

**REPORT OF TRUSTEES & SUMMARY OF FINANCIAL REVIEWS FOR 2011-2012**  
**THE FRIENDS MEETING OF WASHINGTON**  
**JANUARY, 2013**

**Introduction**

The Trustees are legally responsible for holding the Meeting's property 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 property includes the Meeting's buildings, campus, investments, and other major physical assets. Here we report actions Trustees have taken in Calendar Years 2011 and 2012, and summarize and explain the Meeting's independent financial review reports for the Fiscal Years ending June 30, 2011 and 2012.

As we seek to strengthen the Meeting's stewardship of its financial and physical assets, we are moved by the profound ways that these nourish the life and spirit of our Meeting. A safe, sustainable property provides a welcoming spiritual home open to all, and a lasting place of peace to support service of all kinds. Generous financial support helps us to care for our property, nurture our community, advance religious education, reach out to help those in need, feed the hungry, deepen understanding, and support work to bear witness to our faith and testimonies here and across the region, nation, and world.

A core issue for the Meeting's fiscal health is the multi-year decline in unrestricted contributions to support Meeting programs and activities. While the number of donors in recent years remains fairly constant, the average annual gift size has declined by 18% since 2010. In Fiscal Year (FY) 2011 unrestricted contributions to the Meeting decreased by \$35,300, nearly a 13% drop from FY2010. In FY2012, unrestricted contributions again decreased, by about \$20,400, nearly a 9% decline. We are very concerned about this drop of more than \$55,000 over two years.

Despite the decrease in contributions, the Meeting has for several years made 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 thank the eight Friends who finished their terms of service with us in 2011-12: Bill Cousins, David Etheridge, Ted Green, Tracy Hart, Judy Hubbard, J. E. McNeil, Arne Paulson, and Elise Storck. We are 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.

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**KEY TRUSTEE ACTIONS IN 2011-12**

The following key Trustee actions were taken in tandem with the fine work of the various committees of the Meeting. The commitment and expertise of members of these committees and other volunteers in our Meeting provide the solid platform on which the Trustees address our own responsibilities.

1. Working with the Meeting, Trustees managed a transition of our members, recommending ten Friends from across the Meeting community to take the place of eight people who rotated off of Trustees. New Trustees were identified, and assignments taken, based on interest and experience in diverse aspects of the Meeting's work, and in a range of areas of governance, including law, liability and insurance, fiduciary oversight, fund management and investment, facility stewardship, capital improvement planning, human resources, youth programming, institutional advancement, recording, and clerking.
2. Trustees worked to help advance a range of measures to enhance our campus safety while reducing any liability exposures at the Meeting. Trustees co-hosted a briefing and inspection of the entire property by a loss-prevention specialist with Guide One Insurance, the holders of our policy.
3. Trustees monitored stewardship of the property and supported work by the Property Committee, Property Manager, and many others to make various safety improvements and upgrades to the property.
4. Trustees worked with the Meeting to authorize payment of up to \$31,000 from unrestricted reserve funds to support initial conceptual planning and engineering to determine the feasibility of a proposed capital renovation to make the Meeting's facilities accessible for all people regardless of disability.
5. Following the recommendation of the Meeting, Trustees approved and signed a contract with Gauthier, Alvarado and Associates, Inc. and Lippincott Architects. Under this contract, the Meeting will expend up to \$216,179 of unrestricted reserve funds to complete the architecture and engineering work needed to design, plan, permit, and administer the construction of an elevator, new entrance, accessible connections to all three existing buildings and all levels of the gardens, stormwater mitigation, and related work. The plan will integrate the campus and make it more accessible, welcoming and sustainable for all. Trustees are working with the Capital Improvement Task Force to continually monitor this project, authorizing payouts based on approval of each stage of work performed.
6. Trustees recommended and the Meeting approved that the Meeting allocate up to \$10,000 from the Building Campaign Fund for use by the Capital Campaign Committee to begin raising funds to support the planned capital improvements and replenish the reserves advanced for this.
7. Trustees recommended that the Meeting allocate \$5,000 of its bequest funds for a donation, joined by many area Friends, to assist Baltimore Yearly Meeting's construction of a new pond at the 432-acre Shiloh Quaker Camp in Madison, Virginia. The Meeting approved.
8. Trustees monitored the performance of our investments at Friends Fiduciary Corporation, and invited a representative of Friends Fiduciary to provide a briefing on the management of our investments and their performance. Trustees asked for and received increased reporting on such performance.

