



**FRIENDS COMMITTEE ON NATIONAL LEGISLATION
AND FCNL EDUCATION FUND**

**Consolidated Financial Statements and
Supplemental Information**

For The Year Ended June 30, 2016

(With Summarized Financial Information for the Year Ended June 30, 2015)



**and
Report Thereon**



**FRIENDS COMMITTEE ON NATIONAL LEGISLATION
AND FCNL EDUCATION FUND**

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For the Year Ended June 30, 2016**

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Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Executive Committee of the
Friends Committee on National Legislation and FCNL Education Fund

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Friends Committee on National Legislation and FCNL Education Fund (collectively referred to as the Organization), which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities and cash flows the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Friends Committee on National Legislation and FCNL Education Fund as of June 30, 2016, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Continued

Other Matters

Report on Summarized Comparative Information

The consolidated financial statements of the Organization as of June 30, 2015, were audited by other auditors whose report dated September 22, 2015, expressed an unmodified opinion on those statements. In their opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 22 and 23 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and changes in net assets of the individual entities, and it is not a required part of the combined financial statements. The consolidated schedule of functional expenses on page 21 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Raffa, P.C.

Raffa, P.C.

Washington, DC
October 21, 2016

**FRIENDS COMMITTEE ON NATIONAL LEGISLATION
AND FCNL EDUCATION FUND**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2016

(With Summarized Financial Information as of June 30, 2015)

	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 5,174,822	\$ 4,697,104
Pledges and contributions receivable, current portion	1,295,380	1,028,603
Employee advances and other receivables	28,591	27,583
Prepaid expenses	129,757	88,552
Total Current Assets	6,628,550	5,841,842
Investments	18,666,706	16,543,470
Pledges and contributions receivable, net of current portion	861,114	1,284,278
Beneficial interest in planned giving agreements	517,299	244,907
Deposits	15,850	11,502
Cash surrender value of life insurance	28,557	27,994
Property and equipment, net	5,142,994	5,209,062
TOTAL ASSETS	\$ 31,861,070	\$ 29,163,055
LIABILITIES AND NET ASSETS		
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	\$ 263,111	\$ 163,584
Security deposits	-	4,196
Planned giving agreement obligations, current portion	361,564	379,353
Loans and note payable	266,594	270,768
Total Current Liabilities	891,269	817,901
Planned giving agreement obligations, net of current portion	2,604,631	2,631,263
Loans and note payable	364,196	441,258
TOTAL LIABILITIES	3,860,096	3,890,422
Net Assets		
Unrestricted	14,019,535	13,409,372
Temporarily restricted	10,851,750	9,264,926
Permanently restricted	3,129,689	2,598,335
TOTAL NET ASSETS	28,000,974	25,272,633
TOTAL LIABILITIES AND NET ASSETS	\$ 31,861,070	\$ 29,163,055

The accompanying notes are an integral part of these consolidated financial statements.

**FRIENDS COMMITTEE ON NATIONAL LEGISLATION
AND FCNL EDUCATION FUND**

CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016
(With Summarized Financial Information for the Year Ended June 30, 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
OPERATING REVENUE AND SUPPORT					
Contributions	\$ 2,736,268	\$ 1,612,759	\$ 531,354	\$ 4,880,381	\$ 5,649,715
Bequests	2,119,785	830,550	-	2,950,335	2,198,195
Meeting registration	103,941	-	-	103,941	106,804
Rental income	30,815	-	-	30,815	46,064
Other income	7,874	-	-	7,874	5,745
Net assets released from restrictions:					
Satisfaction of program restrictions	1,383,960	(1,383,960)	-	-	-
TOTAL OPERATING REVENUE AND SUPPORT	6,382,643	1,059,349	531,354	7,973,346	8,006,523
OPERATING EXPENSES					
Program Services:					
Legislative and educational activities	2,152,134	-	-	2,152,134	1,774,583
Advocacy and outreach	974,901	-	-	974,901	943,810
Young adult program	540,497	-	-	540,497	259,369
Total Program Services	3,667,532	-	-	3,667,532	2,977,762
Supporting Services:					
Management and general	717,296	-	-	717,296	773,283
Fundraising					
General	1,267,765	-	-	1,267,765	1,049,412
Capital Campaign	609,647	-	-	609,647	408,104
Total Fundraising	1,877,412	-	-	1,877,412	1,457,516
Total Supporting Services	2,594,708	-	-	2,594,708	2,230,799
TOTAL OPERATING EXPENSES	6,262,240	-	-	6,262,240	5,208,561
Change in net assets from operations	120,403	1,059,349	531,354	1,711,106	2,797,962
NONOPERATING ACTIVITIES					
Net investment income	455,099	371,033	-	826,132	515,965
Contributions to planned giving	74,961	142,362	-	217,323	143,331
Change in value of interest of planned giving agreements	(40,300)	14,080	-	(26,220)	(39,164)
CHANGE IN NET ASSETS	610,163	1,586,824	531,354	2,728,341	3,418,094
NET ASSETS, BEGINNING OF YEAR	13,409,372	9,264,926	2,598,335	25,272,633	21,854,539
NET ASSETS, END OF YEAR	\$ 14,019,535	\$ 10,851,750	\$ 3,129,689	\$ 28,000,974	\$ 25,272,633

The accompanying notes are an integral part of these consolidated financial statements.

