

Friends Meeting of Washington
Trustees 2014 Annual Report and Auditor's Review
of Meeting Financial Statements for FY 2014

February 2015

The Trustees are legally responsible for holding the Meeting's assets in trust for the benefit of the Meeting's members and for assuring that the Meeting fulfills the intent and purposes of its founders and donors. The assets includes our buildings, land, and investments.

Highlights of Fiscal Year 2014 —

- The state of our financial and physical assets continued to improve. Financial assets grew by \$312 thousand, and work continued on building renovation and catching up with deferred maintenance.
- Spending on property grew, compared to earlier years, but revenue from property grew even more. Other revenue and spending was fairly stable. The cash deficit from Meeting operations and property capital investments, not including the renovation project, was the lowest in a decade and investment gains contributed \$294 thousand.
- Trustees began work on plans to finance the planned \$2 million renovation to address accessibility, circulation, and storm water management and flooding issues.
- The continuing decline in unrestricted contributions to FMW is a concern. In FY 2014, donations for Meeting operations was \$201 thousand. As in past years, costs in excess of donations were addressed by spending a portion of the Meeting's revenue earned from our savings at Friends Fiduciary. As the ten year chart below shows, Meeting costs for operations and capital spending over the last ten years have resulted in a net cash flow of minus \$578 thousand. Fortunately, investment

earnings from Friends Fiduciary totaled about \$1.09 million. The Meeting budgets a portion of that revenue, generally about \$80 thousand per year, to support Meeting activities.

FY 2014 Accountant's Review —

The Meeting engages independent auditors to conduct a full audit every third year and an audit review, which is less in scope, in other years.

The auditors, McQuade Brennan LLP, conducted a financial review of the Meeting's records for the past fiscal year, beginning July 1, 2013 and ending June 30, 2014, that stated, "based on the review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America."

The FY 2013 full Audit reported that, "in the Auditor's opinion, the Meeting's June 30, 2013 financial statements presented our financial condition fairly in all material respects, and that Meeting records are maintained in accordance with accounting principles generally accepted in the United States."

This report includes a copy of the Financial Statements and the Independent Auditors Review for the Meeting's Fiscal Year 2014, ending June 30, 2014.

This report summarizes the Meeting's financial situation and recent financial history. The report presents the information in a cash-oriented format that will, we hope, be accessible to Friends. The report draws on information from the FY 2014 review and previous reviews and audits, supplemented by details from unaudited reports. The Trustees wish to thank Neil Froemming for helping prepare this report which we hope will display the Meeting's financial situation in a more accessible and understandable format.

Copies of the full financial reviews and audits are available in the Library. Electronic copies are posted on the Meeting’s website at: www.quakersdc.org/Finance_and_Stewardship

On the next page is a table showing the factors that affected the Meeting’s cash and investment balances over the last decade. Ten-year totals are in the column at the far right. The bottom line sets out the year-to-year changes in our cash and investment balance. This shows that our results are generally positive (except for the market crash of 2008-9) and that we have saved more than half a million dollars during the last ten years and can reasonably expect to do well in the future.