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9. Trustees obtained pro bono legal counsel from the law firm of Fried Frank to advise the Meeting on our District of Columbia property tax liabilities. Based on their counsel and after extensive review, Trustees recommended that the Meeting authorize the use of unrestricted bequest funds in the amount of \$15,197 to pay the first portion of our unbudgeted property tax obligations. The Meeting approved this recommendation. Trustees also conducted research that revealed that FMW's land assessment may be significantly over-valued. The Meeting approved Trustees' recommendation to appeal our tax assessment.
10. Trustees examined and discussed the findings of the independent financial reviews for FY11 and FY12. These reviews are discussed below.

**FY2011-12 FINANCIAL REVIEWS**

The Meeting engaged McQuade Brennan LLP accountants to conduct an independent review of the Meeting's finances over the past fiscal year, beginning 7-1-2011 and ending 6-30-12. This followed a similar review conducted for FY11 by Stanfield and Phillips. Both reviews indicated no need for modifications of Meeting accounts to conform with U.S. generally accepted accounting principles. Some key information from these reviews 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).

**A. Revenues and Sources of Funds**

**Contributions**

**The Trustees are concerned about declining contributions to the Meeting, which decreased by 12.9% and 8.6% in FY11 and FY12, respectively.** (See Table1 below, and the Charts on pages 8 and 9.)

The auditor's FY12 Statement of Activities shows Contributions to the Meeting totaling \$255,243. This includes both unrestricted support (support for our general operating budget) and temporarily restricted (targeted) support for "pass-through" programs not presented in the Meeting's budget such as relief aid to Haiti, Pakistan, and Zimbabwe. The most important column of this statement for FMW 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 operations<sup>1</sup>. 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. FY12 unrestricted contributions totaled \$217,278. This was a decrease of \$20,439 from FY11 unrestricted contributions of \$237,717. This decline in unrestricted support followed a decrease from FY10 to FY11 of \$35,352.

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<sup>1</sup> 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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<b>Table 1. Revenues and Support (\$ in thousands)</b>							
<b>Source</b>	<b>\$ FY 2010</b>	<b>\$ FY 2011</b>	<b>\$ Change FY10 to FY11</b>	<b>% Change</b>	<b>\$ FY 2012</b>	<b>\$ Change FY11 to FY 12</b>	<b>% Change FY 11 to FY12</b>
Contributions - Unrestricted	273.0	237.7	-35.3	-12.9	217.3	-20.4	-8.6
Contributions - Restricted	65.8	60.7	-5.1	-7.7	38.0	-22.7	-37.5
Bequests and Memorials	3.5	1.6	-1.9	-54.3	2.8	1.2	75.0
Use of Buildings	43.8	71.6	27.8	63.5	118.4	46.8	65.4
Literature and Projects Sales	3.9	2.9	-1.0	-25.6	2.0	-0.9	-31.0
Interest and Dividend Income	91.2	81.0	-10.2	-11.2	77.1	-3.9	-4.8
Net realized and unrealized ("Paper") Gains on Investments	85.2	213.6	128.4	150.7	-58.3	-271.9	-127.3
Other	0.8	1.1	0.3	37.5	0.7	-0.4	-36.4
<b>Total</b>	<b>\$567.2</b>	<b>\$670.2</b>	<b>\$103.0</b>	<b>18.2</b>	<b>\$397.9</b>	<b>-272.3</b>	<b>-40.6</b>
Source: FMW Financial Statements: 6-30-2010 and 6-30-2011 by Stanfield & Phillips, LLC and 6-30-2012 by McQuade Brennan, LLP							

### **Use of Buildings**

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. The Meeting nearly tripled its space revenues in FY12 compared to FY10, although major deferred maintenance, the addition of a property manager position, improvement projects, and new property tax charges absorbed much of this revenue. The Meeting received \$118,351 in FY12 space revenues, including both ongoing office uses and events. This was \$46,800 more than in FY11 -- a 65% increase. In FY11, in turn, these revenues increased 64% -- or \$27,837 -- over FY10. These increases resulted from improvements to unused offices in Quaker House, and conversion of apartment and classroom space in Carriage House. (See Table 2, Meeting Expenses and Table 3 Cash and Investments and the Charts on pages 8, 9 and 10.)

