



REYNOLDA HOUSE, INC.

Financial Statements

June 30, 2015

(With Independent Auditors' Report Thereon)

REYNOLDA HOUSE, INC.

Board of Directors (2014–2015)

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Founding President
New York, New York

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Winston-Salem, North Carolina

Dianne N. Blixt
Lewisville, North Carolina

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Winston-Salem, North Carolina

Patricia A. Brown
Winston-Salem, North Carolina

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Winston-Salem, North Carolina

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W. Randy Eaddy
Winston-Salem, North Carolina

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

Sue L. Henderson
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Winston-Salem, North Carolina

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Winston-Salem, North Carolina

M. Melinda McConnell
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Nancy T. Pleasants
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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

Wallace C. Wu
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Kernersville, North Carolina

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REYNOLDA HOUSE, INC.

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

Independent Auditors' Report

The Board of Directors
Reynolda House, Inc.:

We have audited the accompanying financial statements of Reynolda House, Inc., which comprise the statement of financial position as of June 30, 2015, 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 organization'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 organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Reynolda House, Inc. as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.



Report on Summarized Comparative Information

We have previously audited Reynolda House, Inc.'s 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 3, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

Greensboro, North Carolina
November 9, 2015

REYNOLDA HOUSE, INC.

Statement of Financial Position

June 30, 2015

(with comparative information as of June 30, 2014)

Assets	2015	2014
Cash	\$ 1,516,425	2,264,220
Accounts receivable	13,071	16,077
Grants receivable	—	48,643
Contributions receivable, net (notes 2 and 7)	1,484,916	1,773,509
Investments (notes 3 and 9)	31,066,875	31,301,743
Land, buildings and equipment, net (note 4)	11,307,221	11,094,149
Other assets	151,226	145,899
Works of art and historical treasures (note 1(j))	—	—
Total assets	<u>\$ 45,539,734</u>	<u>46,644,240</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 165,214	265,780
Other liabilities and deferrals	108,634	97,960
Due to Wake Forest University (note 7)	209,279	221,566
Total liabilities	<u>483,127</u>	<u>585,306</u>
Net assets:		
Unrestricted:		
Undesignated	11,050,737	11,162,518
Designated for:		
Long-term investment	23,725,836	23,928,841
Maintenance reserve	196,791	177,722
	<u>34,973,364</u>	<u>35,269,081</u>
Temporarily restricted (notes 5 and 6)	1,363,217	2,064,111
Permanently restricted (notes 5 and 6)	8,720,026	8,725,742
Total net assets	<u>45,056,607</u>	<u>46,058,934</u>
Total liabilities and net assets	<u>\$ 45,539,734</u>	<u>46,644,240</u>
Commitments and contingencies (note 4)		

See accompanying notes to financial statements.

REYNOLDA HOUSE, INC.

Statement of Activities

Year ended June 30, 2015

(with summarized comparative financial information for the year ended June 30, 2014)

	2015			Total	2014 Total
	Unrestricted	Temporarily restricted	Permanently restricted		
Revenue, gains and other support:					
Grants and contributions (notes 2 and 7)	\$ 1,532,609	135,964	(5,716)	1,662,857	3,167,735
Grants from Wake Forest University (note 7)	425,000	—	—	425,000	480,000
Admissions and sales	243,291	—	—	243,291	247,954
Program income	77,293	—	—	77,293	80,571
Dividends and interest	348,340	38,033	—	386,373	637,027
Net realized and unrealized appreciation on investments	198,853	23,721	—	222,574	2,485,500
Other	26,769	—	—	26,769	37,308
Net assets released from restrictions (note 5)	898,612	(898,612)	—	—	—
Total revenue, gains and other support	3,750,767	(700,894)	(5,716)	3,044,157	7,136,095
Expenses:					
Program services	3,172,388	—	—	3,172,388	3,122,425
Management and general (note 7)	399,265	—	—	399,265	517,684
Development and fund-raising	474,831	—	—	474,831	497,160
Total expenses	4,046,484	—	—	4,046,484	4,137,269
Change in net assets	(295,717)	(700,894)	(5,716)	(1,002,327)	2,998,826
Net assets at the beginning of the year	35,269,081	2,064,111	8,725,742	46,058,934	43,060,108
Net assets at the end of the year	\$ <u>34,973,364</u>	<u>1,363,217</u>	<u>8,720,026</u>	<u>45,056,607</u>	<u>46,058,934</u>

See accompanying notes to financial statements.

