

**ROBERT E. LEE MEMORIAL
ASSOCIATION, INCORPORATED**

**FINANCIAL REPORTS
YEAR ENDED JUNE 30, 2017**

ROBERT E. LEE MEMORIAL ASSOCIATION, INCORPORATED

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ROBERT E. LEE MEMORIAL ASSOCIATION, INCORPORATED

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ROBERT E. LEE MEMORIAL ASSOCIATION, INCORPORATED

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HANTZMON WIEBEL LLP

C e r t i f i e d P u b l i c A c c o u n t a n t s

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Robert E. Lee Memorial
Association, Incorporated
Stratford, Virginia

We have audited the accompanying financial statements of ROBERT E. LEE MEMORIAL ASSOCIATION, INCORPORATED (a non-profit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 audit opinion.

Members

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To the Board of Directors
Robert E. Lee Memorial
Association, Incorporated

REPORT OF INDEPENDENT AUDITORS--(Cont'd)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ROBERT E. LEE MEMORIAL ASSOCIATION, INCORPORATED as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Hantzmon Wiebel LLP

Charlottesville, Virginia
October 17, 2017

ROBERT E. LEE MEMORIAL ASSOCIATION, INCORPORATED

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2017 AND 2016

ASSETS		
	2017	2016
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,857,754	\$ 2,637,483
Contributions receivable, net - due within one year	220,881	575,914
Accounts receivable	1,184	13,481
Inventories	95,157	91,965
Accrued interest receivable	2,212	2,585
Prepaid expenses	31,834	24,321
Total current assets	<u>2,209,022</u>	<u>3,345,749</u>
PROPERTY AND EQUIPMENT		
Property and equipment	11,149,115	11,212,404
Less: Accumulated depreciation	<u>7,534,220</u>	<u>7,436,852</u>
Net property and equipment	<u>3,614,895</u>	<u>3,775,552</u>
OTHER ASSETS		
Contributions receivable, net - due after one year	322,940	413,838
Construction in progress	442,319	378,772
Beneficial interest in charitable lead annuity trust	620,000	720,000
Beneficial interest in perpetual trust	210,654	198,533
Collections (see notes to financial statements)	----	----
Investments	<u>23,986,797</u>	<u>21,485,099</u>
Total other assets	<u>25,582,710</u>	<u>23,196,242</u>
	<u><u>\$31,406,627</u></u>	<u><u>\$30,317,543</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 34,449	\$ 55,726
Accrued expenses and deposits	147,698	135,750
Current portion of capital lease obligation	6,776	8,929
Note payable	<u>329,840</u>	<u>329,840</u>
Total current liabilities	<u>518,763</u>	<u>530,245</u>
LONG-TERM LIABILITIES		
Capital lease obligation	<u>19,530</u>	<u>26,248</u>
Total long-term liabilities	<u>19,530</u>	<u>26,248</u>
Total liabilities	<u>538,293</u>	<u>556,493</u>
NET ASSETS		
Unrestricted	5,734,141	5,687,312
Temporarily restricted	8,870,374	8,028,694
Permanently restricted	<u>16,263,819</u>	<u>16,045,044</u>
Total net assets	<u>30,868,334</u>	<u>29,761,050</u>
	<u><u>\$31,406,627</u></u>	<u><u>\$30,317,543</u></u>

(The accompanying notes are an integral part of these financial statements)

ROBERT E. LEE MEMORIAL ASSOCIATION, INCORPORATED

STATEMENTS OF ACTIVITIES YEARS ENDED JUNE 30, 2017 AND 2016

	2017				2016			
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
PUBLIC SUPPORT, REVENUE, AND OTHER SOURCES								
PUBLIC SUPPORT:								
Contributions	\$ 947,718	\$ 282,452	\$ 218,775	\$ 1,448,945	\$ 836,413	\$ 1,737,658	\$ 103,831	\$ 2,677,902
Contributed services .....	....	....	....	....	128,000	....	....	128,000
Total public support	947,718	282,452	218,775	1,448,945	964,413	1,737,658	103,831	2,805,902
REVENUE:								
Gate receipts	113,741	....	....	113,741	122,261	....	....	122,261
Sales:								
Store	149,791	....	....	149,791	150,962	....	....	150,962
Farm	98,976	....	....	98,976	97,671	....	....	97,671
Guest houses	195,940	....	....	195,940	189,897	....	....	189,897
Dining hall	208,453	....	....	208,453	245,352	....	....	245,352
Investment income:								
Endowment .....	....	....	....	....	1,274	14,749	....	16,023
Other funds	9,284	....	....	9,284	9,058	....	....	9,058
Other income	225,517	....	....	225,517	271,508	....	....	271,508
Total revenue	1,001,702	....	....	1,001,702	1,087,983	14,749	....	1,102,732
Total public support and revenue	1,949,420	282,452	218,775	2,450,647	2,052,396	1,752,407	103,831	3,908,634
OTHER SOURCES:								
Realized gain on securities .....	....	....	....	....	57,218	2,956,740	....	3,013,958
Unrealized gain (loss) on securities	177,076	2,314,481	....	2,491,557	(74,660)	(3,558,813)	....	( 3,633,473)
Gain (loss) on valuation of beneficial interests .....	....	( 31,922)	....	( 31,922)	....	10,560	....	10,560
Net assets released/transferred	1,689,217	(1,689,217)	....	....	2,154,144	(2,364,535)	210,391	....
Total other sources	1,866,293	593,342	....	2,459,635	2,136,702	(2,956,048)	210,391	(608,955)
Total public support, revenue, and other sources	3,815,713	875,794	218,775	4,910,282	4,189,098	(1,203,641)	314,222	3,299,679

(The accompanying notes are an integral part of these financial statements)

ROBERT E. LEE MEMORIAL ASSOCIATION, INCORPORATED

STATEMENTS OF ACTIVITIES--(Cont'd) YEARS ENDED JUNE 30, 2017 AND 2016

	2017				2016			
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
EXPENSES								
Program services:								
Preservation	\$ 298,732	\$	\$	\$ 298,732	\$ 359,014	\$	\$	\$ 359,014
Research	31,665	....	....	31,665	34,002	....	....	34,002
Education	234,852	....	....	234,852	213,736	....	....	213,736
Interpretation	249,762	....	....	249,762	251,409	....	....	251,409
Library facilities	157,431	....	....	157,431	136,144	....	....	136,144
Garden and grounds	267,893	....	....	267,893	247,087	....	....	247,087
Maintenance and security	126,790	....	....	126,790	175,491	....	....	175,491
Public relations	260,639	....	....	260,639	225,209	....	....	225,209
Operations	578,092	....	....	578,092	687,837	....	....	687,837
Dining hall	378,405	....	....	378,405	374,305	....	....	374,305
Collections	167,098	....	....	167,098	165,551	....	....	165,551
Mill	6,763	....	....	6,763	3,880	....	....	3,880
Total program services	2,758,122	....	....	2,758,122	2,873,665	....	....	2,873,665
Supporting services:								
Management and general	620,651	....	....	620,651	711,706	....	....	711,706
Fund-raising	390,111	....	....	390,111	411,871	....	....	411,871
Total supporting services	1,010,762	....	....	1,010,762	1,123,577	....	....	1,123,577
Total expenses	3,768,884	....	....	3,768,884	3,997,242	....	....	3,997,242
PURCHASES/RESTORATION OF COLLECTIONS .....	....	34,114	....	34,114	....	140,577	....	140,577
CHANGE IN NET ASSETS	46,829	841,680	218,775	1,107,284	191,856	(1,344,218)	314,222	(838,140)
NET ASSETS AT THE BEGINNING OF THE YEAR	5,687,312	8,028,694	16,045,044	29,761,050	5,495,456	9,372,912	15,730,822	30,599,190
NET ASSETS AT THE END OF THE YEAR	<u>\$ 5,734,141</u>	<u>\$ 8,870,374</u>	<u>\$ 16,263,819</u>	<u>\$30,868,334</u>	<u>\$ 5,687,312</u>	<u>\$ 8,028,694</u>	<u>\$ 16,045,044</u>	<u>\$29,761,050</u>