### **Dividends and Interest**

Meeting's investments at Friends Fiduciary Corporation generated approximately \$77,000 in FY12 interest and dividend income. This decreased by 4.8% from FY11, which, in turn, fell 11.2% below the

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FY10 level. Declining interest and dividend income are functions of lower interest rates, lower portfolio value, and capital expenditures that have reduced principal.

**B. Expenses**

<b>Table 2 Meeting Expenses (\$ in thousands)</b>							
	<b>\$ FY 2010</b>	<b>\$ FY 2011</b>	<b>\$ Change FY10 to FY11</b>	<b>% Change</b>	<b>\$ FY 2012</b>	<b>\$ Change FY11 to FY 12</b>	<b>% Change FY 11 to FY12</b>
Total Personnel Costs, including consultants	151.2	119.3	-31.9	-21.1	151.9	32.6	27.3
Program Expenses	88.0	103.3	15.3	17.4	73.7	-29.6	-28.7
Site Costs	93.1	82.3	-10.8	-11.6	109.0	26.7	32.4
Office Expenses	12.1	10.6	-1.5	-12.4	15.1	4.5	42.5
BYM Apportionment	57.6	59.8	2.2	3.8	61.7	1.9	3.2
Depreciation	30.1	30.6	0.5	1.7	31.3	0.7	2.3
Property taxes	0.0	0.0	0.0	0.0	21.4	21.4	NA
Other	3.5	4.0	0.5	14.3	3.6	-0.4	-10.0
<b>Total</b>	<b>\$435.6</b>	<b>\$409.9</b>	<b>-\$25.7</b>	<b>-5.9</b>	<b>\$467.7</b>	<b>\$57.8</b>	<b>14.1</b>
Source: FMW Financial Statements, 6-30-2010 and 6-30-2011 by Stanfield & Phillips, LLC and 6-30-2012 by McQuade Brennan LLP							

**Personnel**

Personnel costs increased by \$32,588 in FY12, bringing the total back to the FY10 level. Most of this increase resulted from the hiring of a Property Manager to advance stewardship and improvements to our facilities. The remainder of the increase came from hiring temporary staff during the sabbatical of the Meeting's Administrative Secretary and the absence of a staff assistant. (See Table 2 above, and the Chart on page 10.)

**Program Costs**

Program expenses declined \$29,618 in FY12, in part because spending from restricted funds decreased. (See Table 2, above) The largest change was in the support of the Hlekweni Friends Rural Service in Zimbabwe, which declined from \$26,900 in FY11 to \$7,150 in FY12. Scholarships were down nearly \$4,000. Spending for the Shoebox Project, which supports the basic needs of homeless people, decreased by \$11,571. The Meeting's donations to other outside groups was up from \$4,000 to \$11,000. Such groups included American Friends Service Committee DC program, Baltimore Yearly Meeting Camping Program, Friends Committee on National Legislation, Historic Library of Swarthmore College, So Others Might Eat, and William Penn House.

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**Site Costs**

Meeting spent \$26,698 more on non-staff costs for our facilities in FY12 than in FY11, which was \$10,834 lower than in FY10. Although the Meeting continued to save on energy costs because of a variety of efficiency upgrades, we increased spending to pay for a wide range of deferred maintenance and safety needs, improvements to Meeting program and public spaces, and ongoing basic renovation of unused office areas to make more space available for use. While these expenditures are significant, they have produced major impacts at a fraction of the cost of standard commercial property renovation. Much of this savings resulted from volunteers to support the work of the Property Committee.

**Apportionment**

The Meeting's apportionment to Baltimore Yearly Meeting (supporting regional, national, and international Friends programs) increased by \$1,955 in FY12 (See Table 2 above). This continues a pattern over the past decade of the membership-based increases in this payment rising above the rate of inflation. For a more complete discussion of the BYM apportionment, see Attachment A.

**Property Tax**

Property taxes in FY12 were \$21,412. This new 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. In 2012 these included the Peace Tax Fund, the Hunger Project, Promundo, and Tostan. In FY12, 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. (See Table 2, above).