**FRIENDS COMMITTEE ON NATIONAL LEGISLATION
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**CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2016
(With Summarized Financial Information for the Year Ended June 30, 2015)
Increase (Decrease) in Cash and Cash Equivalents**

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,728,341	\$ 3,418,094
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	242,003	244,740
Net realized and unrealized gains on investments	(589,709)	(404,814)
Change in value of beneficial interest in planned giving agreements	(272,391)	73,408
Change in value of planned giving agreement obligations	316,028	250,664
Change in value of cash surrender value of life insurance	(563)	(409)
Donated stock	(772,095)	(624,250)
Changes in assets and liabilities		
Pledges and contributions receivable	156,387	(1,069,276)
Employee advances and other receivable	(1,267)	(1,868)
Prepaid expenses	(40,946)	(29,480)
Deposits	(4,348)	(11,502)
Accounts payable and accrued expenses	99,527	(35,909)
Security deposits	(4,196)	2,000
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,856,771	1,811,398
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	6,386,216	8,528,211
Purchases of investments	(7,147,649)	(10,568,614)
Purchases of property and equipment	(175,935)	(125,320)
NET CASH USED IN INVESTING ACTIVITIES	(937,368)	(2,165,723)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on loans and note payable	(81,236)	(86,135)
Payments to planned giving agreement beneficiaries	(360,449)	(347,487)
NET CASH USED IN FINANCING ACTIVITIES	(441,685)	(433,622)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	477,718	(787,947)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,697,104	5,485,051
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 5,174,822	\$ 4,697,104
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$ 20,770	\$ 21,127
NONCASH INVESTING ACTIVITIES		
Donated stock	\$ 772,095	\$ 624,250

The accompanying notes are an integral part of these consolidated financial statements.

**FRIENDS COMMITTEE ON NATIONAL LEGISLATION
AND FCNL EDUCATION FUND**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

1. Organization and Summary of Significant Accounting Policies

Organization

The Friends Committee on National Legislation (FCNL) was incorporated on May 14, 1958, under the laws of the District of Columbia. It was formed to bring the concerns and values of the Religious Society of Friends (Friends) to bear on public policy in our nation's capital. These activities are funded primarily from contributions and bequests.

The FCNL Education Fund (the Education Fund) is a nonprofit entity organized under the laws of the District of Columbia on May 28, 1982. It is a 501(c)(3) organization that exists in parallel with FCNL to support the research, analysis and education for which FCNL is known and respected. It operates a broad outreach and education program with members of Friends and other citizens and conducts analysis and research on issues of concern to Friends, including peace, social justice, human rights and the environment. The Education Fund is governed by a board which is appointed by the Executive Committee of FCNL.

205 C Street NE LLC (the Company) is a limited liability company incorporated under the laws of the District of Columbia. Its sole member is the Education Fund. The purpose and nature of the business is to own, manage and lease the real property located at 205 C Street, NE, Washington, D.C.

Principles of Consolidation

The consolidated financial statements of FCNL, the Education Fund and the Company (collectively known as the Organization) have been consolidated due to the presence of common control and economic interest, as required under accounting principles generally accepted in the United States of America (GAAP). All significant intercompany balances and transactions have been eliminated during consolidation.

Basis of Accounting

The accompanying consolidated financial statements are prepared on the accrual basis of accounting in accordance with GAAP. Consequently, revenue is recognized when earned and expenses are recognized when the obligation is incurred.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits and money market accounts and all highly liquid investments with initial maturities of three months or less.

Investments

Investments are comprised of equities, fixed-income securities, certificates of deposit, real estate funds, a pooled life income fund and equity mutual funds. Investments are recorded in the accompanying consolidated statement of financial position at fair value, with gains and losses included in the accompanying consolidated statement of activities. Fair value is the

**FRIENDS COMMITTEE ON NATIONAL LEGISLATION
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

1. Organization and Summary of Significant Accounting Policies (continued)

Investments (continued)

price that would be received to sell an asset or liability through an orderly transaction between market participants at the measurement date. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Unrealized gains or losses are determined by a comparison of fair value at the beginning and end of the year.

Pledges and Contributions Receivable

Promises to give are recognized as revenue when the donor has made an unconditional promise to contribute funds to the Organization in future periods. Promises to give are recorded at their net realizable value if expected to be collected within one year, or at their present value if expected to be collected in more than one year. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Balances that are still outstanding after management has used reasonable collection efforts are written off.

Property and Equipment and Related Depreciation and Amortization

The Organization capitalizes all expenditures for property and equipment in excess of \$2,500. Purchased property and equipment are recorded at cost. Depreciation is computed using the straight-line method based on the following estimated useful lives:

Building and improvements	30 years
Furniture and fixtures	5-10 years
Computer equipment and software	5 years

The cost of property and equipment retired or disposed of is removed from the accounts, along with the related accumulated depreciation or amortization, and any gain or loss is reflected in revenue and support or expenses in the accompanying statement of activities. Major additions are capitalized while replacements, maintenance and repairs that do not improve or extend the lives of the respective assets are expensed as incurred.