REYNOLDA HOUSE, INC.

Statement of Cash Flows

Year ended June 30, 2015

(with comparative information as of June 30, 2014)

	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ (1,002,327)	2,998,826
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	552,614	538,621
Net realized and unrealized appreciation on investments	(222,574)	(2,485,500)
Private gifts restricted for capital and long-term investment	(91,784)	(870,742)
Noncash gifts	(31,010)	(42,342)
Loss on disposal of property and equipment	—	26,686
Changes in operating assets and liabilities:		
Accounts receivable	3,006	(4,555)
Grants receivable	48,643	2,931
Contributions receivable	(30,521)	(698,147)
Other assets	(5,327)	34,271
Accounts payable and accruals	(140,070)	(20,188)
Other liabilities and deferrals	10,674	14,695
Due to Wake Forest University	(12,287)	(9,563)
Net cash used in operating activities	(920,963)	(515,007)
Cash flows from investing activities:		
Purchases of land, buildings and equipment	(726,182)	(179,693)
Purchases of investments	(1,202,638)	(642,083)
Proceeds from sales and maturities of investments	1,691,090	1,651,464
Net cash (used in) provided by investing activities	(237,730)	829,688
Cash flows from financing activity:		
Proceeds from private gifts restricted for capital and long-term investment	410,898	255,102
Net change in cash	(747,795)	569,783
Cash at beginning of year	2,264,220	1,694,437
Cash at end of year	\$ 1,516,425	2,264,220
Supplemental disclosures of cash flow information:		
Noncash gifts of stock	\$ 30,735	42,342
In-kind contributions	275	17,497
Capital expenditures in accounts payable	39,504	—

See accompanying notes to financial statements.

REYNOLDA HOUSE, INC.

Notes to Financial Statements

June 30, 2015

(with comparative information as of June 30, 2014)

(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.

On October 18, 2013, Wake Forest University's Board of Trustees approved the creation of Verger Capital Management LLC (VCM), of which the University is the controlling and majority member, to provide investment management services for the WFU investment pool. On August 22, 2014, Reynolda House's interest in the WFU investment pool started the transition to be invested in Verger Fund II (VFII) under the management of VCM. As of June 30, 2015, 97% of the Reynolda House interest had transitioned to VFII.

(a) *Basis of Accounting*

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

(b) *Basis of Presentation*

Net assets and revenue, 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.

Revenue is 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

REYNOLDA HOUSE, INC.

Notes to Financial Statements

June 30, 2015

(with comparative information as of June 30, 2014)

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.

(c) Cash

At June 30, 2015 and 2014, 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 balances.

(d) Contributions

Contributions, including unconditional promises to give, are recognized as revenue 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 fund-raising activity.

(e) Investments

Investments are reported at fair value on the statement of financial position. Because of the inherent uncertainty in the use of estimates, non-readily determined fair 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 VFII. Investment in the VFII is determined on a market unit valuation basis.

(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). A financial instruments 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.

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(with comparative information as of June 30, 2014)

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.

(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 of depreciable asset. Estimated lives range from 3 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 years ended June 30, 2015 and 2014.

(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 fair value.

(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 2015 or 2014.

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June 30, 2015

(with comparative information as of June 30, 2014)

(k) *Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) 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 revenue 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 buildings and equipment, allowance for contributions receivable, and valuation of investments.

(l) *Functional Expense Classification*

Expenses are reported in the statement of activities based on their functional categories. Reynolda House reports expenses as program services, management and general, and development and fund-raising, which are incurred in support of program services.

(m) *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, 2015 and 2014, 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 as of June 30, 2015 and 2014. Reynolda House is no longer subject to income tax examinations for years prior to June 30, 2012.