**C. Investments and Reserves**

Table 3 below and the Chart on page 11 show 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 total net assets went from \$2,178,226 in 2010 to \$2,369,427 in 2012. The book value does not reflect the 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.

While the increased value of the 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.

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**Table 3. Meeting Cash and Investments 6-30-12<sup>2</sup>  
(\$ in thousands)**

<b>Investment</b>	<b>Murray Bequest (1)</b>	<b>Ross Bequest (1)</b>	<b>Other Bequests (1)</b>	<b>Ross Appreciation (1)</b>	<b>Building Campaign</b>	<b>Committees &amp; Special Projects (2)</b>	<b>Unrestricted Reserves (2)</b>	<b>Totals by Investment</b>
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
<b>Totals</b>	<b>\$232.8</b>	<b>\$301.9</b>	<b>\$33.4</b>	<b>\$814.2</b>	<b>\$63.1</b>	<b>\$81.0</b>	<b>\$317.9</b>	<b>\$1,844.3</b>

Footnotes:

(1) Includes unrealized gains (appreciation)

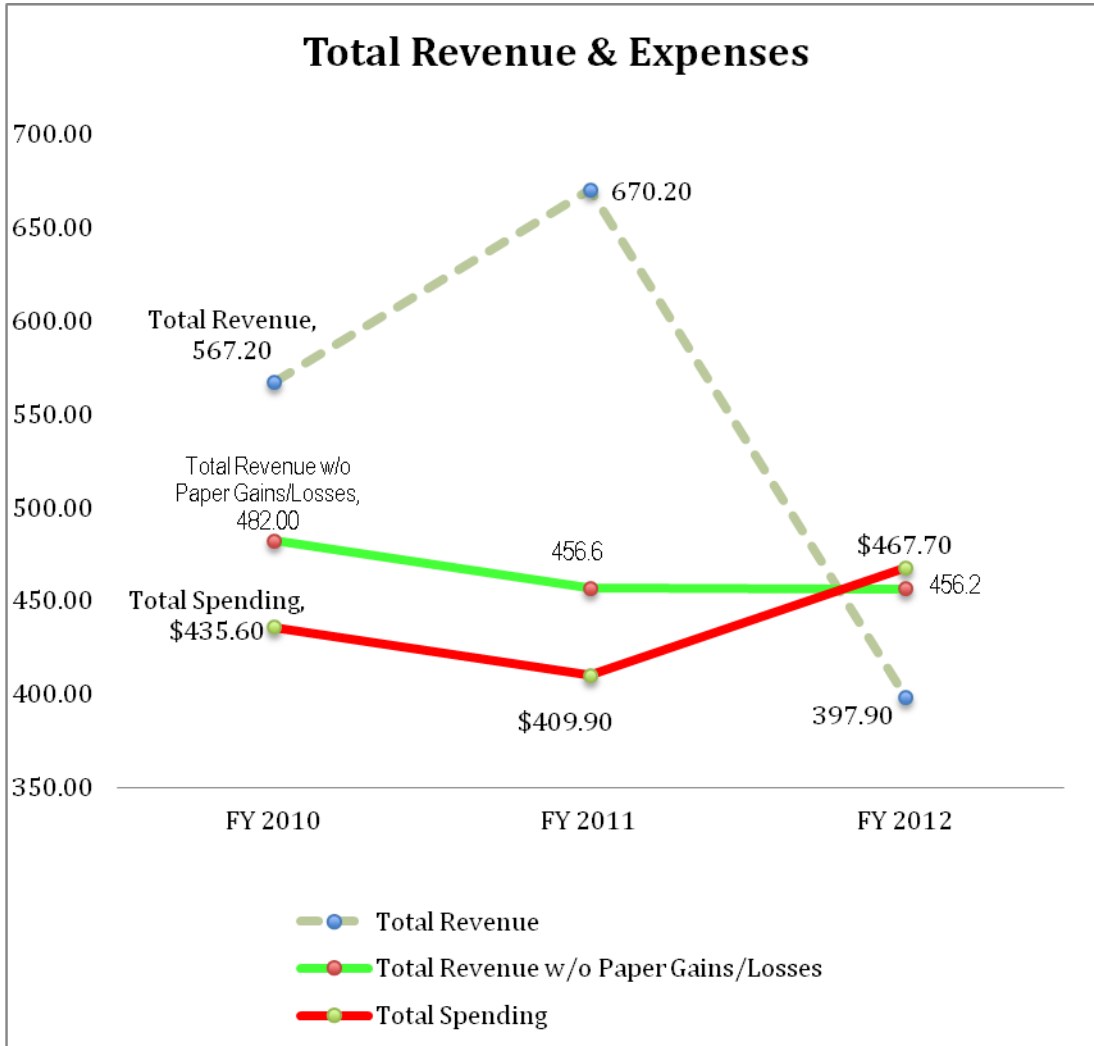
(2) An account created for investing cash that is not needed in the checking account to meet monthly cash requirements.