Impairment of Long-Lived Assets

The Organization reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. There were no impairment losses recognized for the year ended June 30, 2016.

Fair Value of Financial Instruments

In accordance with the accounting standards for fair value measurements for those assets and liabilities that are measured at fair value on a recurring basis, the Organization has categorized its applicable financial instruments into a required fair value hierarchy. The fair

**FRIENDS COMMITTEE ON NATIONAL LEGISLATION
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

1. Organization and Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments (continued)

value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest-level input that is significant to the fair value measurement of the instrument.

Applicable financial assets and liabilities are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Values that are based on unadjusted quoted prices for identical assets or liabilities in active markets that are accessible.

Level 2 – Values that are based on quoted prices in the market that are not active or that are not based on information that is observable, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets.

Level 3 – Values that are based on unobservable information for the asset or liability, including the reporting entity's own assumptions, in determining the fair value measurement.

As of June 30, 2016, the Organization's investments and certain split-interest agreements, as described in Note 11 of these consolidated financial statements, were measured at fair value on a recurring basis and subject to the disclosure requirements of the *Fair Value Measurement* topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

Classification of Net Assets

The net assets of the Organization are reported as follows:

- Unrestricted net assets represent the portion of expendable funds that are available for support of the Organization's operations.
- Temporarily restricted net assets represent amounts that are subject to donor-imposed restrictions to be used for a particular purpose or within a specific time period.
- Permanently restricted net assets are subject to donor-imposed restrictions requiring that the original gift be held in perpetuity and that earnings be used for the purposes designated by the donor. The donor of these assets permits the Organization to use the investment return for research.

Revenue Recognition

The Organization recognizes all unconditional contributed support in the period in which the commitment is made. Grants and contributions are considered unrestricted revenue and support and available for general operations unless specifically restricted by the donor. The

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

1. Organization and Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Organization reports contributions of cash and other assets as temporarily restricted revenue and support if they are received with donor stipulations that limit the use of the donated assets to a particular purpose or to future periods. When the stipulated time restriction ends or the purpose of the restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated statement of activities as net assets released from restrictions.

The Organization recognizes bequests as contributions in the year in which the promise to give becomes unconditional, which is at the time the probate court declares the will valid and the proceeds are measurable in amount. Irrevocable split-interest agreements, including charitable remainder trusts and pooled income funds, are recorded as revenue and support when the trust agreements are executed. Revenue from split-interest agreements is based on the present value of the expected cash flows to be received by the Organization.

Donated investments are recorded at the estimated fair value on the date received.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying consolidated statement of activities. Accordingly, certain costs have been allocated proportionately among the programs and supporting services to which they relate on the basis of direct labor costs.

Definition of Operations

Operating revenue and expenses generally reflect those revenues and expenses that arise from the Organization's activities and exclude changes in present value of split-interest agreements; contributions to planned giving; investment income, which the Organization defines as all interest, dividends, realized and unrealized gains and losses; and investment fees from long-term investments.

Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Donated Securities

The Organization recognizes donated securities that have no donee-imposed limitation for sale or donor-imposed restriction on the use for long-term purposes, and that are nearly immediately converted into cash, as cash and cash equivalents from operating activities in the accompanying consolidated statement of cash flows. As of June 30, 2016, donated investments of \$772,095 had not been sold (liquidated), and they are included in investments in the accompanying consolidated statements of financial position.

**FRIENDS COMMITTEE ON NATIONAL LEGISLATION
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

2. Pledges and Contributions

As of June 30, 2016, the Organization's pledges and contributions receivable were due as follows:

Due in less than one year	\$ 1,295,380
Due in one to five years	<u>953,769</u>
Pledges and Contributions Receivable, Gross	2,249,149
Less: Discount to Present Value (average rate of 3%)	<u>(92,655)</u>
Pledges and Contributions Receivable, Net	<u>\$ 2,156,494</u>

All receivables are anticipated to be fully collected.

The Organization has received conditional promises to give that are not recognized as assets totaling \$438,347. These assets will be recognized upon the deaths of the donor or beneficiary.

3. Investments

Investments, at fair value, consisted of the following as of June 30, 2016:

Equities	\$ 13,429,784
Fixed-income securities	2,637,919
Real estate funds	1,092,897
Pooled life income fund	732,701
Certificates of deposit	613,243
Equity mutual funds	<u>160,162</u>
Total Investments	<u>\$ 18,666,706</u>

For the year ended June 30, 2016, investment income consisted of the following:

	Unrestricted	Temporarily Restricted	Total
Interest and dividends	\$ 282,089	\$ 163,823	\$ 445,912
Realized gains	334,441	309,613	644,054
Unrealized losses	(6,341)	(48,004)	(54,345)
Investment expenses	<u>(155,090)</u>	<u>(54,399)</u>	<u>(209,489)</u>
Investment Income, Net	<u>\$ 455,099</u>	<u>\$ 371,033</u>	<u>\$ 826,132</u>

**FRIENDS COMMITTEE ON NATIONAL LEGISLATION
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

4. Beneficial Interest in Planned Giving Agreements

The Education Fund receives charitable gift annuities that are initiated and issued by donors through the Friends Fiduciary Corporation and Lincoln National Financial. These donors listed the Organization as one of the charitable beneficiaries. The assets contributed by these donors are held and are under the control of the Friends Fiduciary Corporation and Lincoln National Financial. Accordingly, the Organization has recognized this beneficial interest in charitable gift annuities at its present value of \$517,299.