(The accompanying notes are an integral part of these financial statements)

ROBERT E. LEE MEMORIAL ASSOCIATION, INCORPORATED

**STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017**

	PROGRAM SERVICES												TOTAL PROGRAM SERVICES	SUPPORTING SERVICES			TOTAL EXPENSES
	PRESERVATION	RESEARCH	EDUCATION	INTERPRETATION	LIBRARY	GARDEN AND GROUNDS	MAINTENANCE AND SECURITY	PUBLIC RELATIONS	SITE OPERATIONS	DINING HALL	COLLECTIONS	MILL		MANAGEMENT AND GENERAL	FUND- RAISING	TOTAL SUPPORTING SERVICES	
Salaries and wages	\$ 72,660	\$ 25,006	\$ 77,542	\$ 161,406	\$ 77,510	\$ 151,924	\$ 58,912	\$ 92,401	\$ 261,060	\$ 170,210	\$ 121,606	\$ 4,546	\$ 1,274,783	\$ 138,340	\$ 202,719	\$ 341,059	\$ 1,615,842
Employee retirement benefits .....	.....	719	90	1,682	719	2,219	631	1,466	2,645	27	3,003	.....	13,201	2,800	4,061	6,861	20,062
Group insurance	6,249	2,900	6,516	18,513	6,166	12,848	2,290	9,268	6,829	14,071	17,219	.....	102,869	17,688	12,867	30,555	133,424
Payroll taxes	3,500	1,744	2,785	12,109	5,381	10,580	4,547	4,817	17,956	13,296	9,351	348	86,414	25,113	10,589	35,702	122,116
Total salaries and related expenses	82,409	30,369	86,933	193,710	89,776	177,571	66,380	107,952	288,490	197,604	151,179	4,894	1,477,267	183,941	230,236	414,177	1,891,444
Professional fees	26,761	223	905	11,299	4,100	44,686	22,058	27,185	23,691	10,825	1,625	1,005	174,363	72,519	6,146	78,665	253,028
Investment management fees .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	156,828	.....	156,828	156,828
Supplies and materials	1,639	.....	2,008	2,651	1,461	10,457	9,143	493	22,503	7,968	4,282	849	63,454	9,037	897	9,934	73,388
Telephone and internet	330	993	1,689	661	1,651	661	7,007	1,321	7,216	2,296	1,716	.....	25,541	11,273	1,086	12,359	37,900
Postage and shipping .....	.....	.....	86	19	16	.....	.....	2,775	30	.....	.....	.....	2,926	6,178	7,555	13,733	16,659
Publicity and public events .....	.....	.....	141,303	11,817	.....	.....	.....	98,553	350	1,099	.....	.....	253,122	.....	81,036	81,036	334,158
Printing and publications .....	.....	.....	.....	62	.....	.....	.....	18,264	2,318	.....	.....	.....	20,644	.....	13,868	13,868	34,512
Maintenance and repairs	17,643	.....	.....	1,050	7,643	1,915	15,901	.....	39,097	12,911	.....	15	96,175	3,280	12,659	15,939	112,114
Utilities	2,072	.....	.....	26,023	8,098	10,529	1,824	.....	36,820	18,084	.....	.....	103,450	14,864	.....	14,864	118,314
Insurance	42,808	.....	.....	.....	9,215	.....	.....	.....	16,033	11,086	.....	.....	79,142	29,159	74	29,233	108,375
Reimbursements .....	.....	.....	.....	.....	.....	.....	.....	.....	( 28,987)	.....	.....	.....	( 28,987)	.....	.....	.....	( 28,987)
Director meeting expenses .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	16,119	.....	16,119	16,119
Seminars and conferences .....	.....	.....	.....	.....	.....	.....	.....	334	.....	.....	100	.....	434	.....	.....	434	.....
Training .....	.....	.....	.....	241	.....	95	86	.....	.....	.....	195	.....	617	108	176	284	901
Auto and truck expenses .....	.....	.....	.....	.....	.....	8,523	3,571	.....	7,657	721	.....	.....	20,472	31	.....	31	20,503
Purchases for resale .....	.....	.....	.....	.....	.....	.....	.....	.....	69,555	69,416	.....	.....	138,971	.....	.....	.....	138,971
Feed, seed, lime, and fertilizer .....	.....	.....	.....	.....	.....	.....	.....	.....	3,529	.....	.....	.....	3,529	.....	.....	.....	3,529
Interest .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	8,056	.....	8,056	8,056
Other items	150	80	1,928	2,229	8,579	13,456	820	3,762	43,004	14,043	8,001	.....	96,052	24,166	36,162	60,328	156,380
Total expenses before depreciation	173,812	31,665	234,852	249,762	130,539	267,893	126,790	260,639	531,306	346,053	167,098	6,763	2,527,172	535,559	389,895	925,454	3,452,626
Depreciation on buildings and equipment	124,920	.....	.....	.....	26,892	.....	.....	.....	46,786	32,352	.....	.....	230,950	85,092	216	85,308	316,258
Total expenses	<u>\$ 298,732</u>	<u>\$ 31,665</u>	<u>\$ 234,852</u>	<u>\$ 249,762</u>	<u>\$ 157,431</u>	<u>\$ 267,893</u>	<u>\$ 126,790</u>	<u>\$ 260,639</u>	<u>\$ 578,092</u>	<u>\$ 378,405</u>	<u>\$ 167,098</u>	<u>\$ 6,763</u>	<u>\$ 2,758,122</u>	<u>\$ 620,651</u>	<u>\$ 390,111</u>	<u>\$ 1,010,762</u>	<u>\$ 3,768,884</u>

(The accompanying notes are an integral part of these financial statements)