Source: FMW Bookkeeper Laurie Wilner

The following Charts, on pages 8 through 11 are Charts prepared by Bill Foskett that display Meeting financial information in a format that, for many of us, is much clearer and more informative. The following presents the Meeting financial picture graphically.

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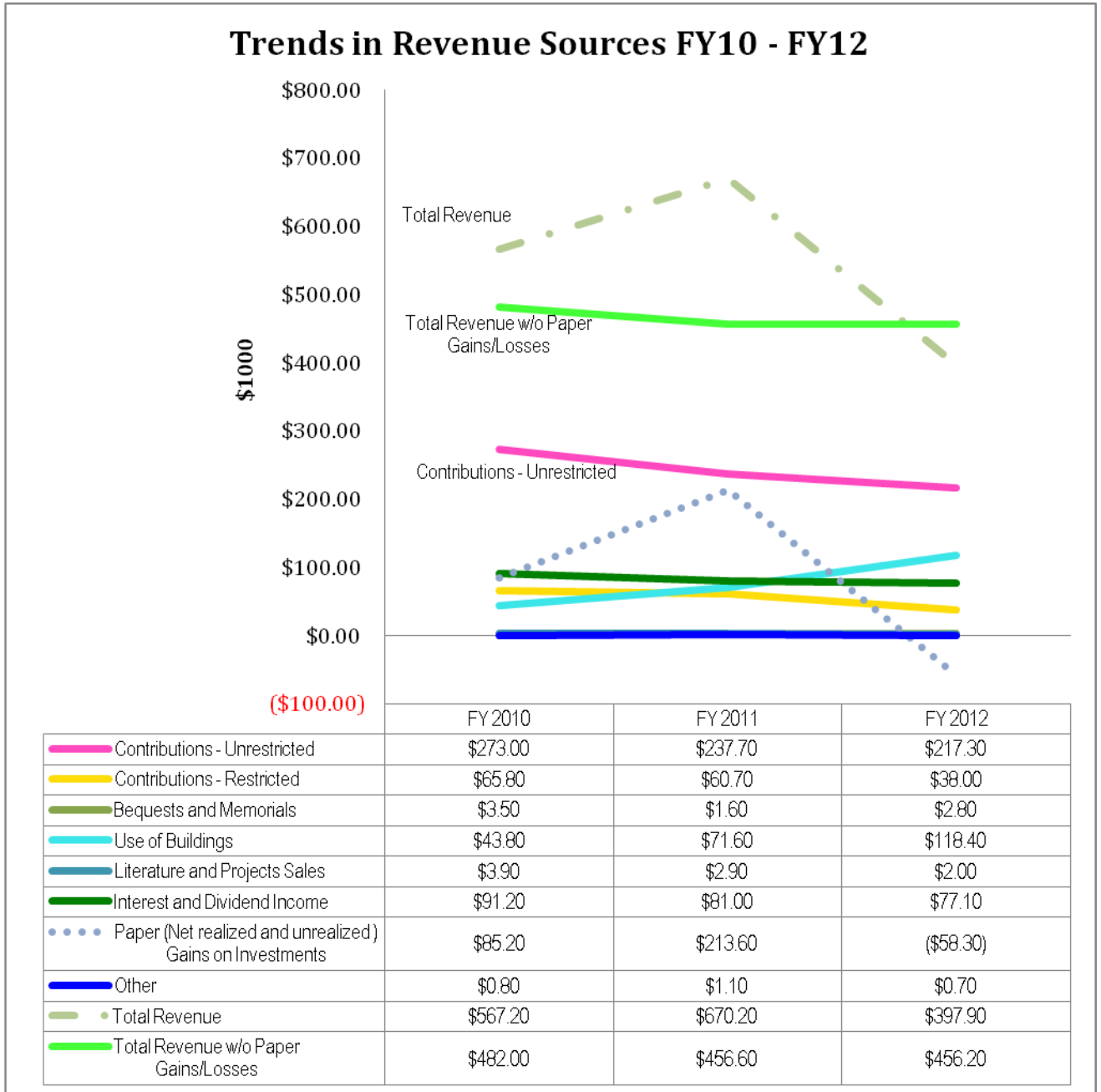
This Chart displays total Meeting Revenue & Expenses for Fiscal Years 2010, 2011 and 2012 (in thousands).





