

November 6, 2013

David Ethridge
Clerk, Friends Meeting of Washington
2111 Florida Avenue, NW
Washington, DC 20007

Audited Financial Statement and Trustees Annual Report to the Meeting

Dear David:

Attached is the Audited Financial Statement from the FMW Independent Auditors for the Meeting's Fiscal Year ending June 30, 2013. This letter will also serve as the Annual Report to the Meeting by the Trustees. We believe that the financial and physical condition of the Meeting is an outward manifestation of our inner spiritual condition as a community.

As you will see more fully described below, Trustees believe that the Meeting community is a responsible and active steward of our property and has significantly improved the programmatic and revenue generation capacity of our buildings and campus. The Meeting, in our opinion, is well prepared to raise the necessary funds to undertake a substantial construction project. And Trustees believe that the Meeting has responsibly managed its finances. Trustees have one major financial concern -- the continuing decline in contributions to support Meeting activities and programs.

The Auditors have given the Meeting a 'clean' audit. This means that in their opinion the Meeting's 6/30/13 financial statements present 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 of America.

Audits evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by the Meeting staff ("staff" used here includes Laurie Wilner, our Bookkeeper) and Trustees, as well as evaluating the overall presentation of the financial statements. Auditors are hired to express an opinion about the Meeting's financial based on evidence they review when they conduct their audit.

Auditing standards generally accepted in the United States require the Auditors to obtain assurance about whether the financial statements are free from material misstatement and to review evidence about amounts and disclosures presented in our financial statements. The specific procedures the Auditors use depend on their own judgment and their assessment of the risks of material misstatement, whether due to fraud or error.

This allows our Auditors to expand their review and ask more questions, look at more documentation, or probe more deeply if they feel it is needed for them to express their opinion; they felt no need to expand their review. Although the Auditors consider the Meeting's internal controls and procedures, they do not express an opinion on the effectiveness of those controls and procedures.

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A core issue for the Meeting's fiscal health is unrestricted contributions to support Meeting programs and activities. While unrestricted contributions from members and attenders increased in FY13 after declines in FY10, FY11 and FY12, these contributions fell short of our budget; FMW only received 83% of what was budgeted. This could have been a truly difficult year had the building revenue not been so strong and had personnel costs not been less than projected. Fortunately, more people rented the building for various occasions that we budgeted. Additionally, the delay in and pay/benefit difference associated with hiring the Meeting's Administrative Secretary and reduced utility costs were helpful.

While the audit shows that in Fiscal Year (FY) 2013 unrestricted contributions totaled \$243,042 compared to unrestricted contributions of \$217,278 in FY 2012, an increase of \$25,764 from FY12, this is not the complete picture. Because \$36,550 of FY13 gifts were to the Capital Campaign Fund (compared to \$1200 gifts to Capitol Campaign in FY12), general support of the Meeting was \$9,586 less than in FY12.

The Meeting continues, as it has for the past several years, to make steady progress in improving the care, stewardship, and programmatic capacity of its buildings and campus. The Meeting has undertaken substantial steps to address deferred maintenance needs, and it has begun to make the difficult decisions necessary to improve access to our space, solve our flooding problems, manage our stormwater in an environmentally responsible manner, and increase the integration of our campus.

In part because of improved care, stewardship, and use, the Meeting is now bringing in significantly increased space revenues that are helping our efforts to upgrade our property and boost its value for the Meeting community as well as a widening circle of local, national, and international charitable efforts.

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 wish to thank Debby Churchman, who is a delight to work with and who really understands FMW from the inside and out and Ken Orvis who has managed our property so well. Finally, we have appreciated the close and friendly working relationship with the Finance and Stewardship committee. Jim Bell, clerk of that committee, is also a member of Trustees – which means that he has twice as many meetings to attend -- his advice, counsel and support have been an important part our committee, and Ed Husted, Meeting Financial Coordinator who also has helped Trustees over the past year. We are grateful for all of your 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.

FY2013 AUDIT

The Meeting engaged McQuade Brennan LLP accountants to conduct an independent audit of the Meeting's finances over the past fiscal year, beginning 7-1-2012 and ending 6-30-13. The Meeting has its financial status audited once every three years and a financial review – a less detailed financial review – on the years we do not have an audit. Trustees last reported about the financial reviews conducted in FY 2012 and 2011 in January of this year. As with the financial reviews, we received a “clean audit” which means that there is no need for modifications of Meeting accounts to conform with

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U.S. generally accepted accounting principles. Some key information from the FY2013 audit is summarized in the following comments and tables. Hard copies of the full financial reviews are available in the Library, and electronic copies are posted on the Meeting's web site at [http://quakersdc.org/Finance and Stewardship](http://quakersdc.org/Finance_and_Stewardship).