5. Fair Value Measurements

The following table summarizes the Organization's assets measured at fair value on a recurring basis as of June 30, 2016, aggregated by the fair value hierarchy level within which these measurements were made:

	<u>Total Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Equities:				
Large cap	\$ 9,410,525	\$9,410,525	\$ -	\$ -
Mid cap	2,418,967	2,418,967	-	-
Small cap	1,567,065	1,567,065	-	-
Foreign stocks	<u>33,227</u>	<u>33,227</u>	<u>-</u>	<u>-</u>
Total Equities	<u>13,429,784</u>	<u>13,429,784</u>	<u>-</u>	<u>-</u>
Fixed income:				
Corporate bonds	1,132,968	-	1,132,968	-
US government agency bonds	1,117,683	-	1,117,683	-
Foreign bonds	241,403	-	241,403	-
Municipal bonds	<u>145,865</u>	<u>-</u>	<u>145,865</u>	<u>-</u>
Total Fixed Income	<u>2,637,919</u>	<u>-</u>	<u>2,637,919</u>	<u>-</u>
Real estate funds:				
Real estate investment trust	1,092,897	1,092,897	-	-
Pooled life income fund	732,701	732,701	-	-
Certificates of deposit	613,243	-	613,243	-
Equity mutual funds:				
Large value	160,162	160,162	-	-
Beneficial interest in charitable gift annuities	<u>517,299</u>	<u>-</u>	<u>-</u>	<u>517,299</u>
Total Assets	<u>\$ 19,184,005</u>	<u>\$ 15,415,544</u>	<u>\$ 3,251,162</u>	<u>\$ 517,299</u>

Continued

**FRIENDS COMMITTEE ON NATIONAL LEGISLATION
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

5. Fair Value Measurements (continued)

For the year ended June 30, 2016, the Organization used the following methods and significant assumptions to estimate fair value for assets recorded at fair value:

Equities, equity mutual funds and real estate funds – Value is derived from the net asset value (NAV) of shares held at year-end and based on quoted market prices in active markets.

Fixed-income securities and certificates of deposit – These are valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable characteristics.

Pooled life income fund – The pooled life income fund consists primarily of fixed-income and equity mutual funds that are valued at the NAV of shares held by the Organization at year-end and are based on quoted market prices in active markets.

Beneficial interest in planned giving agreements – The expected future cash inflows from the interest in charitable gift annuities (CGA's) are based on the fair value of the investments, the future expected investment returns and the donor's life expectancy, and have been recorded at present value based on a discount rate of 2.2% and applicable mortality tables. CGA is recorded at the present value of the future distributions expected to be received over the term of the agreements. The CGA's investments include variable annuities, equities and options, and cash equivalents.

A roll forward of the fair value measurements using unobservable inputs (Level 3) is as follows for the years ended June 30, 2016:

	<u>Beneficial Interest in Charitable Gift Annuities</u>
Balance, June 30, 2015	\$ 244,907
New planned giving agreements	285,138
Change in value of existing planned giving agreements	<u>(12,746)</u>
Balance, June 30, 2016	<u>\$ 517,299</u>

The change in value of planned giving agreements (unrealized loss, net), and the new split-interest agreements, is included in nonoperating activities change in value of interest of planned giving agreements and bequests in the accompanying consolidated statement of activities and pertains to planned giving agreements held at year-end.

**FRIENDS COMMITTEE ON NATIONAL LEGISLATION
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

6. Property and Equipment and Accumulated Depreciation and Amortization

The Organization's property and equipment consisted of the following as of June 30, 2016:

Building and improvements	\$ 6,620,596
Land	589,933
Furniture and fixtures	292,580
Computer equipment and software	<u>266,835</u>
Total Property and Equipment	7,769,944
Less: Accumulated Depreciation and Amortization	<u>(2,626,948)</u>
Property and Equipment, Net	<u>\$ 5,142,994</u>

Depreciation and amortization expense totaled \$242,003 for the year ended June 30, 2016, and is reported in program services and supporting services in the accompanying consolidated statement of activities.

7. Loans and Note Payable

Loans

The Organization receives financial support from individual donors in the form of interest-free loans, which range from \$500 – \$20,000 and are due upon demand by the donor. For each loan, the outstanding balance or any portion thereof is returned to the donor or converted to a gift upon request by the donor. In case of death of a donor, the balance is either returned to the donor's estate or converted to a gift according to the terms of the loan. For the year ended June 30, 2016, the Organization recognized new individual loans totaling \$12,000 and recognized \$5,546 as being previously paid off. A total of \$13,650 was converted to gifts and reported as contributions in the accompanying consolidated statement of activities. The balance outstanding at June 30, 2016, totaled \$189,532.