(n) *Comparative Financial Information*

The financial statements include certain prior year information for comparative purposes, which does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Reynolda House's financial statements for the year ended June 30, 2014 from which this information was derived.

(o) *Recently Adopted Accounting Standards*

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Assets Value per Share (or Its Equivalent)*. This ASU removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share as a practical expedient. Reynolda House adopted ASU 2015-07 in fiscal year 2015 and removed these investments from the summary of levels within the fair value hierarchy footnote disclosure.

REYNOLDA HOUSE, INC.

Notes to Financial Statements

June 30, 2015

(with comparative information as of June 30, 2014)

(2) Contributions Receivable

The following is an analysis of the maturities of Reynolda House's contributions receivable at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
One year or less	\$ 1,018,413	980,545
Between one and five years	491,680	901,282
Gross contributions receivable	1,510,093	1,881,827
Less estimated uncollectible amounts	12,417	80,350
Less discount at rates ranging from 1.41%–2.51%	12,760	27,968
Contributions receivable, net	<u>\$ 1,484,916</u>	<u>1,773,509</u>

Included in contributions receivable are pledges totaling \$950,000 and \$1,050,000 from two donors at June 30, 2015 and 2014, respectively.

(3) Investments

Investments at June 30, 2015 and 2014 consist of the following:

	<u>2015</u>	<u>2014</u>
Investment in VFII	\$ 30,411,293	—
Investment in WFU pool	655,582	31,301,743
Total endowment investments	<u>\$ 31,066,875</u>	<u>31,301,743</u>

Reynolda House owned 627,457 units in the WFU managed endowment pool, which include the investment in VFII and the WFU pool with a combined fair value of \$49.51 at June 30, 2015. Reynolda House owned 612,499 units in the WFU investment pool with a fair value of \$51.11 per unit at June 30, 2014. Realized and unrealized appreciation on investments is recorded in the accompanying statements of activities net of investment expenses of \$293,003 and \$413,314 for the years ended June 30, 2015 and 2014, respectively.

Reynolda House may withdraw its initial investment interest to VFII along with any proceeds therefrom at any time after December 31, 2014 and, if any assets of the initial investment interest are withdrawn between December 31, 2014 and December 31, 2015, Reynolda House shall be subject to a penalty of the amount withdrawn. After December 31, 2015, Reynolda House may withdraw its initial investment interest and any subsequent interests in VFII upon 90 days' prior written notice.

Prior to fiscal year 2015, Reynolda House investments were comprised only of units in the WFU investment pool managed by WFU. The WFU investment pool included a diversified portfolio of debt and equity securities and other investment interests, including alternative investments. Reynolda House's investment in these units is included in investments in the accompanying 2014 balance sheet.

REYNOLDA HOUSE, INC.

Notes to Financial Statements

June 30, 2015

(with comparative information as of June 30, 2014)

VFII is constructed on a foundation of modern portfolio theory and strategic asset allocation, and 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 Board 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 asset segments are:

(a) Absolute Return

Includes investments in hedge funds and hedge fund-of-funds that invest both long and short on a global basis primarily in a wide range of securities and other instruments, including equity securities (common stocks), credit securities (both investment grade and noninvestment grade), commodities, currencies, future contracts, options and other derivative instruments. The investment objective of this asset class is to produce attractive long-term risk-adjusted returns with low correlation of traditional asset classes.

(b) Commodities

Include investments in hedge funds and hedge fund-of-funds that invest in a wide range of commodities, securities, and financial instruments with a focus on commodities markets. This class also includes commodity (i.e., precious metals, industrial materials, and energy) mutual funds. The investment objective of this class is to produce attractive long-term risk-adjusted returns in excess of traditional commodity index exposure.

(c) Fixed Income

Includes corporate bonds, mortgage-backed securities, asset-backed securities, mutual funds, and other fixed income securities.

(d) Private Equity

Includes various illiquid venture capital investments.

(e) Public Equity

Includes investments primarily in U.S. and non-U.S. (including emerging markets) common stocks, mutual funds, and exchange traded funds. This class also includes investments in hedge funds and hedge fund-of-funds that invest on both a long and short basis in global equity markets. The investment objective for this class is capital appreciation over the long term.

