



Friends Committee on
National Legislation

A Quaker Lobby in the Public Interest

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

**Consolidated Financial Statements and
Supplemental Information**

For The Year Ended June 30, 2018

(With Summarized Financial Information for the Year Ended June 30, 2017)



**and
Report Thereon**



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

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For the Year Ended June 30, 2018

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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

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, 2018, 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, 2018, 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

We have previously audited the Organization's 2017 consolidated financial statements, and our report dated September 28, 2017, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, 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 23 and 24 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 22 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 2, 2018

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2018
(With Summarized Financial Information as of June 30, 2017)**

	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	\$ 4,012,106	\$ 6,226,974
Pledges and contributions receivable, current portion	543,814	842,531
Employee advances and other receivables	69,298	42,125
Prepaid expenses	170,323	110,989
Total Current Assets	4,795,541	7,222,619
Investments	21,549,670	20,006,627
Pledges and contributions receivable, net of current portion	484,822	1,436,707
Beneficial interest in planned giving agreements	235,446	232,798
Deposits	10,962	11,502
Cash surrender value of life insurance	23,131	23,131
Property and equipment, net	7,450,350	6,618,074
TOTAL ASSETS	\$ 34,549,922	\$ 35,551,458
LIABILITIES AND NET ASSETS		
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	\$ 265,474	\$ 325,124
Planned giving agreement obligations, current portion	332,359	341,557
Loans and note payable, current portion	292,514	242,094
Total Current Liabilities	890,347	908,775
Planned giving agreement obligations, net of current portion	2,710,593	2,768,314
Loans and note payable, net of current portion	200,506	287,133
TOTAL LIABILITIES	3,801,446	3,964,222
Net Assets		
Unrestricted	20,533,157	19,105,468
Temporarily restricted	6,563,273	8,834,970
Permanently restricted	3,652,046	3,646,798
TOTAL NET ASSETS	30,748,476	31,587,236
TOTAL LIABILITIES AND NET ASSETS	\$ 34,549,922	\$ 35,551,458

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, 2018
(With Summarized Financial Information for the Year Ended June 30, 2017)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
OPERATING REVENUE AND SUPPORT					
Contributions	\$ 4,106,609	\$ 508,223	\$ 5,248	\$ 4,620,080	\$ 6,339,538
Bequests	316,467	-	-	316,467	573,394
Meeting registration	133,177	-	-	133,177	134,040
Rental income	6,688	-	-	6,688	-
Other income	2,612	-	-	2,612	4,957
Net assets released from restrictions:					
Satisfaction of program restrictions	3,088,442	(3,088,442)	-	-	-
TOTAL OPERATING REVENUE AND SUPPORT	7,653,995	(2,580,219)	5,248	5,079,024	7,051,929
EXPENSES					
Program Services:					
Legislative and educational activities	2,407,612	-	-	2,407,612	2,293,317
Advocacy and outreach	1,529,796	-	-	1,529,796	1,065,175
Young adult program	644,166	-	-	644,166	571,621
Total Program Services	4,581,574	-	-	4,581,574	3,930,113
Supporting Services:					
Management and general	1,003,741	-	-	1,003,741	856,931
Fundraising					
General	1,591,675	-	-	1,591,675	1,237,906
Capital Campaign	69,040	-	-	69,040	550,811
Total Fundraising	1,660,715	-	-	1,660,715	1,788,717
Total Supporting Services	2,664,456	-	-	2,664,456	2,645,648
TOTAL EXPENSES	7,246,030	-	-	7,246,030	6,575,761
Change in net assets from operations	407,965	(2,580,219)	5,248	(2,167,006)	476,168
NONOPERATING ACTIVITIES					
Investment income, net	952,877	308,522	-	1,261,399	2,533,664
Contributions to planned giving	81,075	-	-	81,075	226,813
Change in value of interest of planned giving agreements	(14,228)	-	-	(14,228)	29,253
CHANGE IN NET ASSETS	1,427,689	(2,271,697)	5,248	(838,760)	3,265,898
NET ASSETS, BEGINNING OF YEAR	19,105,468	8,834,970	3,646,798	31,587,236	28,321,338
NET ASSETS, END OF YEAR	\$ 20,533,157	\$ 6,563,273	\$ 3,652,046	\$ 30,748,476	\$ 31,587,236

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, 2018
(With Summarized Financial Information for the Year Ended June 30, 2017)
Increase (Decrease) in Cash and Cash Equivalents**