ROBERT E. LEE MEMORIAL ASSOCIATION, INCORPORATED

**STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2016**

	PROGRAM SERVICES												TOTAL PROGRAM SERVICES	SUPPORTING SERVICES			TOTAL EXPENSES
	PRESERVATION	RESEARCH	EDUCATION	INTERPRETATION	LIBRARY	GARDEN AND GROUNDS	MAINTENANCE AND SECURITY	PUBLIC RELATIONS	SITE OPERATIONS	DINING HALL	COLLECTIONS	MILL		MANAGEMENT AND GENERAL	FUND- RAISING	TOTAL SUPPORTING SERVICES	
Salaries and wages	\$ 85,147	\$ 19,807	\$ 75,141	\$ 158,424	\$ 58,511	\$ 149,561	\$ 76,465	\$ 83,217	\$ 314,408	\$ 156,395	\$ 109,605	\$ 2,500	\$1,289,181	\$ 170,130	\$ 235,076	\$ 405,206	\$1,694,387
Employee retirement benefits	1,421	542	74	1,593	823	2,179	827	1,300	2,518	9	2,506	75	13,867	3,330	4,801	8,131	21,998
Group insurance	6,714	3,230	6,688	12,821	3,170	12,382	6,664	9,605	16,587	11,430	19,830	....	109,121	14,799	14,033	28,832	137,953
Payroll taxes	4,591	3,296	3,172	11,968	3,192	10,667	5,536	3,430	22,869	13,547	8,124	191	90,583	14,181	13,261	27,442	118,025
Total salaries and related expenses	97,873	26,875	85,075	184,806	65,696	174,789	89,492	97,552	356,382	181,381	140,065	2,766	1,502,752	202,440	267,171	469,611	1,972,363
Professional fees	22,660	321	12,958	5,525	14,815	20,814	1,806	27,846	19,357	3,310	8,210	510	138,132	202,024	36,846	238,870	377,002
Investment management fees .....	....	....	....	....	....	....	....	....	....	....	....	....	....	....	75,107	75,107	75,107
Supplies and materials	3,060	57	993	3,886	909	7,229	12,109	213	23,148	14,720	3,561	604	70,489	9,467	814	10,281	80,770
Telephone and internet	583	1,749	3,003	1,229	2,915	1,166	9,403	2,332	10,052	4,364	2,915	....	39,711	15,919	1,919	17,838	57,549
Postage and shipping .....	....	....	11	8	21	40	....	4,433	751	....	....	....	5,264	3,928	7,373	11,301	16,565
Publicity and public events .....	....	....	92,367	21,023	....	....	....	60,502	499	324	....	....	174,715	....	59,010	59,010	233,725
Printing and publications .....	....	....	....	....	....	....	....	27,423	855	....	....	....	28,278	413	12,237	12,650	40,928
Maintenance and repairs	57,112	....	....	2,648	5,102	7,284	54,256	393	45,189	12,212	1,206	....	185,402	18,471	11,641	30,112	215,514
Utilities	2,432	....	....	27,709	8,387	11,440	2,571	....	44,055	21,671	....	....	118,265	11,562	....	11,562	129,827
Insurance	46,526	....	....	....	9,234	485	....	....	22,345	12,956	8,248	....	99,794	18,645	85	18,730	118,524
Reimbursements .....	....	....	....	....	....	....	....	....	( 27,866)	....	....	....	( 27,866)	....	....	....	( 27,866)
Director meeting expenses .....	....	....	....	....	....	....	....	....	....	....	....	....	....	17,018	....	17,018	17,018
Seminars and conferences .....	....	....	....	2,581	....	....	....	....	....	....	846	....	3,427	....	....	....	3,427
Training .....	....	....	....	368	....	....	....	....	....	....	500	....	868	162	....	162	1,030
Auto and truck expenses .....	....	....	....	....	....	9,860	4,138	....	8,089	280	....	....	22,367	1,446	....	1,446	23,813
Purchases for resale .....	....	....	....	....	....	....	....	....	71,047	80,364	....	....	151,411	....	....	....	151,411
Feed, seed, lime, and fertilizer .....	....	....	....	....	....	....	....	....	3,165	....	....	....	3,165	....	....	....	3,165
Interest .....	....	....	....	....	....	....	....	....	....	....	....	....	....	5,589	....	5,589	5,589
Other items	10,868	5,000	19,329	1,626	5,665	12,752	1,716	4,515	54,144	9,891	....	....	125,506	61,367	14,559	75,926	201,432
Total expenses before depreciation	241,114	34,002	213,736	251,409	112,744	245,859	175,491	225,209	631,212	341,473	165,551	3,880	2,641,680	643,558	411,655	1,055,213	3,696,893
Depreciation on buildings and equipment	117,900	....	....	....	23,400	1,228	....	....	56,625	32,832	....	....	231,985	68,148	216	68,364	300,349
Total expenses	\$ 359,014	\$ 34,002	\$ 213,736	\$ 251,409	\$ 136,144	\$ 247,087	\$ 175,491	\$ 225,209	\$ 687,837	\$ 374,305	\$ 165,551	\$ 3,880	\$2,873,665	\$ 711,706	\$ 411,871	\$1,123,577	\$3,997,242

(The accompanying notes are an integral part of these financial statements)

ROBERT E. LEE MEMORIAL ASSOCIATION, INCORPORATED

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,107,284	(\$ 838,140)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	316,258	300,349
Abandonment loss.....	4,451	....
Net realized and unrealized (gains) losses on investments	(2,491,557)	619,515
(Gain) loss on valuation of beneficial interests	31,922	(10,560)
Contributions restricted for long-term investment	(218,775)	(314,222)
Change in assets and liabilities:		
(Increase) decrease in receivables	458,228	(131,692)
(Increase) decrease in beneficial interests	55,957	266,348
(Increase) decrease in accrued interest receivable	373	(1,370)
(Increase) decrease in prepaid expenses	(7,513)	(15,032)
(Increase) decrease in inventories	(3,192)	(10,723)
Increase (decrease) in accounts payable and accrued expenses	(9,329)	52,335
Net cash provided by (used in) operating activities	<u>(755,893)</u>	<u>(83,192)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	1,063,224	22,392,498
Purchase of investments	(1,073,365)	(21,478,908)
Payments for construction in progress	(63,547)	(6,495)
Payments for property and equipment	<u>(160,052)</u>	<u>(547,138)</u>
Net cash provided by (used in) investing activities	<u>(233,740)</u>	<u>359,957</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for long-term investment.....	218,775	314,222
Payments on capital lease obligation	<u>(8,871)</u>	<u>(18,622)</u>
Net cash provided by (used in) financing activities	<u>209,904</u>	<u>295,600</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(779,729)	572,365
CASH AND CASH EQUIVALENTS		
Beginning	<u>2,637,483</u>	<u>2,065,118</u>
Ending	<u><u>\$ 1,857,754</u></u>	<u><u>\$ 2,637,483</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 8,714</u>	<u>\$ 5,589</u>
Equipment acquisition financed with capital lease.....	<u><u>\$</u></u>	<u><u>\$ 34,540</u></u>

(The accompanying notes are an integral part of these financial statements)

ROBERT E. LEE MEMORIAL ASSOCIATION, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

NATURE OF ORGANIZATION

Robert E. Lee Memorial Association, Incorporated (the “Association”) is a non-profit organization established to operate and preserve Stratford Hall, home of the Lees, for the education and enjoyment of the visiting public in Stratford, Virginia. The Association also operates a dining hall (providing a traditional fare) and store (merchandising primarily Stratford Hall-related products).

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

These financial statements have been prepared using the accrual basis of accounting. Support from contributions is recognized at the earlier of the date at which the obligation becomes unconditional or when the monies are received.

Basis of Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which require the Association to report information regarding its financial position and activities according to three classes of net assets as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Association and/or the passage of time.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Association.

