

AMERICAN FRIENDS SERVICE COMMITTEE

*FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS*

SEPTEMBER 30, 2020 AND 2019

AMERICAN FRIENDS SERVICE COMMITTEE

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SECTION 1

AMERICAN FRIENDS SERVICE COMMITTEE

***FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS***

SEPTEMBER 30, 2020 AND 2019

AMERICAN FRIENDS SERVICE COMMITTEE

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

**To the Board of Director
American Friends Service Committee
Philadelphia, Pennsylvania**

Report on the Financial Statements

We have audited the accompanying financial statements of American Friends Service Committee (the “AFSC”) which comprise the statement of financial position as of September 30, 2020 and 2019, and the statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of AFSC as of September 30, 2020 and 2019, the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

To the Board of Director
American Friends Service Committee
Philadelphia, Pennsylvania

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal and State Awards, as required by the State of New Jersey Circular 15-08-OMB, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Others Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2021, on our consideration of American Friends Service Committee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering American Friends Service Committee's internal control over financial reporting and compliance.

Tait, Weller & Baker LLP

Philadelphia, Pennsylvania
April 21, 2021

AMERICAN FRIENDS SERVICE COMMITTEE

STATEMENTS OF FINANCIAL POSITION

September 30, 2020 And 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
ASSETS		
Cash and cash equivalents	\$ 10,925,323	\$ 4,168,735
Accounts and notes receivable – net	676,130	845,458
Income receivable and prepaid expenses	891,518	1,291,410
Investments:		
Planned giving (<i>Note 3</i>)	60,714,251	60,666,252
Other long-term investments (<i>Note 3</i>)	92,591,574	85,458,982
Investment in Friends Center (<i>Note 4</i>)	<u>2,598,049</u>	<u>2,720,126</u>
Total investments	155,903,874	148,845,360
Land, buildings and equipment – net (<i>Note 5</i>)	797,864	753,949
Other assets	121,259	121,983
Agency fund assets (<i>Note 3</i>)	<u>3,852,116</u>	<u>3,800,091</u>
Total assets	<u>\$ 173,168,084</u>	<u>\$ 159,826,986</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 2,769,934	\$ 2,468,824
Refundable advance	3,805,700	-
Deferred income	2,995,905	2,165,161
Interest-free loans	635,527	767,566
Annuities and unitrusts payable	28,065,408	27,712,702
Liability for pension benefits (<i>Note 7</i>)	13,706,774	9,974,319
Liability for post-retirement benefits (<i>Note 7</i>)	16,779,892	15,746,562
Agency funds	<u>3,852,116</u>	<u>3,800,091</u>
Total liabilities	<u>72,611,256</u>	<u>62,635,225</u>
NET ASSETS		
Without Donor Restrictions:		
Designated for current and future operations	4,718,362	2,496,252
Funds functioning as endowment (<i>Note 8</i>)	27,916,811	26,934,652
Funds designated for payment of charitable gift annuities	12,561,201	10,979,144
Funded status of pension and informal retirement benefit plans (<i>Note 7</i>)	(12,439,772)	(8,490,196)
Investment in Friends Center	2,598,049	2,720,126
Land, buildings and equipment	<u>797,864</u>	<u>753,949</u>
Total without donor restrictions	<u>36,152,515</u>	<u>35,393,927</u>
With Donor Restrictions (<i>Note 8</i>):		
Time restricted	23,984,803	25,839,025
Purpose restricted	1,461,295	1,096,325
Accumulated gains on endowment assets	9,061,615	8,369,825
Endowment net assets required to be held in perpetuity	<u>29,896,600</u>	<u>26,492,659</u>
Total net assets with donor restrictions	<u>64,404,313</u>	<u>61,797,834</u>
Total net assets	<u>100,556,828</u>	<u>97,191,761</u>
Total liabilities and net assets	<u>\$ 173,168,084</u>	<u>\$ 159,826,986</u>

The accompanying notes are an integral part of the financial statements.