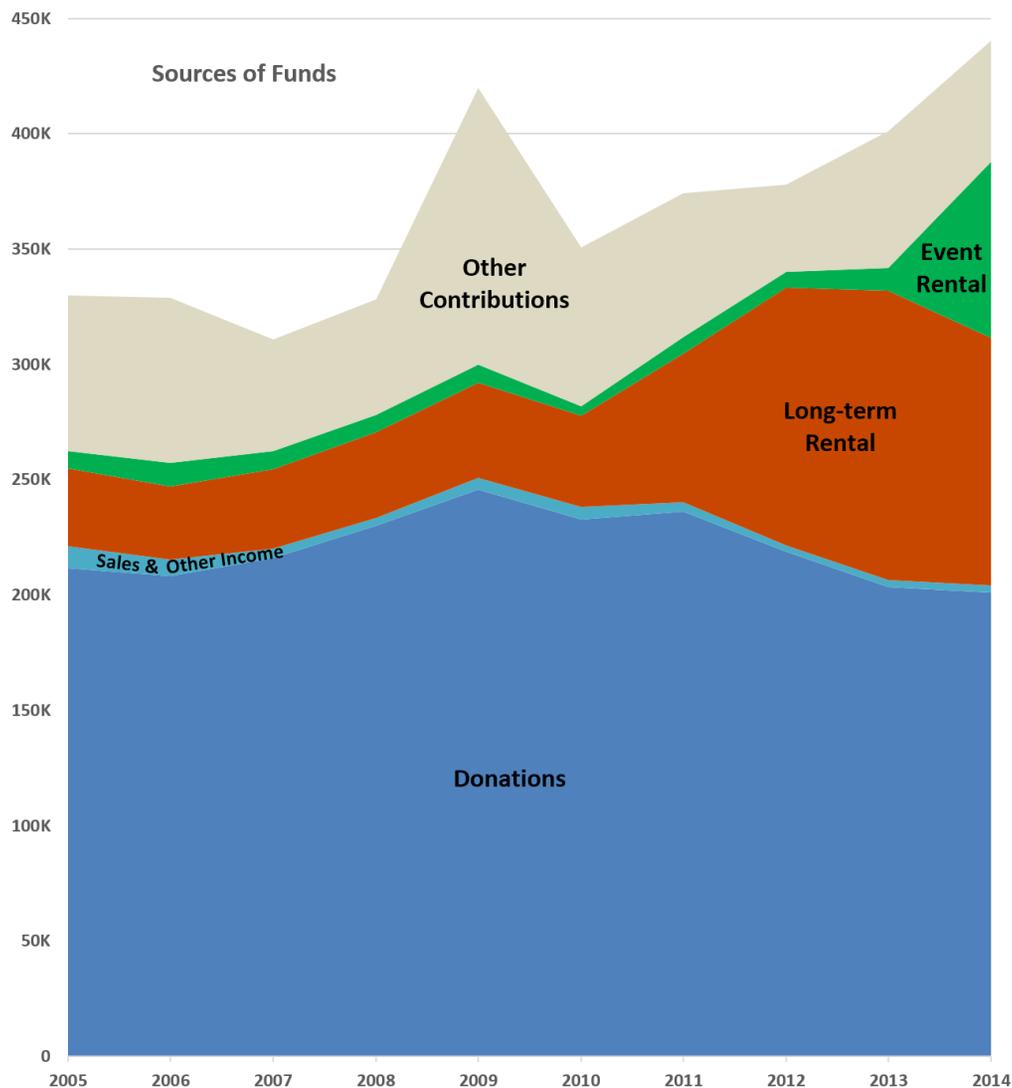
Sources of Funds —

Donations to support Meeting operations were down slightly in FY 2014, at \$201 thousand.

Other contributions totaled \$53 thousand. These are contributions that are earmarked for specific Meeting projects, such as the Mary Jane Simpson Scholarship, Personal Aid Fund, and the Shoebox Project.

A major shift in recent years has been the rapid increase in space rental income — up from \$44 thousand in FY 2010 to \$184 thousand in FY 2014, thanks to extensive renovations and outreach by Property Committee and staff.

Long-term rentals were down in FY 2014 due to the departure of a major tenant, but short-term event rentals were up from \$10 thousand in FY 2013 to \$76 thousand, thanks to the welcome extended by Debby Churchman in the newly created part-time position of Events Manager.



We currently share Quaker House and Carriage House space with seven office tenants, of which the largest four are non-profit organizations. We expect current levels of property revenue to continue or increase moderately, except during the major construction anticipated in 2015.

