

TREASURER'S REPORT TO MARCH INTERIM MEETING

23 March 2019

Annapolis Friends Meeting

From Treasurer Tom Hill, Charlottesville Monthly Meeting

My report today encompasses three parts, this narrative, the unaudited 2018 annual Statement of Activities (which I call the "Income Statement"), and the unaudited 31 December 2018 Statement of Financial Position (which I call the "Balance Sheet"). Margo Lehman, BYM's Comptroller, and I have used the same format as BYM used in 2018 for the 2017 financials.

Again this year the **Income Statement** compares 2017 actual, the 2018 approved budget, and the 2018 actual results in several broad categories. Page 1 at **Line 40** shows that our unrestricted funds other than for property & equipment had a net surplus of \$155,000. Adding the net deficit of \$28,000 in Property & Equipment [**Line 45**] then results in an overall operating surplus \$127,000 [**Line 47**].

BYM missed its budget in several ways in 2018. **Line 7** shows we missed our budget for unrestricted contributions by \$28,000. **Line 24** shows that other income fell short of budget by \$47,000. However, BYM Staff and committees spent much less than budgeted in 2018. **Line 38** shows total operating expenses fell \$318,000 below the 2018 budget. I always prefer that BYM run a surplus, but when we spend less than budgeted, it sometimes means we did not engage enough Friends in the Yearly Meeting's ministries or start some of the projects that we had hoped. Some of the savings in 2018 expenses were the result of the BYM Camps' deferring some projects, which is entirely appropriate when income is down. All our committees and staff will need to review their separate 2018 results in coming months and determine whether they should adjust their 2019 or 2020 budgets to accomplish work not done in 2018. If Friends decide we need to do more, then Development Committee will need to consider how to fund that work.

On Page 2 the Income Statement reflects results for our restricted funds. On a cash-plus-pledges basis, our restricted funds had a net deficit of (-\$22,000) in 2018, but under accrual accounting, we also have to mark down the market value of our investments by \$64,000 [**Line 53**], so our net restricted deficit in 2018 was (-\$86,000) [**Line 59**]. The 2018 net restricted activity was much worse than budgeted. Line 50 on page 2 shows that restricted contributions fell \$203,000 below budget. While restricted expenditures on **Line 57** also fell below budget, by \$36,000, the overall result for restricted funds is \$219,000 below budget (**Line 59**).

This unaudited Income Statement shows a "bottom line" 2018 surplus [**Line 61**] of almost \$41,000. However, I do not think the audited 2018 financials will show a BYM overall surplus that high. In particular, on 16 March I will ask the Trustees to increase the 31 December 2018 allowance for uncollectible receivables to \$50,000 to recognize that two particular accounts receivable were not worth the value reflected on our books.

One receivable Margo and I will recommend that the Trustees discount is the \$40,000 due from Friends School of Hartford ("FSH") under the 2010 settlement of the New Jersey litigation over the Emily Bayless Graham estate. Trustees and FSH negotiated an amended agreement in 2015, and FSH was making interest payments about on time until BYM received the June 2018 letter announcing that FSH would suspend operations during the 2018-2019 school year. We do not yet know the outcome of the FSH planning process, but I do not anticipate we will ultimately realize as much as \$40,000 under the settlement agreements. The second receivable I will suggest Trustees write down is for a vehicle sold to BYM last summer for which the seller could never deliver clear title. All efforts to recoup our money from the fraudulent seller have proved fruitless. If the Trustees agree, the allowance for uncollectible receivables on **Line 10** of the Balance Sheet would be increased by \$31,518 to \$50,000. So the net 2018 BYM surplus would drop to \$9,363.

Let's look a little closer at the Balance Sheet as of 31 December 2018. BYM follows Generally-Accepted Accounting Principles ("GAAP") in assembling our interim and audited financials. As I have reminded you folks before, GAAP requires BYM to carefully track our donors' gift conditions by recording assets and liabilities in separate funds. And in each of those funds -- Unrestricted, Temporarily-Restricted, and Permanently Restricted -- GAAP requires BYM to follow accrual, not cash, accounting. So BYM must value assets like investments, pledges and accounts receivable at their end-of-year fair value. This process mostly explains why the value on **Line 15** of long-term investments we hold in Friends Fiduciary Corporation and Morgan Stanley Wealth Management fell by \$175,000 during 2018.

Another notable balance-sheet item on **Line 28** is Friendly Loans to complete the funding of the construction of the Catoctin Bathhouse. Line 28 reflects that during 2018, BYM paid down \$12,000 of the principal and had two Friendly Lenders forgive \$35,000 of loans. In fact in January another Friendly Lender forgave another loan of just over \$20,000. I find the continuing generosity of BYM Friends encouraging. A related assets on **Line 35** is the "designated" \$37,000 of campers' fee income that Camping Program Committee set aside to pay down the Catoctin Friendly Loans.

It appears that the Balance Sheet confirms the Income Statement's conclusion of steady finances during 2018. But the numbers present just one view of reality. You Friends know first-hand about the progress of the Yearly Meeting's ministries.