AMERICAN FRIENDS SERVICE COMMITTEE

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For The Year Ended September 30, 2020 (With Comparative 2019 Totals)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2020 Total</u>	<u>2019 Total</u>
Operating Revenues				
Public support:				
Contributions for current program work	\$10,725,767	\$ 2,679,342	\$ 13,405,109	\$ 12,397,127
Grants from foundations	-	5,107,676	5,107,676	5,412,364
Bequests	8,765,085	89,842	8,854,927	8,118,090
Contributions to planned giving program	1,230,181	-	1,230,181	1,601,779
Contributions to endowment funds	-	3,311,879	3,311,879	1,157,515
Total public support	<u>20,721,033</u>	<u>11,188,739</u>	<u>31,909,772</u>	<u>28,686,875</u>
Government grants	1,367,375	-	1,367,375	442,899
Investment income, net of fees, appropriated <i>(Note 3)</i>	3,071,914	-	3,071,914	2,913,167
Program service income	217,037	-	217,037	243,987
Miscellaneous interest and other income	615,745	301	616,046	165,070
Net assets released from restrictions	<u>11,257,880</u>	<u>(11,257,880)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>37,250,984</u>	<u>(68,840)</u>	<u>37,182,144</u>	<u>32,451,998</u>
Operating Expenses				
Program services:				
International programs	8,959,059	-	8,959,059	9,063,995
U.S. programs	<u>17,914,645</u>	<u>-</u>	<u>17,914,645</u>	<u>16,682,888</u>
Total program services	<u>26,873,704</u>	<u>-</u>	<u>26,873,704</u>	<u>25,746,883</u>
Program Support:				
Fund-raising	4,384,536	-	4,384,536	4,161,109
Management and general	<u>2,545,630</u>	<u>-</u>	<u>2,545,630</u>	<u>3,398,431</u>
Total program support	<u>6,930,166</u>	<u>-</u>	<u>6,930,166</u>	<u>7,559,540</u>
Total expenses	<u>33,803,870</u>	<u>-</u>	<u>33,803,870</u>	<u>33,306,423</u>
Changes in net assets from operations	3,447,114	(68,840)	3,378,274	(854,425)
Nonoperating Changes In Net Assets				
Investment gains not appropriated <i>(Note 3)</i>	3,369,938	819,037	4,188,975	3,510,646
Actuarial (loss) gains on planned giving liabilities	(653,745)	1,891,023	1,237,278	(111,290)
Pension and benefits adjustment	(4,761,218)	-	(4,761,218)	(6,856,039)
Other nonoperating changes in net assets	<u>(643,501)</u>	<u>(34,741)</u>	<u>(678,242)</u>	<u>(59,705)</u>
Changes in net assets	758,588	2,606,479	3,365,067	(4,370,813)
Net Assets				
Beginning of year	<u>35,393,927</u>	<u>61,797,834</u>	<u>97,191,761</u>	<u>101,562,574</u>
End of year	<u>\$36,152,515</u>	<u>\$ 64,404,313</u>	<u>\$ 100,556,828</u>	<u>\$ 97,191,761</u>

The accompanying notes are an integral part of the financial statements.

AMERICAN FRIENDS SERVICE COMMITTEE

STATEMENT OF ACTIVITIES AND CHANGES, IN NET ASSETS

For The Year Ended September 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2019 Total</u>
Operating Revenues			
Public support:			
Contributions for current program work	\$ 9,542,174	\$ 2,854,953	\$ 12,397,127
Grants from foundations	-	5,412,364	5,412,364
Bequests	7,716,656	401,434	8,118,090
Contributions to planned giving program	665,459	936,320	1,601,779
Contributions to endowment funds	<u>-</u>	<u>1,157,515</u>	<u>1,157,515</u>
Total public support	17,924,289	10,762,586	28,686,875
Government grants	-	442,899	442,899
Investment income, net of fees, appropriated (<i>Note 3</i>)	2,913,167	-	2,913,167
Program service income	243,987	-	243,987
Miscellaneous interest and other income	164,010	1,060	165,070
Net assets released from restrictions	<u>13,212,541</u>	<u>(13,212,541)</u>	<u>-</u>
Total revenues	<u>34,457,994</u>	<u>(2,005,996)</u>	<u>32,451,998</u>
Operating Expenses			
Program services:			
International programs	9,063,995	-	9,063,995
U.S. programs	<u>16,682,888</u>	<u>-</u>	<u>16,682,888</u>
Total program services	<u>25,746,883</u>	<u>-</u>	<u>25,746,883</u>
Program Support:			
Fund-raising	4,161,109	-	4,161,109
Management and general	<u>3,398,431</u>	<u>-</u>	<u>3,398,431</u>
Total program support	<u>7,559,540</u>	<u>-</u>	<u>7,559,540</u>
Total expenses	<u>33,306,423</u>	<u>-</u>	<u>33,306,423</u>
Changes in net assets from operations	1,151,571	(2,005,996)	(854,425)
Nonoperating Changes In Net Assets			
Investment gains not appropriated (<i>Note 3</i>)	2,478,805	1,031,841	3,510,646
Actuarial (loss) gains on planned giving liabilities	(676,898)	565,608	(111,290)
Pension and benefits adjustment	(6,856,039)	-	(6,856,039)
Other nonoperating changes in net assets	<u>(29,623)</u>	<u>(30,082)</u>	<u>(59,705)</u>
Changes in net assets	<u>(3,932,184)</u>	<u>(438,629)</u>	<u>(4,370,813)</u>
Net Assets			
Beginning of year	<u>39,326,111</u>	<u>62,236,463</u>	<u>101,562,574</u>
End of year	<u>\$ 35,393,927</u>	<u>\$ 61,797,834</u>	<u>\$ 97,191,761</u>