(f) Real Estate

Includes direct investments in commercial and residential real estate, as well as real estate mutual funds.

REYNOLDA HOUSE, INC.

Notes to Financial Statements

June 30, 2015

(with comparative information as of June 30, 2014)

(4) Land, Buildings and Equipment

Land, buildings and equipment are summarized as follows at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Land	\$ 1,122,000	1,122,000
Buildings and other improvements	15,109,638	14,513,212
Equipment	1,536,959	1,496,361
Vehicles	3,450	3,450
Software	254,666	254,666
Construction in progress	128,662	—
	<u>18,155,375</u>	<u>17,389,689</u>
Less accumulated depreciation	<u>(6,848,154)</u>	<u>(6,295,540)</u>
	<u>\$ 11,307,221</u>	<u>11,094,149</u>

Total depreciation expense on buildings and equipment for the years ended June 30, 2015 and 2014 was \$552,614 and \$538,621, respectively. In 2014, Reynolda House entered into agreements for the restoration of the pool house and landscape. As of June 30, 2015, the pool house restoration project was near completion and the expected cost to complete was \$29,000. The estimated cost of the landscape restoration project is approximately \$445,000 and is expected to be complete in June 2016. As of June 30, 2015, Reynolda House had incurred approximately \$100,000 on the landscape restoration project.

(5) Net Assets

Temporarily restricted net assets are available for the following purposes at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Reynolda at 100 campaign capital projects	\$ 574,883	1,084,715
Senior curator position and curator program expenses	549,395	644,537
Reynolda House education programs	48,131	54,388
Museum restricted programs	187,755	276,596
Electronic cataloguing	407	1,229
Other	2,646	2,646
	<u>\$ 1,363,217</u>	<u>2,064,111</u>

During the years ended June 30, 2015 and 2014, net assets of \$898,612 and \$238,564, respectively, were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the passage of time.

REYNOLDA HOUSE, INC.

Notes to Financial Statements

June 30, 2015

(with comparative information as of June 30, 2014)

Permanently restricted net assets are composed of the following at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Donor-restricted endowments	\$ 8,548,500	8,335,102
Contributions receivable	171,526	390,640
	<u>\$ 8,720,026</u>	<u>8,725,742</u>

(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 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 UPMIFA. In accordance with UPMIFA, 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
- d. The possible effects of inflation and deflation

REYNOLDA HOUSE, INC.

Notes to Financial Statements

June 30, 2015

(with comparative information as of June 30, 2014)

- 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 UPMIFA requires Reynolda House to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$1,797,490 and \$1,651,718 as of June 30, 2015 and 2014, 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 rolling average of the market value (calculated semi-annually) per unit of the endowment assets over the preceding three years, the base to be adjusted for new capital contributions to the endowment. The Board approved an endowment spending rate for the year ended June 30, 2015 of up to 5.72% of the rolling three-year average. The actual spending rate for the year ended June 30, 2015 was 5.54%. The Board approved an endowment spending rate for the year ended June 30, 2014 of up to 6.00% of the rolling three-year average. The actual spending rate for the year ended June 30, 2014 was 5.45%.

REYNOLDA HOUSE, INC.

Notes to Financial Statements

June 30, 2015

(with comparative information as of June 30, 2014)

Endowment net asset composition by type of fund as of June 30, 2015 is as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (1,797,490)	590,029	8,548,500	7,341,039
Board-designated endowment fund	23,725,836	—	—	23,725,836
	<u>\$ 21,928,346</u>	<u>590,029</u>	<u>8,548,500</u>	<u>31,066,875</u>

Changes in endowment net assets for the fiscal year ended June 30, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 22,277,124	689,517	8,335,102	31,301,743
Investment return:				
Net realized and unrealized appreciation	198,853	23,721	—	222,574
Net investment income	348,316	38,033	—	386,349
Total investment return	547,169	61,754	—	608,923
Contributions	—	—	213,398	213,398
Transfers to Board- designated funds	600,000	—	—	600,000
Appropriation of endowment assets for expenditure	(1,495,947)	(161,242)	—	(1,657,189)
Endowment net assets, end of year	<u>\$ 21,928,346</u>	<u>590,029</u>	<u>8,548,500</u>	<u>31,066,875</u>

REYNOLDA HOUSE, INC.