Accounting 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 public support, revenue, other sources, and expenses during the reported period. Actual results could differ from those estimates.

Significant estimates that affect the Association’s financial statements include the collectability and discounting of contributions receivable, valuation of beneficial interests in charitable trusts, valuation of investments, depreciation, and functional expense allocations.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Association considers all cash accounts that are not subject to withdrawal restrictions or penalties, and all highly-liquid instruments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents held by investment managers in connection with long-term investment objectives are reported as investments in the statement of financial position. Cash in bank accounts exceeding federally-insured limits is subject to credit risk.

ROBERT E. LEE MEMORIAL ASSOCIATION, INCORPORATED

NOTES TO FINANCIAL STATEMENTS--(Cont'd)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--(Cont'd)

Contributions and Accounts Receivable

Contributions receivable that represent unconditional promises to give are recognized as public support and revenue in the period received at their fair values. Management believes that the use of fair value measuring reduces the cost of measuring its multi-year promises to give in periods subsequent to their receipt and provides equal or better information to users of its financial statements than if those promises were measured using present value techniques and historical discount rates. Under this method, the Association applies one discount rate to all multi-year receivables. The Association estimates its discount rate at the end of each reporting year. The Association's discount rate was 2% and 1% at June 30, 2017 and 2016, respectively. Management feels that the rates are representative of the market rates for those years.

A promise to give is a written or oral agreement to contribute cash or other assets; however, to be recognized, there must be sufficient evidence in the form of verifiable documentation indicating a promise was made and received. Unconditional promises to give are presented net of a discount for the time value of money and an allowance for uncollectible unconditional promises to give receivable. The allowance for uncollectible unconditional promises to give receivable amounted to \$11,000 and \$28,000 for the years ended June 30, 2017 and 2016, respectively.

The Association does not sustain significant past-due accounts receivable and, therefore, does not have a policy for accruing finance charges on overdue accounts. Receivables deemed uncollectible are written off to bad debt expense in the year of the determination.

Contributed Services

Contributed services are recorded in the financial statements to the extent that those services create or enhance a nonfinancial asset or meet the following criteria: a) the service requires specialized skills, b) the service is provided by individuals who possess those skills, and c) the service would typically need to be purchased if not contributed. Contributed services meeting the criteria for recognition are reflected as non-cash contributions at their estimated fair market value on the date of receipt.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined on the average cost method, which approximates the first-in, first-out method.

Property and Equipment

Property and equipment is stated at cost, net of accumulated depreciation. Donated property is recorded at fair market value (based on independent appraisals or comparisons to similar asset sales), and recognized as income when received. Depreciation is computed on the straight-line basis over useful lives of each asset. The Association has set a capitalization threshold of \$1,000 for all items with a minimum useful life of one year.

ROBERT E. LEE MEMORIAL ASSOCIATION, INCORPORATED

NOTES TO FINANCIAL STATEMENTS--(Cont'd)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--(Cont'd)

Historic Properties and Collections

The Association's historic properties and collections, acquired through purchase and contributions, are not recognized as assets in accordance with accounting standards. Costs related to the restoration of historic buildings are expensed when incurred. The Association's collections are maintained for public exhibition, education, and research. The Association believes it is impractical to assign a value to historic properties and collections given the intrinsic value associated with these items.

Investments and Related Income

Investments in securities are carried at market value as determined by quoted market prices. Investments are not insured by the Federal Deposit Insurance Corporation (FDIC) and are subject to credit and investment risk.

Alternative investment funds primarily include investments in comingled equity, fixed income, and hedge strategy investment partnerships. These investments are reported at the net asset value (NAV) per share of the investment (or its equivalent), as a practical expedient for a fair value measurement, if (a) the underlying investment manager's calculation of NAV is fair value based, and (b) the NAV has been calculated by the fund manager as of the Association's fiscal year-end date of June 30th. If the reported NAV is not as of the Association's fiscal year end date or is not fair value based, the Association will adjust the NAV, if deemed necessary.

Changes in market values of investments are recognized as unrealized holding gains or losses. Realized gains and losses are recognized upon disposition of the investment. Investments received by gift are initially recorded at market value at date of receipt.

Effective July 1, 2008, Virginia enacted the *Uniform Prudent Management of Institutional Funds Act* (UPMIFA). This Act focuses on the original gift as well as the net appreciation of donor-restricted endowment funds. It replaces previous provisions related to endowment spending thresholds. UPMIFA provides that, unless otherwise stated in the gift instrument, the assets in an endowment fund are donor-restricted assets until appropriated for expenditure by the Association. As a result, the Association's earnings on donor-restricted endowment funds, absent restriction by the gift agreement, are classified as temporarily restricted assets until the year of expenditure.

Restricted and Unrestricted Revenue and Support

The Association reports gifts of cash and other assets as restricted support if they are received with donor stipulations limiting the use of the donated assets. When a stipulated purpose restriction is satisfied or a time restriction ends, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released.

ROBERT E. LEE MEMORIAL ASSOCIATION, INCORPORATED

NOTES TO FINANCIAL STATEMENTS--(Cont'd)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--(Cont'd)

Restricted and Unrestricted Revenue and Support--(Cont'd)

The Association reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor restrictions specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Association reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Advertising

The Association expenses advertising costs as incurred. For the years ended June 30, 2017 and 2016, advertising costs were approximately \$100,000 and \$61,000, respectively.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Exempt Tax Status

The Association is a 501(c)(3) organization exempt from income tax provided under Section 501(a) of the Internal Revenue Code. Income from certain Association activities not directly related to its tax-exempt purpose is subject to income tax.

The Association has reviewed and evaluated the relevant technical merits of each of its tax positions in accordance with guidance established by the Financial Accounting Standards Board and determined that there are no uncertain tax positions that would have a material impact on the financial statements of the Association.

Fair Values of Financial Instruments

The Association follows current accounting standards relating to fair value measurements and disclosures, which define fair value, establish guidelines for measuring fair value, establish a framework for measuring fair value, and expand disclosures regarding fair value measurement. (See **FAIR VALUES OF FINANCIAL INSTRUMENTS** note.)

ROBERT E. LEE MEMORIAL ASSOCIATION, INCORPORATED

NOTES TO FINANCIAL STATEMENTS--(Cont'd)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--(Cont'd)

Contributory Pension Plan

The Association provides a 403(b) plan covering all eligible employees. Participants may make voluntary contributions to the plan, of which the Association can elect to match up to 6% of the employee's salary. The participant must contribute a minimum of 3% before the Association will match the elective deferral. The plan also provides for discretionary contributions as determined by the Association. The Association contributed \$20,062 and \$21,998 to the 403(b) plan during the years ended June 30, 2017 and 2016, respectively.

Sales Taxes

The Association collects sales tax and remits the entire amount to the taxing jurisdictions. The Association's accounting policy is to exclude the tax collected and remitted to the taxing jurisdictions from revenues and cost of sales.

Subsequent Events

Management has evaluated subsequent events through October 17, 2017, which is the date the financial statements were available to be issued.

CONTRIBUTIONS RECEIVABLE - NET

At June 30, 2017 and 2016, the Association's contributions receivable due later than one year were recorded at the present value of estimated future cash flows.