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (838,760)	\$ 3,265,898
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	301,507	245,301
Net realized and unrealized gains on investments	(375,502)	(2,344,886)
Contributions for long-term purposes	(5,248)	(497,109)
Change in value of beneficial interest in planned giving agreements	(2,648)	3,259
Change in value of planned giving agreement obligations	150,384	172,595
Change in value of cash surrender value of life insurance	-	5,426
Donated stock	-	(50,655)
Changes in assets and liabilities		
Pledges and contributions receivable	1,250,602	197,620
Beneficial interest in planned giving agreements	-	281,242
Employee advances and other receivables	(27,173)	(13,534)
Prepaid expenses	(59,334)	18,768
Deposits	540	4,348
Accounts payable and accrued expenses	(59,650)	62,013
NET CASH PROVIDED BY OPERATING ACTIVITIES	334,718	1,350,286
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	6,304,149	13,505,336
Purchases of investments	(7,471,690)	(12,337,911)
Purchases of property and equipment	(1,133,783)	(1,720,381)
NET CASH USED IN INVESTING ACTIVITIES	(2,301,324)	(552,956)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions for long-term purposes	5,248	497,109
Proceeds from planned giving agreements	81,075	157,773
Proceeds from loans	50,000	-
Principal payments on loans and note payable	(86,207)	(101,563)
Payments to planned giving agreement beneficiaries	(298,378)	(298,497)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(248,262)	254,822
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,214,868)	1,052,152
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	6,226,974	5,174,822
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 4,012,106	\$ 6,226,974
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 13,582	\$ 16,945
NONCASH TRANSACTIONS		
Noncash investing activities:		
Donated stock	\$ -	\$ 50,655

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

**FRIENDS COMMITTEE ON NATIONAL LEGISLATION
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2018**

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 separate 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, 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 price that would be received to sell an asset or liability through an orderly transaction between market participants at the measurement date.

**FRIENDS COMMITTEE ON NATIONAL LEGISLATION
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2018**

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

Investments (continued)

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 made 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

Construction in progress is not depreciated until the construction is completed and the asset is placed in service. 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 and, if construction is necessary prior to the property or equipment being placed into service, costs are accumulated in construction in progress. 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, 2018.

Fair Value of Financial Instruments

In accordance with the accounting standards for fair value measurement 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 value hierarchy

**FRIENDS COMMITTEE ON NATIONAL LEGISLATION
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2018**

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

Fair Value of Financial Instruments (continued)

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, 2018, the Organization's investments and certain split-interest agreements, as described in Note 5 to 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 Accounting Standards Codification.

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 Organization reports contributions of cash and other assets as temporarily restricted revenue

**FRIENDS COMMITTEE ON NATIONAL LEGISLATION
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2018**

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

Revenue Recognition (continued)

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 the year in which 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, 2018, all donated investments received in this fiscal year either had been sold during the year or were included as part of the Organization's long-term portfolio.

**FRIENDS COMMITTEE ON NATIONAL LEGISLATION
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2018**

2. Pledges and Contributions

As of June 30, 2018, the Organization's pledges and contributions receivable were due as follows:

Due in less than one year	\$ 543,814
Due in one to five years	<u>572,789</u>
Total Pledges and Contributions Receivable	1,116,603
Less: Allowance on Doubtful Pledges	(24,099)
Less: Discount to Present Value (average rate of 3%)	<u>(63,868)</u>
Pledges and Contributions Receivable, Net	<u>\$ 1,028,636</u>

3. Investments

Investments, at fair value, consisted of the following as of June 30, 2018:

Equities	\$ 16,213,362
Fixed-income securities	3,842,944
Real estate funds	516,801
Pooled life income fund	832,944
Equity mutual funds	<u>143,619</u>
Total Investments	<u>\$ 21,549,670</u>

For the year ended June 30, 2018, investment income consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest and dividends	\$ 688,673	\$ 420,705	\$ 1,109,378
Realized gains	746,421	278,226	1,024,647
Unrealized losses	(319,716)	(329,429)	(649,145)
Investment expenses	<u>(162,501)</u>	<u>(60,980)</u>	<u>(223,481)</u>
Investment Income, Net	<u>\$ 952,877</u>	<u>\$ 308,522</u>	<u>\$ 1,261,399</u>

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 by 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 \$235,446.