The accompanying notes are an integral part of the financial statements.

AMERICAN FRIENDS SERVICE COMMITTEE

STATEMENTS OF CASH FLOWS

For The Years Ended September 30, 2020 And 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
<i>Total change in net assets</i>	\$ 3,365,067	\$ (4,370,813)
<i>Adjustments to reconcile total change in net assets to net cash used in operating activities</i>		
Realized and unrealized gains on investments	(5,750,442)	(5,206,160)
Unrealized loss on Friends Center Corporation investment	122,077	96,233
Depreciation	113,428	118,848
Contributions to endowment funds	(3,311,879)	(1,157,515)
Contributions to planned giving program	(1,230,181)	(1,601,779)
Matured gifts from planned giving program	4,159,909	3,680,601
Remainder interest in life estates	1,528,598	3,002,065
Adjustment for changes in planned giving liabilities	1,017,682	1,648,208
Adjustment for changes in pension and post-retirement benefits	4,761,218	6,856,039
Changes in assets and liabilities which provided (used) cash		
Accounts and notes receivable	169,328	(14,796)
Income receivable and prepaid expenses	399,892	133,095
Accounts payable and accrued liabilities	301,110	(444,477)
Deferred income	830,744	620,175
Liability for pension and post-retirement benefits	<u>469,843</u>	<u>(922,607)</u>
Net cash provided by operating activities	<u>6,946,394</u>	<u>2,437,117</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of land, buildings, and equipment	(157,343)	(24,946)
Purchase of investments	(67,299,796)	(53,178,722)
Sales of investments	<u>66,175,831</u>	<u>57,455,145</u>
Net cash (used in) provided by investing activities	<u>(1,281,308)</u>	<u>4,517,471</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from interest-free loans	6,000	10,300
Repayment of interest-free loans	(138,039)	-
Cash received from refundable advance	3,805,700	-
Cash received for endowment funds	3,311,879	1,157,515
Cash received for planned giving program	1,696,723	1,051,105
Matured gifts from planned giving program	(4,159,909)	(3,680,601)
Net benefit payments to annuitants	<u>(3,430,852)</u>	<u>(3,288,905)</u>
Net cash provided by (used in) financing activities	<u>1,091,502</u>	<u>(4,750,586)</u>
Net increase in cash and cash equivalents	6,756,588	2,204,002
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>4,168,735</u>	<u>1,964,733</u>
End of year	<u>\$ 10,925,323</u>	<u>\$ 4,168,735</u>

The accompanying notes are an integral part of the financial statements.