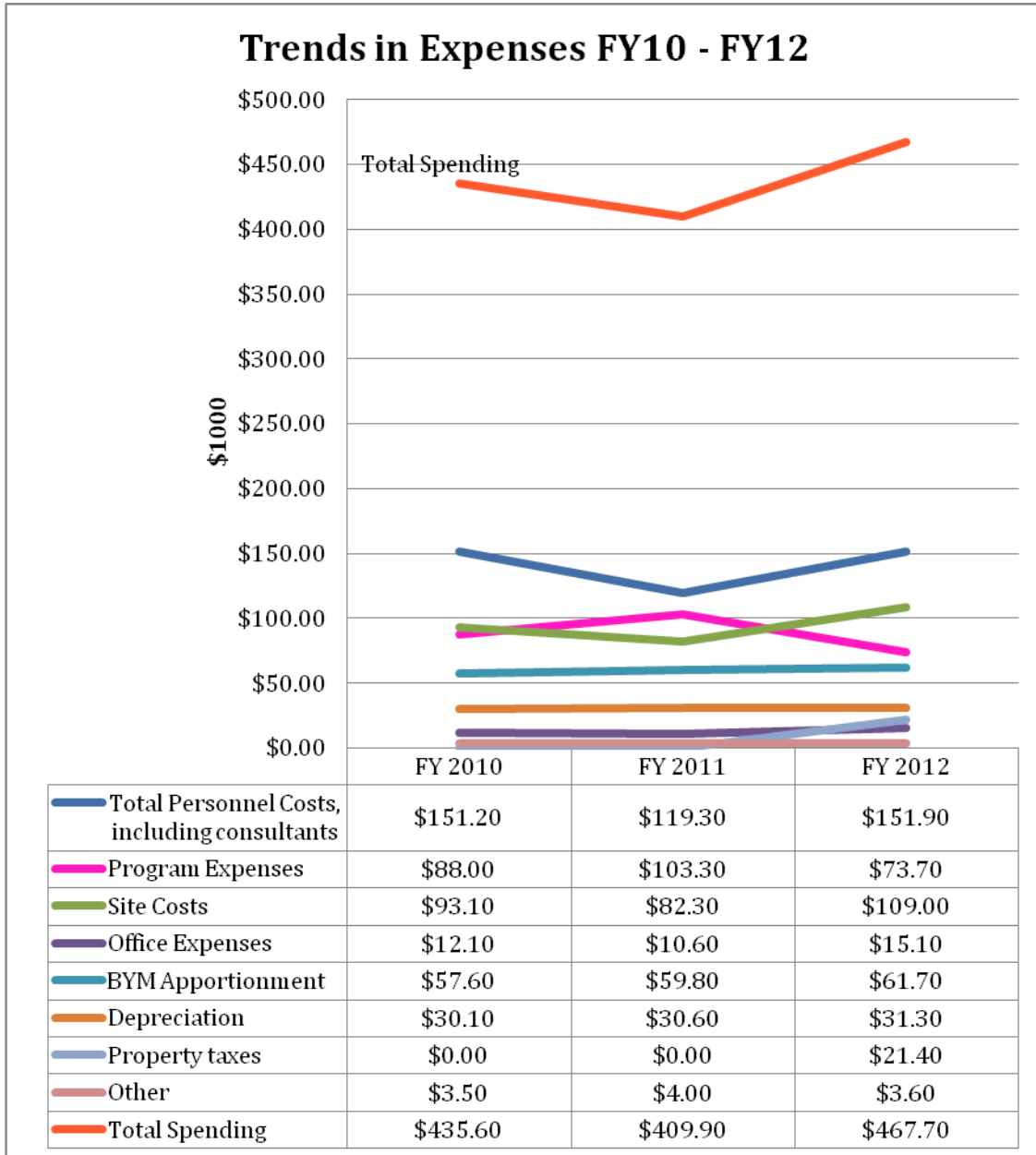
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This Chart sets out Meeting Trends in Revenue Sources from Fiscal Years 2010, 2011 and 2012.