Anticipated collections of contributions receivable at June 30, 2017 and 2016 are as follows:

	2017	2016
Contributions receivable expected to be collected in:		
Less than one year	\$ 220,881	\$ 575,914
One to five years	<u>354,940</u>	<u>456,838</u>
Total before discounts	575,821	1,032,752
Less: Discounts on contributions receivable (2% for 2017 and 1% for 2016)	(21,000)	(15,000)
Allowance for uncollectible pledges	<u>(11,000)</u>	<u>(28,000)</u>
	<u>\$ 543,821</u>	<u>\$ 989,752</u>

ROBERT E. LEE MEMORIAL ASSOCIATION, INCORPORATED

NOTES TO FINANCIAL STATEMENTS--(Cont'd)

CONTRIBUTIONS RECEIVABLE - NET--(Cont'd)

Changes in promises to give for the years ended June 30, 2017 and 2016 are as follows:

	2017	2016
Balance, beginning of year	\$ 989,752	\$ 844,825
New pledges	164,613	921,844
Payments received.....	(591,544)	(777,917)
Change in discount	(6,000)	14,000
Change in allowance	17,000	(13,000)
Write off of uncollectible promises to give.....	(<u>30,000</u>)	<u>....</u>
Balance, end of year	<u>\$ 543,821</u>	<u>\$ 989,752</u>

INVENTORIES

Inventories at June 30, 2017 and 2016 consisted of the following:

	2017	2016
Farm, cattle, and grain	\$ 8,552	\$ 7,516
Store merchandise and publications	75,963	70,148
Dining hall	<u>10,642</u>	<u>14,301</u>
	<u>\$ 95,157</u>	<u>\$ 91,965</u>

PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2017 and 2016 consisted of the following:

	2017	2016
Land (non-historic)	\$ 812,049	\$ 812,049
Non-historic buildings and improvements.....	7,661,740	7,615,134
Equipment and utility plant	<u>2,675,326</u>	<u>2,785,221</u>
	11,149,115	11,212,404
Less: Accumulated depreciation.....	<u>7,534,220</u>	<u>7,436,852</u>
	<u>\$ 3,614,895</u>	<u>\$ 3,775,552</u>

Depreciation expense amounted to \$316,258 and \$300,349 for the years ended June 30, 2017 and 2016, respectively.

ROBERT E. LEE MEMORIAL ASSOCIATION, INCORPORATED

NOTES TO FINANCIAL STATEMENTS--(Cont'd)

CONSTRUCTION IN PROGRESS

At June 30, 2017 and 2016, the Association had the following capital expenditures in progress:

	2017	2016
Fencing	\$ 10,393	\$ 6,495
Library HVAC Replacement	24,998	....
Bridge Rehabilitation	22,069	....
Cheatham House Renovation	12,582	....
Visitor Center	<u>372,277</u>	<u>372,277</u>
Total	<u>\$ 442,319</u>	<u>\$ 378,772</u>

The estimated costs to complete the fencing and the Library HVAC Replacement projects are estimated to be \$12,500 and \$50,000, respectively. The estimated costs to complete the Bridge Rehabilitation and the Cheatham House Renovation are estimated to be \$500,000 and \$88,500, respectively. The estimated completion costs related to the Visitor Center are estimated to be approximately \$5,600,000. The Association currently has no unconditional commitments related to the future completion costs of these projects.

COLLECTIONS

The acquisition and preservation of collections is essential in fulfilling the Association's mission of preservation, education, and interpreting to the public the history of Stratford Hall. The Association assumes the responsibility of preserving and maintaining, at the highest level, the historic collections of Stratford Hall.

The Association is responsible for providing adequate fire protection, security, environmental controls, and emergency preparedness plans to protect its collections. The Association maintains physical records and computerized inventories, which are maintained according to museum standards.

The composition of the Association's collections is outlined below:

Curatorial Collection - Consists of objects held for the purpose of exhibition or research. Such objects include decorative and fine arts, horse-drawn vehicles, tools and other utilitarian wares, textiles, and personal accessories.

Archaeology Collection - Consists of artifacts and objects that have been produced or affected by humans and found in the context of the Stratford landscape. The collection covers all periods of time ranging from prehistoric to modern. The artifacts have been acquired from a range of sources including organized fieldwork and single item or spot finds by members of the public.

ROBERT E. LEE MEMORIAL ASSOCIATION, INCORPORATED

NOTES TO FINANCIAL STATEMENTS--(Cont'd)

COLLECTIONS--(Cont'd)

Paleontology Collection - Consists of fossils and geological specimens that are part of the natural history record of Stratford Hall Plantation. The artifacts have been acquired from a range of sources including organized fieldwork and single item or spot finds by members of the public.

Architectural Fragments Collection - Consists of objects removed from their original context during the course of restoration work undertaken to stabilize, protect, or reinterpret the historic built environment of Stratford Hall Plantation.

Historic Land and Buildings - Consists of real estate held for the purpose of exhibition or research.

IRREVOCABLE CHARITABLE REMAINDER TRUST

The Association was named as a remainder beneficiary in an irrevocable charitable remainder trust. The trust was administered by an outside trustee. During the fiscal year ended June 30, 2016, the final income beneficiary of the trust passed away and the Association received proceeds from the trust liquidation in the amount of \$210,391.

The charitable remainder trust was valued by estimating the net present value of the assets expected to be received upon the death of the lifetime income beneficiary. The trust was valued annually, and changes in the value were reflected as increases and decreases in temporarily restricted net assets.

The Association holds a 10% fractional undivided interest in ten mining claims located in Madison County, Montana (remainder of Philip W. Bonsal Trust). The mining claims are for 97.61 acres located in a rural ranching area that is undeveloped. The Association has not received an estimated value of these mining claims and no amount has been included in these financial statements.

BENEFICIAL INTEREST IN PERPETUAL TRUST

The Association has a beneficial interest in a perpetual trust from which it receives quarterly income distributions. The trust is administered by an independent trustee. The beneficial interest in the perpetual trust is reported at the fair value of the trusts' assets in the statements of financial position, with trust distributions and changes in the fair value recognized in the statement of activities. The fair value of the beneficial interest in the perpetual trust amounted to \$210,654 and \$198,533 at June 30, 2017 and 2016, respectively.

BENEFICIAL INTEREST IN CHARITABLE LEAD ANNUITY TRUST

The Association has a beneficial interest in a charitable lead annuity trust. Pursuant to the agreement, the Association is entitled to receive fixed annual distributions from the trust through the year ended June 30, 2031. The trust is valued based on estimating the net present value of the fixed annual distributions, discounted at 2.66% and 1.85% at June 30, 2017 and 2016, respectively. The net present value of the Association's beneficial interest in the trust amounted to \$620,000 and \$720,000 at June 30, 2017 and 2016, respectively.

ROBERT E. LEE MEMORIAL ASSOCIATION, INCORPORATED

NOTES TO FINANCIAL STATEMENTS--(Cont'd)

INVESTMENTS

Investments are presented in the financial statements at their fair market value. During the year ended June 30, 2017, the Association transferred their endowment investments to three limited partnership investment funds managed by Global Endowment Management (GEM). These endowment funds are referred to as alternative investment funds.