**FRIENDS COMMITTEE ON NATIONAL LEGISLATION
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2018**

5. Fair Value Measurement

The following table summarizes the Organization's assets measured at fair value on a recurring basis as of June 30, 2018, 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>
Assets:				
Investments:				
Equities:				
Large cap	\$ 9,670,507	\$ 9,670,507	\$ -	\$ -
Mid-cap	2,828,605	2,828,605	-	-
Small cap	2,597,969	2,597,969	-	-
Foreign stocks	<u>1,116,281</u>	<u>1,116,281</u>	-	-
Total Equities	<u>16,213,362</u>	<u>16,213,362</u>	-	-
Fixed-income securities:				
Corporate bonds	2,370,882	-	2,370,882	-
U.S. government agency bonds	1,171,604	-	1,171,604	-
Foreign bonds	158,166	-	153,166	-
Municipal bonds	<u>142,292</u>	<u>-</u>	<u>142,292</u>	<u>-</u>
Total Fixed- Income Securities	<u>3,842,944</u>	<u>-</u>	<u>3,842,944</u>	<u>-</u>
Real estate funds:				
Real estate investment trust	<u>516,801</u>	<u>516,801</u>	<u>-</u>	<u>-</u>
Pooled life income fund	<u>832,944</u>	<u>-</u>	<u>832,944</u>	<u>-</u>
Equity mutual funds:				
Large value	<u>143,619</u>	<u>143,619</u>	<u>-</u>	<u>-</u>
Total Investments	21,549,670	16,873,782	4,675,888	-
Beneficial interest in planned giving agreements	<u>235,446</u>	<u>-</u>	<u>-</u>	<u>235,446</u>
Total Assets	<u>\$21,785,116</u>	<u>\$16,873,782</u>	<u>\$4,675,888</u>	<u>\$235,446</u>

Continued

**FRIENDS COMMITTEE ON NATIONAL LEGISLATION
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2018**

5. Fair Value Measurement (continued)

For the year ended June 30, 2018, 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 – 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 investments of the CGA's include variable annuities, equities and options, and cash equivalents.

A roll forward of the fair value measurement using unobservable inputs (Level 3) is as follows for the year ended June 30, 2018:

	<u>Beneficial Interest in Charitable Gift Annuities</u>
Balance, June 30, 2017	\$ 232,798
Payment from charitable remainder trust	-
Change in value of existing planned giving agreements	<u>2,648</u>
Balance, June 30, 2018	<u>\$ 235,446</u>

The change in value of planned giving agreements (unrealized loss, net), and the new split-interest agreements, is included in nonoperating activities in change in value of interest of planned giving agreements 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, 2018**

6. Property and Equipment and Accumulated Depreciation and Amortization

The Organization's property and equipment consisted of the following as of June 30, 2018:

Building and improvements	\$ 9,306,467
Land	589,994
Furniture and fixtures	654,180
Computer equipment and software	<u>73,526</u>
Total Property and Equipment	10,624,107
Less: Accumulated Depreciation and Amortization	<u>(3,173,757)</u>
Property and Equipment, Net	<u>\$ 7,450,350</u>

For the year ended June 30, 2018, the Organization capitalized renovation costs for 205 C Street, NE, totaling \$1,007,545 included in building and improvements.

Depreciation and amortization expense totaled \$301,507 for the year ended June 30, 2018, 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 to \$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. During the year ended June 30, 2018, the Organization received a new loan of \$50,000, of which \$5,000 was converted to gifts and reported as contributions in the accompanying consolidated statement of activities. The balance outstanding for all loans at June 30, 2018, totaled \$209,032.

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, 2018, the Organization was in compliance with all of its debt covenants. The balance outstanding as of June 30, 2018, totaled \$283,988.

Interest expense related to this note totaled \$13,133 for the year ended June 30, 2018, and is included in management and general in the accompanying consolidated statement of activities.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2018**

7. Loans and Note Payable (continued)

Note Payable (continued)

As of June 30, 2018, future principal payments on the note payable were as follows:

For the Year Ending June 30, 2018		
2019	\$	83,482
2020		86,890
2021		90,436
2022		23,180
Total	\$	283,988

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, 2018, 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, 2018, from charitable gift annuities totaled \$81,075. As of June 30, 2018, the Organization's obligations to donors or individuals designated by donors under these charitable gift annuity arrangements totaled \$2,225,565. As of June 30, 2018, the assets of the gift annuities totaled \$6,535,946 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, 2018, was calculated using a discount rate of 2.2% and applicable mortality tables. As of June 30, 2018, the present value of the estimated future payments of the trusts totaled \$421,138. As of June 30, 2018, the assets of the charitable remainder trusts totaled \$1,095,390, and they are included in investments in the accompanying consolidated statement of financial position.