Note Payable

The Organization entered into a \$768,000 note payable agreement with a financial institution in connection with its purchase of an adjacent property at 205 C Street, NE. The note bears a fixed interest rate of 3.95% and is due in monthly payments at \$7,778, with a final payment due on September 22, 2021. As of June 30, 2016, the Organization was in compliance with all of its debt covenants. The balance outstanding as of June 30, 2016, totaled \$441,258.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

7. Loans and Note Payable (continued)

Note Payable (continued)

As of June 30, 2016, future principal payments on the note payable are as follows:

<u>For the Year Ending June 30,</u>	
2017	\$ 77,062
2018	80,208
2019	83,482
2020	86,889
2021	90,436
Thereafter	<u>23,180</u>
Total	<u>\$ 441,258</u>

Interest expense related to this note totaled \$19,300 for the year ended June 30, 2016, and is included in management and general in the accompanying consolidated statement of activities.

8. Planned Giving Agreements

The Organization's planned giving agreements include a charitable gift annuity program, several charitable remainder trusts and a pooled life income fund.

Charitable gift annuities are arrangements between donors and the Organization in which the donors contribute assets to the Organization in exchange for promises by the Organization to pay a fixed amount for a specified period of time to the donors or individuals designated by the donors. The present value of the estimated future payments for the year ended June 30, 2016, was calculated using a discount rate of 2.2% based on Internal Revenue Service (IRS) Publication 1457 and the Annuity 2000 mortality table. Contribution revenue for the year ended June 30, 2016, from charitable gift annuities totaled \$217,323. As of June 30, 2016, the Organization's obligations to donors or individuals designated by donors under these charitable gift annuity arrangements totaled \$2,301,757. As of June 30, 2016, the assets of the gift annuities totaled \$6,234,799, and they are included in investments in the accompanying consolidated statements of financial position.

Charitable remainder trusts are arrangements in which donors establish and fund trusts with specified distributions to be made to designated beneficiaries over the trust's term. Upon termination of each trust, the Organization receives the assets remaining in the trust. The Organization may ultimately have unrestricted use of these assets, or the donors may place permanent or temporary restrictions on their use. The present value of the estimated future payments for the year ended June 30, 2016, was calculated using a discount rate of 2.2% and applicable mortality tables. As of June 30, 2016, the present value of the estimated future payments of the trusts totaled \$304,656. As of June 30, 2016, the assets of the charitable remainder trusts totaled \$774,457, and they are included in investments in the accompanying consolidated statement of financial position.

Continued

**FRIENDS COMMITTEE ON NATIONAL LEGISLATION
AND FCNL EDUCATION FUND**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

8. Planned Giving Agreements (continued)

The Organization has established a pooled life income fund. This fund is divided into units, and donors are assigned a specific number of units based on the proportion of the fair value of their contributions to the total fair value of the pooled income fund on the date of the donor's entry to the pooled fund. Until a donor's death, the donor is paid the actual income earned on the donor's assigned units. Upon the donor's death, the value of the units is available to the Organization for its unrestricted use. The present value of these units is calculated by discounting the market value using a discount rate of 3.377% and applicable mortality tables. As of June 30, 2016, the market value of the pooled life income fund totaled \$732,701, and it is included in investments in the accompanying consolidated statements of financial position. As of June 30, 2016, the present value discount on this total is \$352,908. As of June 30, 2016, \$6,874 of income earned in the last quarter of the year ending June 30, 2016, was owed to the donors to the fund.

9. Net Assets

Net assets consisted of the following as of June 30, 2016:

Unrestricted Net Assets

The unrestricted net assets of the Organization consisted of the following:

Undesignated	<u>\$ 4,591,251</u>
Board-designated:	
Plant and equipment	5,142,994
Annuities	3,305,341
Capital campaign initiatives	471,516
Life insurance policies	<u>28,557</u>
Total Board-Designated	<u>8,948,408</u>
Total Unrestricted Net Assets	<u>\$ 13,539,659</u>

The purposes of the board-designated net assets are as follows:

- Plant and equipment – represents the total book value (carrying value) of all property and equipment of the Organization.
- Annuities – represents the excess of assets (investments) of charitable gift annuities agreements and the related obligations to donor or donor-specified beneficiaries.
- Capital campaign initiatives – represents the accumulated investment income on capital campaign funds for the purpose of funding the Young Adult and Friend in Washington programs, sustaining lobbying and renovating the 205 C Street, NE, building.
- Life insurance policies – represents the value of life insurance policies donated to FCNL Education Fund, which is the policy beneficiary and owner.

