	259,497
Between one and five years	215,000	3,000
Gross contributions receivable	491,070	262,497
Less estimated uncollectible amounts	24,553	13,125
Less discount with rates ranging from 1.41% – 2.16%	6,795	83
Contributions receivable, net	<u>\$ 459,722</u>	<u>249,289</u>

Included in contributions receivable is a pledge of \$300,000 from one donor and pledges of \$233,000 from two donors at June 30, 2013 and June 30, 2012, respectively.

**REYNOLDA HOUSE, INC.**

Notes to Financial Statements

June 30, 2013 and 2012

**(3) Investments**

Investments at June 30, 2013 and 2012, consist of the following:

	<u>2013</u>	<u>2012</u>
WFU investment pool	\$ 29,783,282	29,330,283

Reynolda House owned 613,355 units or 2.73% and 616,221 units or 2.87% in the WFU investment pool with a fair value of \$48.56 and \$47.60 per unit at June 30, 2013 and 2012, respectively. Realized and unrealized appreciation on investments is recorded in the accompanying statements of activities net of investment expenses of \$305,880 and \$270,941 for the years ended June 30, 2013 and 2012, respectively.

**(4) Land, Buildings and Equipment**

Land, buildings and equipment are summarized as follows at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Land	\$ 1,122,000	1,122,000
Buildings and other improvements	14,372,700	14,302,610
Equipment	1,553,684	1,534,972
Vehicles	3,450	3,450
Software	18,300	18,300
Construction in Progress	202,888	—
	<u>17,273,022</u>	<u>16,981,332</u>
Less accumulated depreciation	<u>(5,793,259)</u>	<u>(5,315,485)</u>
	<u>\$ 11,479,763</u>	<u>11,665,847</u>

Total depreciation expense on buildings and equipment for the years ended June 30, 2013 and 2012, was \$484,854 and \$481,751, respectively. The estimated cost to complete construction in progress at June 30, 2013 was \$33,500.

**REYNOLDA HOUSE, INC.**

Notes to Financial Statements

June 30, 2013 and 2012

**(5) Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Reynolda at 100 campaign capital projects	\$ 799,422	—
Senior curator position and curator program expenses	505,914	464,005
Reynolda House education programs	45,273	44,660
Museum operating support	41,254	295,409
Electronic cataloging	3,582	10,943
Other	2,646	2,647
	<u>\$ 1,398,091</u>	<u>817,664</u>

During the years ended June 30, 2013 and 2012, net assets of \$469,703 and \$639,459, respectively, were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the passage of time.

**(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 and as temporarily restricted until they are appropriated for expenditure.

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. 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.

**(a) 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

**REYNOLDA HOUSE, INC.**

Notes to Financial Statements

June 30, 2013 and 2012

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
- 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

**(b) *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. Deficiencies of this nature that are reported in unrestricted net assets were \$1,862,312 and \$1,925,282 as of June 30, 2013 and 2012, 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.

**(c) *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.

**(d) *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.

**(e) *Spending Policy and How the Objectives Relate to Spending Policy***

Reynolda House will appropriate for expenditure in its annual budget a board-approved percentage 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, INC.**

Notes to Financial Statements

June 30, 2013 and 2012

Reynolda House may adjust the spending rate based on the market value at December 31 to reflect a substantial decline in endowment asset value. The approved endowment spending rate for the year ended June 30, 2013, was 6.2%, calculated as a percentage of the market value per unit as of December 31, 2011. The approved endowment spending rate for the year ended June 30, 2012, was 5.9%, calculated as a percentage of the market value per unit as of December 31, 2010.

Endowment net asset composition by type of fund as of June 30, 2013:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (1,862,312)	542,923	8,330,000	7,010,611
Board-designated endowment fund	<u>22,772,671</u>	<u>—</u>	<u>—</u>	<u>22,772,671</u>
	<u>\$ 20,910,359</u>	<u>542,923</u>	<u>8,330,000</u>	<u>29,783,282</u>

Changes in endowment net assets for the fiscal year ended June 30, 2013, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 20,501,652	498,631	8,330,000	29,330,283
Investment return:				
Net realized and unrealized appreciation	1,261,912	134,162	—	1,396,074
Net investment income	<u>674,387</u>	<u>71,698</u>	<u>—</u>	<u>746,085</u>
Total investment return	1,936,299	205,860	—	2,142,159
Appropriation of endowment assets for expenditure	<u>(1,527,592)</u>	<u>(161,568)</u>	<u>—</u>	<u>(1,689,160)</u>
Endowment net assets, end of year	<u>\$ 20,910,359</u>	<u>542,923</u>	<u>8,330,000</u>	<u>29,783,282</u>

Endowment net asset composition by type of fund as of June 30, 2012:

**REYNOLDA HOUSE, INC.**

Notes to Financial Statements

June 30, 2013 and 2012

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (1,925,282)	498,631	8,330,000	6,903,349
Board-designated endowment fund	<u>22,426,934</u>	<u>—</u>	<u>—</u>	<u>22,426,934</u>
	<u>\$ 20,501,652</u>	<u>498,631</u>	<u>8,330,000</u>	<u>29,330,283</u>