Investments at June 30, 2017 consisted of the following:

	FAIR MARKET VALUE	COST
Certificates of deposit	\$ 329,840	\$ 329,840
Alternative investment funds	<u>23,656,957</u>	<u>21,001,260</u>
Total investments	<u>\$23,986,797</u>	<u>\$21,331,100</u>

Alternative investment funds were comprised of the following at June 30, 2017:

	FAIR MARKET VALUE
Net cash and cash equivalents	(\$ 522,070)
Fixed income	3,768,479
Equity securities	10,730,230
Real assets	4,232,022
Hedges and overlays	4,652,726
Credit	150,914
Commodities	183,252
Asset backed securities	33,815
Real estate income trusts	<u>427,589</u>
Total	<u>\$23,656,957</u>

Investments at June 30, 2016 consisted of the following:

	FAIR MARKET VALUE	COST
Certificates of deposit	\$ 329,840	\$ 329,840
Alternative investment funds	<u>21,155,259</u>	<u>20,991,120</u>
Total investments	<u>\$21,485,099</u>	<u>\$21,320,960</u>

ROBERT E. LEE MEMORIAL ASSOCIATION, INCORPORATED

NOTES TO FINANCIAL STATEMENTS--(Cont'd)

INVESTMENTS--(Cont'd)

Alternative investment funds were comprised of the following at June 30, 2016:

	FAIR MARKET VALUE
Cash and cash equivalents	\$ 1,468,661
Fixed income	2,986,803
Equity securities	8,649,279
Real assets.....	3,632,410
Hedges and overlays	4,340,067
Credit	52,729
Commodities.....	<u>25,310</u>
Total	<u>\$21,155,259</u>

Investment fair market values and investment returns are generally dependent on the overall performance of the financial markets and are subject to substantial fluctuations based on current market conditions.

INVESTMENTS IN CERTAIN ENTITIES THAT CALCULATE NET ASSET VALUE PER SHARE (OR ITS EQUIVALENT)

A summary of the investment strategy, redemption frequency, and redemption notice period of the Association's investments in certain entities that calculate net asset value per share (or its equivalent) at June 30 is as follows:

	JUNE 30, 2017 MARKET	JUNE 30, 2016 MARKET	INVESTMENT STRATEGY	REDEMPTION FREQUENCY	REDEMPTION NOTICE PERIOD
Global Endowment Management investments:					
Global Endowment Fund II, LP	\$19,683,825	\$18,685,159	(a)	Annual	120 days (a)
GEM Liquid Markets Fund A, LP	3,593,183	2,109,171	(b)	Monthly	(b)
Global Endowment Targeted Strategy Fund, LP	<u>379,949</u>	<u>360,929</u>	(c)	Monthly	10 business days (c)
	<u>\$23,656,957</u>	<u>\$21,155,259</u>			

ROBERT E. LEE MEMORIAL ASSOCIATION, INCORPORATED

NOTES TO FINANCIAL STATEMENTS--(Cont'd)

INVESTMENTS IN CERTAIN ENTITIES THAT CALCULATE NET ASSET VALUE PER SHARE (OR ITS EQUIVALENT)--(Cont'd)

- (a) This investment partnership utilizes a multi-strategy approach that provides an endowment-style investment program. The manager invests with a long-term horizon, seeking varied and non-traditional investment opportunities in an effort to provide a diversified, single-portfolio investment strategy. The long-term objectives are to; (i) outperform a passive mix of stocks and bonds on a risk-adjusted basis; and (ii) seek to generate a 5% return after inflation. As a result of its long-term investment horizon, the fund is structured to tolerate significant variability in short-term investment performance as it attempts to capture longer-term opportunities. Unless otherwise determined by GEM, withdrawals are permitted at the end of each calendar year provided that a redemption request is made on or prior to September 1 that precedes the applicable redemption date. Unless otherwise determined by GEM in its sole discretion, each redemption request must be at least the lesser of \$2,500,000 or the amount remaining in the Association's capital account. If the Association intends to redeem at least 90% of its interest, GEM will hold back up to 10% of the Association's interest. This holdback will be released sixty days after GEM's annual audit.
- (b) This investment partnership utilizes a multi-strategy approach that provides an endowment-style investment program with a relatively liquid investment portfolio. The investment manager invests with a long-term horizon, among various asset classes, in an effort to provide a diversified, single-portfolio investment strategy for its investors. The fund invests primarily in publicly traded securities and other assets that are determined to be liquid. Unless otherwise determined by GEM, redemptions are permitted monthly, provided that a redemption request is made on or prior to 25th day of the month of the applicable redemption date. Unless otherwise determined by GEM in its sole discretion, each redemption request must be at least the lesser of \$2,500,000 or the amount remaining in the Association's capital account. If the Association intends to redeem at least 90% of its interest, GEM will hold back up to 10% of the Association's interest. This holdback will be released sixty days after GEM's annual audit.
- (c) This investment partnership offers a short-term cash investment program. The fund invests primarily in high grade short-term interest bearing securities issued by corporate, federal, state, and local government agencies. Unless otherwise determined by GEM, redemptions are only permitted on the last business day of the month provided that the Association gives at least 10 business days' notice to GEM.

The Association has no unfunded commitments related to these investments at June 30, 2017.

ENDOWMENT

The Association's endowment consists of nine individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

ROBERT E. LEE MEMORIAL ASSOCIATION, INCORPORATED

NOTES TO FINANCIAL STATEMENTS--(Cont'd)

ENDOWMENT--(Cont'd)

The Association has interpreted 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, the Association 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 the Association in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Association and the donor-restricted endowment fund
- General economic conditions
- The possible effects of inflation and deflation
- The expected total return from income and the appreciation or depreciation of investments
- Other resources of the Association
- The investment policies of the Association

Endowment net asset classification by type of fund as of June 30, 2017 is as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Donor-restricted endowment funds	\$	\$ 6,253,558	\$16,183,791	\$22,437,349
Board-designated endowment funds	<u>1,219,608</u>	<u>....</u>	<u>....</u>	<u>1,219,608</u>
Total funds	<u>\$ 1,219,608</u>	<u>\$ 6,253,558</u>	<u>\$16,183,791</u>	<u>\$23,656,957</u>

ROBERT E. LEE MEMORIAL ASSOCIATION, INCORPORATED

NOTES TO FINANCIAL STATEMENTS--(Cont'd)

ENDOWMENT--(Cont'd)

Endowment net asset classification by type of fund as of June 30, 2016 is as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Donor-restricted endowment funds (a)	(\$ 7,791)	\$ 4,829,524	\$15,900,045	\$20,721,778
Board-designated endowment funds	<u>433,481</u>	<u>....</u>	<u>....</u>	<u>433,481</u>
Total funds	<u>\$ 425,690</u>	<u>\$ 4,829,524</u>	<u>\$15,900,045</u>	<u>\$21,155,259</u>

(a) The \$7,791 deficit in unrestricted net assets represents the amounts by which the fair value of certain donor-restricted endowment funds were below the amount required to be retained permanently.