AMERICAN FRIENDS SERVICE COMMITTEE

STATEMENT OF FUNCTIONAL EXPENSES

For The Year Ended September 30, 2020

	Program Services			Program Support			Total Expenses
	International	U.S.	Total Program Services	Fund-Raising	Management and General	Total Program Support	
Compensation Expense:							
Salaries and benefits	\$ 5,357,459	\$ 13,257,289	\$ 18,614,748	\$ 2,864,513	\$ 1,582,936	\$ 4,447,449	\$ 23,062,197
Net periodic pension and retiree medical expense	<u>109,147</u>	<u>270,089</u>	<u>379,236</u>	<u>58,358</u>	<u>32,249</u>	<u>90,607</u>	<u>469,843</u>
Net compensation expense	5,466,606	13,527,378	18,993,984	2,922,871	1,615,185	4,538,056	23,532,040
Professional fees and services	395,984	829,741	1,225,725	493,233	162,842	656,075	1,881,800
Occupancy	478,341	1,090,811	1,569,152	352,201	40,460	392,661	1,961,813
Risk management insurance	21,314	19,610	40,924	2,627	279,973	282,600	323,524
Office supplies	30,655	67,199	97,854	5,637	8,973	14,610	112,464
Equipment leasing, purchase, and repairs	57,973	110,696	168,669	9,224	5,086	14,310	182,979
Program activities	848,642	445,998	1,294,640	21,544	30,597	52,141	1,346,781
Telephone and communications	137,199	317,143	454,342	52,159	190,419	242,578	696,920
Postage and shipping	14,366	29,774	44,140	9,945	25,242	35,187	79,327
Travel	272,430	281,671	554,101	74,379	49,864	124,243	678,344
Conferences, conventions, and meetings	547,896	70,563	618,459	4,758	28,968	33,726	652,185
Fundraising appeals	15,432	682,905	698,337	408,884	-	408,884	1,107,221
Printing and publishing	19,474	65,058	84,532	20,545	4,944	25,489	110,021
Awards and grants	387,266	305,864	693,130	-	-	-	693,130
Miscellaneous expense	<u>262,930</u>	<u>49,249</u>	<u>312,179</u>	<u>6,529</u>	<u>13,185</u>	<u>19,714</u>	<u>331,893</u>
Total expenses before depreciation	8,956,508	17,893,660	26,850,168	4,384,536	2,455,738	6,840,274	33,690,442
Depreciation of buildings and equipment	<u>2,551</u>	<u>20,985</u>	<u>23,536</u>	<u>-</u>	<u>89,892</u>	<u>89,892</u>	<u>113,428</u>
Total expenses	<u>\$ 8,959,059</u>	<u>\$ 17,914,645</u>	<u>\$ 26,873,704</u>	<u>\$ 4,384,536</u>	<u>\$ 2,545,630</u>	<u>\$ 6,930,166</u>	<u>\$ 33,803,870</u>

The accompanying notes are an integral part of the financial statements.

AMERICAN FRIENDS SERVICE COMMITTEE

STATEMENT OF FUNCTIONAL EXPENSES

For The Year Ended September 30, 2019

	Program Services			Program Support			Total Expenses
	International	U.S.	Total Program Services	Fund-Raising	Management and General	Total Program Support	
Compensation Expense:							
Salaries and benefits	\$4,929,274	\$12,330,695	\$17,259,969	\$2,578,405	\$2,231,503	\$4,809,908	\$22,069,877
Net periodic pension and retiree medical expense	<u>(90,253)</u>	<u>(228,008)</u>	<u>(318,261)</u>	<u>(47,131)</u>	<u>(39,872)</u>	<u>(87,003)</u>	<u>(405,264)</u>
Net compensation expense	4,839,021	12,102,687	16,941,708	2,531,274	2,191,631	4,722,905	21,664,613
Professional fees and services	575,582	790,870	1,366,452	330,348	259,788	590,136	1,956,588
Occupancy	502,649	1,024,388	1,527,037	326,425	256,907	583,332	2,110,369
Risk management insurance	67,902	99,044	166,946	17,338	87,260	104,598	271,544
Office supplies	39,127	69,965	109,092	5,885	7,592	13,477	122,569
Equipment leasing, purchase, and repairs	121,225	206,072	327,297	23,057	5,754	28,811	356,108
Program activities	702,740	497,025	1,199,765	16,375	37,308	53,683	1,253,448
Telephone and communications	116,469	261,525	377,994	42,602	152,416	195,018	573,012
Postage and shipping	14,038	50,349	64,387	19,384	17,000	36,384	100,771
Travel	477,431	669,217	1,146,648	153,393	173,454	326,847	1,473,495
Conferences, conventions, and meetings	522,844	90,314	613,158	-	41,051	41,051	654,209
Fundraising appeals	105,397	510,290	615,687	645,320	-	645,320	1,261,007
Printing and publishing	35,516	130,494	166,010	32,949	47,251	80,200	246,210
Awards and grants	747,986	100,026	848,012	-	-	-	848,012
Miscellaneous expense	<u>196,068</u>	<u>61,632</u>	<u>257,700</u>	<u>16,759</u>	<u>21,161</u>	<u>37,920</u>	<u>295,620</u>
Total expenses before depreciation	9,063,995	16,663,898	25,727,893	4,161,109	3,298,573	7,459,682	33,187,575
Depreciation of buildings and equipment	<u>-</u>	<u>18,990</u>	<u>18,990</u>	<u>-</u>	<u>99,858</u>	<u>99,858</u>	<u>118,848</u>
Total expenses	<u>\$9,063,995</u>	<u>\$16,682,888</u>	<u>\$25,746,883</u>	<u>\$4,161,109</u>	<u>\$3,398,431</u>	<u>\$7,559,540</u>	<u>\$33,306,423</u>