TRUSTEES ANNUAL REPORT — FEBRUARY 2015

Fiscal Years (July 1 – June 30):	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2005-14
<u>Income</u>											
Donations	211,561	208,080	215,950	230,107	245,597	232,756	236,267	218,913	203,273	201,102	2,203,604
Other contributions	67,580	71,641	48,374	50,004	120,004	68,640	62,251	37,930	59,386	52,553	638,364
Long-term rental income	33,835	31,412	34,383	37,308	41,293	39,715	64,313	111,522	125,220	107,531	626,532
Event rental income	7,394	10,419	7,812	7,475	7,959	4,084	7,323	6,829	9,893	76,418	145,605
Sales & other income	9,513	7,425	4,217	3,210	5,087	5,403	4,032	2,698	3,269	2,847	47,701
Total income	329,883	328,977	310,736	328,104	419,940	350,597	374,186	377,892	401,041	440,451	3,661,806
<u>Spending</u>											
Personnel, office, other expenses	191,608	235,120	202,192	196,527	197,333	166,740	133,965	170,671	158,395	197,327	1,849,878
Program spending	69,890	92,152	70,157	73,953	78,869	87,963	103,289	73,671	63,626	59,560	773,130
Baltimore Yearly Meeting support	43,500	44,250	48,750	56,250	59,500	57,635	59,785	61,740	58,315	57,715	547,440
Utilities	25,704	23,076	24,062	23,455	29,276	23,421	19,958	19,301	19,161	22,040	229,454
Maintenance & repair	14,678	15,973	20,784	19,880	31,747	37,139	28,878	54,867	46,331	38,751	309,028
Cleaning & trash removal	18,186	20,022	17,184	14,346	16,650	16,848	16,838	19,709	21,644	22,845	184,272
Property tax								21,412	22,613	23,405	67,430
Insurance & other site costs	8,890	10,781	12,926	15,006	14,687	15,683	16,583	15,079	12,625	13,783	136,043
Property capital spending	2,427				18,914		40,251	44,690	18,401	48,148	172,831
Total Property spending	69,885	69,852	74,956	72,686	111,274	93,091	122,508	175,057	140,775	168,973	1,099,057
Current account adjustments	-13,792	-12,312	19,847	-8,471	5,816	8,277	2,296	-48,538	29,492	-12,458	-29,843
Total spending	361,091	429,062	415,902	390,945	452,792	413,706	421,843	432,601	450,603	471,117	4,239,662
<u>Net Cash from Operations</u>	-31,209	-100,085	-105,166	-62,841	-32,853	-63,109	-47,657	-54,709	-49,562	-30,666	-577,856
Cash + Investments BOY	1,749,748	1,856,722	1,991,067	2,098,628	1,915,424	1,545,387	1,654,809	1,894,003	1,844,326	1,978,026	1,749,748
Cash from operations	-31,209	-100,085	-105,166	-62,841	-32,853	-63,109	-47,657	-54,709	-49,562	-30,666	-577,856
Capital Campaign contributions	-	53,050	5,109	700	-	40,924	1,450	1,200	36,250	112,532	251,214
Renovation Project planning	-	-	-	-	-45,043	-44,124	-9,181	-15,000	-45,022	-63,643	-222,013
Investment Gain	138,183	181,380	207,618	-121,063	-292,141	175,732	294,582	18,833	192,034	293,633	1,088,791
Cash + Investments EOY	1,856,722	1,991,067	2,098,628	1,915,424	1,545,387	1,654,809	1,894,003	1,844,326	1,978,026	2,289,882	2,289,882
Change in Cash & Investments	106,974	134,346	107,561	-183,204	-370,038	109,422	239,194	-49,677	133,701	311,856	540,134