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2018**

8. Planned Giving Agreements (continued)

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, 2018, the market value of the pooled life income fund totaled \$832,944, and it is included in investments in the accompanying consolidated statements of financial position. As of June 30, 2018, the present value discount on this total was \$390,391. As of June 30, 2018, \$5,858 of income earned in the last quarter of the year ending June 30, 2018, was owed to the donors to the fund.

9. Net Assets

Net assets consisted of the following as of June 30, 2018:

Unrestricted Net Assets

The unrestricted net assets of the Organization consisted of the following as of June 30, 2018:

Undesignated	<u>\$ 6,389,185</u>
Board-designated:	
Plant and equipment	7,450,350
Annuities	3,184,960
Building maintenance reserve	1,761,854
Capital campaign initiatives	1,223,677
Forward planning initiatives	500,000
Life insurance policies	<u>23,131</u>
Total Board-Designated	<u>14,143,972</u>
Total Unrestricted Net Assets	<u>\$ 20,533,157</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.
- Building maintenance reserve – represents the accumulated investment income on unrestricted funds for the purpose of providing a source of funds for capital and major repairs to the Organization's buildings.
- 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.

**FRIENDS COMMITTEE ON NATIONAL LEGISLATION
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2018**

9. Net Assets (continued)

Unrestricted Net Assets (continued)

- Forward planning initiatives – represents funds from bequests to support strategic initiatives regarding the Organization’s sustainability.
- Life insurance policies – represents the value of life insurance policies donated to the FCNL Education Fund, which is the policy beneficiary and owner.

Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes or time periods as of June 30, 2018:

Capital Campaign	\$ 2,302,374
Donor-restricted endowment income	3,333,000
Trust fund	334,357
Pooled income fund	436,695
Nuclear Disarmament and Calendar	53,240
Foreign policy	40,096
Federal budget/militarism	25,000
Advocacy teams	19,511
Peaceful Prevention of Conflict	10,000
Other	<u>9,000</u>
Total Temporarily Restricted Net Assets	<u>\$ 6,563,273</u>

Permanently Restricted Net Assets

Permanently restricted net assets consisted of the following as of June 30, 2018:

Capital Campaign:	
Youth Involvement	\$ 1,369,679
Laura Wilcox Fund	557,884
Young Adult Leadership	102,285
Friend in Washington	96,837
Sustain Lobbying	<u>64,934</u>
Total Capital Campaign	2,191,619
D Intern Endowment	463,006
General Endowment	401,444
Freeman Intern	280,431
Lepke Intern Endowment	104,784
Native American	85,422
Builders of a Better World	78,485
Levering Fund	41,855
Youth Involvement	<u>5,000</u>
Total Permanently Restricted Net Assets	<u>\$ 3,652,046</u>

**FRIENDS COMMITTEE ON NATIONAL LEGISLATION
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2018**

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.

**FRIENDS COMMITTEE ON NATIONAL LEGISLATION
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2018**

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, 2018.

Endowment Net Asset Composition

Endowment net asset composition by type of fund was as follows as of June 30, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 3,332,997</u>	<u>\$ 3,652,046</u>	<u>\$ 6,985,043</u>

For the year ended June 30, 2018, 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	\$ -	\$ 3,326,884	\$ 3,646,798	\$ 6,973,682
Contributions	-	-	5,248	5,248
Investment income, net	-	308,522	-	308,522
Amounts appropriated for expenditure	<u>-</u>	<u>(302,409)</u>	<u>-</u>	<u>(302,409)</u>
Endowment Funds, End of Year	<u>\$ -</u>	<u>\$ 3,332,997</u>	<u>\$ 3,652,046</u>	<u>\$ 6,985,043</u>

**FRIENDS COMMITTEE ON NATIONAL LEGISLATION
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2018**

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

\$ 3,652,046

Temporarily Restricted Net Assets

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

With purpose restriction

\$ 2,931,553

Without purpose restriction

401,444

Total

\$ 3,332,997

11. Commitments and Risks

Operating Lease

The Organization entered into a noncancelable operating office space lease on June 20, 2018, to lease 3,986 square foot of office space at 518 C Street, NE, Washington, D.C. The lease term is for 76 months and commenced on August 15, 2018 and expires on December 15, 2024. The terms of the lease require monthly base rent of \$10,962, with a security deposit in the same amount. The lease also provides a rent abatement totaling \$43,846 and a construction allowance up to \$102,650. The lease is subject to a 4% annual rent escalation during the first four lease years and 3% during last three lease years, and also requires the Organization to pay as additional rent its proportionate share of increases in building operating expenses and real estate taxes.