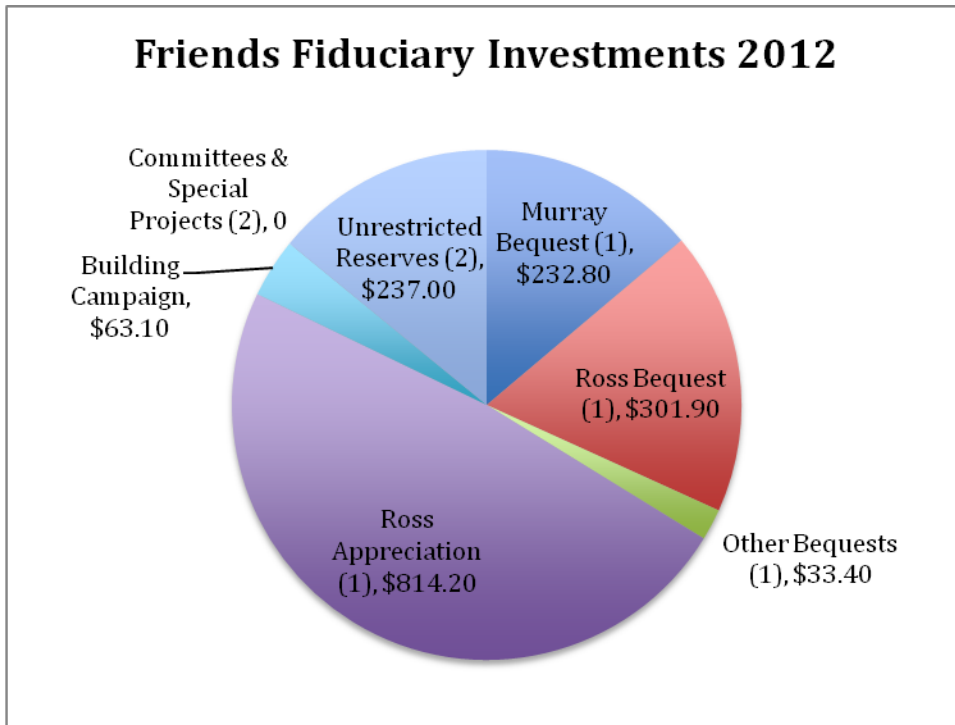
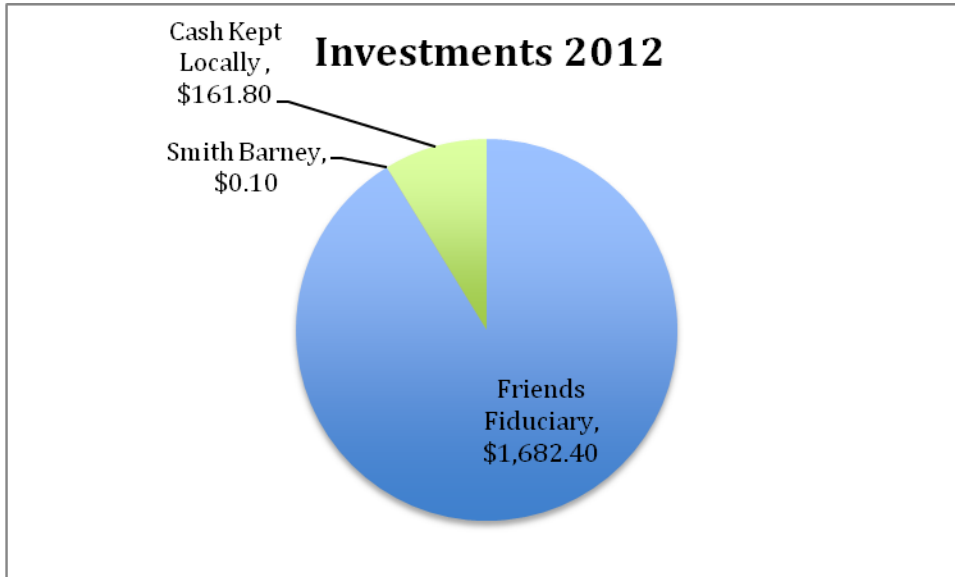
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This Chart shows trends in Meeting expenses from FY 2010 through FY 2012.