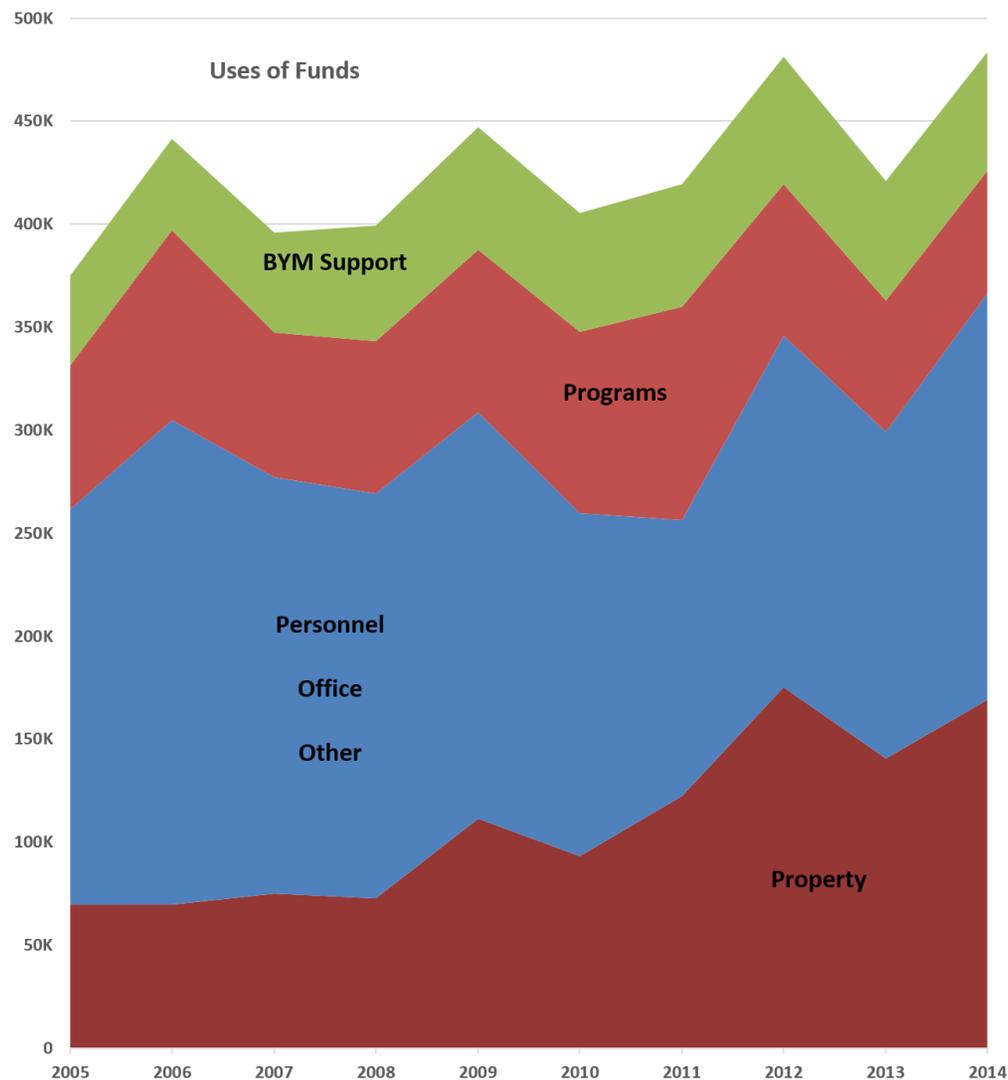
Uses of Funds —

The recent gains in property revenue have supported large increases in property-related spending, which has risen sharply in recent years from \$93 thousand in FY 2010 to \$189 thousand in FY 2014. This understates growing property costs, since a large and rising portion of personnel and office expenses are related to property management.

The increased spending has enabled the Property Committee to address deferred maintenance issues and make major renovations.

The Meeting continues to make steady progress in improving the care, stewardship, and programmatic capacity of its buildings and campus and has taken several steps to prepare for the planned major construction project to improve access to our campus.

In May, for example, the Meeting approved spending of up to \$125 thousand to complete the conversion of the Quaker House and Carriage HVAC systems from hot water radiators and window air conditioners to zoned heat pumps.



Trends —

There have been several important shifts in our financial patterns, compared to earlier years. Comparing FY 2014 results to the average of FY 2005-2010, we find that property income is up by \$140 thousand, while donations and other income are down by \$44 thousand. Total income is up by almost \$100 thousand.

Spending is up, but not as much. Property spending is up by \$87 thousand, but other spending is down by \$26 thousand. Total spending is thus up by about \$61 thousand.

The result has been a positive shift in the bottom line. Although FY 2014 operations spending was the highest in ten years, the resulting cash flow deficit of \$31 thousand was the lowest.

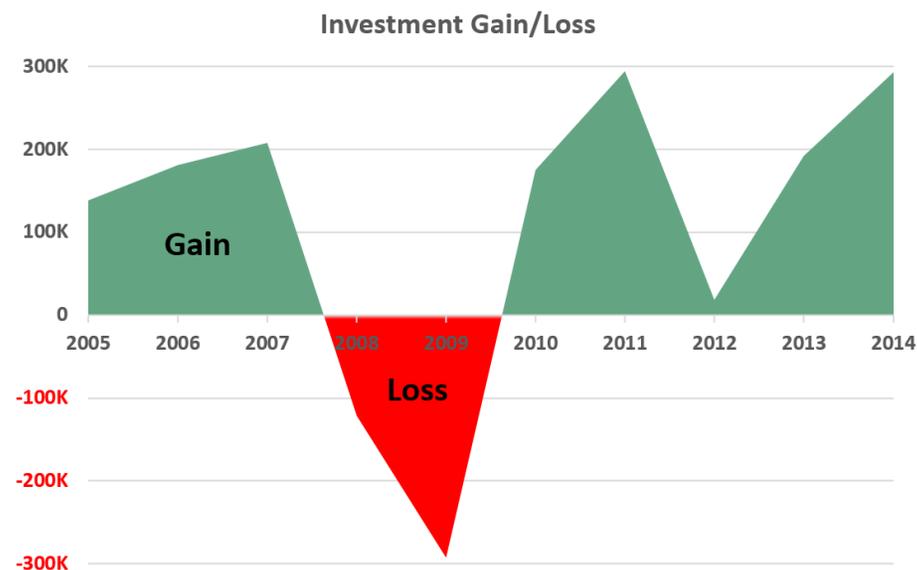


Although operations spending exceeds income from donations and space use revenue, our savings (cash and investments) continue to grow, adding \$312 thousand in FY 2014, to rise from \$1.98 million to \$2.29 million.