Future minimum lease payments under this lease are as follows:

For the Year Ending
June 30,

2019

\$ 87,692

2020

136,162

2021

140,945

2022

145,888

2023

151,026

Thereafter

210,208

Total

\$ 871,920

Hotel Contracts

The Organization has entered into contracts for hotel rooms and event spaces for events occurring through March 2019. In the event of cancellation, the Organization is required to pay various cancellation fees as stipulated in the contracts; the amount is dependent on the date of

**FRIENDS COMMITTEE ON NATIONAL LEGISLATION
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2018**

11. Commitments and Risks (continued)

Hotel Contracts (continued)

cancellation. As of June 30, 2018, the estimated potential liability should FCNL cancel all future hotel contracts totaled approximately \$172,000. The Organization does not anticipate any cancellations; therefore, no loss has been provided for in these consolidated financial statements.

12. Pension Plan

The Organization maintains a defined contribution plan pursuant to Section 401k of the Internal Revenue Code (the IRC) for its employees. Participation by employees in the Plan is voluntary. The Organization contributes 10% of the salary of each participant who has completed one year of service. Employees are fully vested after two years of service. During the year ended June 30, 2018, the Organization's contributions totaled \$221,107.

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, 2018, 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 uncertainty in income taxes for the year ended June 30, 2018, 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, 2018, the statute of limitations for tax years 2015 through 2017 remained 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, 2018. It is the Organization's policy to recognize interest and penalties related to uncertainty in income taxes, if any, in income tax expense. As of June 30, 2018, the Organization had no accruals for interest and/or penalties.

14. 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, 2017, from which the summarized information was derived.

**FRIENDS COMMITTEE ON NATIONAL LEGISLATION
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2018**

15. Reclassification

Certain 2017 amounts have been reclassified to conform to the 2018 financial statement presentation.

16. Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated, for potential recognition or disclosure, events and transactions through September 24, 2017, 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, 2018
(With Summarized Financial Information for the Year Ended June 30, 2017)**

	Program Services			Supporting Services			2018 Total	2017 Total	
	Legislative and Educational Activities	Advocacy and Outreach	Young Adult Program	Total Program Services	Management and General	Fundraising			Total Supporting Services
Salaries	\$ 1,183,481	\$ 563,766	\$ 119,641	\$ 1,866,888	\$ 355,108	\$ 719,267	\$ 1,074,375	\$ 2,941,263	\$ 2,752,388
Meetings and travel	445,462	60,385	346,067	851,914	25,383	102,205	127,588	979,502	915,087
Professional fees	149,082	199,279	102,160	450,521	149,699	183,224	332,923	783,444	767,131
Employee benefits	312,453	155,925	33,497	501,875	76,475	180,860	257,335	759,210	725,485
Occupancy	159,233	71,277	15,794	246,304	172,466	95,365	267,831	514,135	480,187
Printing	49,513	240,213	13,759	303,485	18,873	180,807	199,680	503,165	409,582
Supplies, licenses and other expenses	37,762	19,214	8,141	65,117	116,147	55,280	171,427	236,544	134,445
Postage	9,690	86,675	1,290	97,655	12,252	100,973	113,225	210,880	154,713
Advertising	7,970	67,494	1,593	77,057	11,298	2,452	13,750	90,807	15,001
Telephone	28,584	18,968	1,518	49,070	13,234	10,219	23,453	72,523	70,722
Dues, memberships and subscriptions	17,204	5,223	598	23,025	23,314	14,742	38,056	61,081	64,351
Web design and maintenance	5,511	41,377	108	46,996	706	2,650	3,356	50,352	36,429
Insurance	1,667	-	-	1,667	15,204	-	15,204	16,871	16,120
Interest	-	-	-	-	13,582	-	13,582	13,582	16,945
List rental expense	-	-	-	-	-	12,671	12,671	12,671	17,175
TOTAL EXPENSES	<u>\$ 2,407,612</u>	<u>\$ 1,529,796</u>	<u>\$ 644,166</u>	<u>\$ 4,581,574</u>	<u>\$ 1,003,741</u>	<u>\$ 1,660,715</u>	<u>\$ 2,664,456</u>	<u>\$ 7,246,030</u>	<u>\$ 6,575,761</u>