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A. Revenues and Sources of Funds

Contributions

The Trustees are still concerned about unrestricted contributions to the Meeting, although such contributions increased by 11.86% in FY13, this did not actually reverse the declines from previous years since the Capital Campaign gifts are included in this number. (See Table1 below). The FY13 Audit shows Unrestricted Contributions to the Meeting totaled \$243,042 and Temporarily Restricted Contributions of \$53,586 for a total of \$296,628. Normally, Unrestricted Contributions reflect the community's support of our general operating budget and Temporarily Restricted Contribution (targeted) support "pass-through" programs not presented in the Meeting's budget such as relief aid to Haiti, Pakistan, and Zimbabwe. However, the Capital Campaign Fund is a designated fund and technically a sub-category of Unrestricted Contributions.

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Despite the inclusion of the Capital Campaign Fund, the most important column of this statement to understand most clearly FMW operations is the ‘Unrestricted’ column, which reflects the general FMW operational support. The ‘Temporarily Restricted’ column figures can fluctuate greatly without material impact on FMW’s operations¹.

The first row in Table 1 shows unrestricted contributions which support FMW operations; the second row shows restricted contributions which affect only “pass-through” projects and restricted activities. FY2013 unrestricted contributions totaled \$243,042 compared to unrestricted contributions of \$217,278 in FY 2012, an increase of \$25,764 from FY12 unrestricted contributions. This increase in unrestricted support followed decreases in FY11 and FY12.

Table 1. Revenues and Support (\$ in thousands)							
Source	\$ FY 2011	\$ FY 2012	\$ Change FY11 to FY12	% Change	\$ FY 2013	\$ Change FY12 to FY 13	% Change FY 12 to FY13
Contributions - Unrestricted	236.2	216.1	-20.4	-8.6	206.49	-10.81	-4.97
Contributions – Capital Campaign	1.5	1.2			36.55	+35.35	+2946.00
Contributions - Restricted	60.7	38.0			53.58	+15.58	+41.00
Bequests and Memorials	1.6	2.8			2.28	-.52	-18.57
Use of Buildings	71.6	118.4			135.11	+16.71	+14.11
Literature and Projects Sales	2.9	2.0			2.57	+.57	+28.50
Interest and Dividend Income	81.0	77.1			75.91	-1.19	-1.54
Net realized and unrealized (“Paper”) Gains on Investments	213.6	-58.3			116.12	+174.42	---
Other	1.1	.7			.69	-.01	-1.43
Total	670.2	398.0			629.36	+231.36	+58.13
Source: FMW Financial Statements: 6-30-2011 by Stanfield & Phillips, LLC and 6-30-2012; and Audit Report 6-30-2013 by McQuade Brennan, LLP							

¹ For instance, the Shoebox Project, providing aid to the homeless, receives most of its support from employees of the World Bank & IMF. The World Bank, which once allowed cash collections in its public spaces, now only allows money to be collected from its employees through payroll deductions. This policy change resulted in drastic fluctuations in Shoebox contributions over recent years. Similarly, support for the Simpson scholarship fund and the Hlekweni program in Zimbabwe can fluctuate. Since other such changes in “project” funding have no material financial impact on FMW’s operations, contributions have been shown on two lines in Table 1.

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Use of Buildings

As we have reported in our last Annual Report to the Meeting, FMW shares a portion of our property with selected charitable institutions that help advance our service mission. It is important to note that increased income from use of our buildings is expected to continue for years to come, while the deferred maintenance and renovation work generally produced long-range impacts for a one-time cost. Continuing our trend of increased revenues over the past few years, the Meeting received \$135,113 in FY13 space revenues, including both ongoing office uses and events. This was \$16,762 more than in FY12 -- a 14.11% increase.

Dividends and Interest

Meeting's investments at Friends Fiduciary Corporation generated approximately \$75,914 in FY13 interest and dividend income. This was a small decrease of approximately 1.54% from FY12. .

B. Expenses

Table 2 Meeting Expenses (\$ in thousands)				
	\$ FY 2012	\$ FY 2013	\$ Change FY12 to FY 13	% Change FY 12 to FY1
Total Personnel Costs, including consultants	151.9	144.1		
Program Expenses	73.7	63.6		
Site Costs	109.0	99.8		
Office Expenses	15.1	9.7		
BYM Apportionment	61.7	58.3		
Depreciation	31.3	34.6		
Property taxes	??0	22.6		
Other	3.6	4.6		
Total	\$	\$437.3	\$	
Source: FMW Financial Statements, 6-30-2012 and 6-30-2013 Audit Report by McQuade Brennan LLP				

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Personnel

Personnel costs decreased by \$7,878 in FY13. Most of this decrease is a result of the delay in and pay/benefit difference associated with our change in Administrative Secretary.