This is mostly because our investments had another very good year, contributing a gain of \$294 thousand. Friends’ contributions to the Capital Campaign Fund also added to year-end balances by exceeding renovation spending by \$49 thousand.

Our investments play a major role in our finances, contributing over \$1 million in the past decade.

This contribution has been very positive, but irregular. As a result, our cash and investment balances *declined* by \$204 thousand in the five years from FY 2005 to FY 2009 and then went up \$975 thousand in the following five years:



Meeting Assets —

The chart at right shows the breakdown of Meeting Assets at the end of FY 2014.

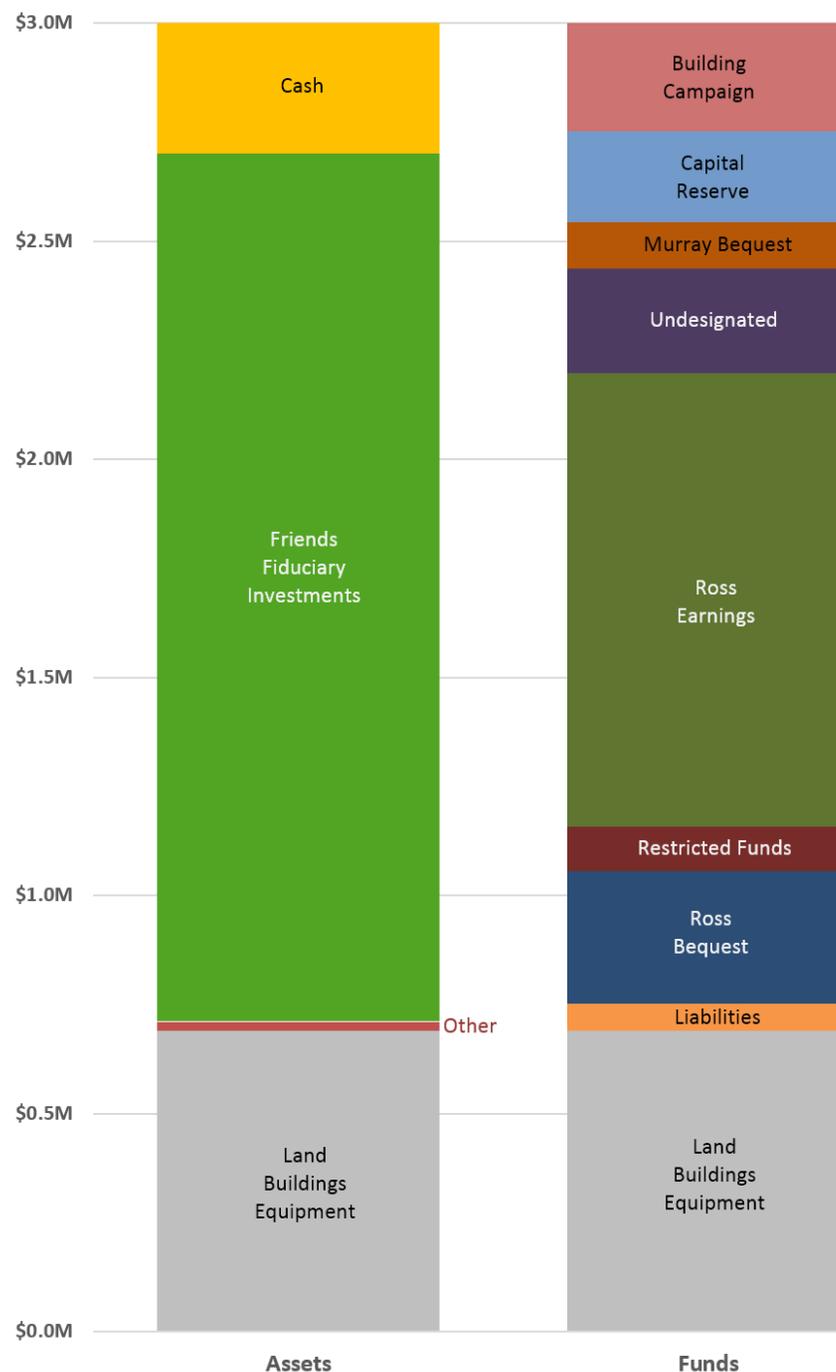
The bar on the left shows how we hold our assets. The major components are mostly cash, \$300 thousand, investments in Friends Fiduciary, \$1.99 million, and fixed assets — land, buildings, equipment at \$690 thousand.