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS

For The Years Ended September 30, 2020 And 2019

(1) BACKGROUND

The American Friends Service Committee (“AFSC”) was founded in 1917 and is incorporated in the Commonwealth of Pennsylvania. Its purpose is to engage in religious, charitable, social, philanthropic, and relief work in the United States and in other countries on behalf of participating yearly meetings and other bodies of the Religious Society of Friends in the United States of America. AFSC is primarily funded by charitable contributions, grants, and bequests from individuals, corporations and foundations. AFSC has a central office, four (4) U.S. regional offices, thirty-two (32) area offices, two (2) branch offices, and sixteen (16) international project offices.

The Internal Revenue Service (“IRS”) has determined AFSC to be an “association of churches” and, therefore, exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code. The IRS has further determined that contributions made to AFSC are deductible by the donors to the extent allowed by law.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying financial statements have been prepared on the accrual basis of accounting and include all the accounts and funds of AFSC’s national, regional, area, and international project offices. All material interoffice accounts have been eliminated.

CASH AND CASH EQUIVALENTS

AFSC considers all highly liquid financial instruments with effective maturities at the date of purchase of twelve months or less to be cash equivalents.

CONCENTRATION OF CREDIT RISK

AFSC is required to disclose significant concentrations of credit risk regardless of the degree of such risk. As of September 30, 2020 and 2019, AFSC maintained bank deposits that exceeded the limit of insurability under the Federal Deposit Insurance Corporation. The risk is managed by monitoring the financial institutions in which deposits are made.

INVESTMENTS

Investments are stated at fair value (*See Note 3*). AFSC allocates investment income for program work from its endowments and funds functioning as endowments, using the total return method. The Board of Directors has established a spending rate of 4.5%-5.0%. The approved spending rate was 4.8% and 4.9% for the years ended September 30, 2020 and 2019, respectively. This spending rate, which is applied to a three-year average of the net asset value of the related endowment funds, resulted in a Board-approved allocation for program work of \$3,071,914 in 2020 and \$2,913,167 in 2019. This allocated investment income is included in operating revenue on the statement of activities. Investment return on long-term investments not allocated for operations is included in “Non-operating changes in net assets” on the statement of activities.

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2020 And 2019

INVESTMENT IN FRIENDS CENTER CORPORATION

The Friends Center Corporation (“**FCC**”) is a 501(c)(3) nonprofit organization comprised of three member organizations, including AFSC, the Philadelphia Yearly Meeting of the Religious Society of Friends (“**PYM**”), and Central Philadelphia Monthly Meeting (“**CPMM**”), and governed by an agreement among these organizations (the “**FCC Agreement**”). The FCC constructed and operates the Friends Center complex in Philadelphia for the use by AFSC, other Quaker organizations, and organizations with similar beliefs. Certain provisions of the FCC Agreement permit each member organization to withdraw from FCC with proper notification. In the event of a withdrawal or dissolution, AFSC is entitled to receive an amount equal to 37% of the Friends Center’s net assets, as defined in the FCC Agreement. The percentages for PYM and CPMM are 33% and 30%, respectively. AFSC accounts for its investment in FCC using the equity method of accounting. See Note 9 for further details on AFSC’s transactions with FCC.