Changes in endowment net assets for the fiscal year ended June 30, 2012, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 21,679,475	608,632	8,330,000	30,618,107
Investment return:				
Net realized and unrealized depreciation	(299,828)	(31,988)	—	(331,816)
Net investment income	<u>438,010</u>	<u>46,549</u>	<u>—</u>	<u>484,559</u>
Total investment return	138,182	14,561	—	152,743
Appropriation of endowment assets for expenditure	<u>(1,316,005)</u>	<u>(124,562)</u>	<u>—</u>	<u>(1,440,567)</u>
Endowment net assets, end of year	<u>\$ 20,501,652</u>	<u>498,631</u>	<u>8,330,000</u>	<u>29,330,283</u>

**(7) 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 accompanying statements of financial position. As of June 30, 2013 and 2012, these transactions resulted in a net liability due to WFU of \$231,129 and \$213,478, respectively.

Reynolda House purchases certain goods and services from WFU. The goods and services purchased include primarily administrative support services. WFU charged Reynolda House approximately \$181,000 in fiscal years 2013 and 2012 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 2013 and 2012, WFU contributed \$490,000 and \$450,000, respectively, to Reynolda House primarily in support of Reynolda House's general operations.

## REYNOLDA HOUSE, INC.

### Notes to Financial Statements

June 30, 2013 and 2012

During the years ended June 30, 2013 and 2012, members of the Board of Directors contributed cash gifts to Reynolda House totaling approximately \$799,100 and \$301,000, respectively, and noncash gifts totaling approximately \$90,200 and \$1,900, 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 accompanying financial statements or footnotes in accordance with Reynolda House's policy of recording works of art and historical treasures (see note 1(j)). In addition, contributions receivable related to outstanding pledges made by the Board of Directors were \$419,700 and \$115,000 at June 30, 2013 and 2012, respectively.

#### **(8) Benefit Plan**

A tax deferred annuity plan, administered by Wake Forest University, is provided for all eligible employees whereby ten percent of the employee's eligible salary is contributed to the plan by Reynolda House. Contributions during the years ended June 30, 2013 and 2012 totaled approximately \$160,000 and \$136,000, respectively.

#### **(9) Fair Value of Financial Instruments**

Following is a description of the valuation methodologies used for assets measured at fair value subsequent to initial recognition. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. 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.

##### **(a) WFU Investment Pool**

Reynolda House's interest in the WFU investment pool is reported at estimated fair value based upon the unit value, which is equivalent to net asset value. Because net asset value per share is used as a practical expedient to estimate fair value, these investments are classified as Level 2 in the fair value hierarchy given Reynolda House's ability to redeem such investments at net asset value on or near the financial reporting date.

Redemption of balances held by Reynolda House in the WFU investment pool is 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 House is required to provide at least 120 days advance notice.

At June 30, 2012, Reynolda House presented these investments as Level 3 under the fair value hierarchy. As of June 30, 2013, management has reevaluated the liquidity profile and restrictions of these investments and has changed its estimate of the appropriate fair value category to Level 2. As a result, management has transferred this balance from Level 3 to Level 2 at June 30, 2013.

**REYNOLDA HOUSE, INC.**

Notes to Financial Statements

June 30, 2013 and 2012

**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, 2013 and 2012:

<u>Description</u>	<u>Total Fair value</u>	<u>Fair value as of June 30, 2013</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
WFU investment pool	\$ 29,783,282	—	29,783,282	—

  

<u>Description</u>	<u>Total Fair value</u>	<u>Fair value as of June 30, 2012</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
WFU investment pool	\$ 29,330,283	—	—	29,330,283

The WFU investment pool is constructed on a foundation of modern portfolio theory and strategic asset allocation. WFU diversifies its investments among various asset classes incorporating multiple strategies and investment advisors to help manage risk including interest rate, market, and credit 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:

**(b) Absolute Return**

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

**(c) Equities**

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

**(d) Fixed Income**

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

**(e) Inflation Hedges**

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

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. Each of these asset segments has a target (default) allocation as well as ranges around the

**REYNOLDA HOUSE, INC.**

Notes to Financial Statements

June 30, 2013 and 2012

target allocation to allow for tactical adjustments to take advantage of market opportunities. At June 30, 2013, the investments held by WFU were reported in the fair value hierarchy as approximately 31% Level 1, 15% as Level 2, and 54% as Level 3. At June 30, 2012, the investments held by WFU were reported in the fair value hierarchy as approximately 28% Level 1, 15% Level 2, and 57% Level 3.

**(10) Subsequent Events**

In connection with the preparation of the financial statements, Reynolda House has evaluated events subsequent to June 30, 2013 through October 17, 2013, the date at which represents the financial statements were available to be issued, and determined that there were no additional matters that are required to be disclosed.