Our land and buildings are worth a lot more than the book value we show on our financial statements. The District assessed our property at over \$12 million in 2014. Since we were not being taxed on any portion of our property before then and have no plans to sell the place, this wasn't important until the District started taxing us on part of the property because we rent some of our space to non-profits that do charitable work outside DC. With the invaluable help from Steve Coleman, Neil Froemming and others, we protested that valuation was way too high, since historical preservation rules and our covenants severely restrict the commercial value of the land. The 2014 valuation was reduced to about \$8 million and, while outside of the scope of this FY 2104 report, the proposed 2015 assessment has been further reduced to \$5.8 million, which should reduce our property tax bill in FY 2015.

The bar on the right shows how we categorize our funds. The land and buildings are still land and buildings, but the cash and investments are divided up according to how we plan to use them (or not use them).

The Liabilities represent funds on hand which we owe to others, so that amount is not available for spending. The original amount of the Ross Bequest funds are also not available for spending under the terms of the bequest. However, the earnings of the bequest are available for spending, with Trustees' approval.

The restricted funds are money dedicated to particular projects, such



as the Simpson Scholarship Fund and the Shoebox Fund, and not available for other uses.

Above that are funds we can spend for meeting operations or renovations, including undesignated funds, the remaining Murray Bequest funds, and the accumulated earnings from the Ross Bequest.

While the Meeting could, in theory, spend all of those funds on such things as the planned major renovation project, Trustees have decided that we need to retain those funds for the present, because the Meeting relies on income from the funds to maintain its financial stability.

The Building Campaign Fund represents funds raised for our major renovation project and ended FY 2014 at \$249 thousand. Those funds will be spent when construction begins this year.

The Capital Reserve is money set aside for Property Committee use to support major capital spending on the property for maintenance and renovations. The reserve fund balance usually averages around \$100 thousand, but ended FY 2014 at \$209 thousand, largely because of extra funding transferred to it from the Murray Bequest for the HVAC project mentioned above.

Capital Improvement Project —

Much of the work of Trustees during FY 2014 was related to analyzing and reporting about the Meeting financial situation and considering how to pay for the approximately \$2 million cost of the construction project, given our current financial situation and past and projected future fundraising.

In April, Trustees recommended and the Meeting approved spending \$80,000 of the accrued appreciation from the Ross bequest to pay for the architects to produce detailed construction documents that would then be used to solicit bids and for the design of the project.

In May, Trustees asked Merry Pearlstein, Tom Goodhue, and Ed Husted to gather information on how Meeting investments might be used to help secure financing for the construction process, and to present the costs and benefits of various options to finance the construction. This research was presented to Meeting for Business in September 2014, and the Meeting approved fund raising, borrowing, and spending for the project.

Appreciation —

The Trustees wish to thank Laurie Wilner, Meeting bookkeeper, without whose help this report – and Meeting books and records – would not be complete. We also thank Debby Churchman, who is a delight to work with and who really understands FMW from the inside, and Ken Orvis, who has managed our property so well.

We have appreciated the close and friendly working relationship with the Finance and Stewardship committee. Jim Bell, former clerk of that committee, is also a member of Trustees – which means that he had twice as many meetings to attend. His advice, counsel and support have been an important part of our committee work. Ed Husted, Meeting Financial Coordinator, also has helped Trustees over the past year.

Finally, the Trustees and the entire Meeting community owe the Capital Improvement Task Force and its clerks Merry Pearlstein and Neil Froemming our gratitude. Without their work and commitment to the Meeting, we would have found the task of designing, financing and generally shepherding the upcoming Meeting renovation much more difficult.

We are all grateful for everyone's support and help.

We are also deeply grateful for all the f/Friends — children, members, attenders, visitors, staff, partners, contractors, volunteers, and, especially, all the Meeting committee members — who continue to help lead our community into the Light.

The Trustees would like to thank Steve Coleman and Susan Lepper for their service on Trustees and for the enormous contributions each has made to the work of the committee.

In the Light,

— The Friends Meeting of Washington Trustees

Virginia Avanesyan

Jim Bell

Mary Campbell

Dan Dozier (Clerk)

Bill Foskett

Tom Goodhue

Mark Haskell

John Scales

Martha Solt

Faith Williams.