Program Costs

Program expenses were \$63,626, a decline of \$10,045 from FY12 program expenses of \$73,671. This decline came, in most part because of less spending on the Shoebox Project and less money collected and sent in support of Hlekweni.

Site Costs

The Meeting spent \$9,194 less on non-staff costs for our facilities in FY13 than in FY12 largely due to saving on energy costs because of a variety of efficiency upgrades. Upgrades and continuing improvements to Meeting program and public spaces, are all due to the hard work of the Property Committee.

Apportionment

The Meeting's apportionment to Baltimore Yearly Meeting (supporting regional, national, and international Friends programs) decreased by \$3,425 in FY13 (See Table 2 above). Apportionment is based on the membership of FMW.

Property Tax

Property taxes in FY13 were \$22,613. This tax is a result of the office use of part of our campus by charities whose primary focus is serving those outside the District of Columbia. As in the prior year, FY2013 taxes included space leased to the Peace Tax Fund, the Hunger Project, Promundo, and Tostan. **In FY13, the Meeting's property was assessed at \$12,008,530. Of this total, non-local charities utilized 7.67% of our space for the first part of FY12, and 11.5% for the end of the fiscal year. This portion of FMW space is subject to annual property tax at a rate of 1.65% - 1.85% for as long as these organizations occupy it.**

C. Investments and Reserves

Table 3 below shows Meeting investments that are overseen by Trustees and the sources of the funds invested. Meeting capital and endowments are invested mostly in Friends Fiduciary Corporation. Our Smith Barney account facilitates donations of stock to the Meeting. Unrealized ("paper") gains in these investments are not available for spending by Meeting.

As reported in the financial reviews, the book value of Meeting's investments went from \$1,682,433 in FY2012 to \$1,764,341 in FY2013 an increase of \$116,120 in unrealized (paper) gains. This does not include either the book or fair market value of our real estate. Most of the value of FMW assets is in our property and in long-term investments restricted or designated to earn income or to be spent for capital and other special projects.

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While our investment portfolio for the bequests could legally be spent for day-to-day operations, Trustees' practice has been to allow these unrealized gains to accrue unspent to increase and protect the reserves of the Meeting. The Meeting also has a fluctuating Property Reserve fund to finance major repairs and maintenance as needed, as well as a Trustees Reserve for contingencies. **In 2012, the Property Reserve declined by 29% to \$84,188, as the Meeting invested in such major property needs as removal of safety hazards, exterior painting, gutter and roof repairs and replacement, and a wide range of space improvements.**

**Table 3. Meeting Cash and Investments 6-30-12²
(\$ in thousands)**

Investment	Murray Bequest (1)	Ross Bequest (1)	Other Bequests (1)	Ross Appreciation (1)	Building Campaign	Committees & Special Projects (2)	Unrestricted Reserves (2)	Totals by Investment
Friends Fiduciary	\$232.8	\$301.9	\$33.4	\$814.2	\$63.1		\$237.0	\$1,682.4
Smith Barney							\$0.1	\$0.1
Cash Kept Locally						\$81.0	\$80.8	\$161.8
Totals	\$232.8	\$301.9	\$33.4	\$814.2	\$63.1	\$81.0	\$317.9	\$1,844.3
Footnotes:								
(1) Includes unrealized gains (appreciation)								
(2) An account created for investing cash that is not needed in the checking account to meet monthly cash requirements.								
Source: FMW Bookkeeper Laurie Wilner								

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As we reported last year, and as we wish to reaffirm this year, the Meeting has made major progress in addressing many challenges related to stewardship of the Meetinghouse, Quaker House and Carriage House, with significantly increased space revenues supporting substantial upgrades to our property.

Our next step is to accept the responsibility of raising the necessary funds and completing the architectural planning, engineering, to begin the capital renovation that will honor our members, our past commitments and our need to steward our facilities for members, attenders and the wider community.

We must find the necessary resources to fund both the operations needed to sustain, nurture, and grow our community and the capital support needed to achieve our still long-deferred dream of a more integrated, accessible, and welcoming campus for all.

In the Light,

-- The Friends Meeting of Washington Trustees

Virginia Avanesyan, Jim Bell, Mary Campbell, Steve Coleman, Dan Dozier (Interim Clerk), Bill Foscett, Mark Haskell, Susan Lepper, John Scales, Martha Solt, and Faith Williams