Notes to Financial Statements

June 30, 2015

(with comparative information as of June 30, 2014)

Endowment net asset composition by type of fund as of June 30, 2014 is as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (1,651,718)	689,517	8,335,102	7,372,901
Board-designated endowment fund	<u>23,928,842</u>	<u>—</u>	<u>—</u>	<u>23,928,842</u>
	<u>\$ 22,277,124</u>	<u>689,517</u>	<u>8,335,102</u>	<u>31,301,743</u>

Changes in endowment net assets for the fiscal year ended June 30, 2014 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 20,910,359	542,923	8,330,000	29,783,282
Investment return:				
Net realized and unrealized appreciation	2,246,581	238,919	—	2,485,500
Net investment income	<u>575,752</u>	<u>61,230</u>	<u>—</u>	<u>636,982</u>
Total investment return	2,822,333	300,149	—	3,122,482
Contributions	—	—	5,102	5,102
Appropriation of endowment assets for expenditure	<u>(1,455,568)</u>	<u>(153,555)</u>	<u>—</u>	<u>(1,609,123)</u>
Endowment net assets, end of year	<u>\$ 22,277,124</u>	<u>689,517</u>	<u>8,335,102</u>	<u>31,301,743</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, 2015 and 2014, these transactions resulted in a net liability due to WFU of \$209,279 and \$221,566, respectively.

REYNOLDA HOUSE, INC.

Notes to Financial Statements

June 30, 2015

(with comparative information as of June 30, 2014)

Reynolda House purchases certain goods and services from WFU. The goods and services purchased include primarily administrative support services. For fiscal years 2015 and 2014, WFU charged Reynolda House approximately \$142,000 and \$186,000, respectively, for these administrative support services. WFU provides certain other support at no charge to Reynolda House. The value of these services is not material.

Reynolda House pays fees to VCM for investment management. These fees were approximately \$70,000 during 2015.

For fiscal years 2015 and 2014, WFU contributed \$425,000 and \$480,000, respectively, to Reynolda House primarily in support of Reynolda House's general operations.

During the years ended June 30, 2015 and 2014, members of the Board of Directors contributed cash gifts to Reynolda House totaling approximately \$645,600 and \$291,200, respectively, and noncash gifts totaling approximately \$12,700 and \$2,600, 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 notes in accordance with Reynolda House's policy of recording works of art and historical treasures (note 1(j)). In addition, contributions receivable related to outstanding pledges made by the Board of Directors were \$345,100 and \$429,400 at June 30, 2015 and 2014, respectively.

(8) Benefit Plan

A tax deferred annuity plan, administered by WFU, 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, 2015 and 2014 totaled approximately \$158,000 and \$153,000, respectively.

(9) Fair Value of Financial Instruments

The carrying amount of cash (Level 1), accounts receivable (Level 2) and accounts payable and accrued expenses (Level 2) approximate fair value because of the terms and the relatively short maturity of these financial instruments. The carrying amount of contributions receivable represents the present value of estimated future cash flows, which approximates fair value (Level 3).

REYNOLDA HOUSE, INC.

Notes to Financial Statements

June 30, 2015

(with comparative information as of June 30, 2014)

Reynolda House's interest in VFII 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 excluded from fair value leveling disclosure. Investment in the WFU pool is summarized in the fair value table as follows:

Description	Total fair value	Level 1	Level 2	Level 3
Investment in WFU pool at June 30, 2015	\$ 655,582	—	655,582	—
Investment in WFU pool at June 30, 2014	31,301,743	—	31,301,743	—

Valuation techniques used to calculate unit value 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.

(10) Subsequent Events

In connection with the preparation of the financial statements, Reynolda House has evaluated events subsequent to June 30, 2015 through November 9, 2015, the date on which the financial statements were available to be issued, and determined that there were no additional matters that are required to be disclosed.