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

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION
June 30, 2018**

	FCNL	FCNL Education Fund	Eliminations	Total
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,051,257	\$ 2,960,849	\$ -	\$ 4,012,106
Pledges and contributions receivable, current portion	114,897	428,917	-	543,814
Employee advances and other receivables	20,935	48,363	-	69,298
Due from affiliate	-	-	-	-
Prepaid expenses	101,464	68,859	-	170,323
Total Current Assets	1,288,553	3,506,988	-	4,795,541
Investments	3,849,782	17,699,888	-	21,549,670
Pledges and contributions receivable, net of current portion	60,716	424,106	-	484,822
Beneficial interest in planned giving agreements	-	235,446	-	235,446
Deposits	-	10,962	-	10,962
Cash surrender value of life insurance	-	23,131	-	23,131
Property and equipment, net	-	7,450,350	-	7,450,350
TOTAL ASSETS	\$ 5,199,051	\$ 29,350,871	\$ -	\$ 34,549,922
LIABILITIES AND NET ASSETS				
Liabilities				
Current liabilities				
Accounts payable and accrued expenses	\$ 136,362	\$ 129,112	\$ -	\$ 265,474
Planned giving agreement obligations, current portion	-	332,359	-	332,359
Due to affiliate	-	-	-	-
Loans and note payable, current portion	2,000	290,514	-	292,514
Total Current Liabilities	138,362	751,985	-	890,347
Planned giving agreement obligations, net of current portion	-	2,710,593	-	2,710,593
Loans and note payable, net of current portion	-	200,506	-	200,506
TOTAL LIABILITIES	138,362	3,663,084	-	3,801,446
Net Assets				
Unrestricted	4,088,664	16,444,493	-	20,533,157
Temporarily restricted	1,088,642	5,474,631	-	6,563,273
Permanently restricted	612,036	3,040,010	-	3,652,046
TOTAL NET ASSETS	5,789,342	24,959,134	-	30,748,476
TOTAL LIABILITIES AND NET ASSETS	\$ 5,927,704	\$ 28,622,218	\$ -	\$ 34,549,922

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

**CONSOLIDATING STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018**

	FCNL	FCNL Education Fund	Eliminations	Total
OPERATING REVENUE AND SUPPORT				
Contributions	\$ 2,086,263	\$ 2,533,817	\$ -	\$ 4,620,080
Bequests	142,656	173,811	-	316,467
Meeting registration	133,177	-	-	133,177
Rental income	-	6,688	-	6,688
Other income	2,612	-	-	2,612
TOTAL OPERATING REVENUE AND SUPPORT	2,364,708	2,714,316	-	5,079,024
EXPENSES				
Program Services:				
Legislative and educational activities	1,149,834	1,257,778	-	2,407,612
Advocacy and outreach	671,402	858,394	-	1,529,796
Young adult program	290,218	353,948	-	644,166
Total Program Services	2,111,454	2,470,120	-	4,581,574
Supporting Services:				
Management and general	378,480	625,261	-	1,003,741
Fundraising				
General	692,242	899,433	-	1,591,675
Capital Campaign	24,833	44,207	-	69,040
Total Fundraising	717,075	943,640	-	1,660,715
Total Supporting Services	1,095,555	1,568,901	-	2,664,456
TOTAL EXPENSES	3,207,009	4,039,021	-	7,246,030
Change in net assets from operations	(842,301)	(1,324,705)	-	(2,167,006)
NONOPERATING ACTIVITIES				
Investment income, net	271,567	989,832	-	1,261,399
Contributions to planned giving	-	81,075	-	81,075
Change in value of interest of planned giving agreements	-	(14,228)	-	(14,228)
CHANGE IN NET ASSETS	(570,734)	(268,026)	-	(838,760)
NET ASSETS, BEGINNING OF YEAR	6,360,076	25,227,160	-	31,587,236
NET ASSETS, END OF YEAR	\$ 5,789,342	\$ 24,959,134	\$ -	\$ 30,748,476