**FRIENDS COMMITTEE ON NATIONAL LEGISLATION
AND FCNL EDUCATION FUND**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

9. Net Assets (continued)

Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes or time periods as of June 30, 2016:

Capital Campaign	\$ 5,500,866
Donor-restricted endowment income	2,616,983
Building fund	1,501,201
Trust fund	469,802
Pooled income fund	289,186
Capital Campaign Endowment Income	187,367
Humanity United	120,554
Nuclear Disarmament	71,894
Open Society Fund	39,960
Federal budget/Militarism	21,939
Iran Diplomacy	16,667
Nuclear Threat Initiative	8,331
Other	4,500
Afghanistan	<u>2,500</u>
Total Temporarily Restricted Net Assets	<u>\$ 10,851,750</u>

Permanently Restricted Net Assets

Permanently restricted net assets consisted of the following as of June 30, 2016:

Capital Campaign:	
Youth Involvement	\$ 1,082,965
Laura Wilcox Fund	458,788
Friend in Washington	82,119
Sustain Lobbying	<u>69,455</u>
Total Capital Campaign	1,693,327
D Intern Endowment	463,006
General Endowment	397,379
Freeman Intern	280,431
Lepke Intern Endowment	104,784
Native American	85,422
Builders of a Better World	58,485
Levering Fund	41,855
Youth Involvement	<u>5,000</u>
Total Permanently Restricted Net Assets	<u>\$ 3,129,689</u>

Continued

**FRIENDS COMMITTEE ON NATIONAL LEGISLATION
AND FCNL EDUCATION FUND**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

10. Endowment Funds

Interpretation of Relevant Law

The Organization's Board has interpreted the District of Columbia Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization 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 Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization 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 Organization and the donor-restricted endowment fund.
- General economic conditions.
- The possible effect of inflation and deflation.
- The expected total return from income and the appreciation of investments.
- Other resources of the Organization.
- The investment policies of the Organization.

Return Objectives and Risk Parameters

The Organization has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Executive Committee of the Board, the endowment assets are invested in funds to achieve steady income growth without exposing the principal of the funds to significant fair value fluctuations. Actual returns in any given year may vary. The Organization has invested the permanently restricted assets in investment vehicles with a preferred asset allocation of 70% to 80% equity with the remainder in fixed income. The portfolio should be consistent with the Organization's risk tolerance, cash flow needs and Guidelines for Socially Responsible Investing.

The primary investment objective, over the long term, is to earn an average annual return net of investment manager fees and transaction costs of at least 4% plus the inflation rate (as measured by the national Consumer Price Index). This goal allows the investment portfolio to generate income needed for various purposes and protect the purchasing power of the principal.

Continued

**FRIENDS COMMITTEE ON NATIONAL LEGISLATION
AND FCNL EDUCATION FUND**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

10. Endowment Funds (continued)

Endowment Spending Harvesting Policy

Investment earnings on the permanent endowment are available to fund the operations of the Organization. The investment earnings on the fund are considered to be appropriated for expenditure upon the approval of expenditures made in accordance with the Board's approval of the annual budget. All interest, dividends, and realized and unrealized capital gains on the endowment account will be retained in this account until expended. This account will be valued as of June 30 each year, and 5% of the average value of the endowment for the prior three years will be placed in the annual operating budget for the fiscal year that begins July 1 of that year. The aim is to provide steady yield from the endowment for programs while allowing the endowment to keep pace with inflation. In no year will payment be made that would reduce the value of the account below the aggregate value of all donations to the endowment account. If these aims are not realized over time, then the 5% figure will be reconsidered.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of June 30, 2016.

Endowment Net Asset Composition

Endowment net asset composition by type of fund was as follows as of June 30, 2016.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 2,804,349	\$ 3,129,689	\$ 5,934,038

For the year ended June 30, 2016, the endowment funds had the following activity:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds, beginning of year	\$ -	\$ 2,703,756	\$ 2,598,335	\$ 5,302,091
Contributions	-	-	531,354	531,354
Investment income	-	291,215	-	291,215
Amounts appropriated for expenditure	-	(190,622)	-	(190,622)
Endowment Funds, End of Year	\$ -	\$ 2,804,349	\$ 3,129,689	\$ 5,934,038

**FRIENDS COMMITTEE ON NATIONAL LEGISLATION
AND FCNL EDUCATION FUND**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

10. Endowment Funds (continued)

Permanently Restricted Net Assets

The portion of perpetual endowment funds that is required to be retained permanently, either by explicit donor stipulation or by UPMIFA

\$ 3,129,689

Temporarily Restricted Net Assets

The portion of perpetual endowment funds subject to a purpose restriction under UPMIFA:

With purpose restriction

\$ 2,218,946

Without purpose restriction

585,403

Total

\$ 2,804,349

11. Commitments and Risks

Concentration of Risk

Financial instruments which potentially subject the Organization to concentration of credit risk consist principally of cash balances maintained at various creditworthy financial institutions. While the amount at a given bank at times exceeds the amount guaranteed by federal agencies and, therefore, bears some risk, the Organization has not experienced, nor does it anticipate, any losses on its funds. At June 30, 2016, the amount in excess of the Federal Deposit Insurance Corporation insured limit of \$250,000, including cash in all investment accounts, totaled approximately \$3,488,000.

Hotel Contracts

FCNL has entered into contracts for hotel rooms and event spaces for events occurring through March 2017. In the event of cancellation, FCNL is required to pay various cancellation fees as stipulated in the contracts; the amount is dependent on the date of cancellation. As of June 30, 2016, the estimated potential liability should FCNL cancel all future hotel contracts totaled approximately \$133,000. FCNL does not anticipate any cancellations; therefore, no loss has been provided for in these consolidated financial statements.