Changes in endowment net assets for the year ended June 30, 2017 are as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Endowment net assets, beginning of year	\$ 425,690	\$ 4,829,524	\$15,900,045	\$21,155,259
Underwater reclassification	7,791	(7,791)	....	....
Net appreciation	89,682	2,245,049	....	2,334,731
Deposits	696,445	250,000	283,746	1,230,191
Appropriation of endowment assets for expenditure	<u>....</u>	<u>(1,063,224)</u>	<u>....</u>	<u>(1,063,224)</u>
Endowment net assets, end of year	<u>\$ 1,219,608</u>	<u>\$ 6,253,558</u>	<u>\$16,183,791</u>	<u>\$23,656,957</u>

ROBERT E. LEE MEMORIAL ASSOCIATION, INCORPORATED

NOTES TO FINANCIAL STATEMENTS--(Cont'd)

ENDOWMENT--(Cont'd)

Changes in endowment net assets for the year ended June 30, 2016 are as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Endowment net assets, beginning of year	\$ 402,363	\$ 6,675,176	\$15,610,825	\$22,688,364
Net depreciation (a)	(18,640)	(659,959)	....	( 678,599)
Deposits	41,967	....	289,220	331,187
Appropriation of endowment assets for expenditure .....	.....	( 1,185,693)	.....	( 1,185,693)
Endowment net assets, end of year	<u>\$ 425,690</u>	<u>\$ 4,829,524</u>	<u>\$15,900,045</u>	<u>\$21,155,259</u>

(a) \$22,552 of the 2016 net depreciation occurred in donor-restricted endowment funds where the fair value of those funds was less than the original gift. In addition, so as not to suspend certain programs, the Board deemed it prudent to appropriate \$35,004 from these funds.

While safety of principal is a key objective of the endowment, the endowment investments should be positioned to maximize long-term growth of income and principal of endowment funds consistent with prudent levels of risk. Investment returns are expected to preserve and enhance the real value of the endowment to provide adequate funds to sufficiently support designated Association activities. The Association seeks to earn a reasonable and competitive total return within its Asset Allocation Guidelines by investing in equity securities for long-term capital growth and fixed income securities for current income. It is the long-term goal of the Association to preserve the inflation-adjusted value of the Endowment's assets, including investment-related costs and the approved withdrawals from the investment pool to support the Association's operations budget. The Association acknowledges that short-term fluctuations may cause variations in performance, and therefore the Association evaluates investment performance from a short and long-term perspective on an on-going basis. The Association's prospects for the future, current financial condition, and level of funding suggest collectively some fluctuations in market value and rates of return can be tolerated in order to achieve longer-term objectives.

Investment performance is measured over a three to five-year period. The Association has established a guideline for measuring investment performance.

ROBERT E. LEE MEMORIAL ASSOCIATION, INCORPORATED

NOTES TO FINANCIAL STATEMENTS--(Cont'd)

ENDOWMENT--(Cont'd)

Investment manager performance is evaluated in relation to the appropriate primary market index for each asset allocation class. The Association also considers the following criteria when evaluating the investment manager:

1. The investment manager's adherence to the portfolio's investment guidelines;
2. Material changes in the investment manager's organization, investment philosophy, and/or personnel;
3. Any legal, Securities Exchange Commission, and/or other regulatory agency proceedings affecting the investment manager.

The Association's spending policy for endowment assets is based on a "total return" approach. The Association has established three possible spending options to mitigate the effects of short-term market volatility on spending and to ensure adherence to the standards of prudence in accordance with UPMIFA. The Board of Directors may approve one of the three following spending policies for each fiscal year endowment draw:

Moving average - The spending rate will be applied to an average of the past three years of the endowed portfolio's fair market values.

Preset increment over prior year - The level of spending will be increased by .25% to 1% over that of the previous year if determined prudent.

Judgmental - The Board of Directors, with the Association's Investment Committee guidance, will determine the amount to be spent, based on the needs of the Association.

The Association has also established the following objectives in determining the Association's spending rate:

1. Maintain the purchasing power of the current assets and any future contributions. The objective is to maintain the Association's level of services and programs in relation to average cost increases. This requires establishing an equilibrium-spending rate of 0% to 6%.
2. Maintain a constant funding-support ratio. The yield requirement of the endowed funds is to maintain the level of programs and services currently provided. This can only be accomplished if sufficient total return is reinvested and/or new funds are added to keep pace with cost increases and program expansions.

ROBERT E. LEE MEMORIAL ASSOCIATION, INCORPORATED

NOTES TO FINANCIAL STATEMENTS--(Cont'd)

ENDOWMENT--(Cont'd)

3. Maximize return within reasonable and prudent levels of risk.
4. Maintain an appropriate asset allocation based on a total return policy that is compatible with a flexible spending policy, while still having the potential to produce positive real returns.

Identified investment management expenses amounted to approximately \$157,000 and \$75,000 for the years ended June 30, 2017 and 2016, respectively.

CAPITAL LEASE

During the year ended June 30, 2012, the Association entered into a sixty-one-month capital lease for copiers and a sixty-month capital lease for a phone system. During the year ended June 30, 2016, the copier lease was terminated and replaced with a sixty-month capital lease for two new copiers. Amortization of the capital leases is included in depreciation expense. The equipment serves as collateral on the lease.

Property and equipment includes the following amounts for the capital lease at the fiscal year end. The assets under the capital lease are included in property and equipment on the statement of financial position and consist of the following at June 30:

	2017	2016
Equipment cost.....	\$ 34,540	\$ 77,552
Less: Allowance for depreciation	(9,340)	(31,619)
	<u>\$ 25,200</u>	<u>\$ 45,933</u>

Future minimum lease payments under the capital leases, including the present value of minimum lease payments and maintenance costs, subsequent to June 30, 2017, are as follows:

2018.....	\$ 7,356
2019.....	7,356
2020.....	7,356
2021.....	<u>5,517</u>
	27,585
Less: Amount representing interest.....	<u>1,279</u>
Total obligations under capital leases	26,306
Less: Current portion of capital leases	<u>6,776</u>
Long-term obligation under capital leases	<u>\$ 19,530</u>

ROBERT E. LEE MEMORIAL ASSOCIATION, INCORPORATED

NOTES TO FINANCIAL STATEMENTS--(Cont'd)

NOTE PAYABLE

The Association maintains a note payable agreement with an outstanding principal amount of \$329,840 at June 30, 2017 and 2016. On November 4, 2016, the Association renewed the loan agreement in the amount of \$329,840. The loan agreement renewal calls for a one-time principal and accrued interest payment on June 4, 2018 and bears interest at 2.15%. For the years ended June 30, 2017 and 2016, the Association incurred interest expense related to this note in the amount of \$6,762 and \$5,594, respectively. The loan is secured by a certificate of deposit owned by the Association with a carrying value of \$329,840.

FAIR VALUES OF FINANCIAL INSTRUMENTS

The Association follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, which defines fair value, establishes guidelines for measuring fair value, and establishes a framework for measuring fair value. This standard provides clarification that fair value of certain assets and liabilities is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation.