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Finally, the two charts below show Meeting investments in calendar year 2012 (in thousands).



Note: the numbers in parenthesis in this Chart refer to the footnotes in Table 3, Meeting Cash and Expenses on page 7.

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**CONCLUSION**

Five years ago, Trustees concluded their report to Meeting with this statement:

The condition of the Meeting House and Quaker House continued to decay as we defer and curtail repairs and renovation for lack of sufficient funding. The Meeting community committed to make our facilities universally accessible, remedy their flooding problems and assure they are safe for the people within, but we have not yet begun to honor those commitments.

Since this statement, the Meeting has made major progress in addressing each of these challenges, with significantly increased space revenues supporting substantial upgrades to our property. This has set the stage for the current architectural planning, engineering, and fund-raising to advance the capital renovation that will honor the above commitments. Now the challenge is to find the resources to fund both the operations needed to sustain, nurture, and grow our community and the capital support needed to achieve the 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 Foskett, Mark Haskell, Susan Lepper, John Scales, Martha Solt, and Faith Williams

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**ATTACHMENT A**

**BYM Apportionment FAQ  
(Frequently Asked Questions)**

*What is apportionment?*

Apportionment is the process by which Monthly Meetings within Baltimore Yearly Meeting sustain the operation of their Yearly Meeting. The share of the Baltimore Yearly Meeting's annual budget that is contributed by each of its member Monthly Meetings is commonly called "the apportionment".

*How are apportionment payments used?*

The total apportionment collected from Monthly Meetings is used to cover expenses associated with the daily operation of the organization. Amounts are not allocated to specific line items in the BYM budget. Typical categories of operating expenses include program costs (including the Camps and Youth Program), office equipment and supplies, utilities, and staff salaries. Apportionment monies are *not* directed to endowment or held in reserve; the total is applied to operating expenses each year.

*How is each Monthly Meeting's apportionment amount determined?*

BYM's Stewardship and Finance Committee (S&F) recommends an apportionment amount for each Monthly Meeting using a formula that takes into account such factors as the Monthly Meeting's number of contributing households and its general financial condition. The formula was published by the Committee in 1998 as a means of applying an equitable basis for apportioning the operating needs of our Yearly Meeting among its member Monthly Meetings. The formula is applied to data collected from each Monthly Meeting once a year by the BYM office via a letter to the appropriate clerk.

*How does apportionment fit into the BYM annual budget process?*

BYM's fiscal year corresponds to the calendar year. Each January, the Yearly Meeting office sends a letter requesting financial and membership information from each local Meeting. The BYM Stewardship & Finance Committee holds the initial budget discussion at the Interim Meeting held in March; preliminary budget and apportionment amounts are shared here. Each April, the Stewardship and Finance Committee holds an open meeting on the topic of apportionment to which members of Monthly Meetings' respective Finance Committees are invited. This is a time for the representatives of Meetings to raise questions and concerns. Apportionment figures may be modified if there are special circumstances that the Committee is asked to take into consideration. The amounts agreed upon are brought to Annual Session in August, where they are adopted as part of the overall BYM budget for the following year. The final, approved budget is published in the BYM *Yearbook*.

*When does my Monthly Meeting pay its share?*

Smaller Meetings often pay their apportionment in one lump sum. Many larger Monthly Meetings opt to make their payments quarterly (January, April, July, October), which helps both these Monthly Meetings and the Yearly Meeting maintain a predictable cash flow. The BYM office sends a mid-year and year-end statement/reminder to each Monthly Meeting.

*Why does Baltimore Yearly Meeting raise money in addition to apportionment?*

Historically, nearly all of the BYM operating budget was comprised of apportionment contributions from member Meetings. As costs have risen, apportionment levels have not kept pace with the operating costs of the YM. Many individuals and households who affirm the value of BYM programs and projects now also choose to contribute to their Yearly Meeting.