12. Pension Plan

The Organization maintains a tax-deferred annuity plan pursuant to Section 414(e) of the Internal Revenue Code (the IRC) for its employees. Participation by employees in the Plan is voluntary. The Organization contributes 10% of each participant's salary who has completed one year of service. Employees are fully vested after two years of service. During the year ended June 30, 2016, the Organization's contributions totaled \$191,317.

Continued

**FRIENDS COMMITTEE ON NATIONAL LEGISLATION
AND FCNL EDUCATION FUND**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

13. Income Taxes

FCNL is a not-for-profit organization defined under Section 501(c)(4) of the IRC as determined in an exemption letter dated September 10, 1946. The Education Fund qualifies as a tax-exempt organization under Section 501(c)(3) of the IRC and is classified as a publicly supported organization under Section 509(a)(1) of the IRC. No provision for income taxes is required for the year ended June 30, 2016, as the Education Fund had no net unrelated business income.

The Company is treated as a disregarded entity for tax purposes, and its financial activities are therefore included in the tax return of the Education Fund.

The Organization performed an evaluation of uncertain tax positions for the year ended June 30, 2016, and determined that there are no matters that would require recognition in the consolidated financial statements or that may have any effect on its tax-exempt status. As of June 30, 2016, the statute of limitations for tax years 2013 through 2015 remains open with the U.S. federal jurisdiction and/or the various states and local jurisdictions in which the Organization files tax returns. The Organization is not currently under audit by the IRS for the year ended June 30, 2016. It is the Organization's policy to recognize interest and penalties related to uncertain tax positions, if any, in income tax expense. As of June 30, 2016, the Organization had no accruals for interest and/or penalties.

14. Reclassifications

Certain amounts for 2015 have been reclassified to conform to the 2016 consolidated financial statements presentation.

15. Prior Year Summarized Financial Information

The accompanying consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended June 30, 2015, from which the summarized information was derived.

16. Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through October 21, 2016, the date the consolidated financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in these consolidated financial statements.

SUPPLEMENTAL INFORMATION

**FRIENDS COMMITTEE ON NATIONAL LEGISLATION
AND FCNL EDUCATION FUND**

**CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2016**

(With Summarized Financial Information for the Year Ended June 30, 2015)

	Program Services			Supporting Services			Total Supporting Services	2016 Total	2015 Total
	Legislative and Educational Activities	Advocacy and Outreach	Young Adult Program	Total Program Services	Management and General	Fundraising			
Salaries	\$ 1,035,173	\$ 471,443	\$ 138,661	\$ 1,645,277	\$ 318,475	\$ 730,769	\$ 1,049,244	\$ 2,694,521	\$ 2,327,831
Meetings and travel	402,496	69,567	264,209	736,272	23,943	135,121	159,064	895,336	589,848
Professional fees	126,861	96,355	58,647	281,863	111,817	319,563	431,380	713,243	494,192
Employee benefits	258,284	123,909	32,064	414,257	74,108	174,712	248,820	663,077	547,399
Occupancy	171,825	78,449	23,501	273,775	92,753	123,900	216,653	490,428	512,172
Printing	56,886	39,121	13,795	109,802	334	207,100	207,434	317,236	313,728
Postage	17,452	20,078	2,479	40,009	3,942	99,310	103,252	143,261	142,977
Supplies, licenses and other expenses	28,250	10,452	3,382	42,084	43,407	48,490	91,897	133,981	102,551
Telephone	26,392	12,324	676	39,392	5,040	9,697	14,737	54,129	41,874
Web design and maintenance	2,243	27,082	71	29,396	5,984	534	6,518	35,914	37,583
Dues, memberships and subscriptions	17,784	4,370	-	22,154	3,881	9,103	12,984	35,138	42,841
Interest	-	-	-	-	20,770	-	20,770	20,770	23,127
Advertising	5,988	21,751	3,012	30,751	729	1,894	2,623	33,374	11,438
List rental expense	-	-	-	-	-	17,219	17,219	17,219	8,727
Insurance	2,500	-	-	2,500	12,113	-	12,113	14,613	12,273
TOTAL EXPENSES	<u>\$ 2,152,134</u>	<u>\$ 974,901</u>	<u>\$ 540,497</u>	<u>\$ 3,667,532</u>	<u>\$ 717,296</u>	<u>\$ 1,877,412</u>	<u>\$ 2,594,708</u>	<u>\$ 6,262,240</u>	<u>\$ 5,208,561</u>