FASB ASC 820 prioritizes, within the measure of fair value, the use of market-based information over entity-specific information and establishes a three-level hierarchy of fair value measurements based on the nature of the inputs used in the valuation of an asset or liability as of the measurement date. Level 1 provides the most reliable measure of fair value, whereas Level 3 generally requires significant management or fund manager judgment. The three-level hierarchy is defined as follows:

- Level 1 Valuation is based on quoted prices in active markets for identical assets and liabilities.
- Level 2 Valuation is based on observable inputs for quoted prices for similar instruments. For example, quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets.
- Level 3 Valuation is based on model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market. Such instruments are valued based on the best available data, some of which is internally developed, and considers risk premiums that a market participant would require.

ROBERT E. LEE MEMORIAL ASSOCIATION, INCORPORATED

NOTES TO FINANCIAL STATEMENTS--(Cont'd)

FAIR VALUES OF FINANCIAL INSTRUMENTS--(Cont'd)

The fair values of the Association's assets are categorized in accordance with accounting standards at June 30, 2017 as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Alternative investment funds	\$	\$	\$23,656,957	\$23,656,957
Contributions receivable - net	543,821	543,821
Beneficial interest in charitable lead annuity trust	620,000	620,000
Beneficial interest in perpetual trust	<u>....</u>	<u>....</u>	<u>210,654</u>	<u>210,654</u>
Net financial assets at fair value	<u>\$</u>	<u>\$</u>	<u>\$25,031,432</u>	<u>\$25,031,432</u>

The following table provides a reconciliation of the Association's alternative investment funds at June 30:

	2017	2016
Alternative investment funds - beginning of year	\$21,155,259	\$
Initial transfer to funds .....	....	21,206,805
Deposits	1,230,191	282,198
Withdrawals	(1,063,224)	(423,282)
Net investment income	<u>2,334,731</u>	<u>89,538</u>
Alternative investment funds- end of year	<u>\$23,656,957</u>	<u>\$21,155,259</u>

The following table provides a reconciliation of the Association's beneficial interest in the charitable lead annuity trust at June 30:

	2017	2016
Beneficial interest in charitable lead annuity trust - beginning of year	\$ 720,000	\$ 780,000
Changes to present value of beneficial interest	(44,043)	(4,043)
Distributions	<u>(55,957)</u>	<u>(55,957)</u>
Beneficial interest in charitable lead annuity trust - end of year	<u>\$ 620,000</u>	<u>\$ 720,000</u>

ROBERT E. LEE MEMORIAL ASSOCIATION, INCORPORATED

NOTES TO FINANCIAL STATEMENTS--(Cont'd)

FAIR VALUES OF FINANCIAL INSTRUMENTS--(Cont'd)

The following table provides a reconciliation of the Association's beneficial interest in the perpetual trust at June 30:

	2017	2016
Beneficial interest in perpetual trust - beginning of year	\$ 198,533	\$ 175,237
Changes in discount to present value.....	<u>12,121</u>	<u>23,296</u>
Beneficial interest in perpetual trust - end of year	<u>\$ 210,654</u>	<u>\$ 198,533</u>

The fair values of the Association's assets are categorized in accordance with accounting standards at June 30, 2016 as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Alternative investment funds	\$	\$	\$21,155,259	\$21,155,259
Contributions receivable - net.....	989,752	989,752
Beneficial interest in charitable lead annuity trust	720,000	720,000
Beneficial interest in perpetual trust	<u>....</u>	<u>....</u>	<u>198,533</u>	<u>198,533</u>
Net financial assets at fair value	<u>\$</u>	<u>\$</u>	<u>\$23,063,544</u>	<u>\$23,063,544</u>

Alternative Investment Funds - The estimated fair value of investments is based on quoted market prices and net asset values provided by investment managers.

Contributions receivable - Fair value was estimated by discounting the estimated future cash flows using the applicable discount rate.

ROBERT E. LEE MEMORIAL ASSOCIATION, INCORPORATED

NOTES TO FINANCIAL STATEMENTS--(Cont'd)

FAIR VALUES OF FINANCIAL INSTRUMENTS--(Cont'd)

Beneficial interest in charitable lead annuity trust - Fair value was estimated by calculating the present value of the expected annual trust payments using the applicable discount rate.

Beneficial interest in perpetual trust - The beneficial interest in the perpetual trust represents the fair value of the underlying trust assets.

NET ASSETS

Unrestricted net assets consisted of the following at June 30, 2017 and 2016:

	2017	2016
Net investment in property and equipment.....	\$3,614,895	\$3,775,552
Construction in progress	442,319	378,772
Comprehensive Campaign - designated funds	242,287	923,622
Board-designated endowment	1,215,590	447,471
Board-designated for maintenance/repairs	166,390	287,322
Board-designated for historic collections	290,049	216,492
Board-designated for other purposes	39,320	36,785
Other unrestricted	(276,709)	(378,704)
Total	<u>\$5,734,141</u>	<u>\$5,687,312</u>

Temporarily restricted net assets were available for the following purposes at June 30, 2017 and 2016:

	2017	2016
Deaccession funds for historic properties and collections.....	\$1,828,678	\$1,939,258
Endowment earnings restricted until appropriated	4,038,676	2,775,851
Time restriction of outstanding unrestricted pledges - gross	245,646	148,144
Comprehensive Campaign - donor restricted	1,482,764	1,817,169
Pritzlaff Preservation Fund	23,341	18,794
Time restrictions of beneficial interest in trusts.....	830,654	918,533
Other operations of the Association.....	<u>420,615</u>	<u>410,945</u>
Total.....	<u>\$8,870,374</u>	<u>\$8,028,694</u>

ROBERT E. LEE MEMORIAL ASSOCIATION, INCORPORATED

NOTES TO FINANCIAL STATEMENTS--(Cont'd)

NET ASSETS--(Cont'd)

Permanently restricted net assets are reported at the originally donated cost and do not reflect realized and unrealized gains or losses, or any investment earnings, as those earnings are used to support unrestricted and temporarily restricted activities.

Permanently restricted net assets were restricted to the following at June 30, 2017 and 2016:

	2017	2016
Fund for research	\$ 100,000	\$ 100,000
Joe Hume Gardner Devil's Bag Fund for maintenance of the farm grounds	588,296	588,296
Caroline Ryan Foulke endowment	1,407,867	1,407,867
Campaign for Teaching	485,215	485,215
Library endowment	1,235,000	1,235,000
Gardens and grounds endowment	1,000,500	1,000,500
All other operations of the Association	<u>11,446,941</u>	<u>11,228,166</u>
Total	<u>\$16,263,819</u>	<u>\$16,045,044</u>

CONCENTRATIONS

Approximately 47% of the Association's gross unconditional promises to give at June 30, 2017, are due from three donors. Approximately 33% of the Association's gross unconditional promises to give at June 30, 2016, respectively, were due from one donor.

CONTRIBUTED SERVICES

In July of 2015, the Association's Executive Director tragically passed away in an accident. Shortly thereafter, an individual possessing specialized skills and experience committed to serving as the interim Executive Director with the condition that he receive no compensation from the Association in exchange for his contributed services. For the year ended June 30, 2016, the Association recognized contributed services revenue and contributed salaries expense in the amount of \$128,000.

In addition, the Association receives contributed services from unpaid volunteers who assist the Association with various operations and events. No amounts have been recognized in the statement of activities for these contributed services since the accounting standard criteria for recognition have not been met.