**FRIENDS COMMITTEE ON NATIONAL LEGISLATION
AND FCNL EDUCATION FUND**

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION
June 30, 2016**

	FCNL Education Fund				Total
	FCNL	FCNL Education Fund	205 C Street, NE	Eliminations	
ASSETS					
Current Assets					
Cash and cash equivalents	\$ 1,447,305	\$ 3,721,142	\$ 6,375	\$ -	\$ 5,174,822
Pledges and contributions receivable, current portion	688,815	606,565	-	-	1,295,380
Employee advances and other receivables	3,856	24,735	-	-	28,591
Due from affiliate	-	120,538	-	(120,538)	-
Prepaid expenses	73,991	55,766	-	-	129,757
Total Current Assets	2,213,967	4,528,746	6,375	(120,538)	6,628,550
Investments	3,539,463	15,127,243	-	-	18,666,706
Pledges and contributions receivable, net of current portion	197,126	663,988	-	-	861,114
Beneficial interest in planned giving agreements	-	517,299	-	-	517,299
Deposits	11,502	4,348	-	-	15,850
Cash surrender value of life insurance	-	28,557	-	-	28,557
Property and equipment, net	-	4,038,915	1,104,079	-	5,142,994
TOTAL ASSETS	\$ 5,962,058	\$ 24,909,096	\$ 1,110,454	\$ (120,538)	\$ 31,861,070
LIABILITIES AND NET ASSETS					
Liabilities					
Current liabilities					
Accounts payable and accrued expenses	\$ 151,024	\$ 112,087	\$ -	\$ -	\$ 263,111
Due to affiliate	120,538	-	-	(120,538)	-
Planned giving agreement obligations, current portion	-	361,564	-	-	361,564
Loans and note payable	2,000	264,594	-	-	266,594
Total Current Liabilities	273,562	738,245	-	(120,538)	891,269
Planned giving agreement obligations, net of current portion	-	2,604,631	-	-	2,604,631
Loans and note payable	-	364,196	-	-	364,196
TOTAL LIABILITIES	273,562	3,707,072	-	(120,538)	3,860,096
Net Assets					
Unrestricted	3,336,645	9,572,436	1,110,454	-	14,019,535
Temporarily restricted	1,789,380	9,062,370	-	-	10,851,750
Permanently restricted	562,471	2,567,218	-	-	3,129,689
TOTAL NET ASSETS	5,688,496	21,202,024	1,110,454	-	28,000,974
TOTAL LIABILITIES AND NET ASSETS	\$ 5,962,058	\$ 24,909,096	\$ 1,110,454	\$ (120,538)	\$ 31,861,070

**FRIENDS COMMITTEE ON NATIONAL LEGISLATION
AND FCNL EDUCATION FUND**

**CONSOLIDATING STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016**

	FCNL Education Fund				
	FCNL	FCNL Education Fund	205 C Street, NE	Eliminations	Total
OPERATING REVENUE AND SUPPORT					
Contributions	\$ 2,002,085	\$ 2,878,296	\$ -	\$ -	\$ 4,880,381
Bequests	1,753,054	1,197,281	-	-	2,950,335
Meeting registration	102,471	1,470	-	-	103,941
Rental income	-	-	30,815	-	30,815
Other income	700	7,174	-	-	7,874
	<u>3,858,310</u>	<u>4,084,221</u>	<u>30,815</u>	<u>-</u>	<u>7,973,346</u>
TOTAL OPERATING REVENUE AND SUPPORT					
OPERATING EXPENSES					
Program Services:					
Legislative and educational activities	1,144,316	1,007,818	-	-	2,152,134
Advocacy and outreach	373,278	601,623	-	-	974,901
Young adult program	258,502	281,995	-	-	540,497
	<u>1,776,096</u>	<u>1,891,436</u>	<u>-</u>	<u>-</u>	<u>3,667,532</u>
Total Program Services					
Supporting Services:					
Management and general	255,525	397,880	63,891	-	717,296
Fundraising					
General	588,261	679,504	-	-	1,267,765
Capital Campaign	237,771	371,876	-	-	609,647
	<u>826,032</u>	<u>1,051,380</u>	<u>-</u>	<u>-</u>	<u>1,877,412</u>
Total Fundraising					
Total Supporting Services	<u>1,081,557</u>	<u>1,449,260</u>	<u>63,891</u>	<u>-</u>	<u>2,594,708</u>
TOTAL OPERATING EXPENSES	<u>2,857,653</u>	<u>3,340,696</u>	<u>63,891</u>	<u>-</u>	<u>6,262,240</u>
Change in net assets from operations	1,000,657	743,525	(33,076)	-	1,711,106
NONOPERATING ACTIVITIES					
Net investment income	302,932	523,200	-	-	826,132
Contributions to planned giving	-	217,323	-	-	217,323
Change in value of interest of planned giving agreements	-	(26,220)	-	-	(26,220)
	<u>-</u>	<u>(26,220)</u>	<u>-</u>	<u>-</u>	<u>(26,220)</u>
CHANGE IN NET ASSETS	<u>1,303,589</u>	<u>1,457,828</u>	<u>(33,076)</u>	<u>-</u>	<u>2,728,341</u>
NET ASSETS, BEGINNING OF YEAR	<u>4,384,907</u>	<u>19,744,196</u>	<u>1,143,530</u>	<u>-</u>	<u>25,272,633</u>
NET ASSETS, END OF YEAR	<u>\$ 5,688,496</u>	<u>\$ 21,202,024</u>	<u>\$ 1,110,454</u>	<u>\$ -</u>	<u>\$ 28,000,974</u>