LAND, BUILDINGS, AND EQUIPMENT

AFSC follows the practice of recording land, buildings, furniture, and equipment, either purchased or contributed, with a cost or fair value in excess of \$2,500 as assets. Depreciation is provided on the straight-line basis over the estimated useful lives (ranging from 3 to 50 years) of the assets.

INTEREST-FREE LOANS

Interest-free loans are comprised of amounts loaned to AFSC for unspecified periods of time, bearing no interest. All income and gains from the investment of such loans is available to AFSC for unrestricted use, unless specifically restricted by the lender, who may at any time recall only the original principal portion of the loan. Interest-free loans are received mainly from individuals, who wish to support AFSC.

ACCRUED PENSION AND POST-RETIREMENT BENEFITS AND FUNDING STATUS

FASB Accounting Standards Codification (“**FASB ASC**”) Topic 715, *Compensation – Retirement Benefits* (FASB ASC 715), requires an organization to recognize the over-funded or under-funded status of a defined benefit and post-retirement benefit plan in its statement of financial position and to recognize changes in funded status in the year in which the changes occur through changes in unrestricted net assets. Any over-funded status of AFSC’s plan is shown as an asset under “Prepaid pension” on the accompanying statement of financial position and any under-funded status is a liability incorporated under the caption “liability for pension benefits” and “liability for post-retirement benefits.” Changes in the funded status, net of the net periodic benefit cost, are shown within “Nonoperating changes in net assets” on the accompanying statement of activities. Underfunded liabilities of the defined benefit pension plan of \$13,706,774 and \$9,974,319 and total obligations of the informal post-retirement plan of \$16,779,892 and \$15,746,562 have been included in the statements of financial position as of September 30, 2020 and 2019, respectively.

AGENCY FUNDS

Agency funds account for assets received by AFSC that are to be held or disbursed only on instructions of the individuals or organizations from which they were received. Included in the agency funds are the assets of AFSC’s revocable trusts, 10-year trusts, and charitable trusts that designate a third party remainderman.

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2020 And 2019

ANNUITY AND LIFE INCOME GIFTS

Gifts under split-interest agreements, generally charitable gift annuities and charitable remainder unitrusts, are recorded at their fair value at date of receipt. Contribution revenue is recognized as the difference between the assets received and the actuarially determined liability to the beneficiaries.

Annuity liabilities are computed using standard life expectancy and annuity tables at a 7.5% rate of interest. The liability for such payments is subsequently adjusted for annuities paid and the effects of actuarial gains and losses. Charitable remainder unitrust liabilities are recorded at the present value of the estimated future payments to be distributed over the beneficiary's expected lives. The liability for such payments is subsequently adjusted to reflect amortization of the discount, revaluations of the present value of the estimated future payments to the beneficiaries, and changes in actuarial assumptions.

NET ASSETS

A description of each net asset category is as follows:

- *Net Assets without donor-imposed restrictions:* Represents assets that are available for the support of operations and whose use is not externally restricted, although their use may be limited by other factors, such as Board designations, which are as follows:
 - *Funds functioning as endowment:* Funds functioning as endowment represent unrestricted funds designated by the Board to maintain principal in the same manner as in the Endowment while using the income to support the operating activities of AFSC.
 - *Funded status of pension and informal retirement benefit plans:* The amount by which the pension plan and informal retirement benefit plan is funded as compared to the investments designated by AFSC for such purposes, but not placed in a separate trust, for the informal post-retirement benefit plan.
 - *Funds designated for payment of charitable gift annuities:* The amount by which funds invested for charitable gift annuity obligations exceeds the actuarial present value of future liability under charitable gift annuity agreements.
 - *Investment in Friends Center:* The Investment in Friends Center represents AFSC's equity in Friends Center Corporation (*See Note 4*).
 - *Land, building and equipment:* Land, building, and equipment is the net book value of land, buildings, furniture, and equipment.
- *Net Assets with donor-imposed restrictions:* Net assets with donor-imposed restrictions are those whose use by AFSC has been limited by donors for a specific purpose or time period. These net assets consist of gifts for which donor-imposed restrictions have not been met, and for accumulated gains recognized on permanent endowments. Net assets with donor-imposed restrictions also consist of permanent endowment fund investments to be held indefinitely, the income from which is expendable for operations or with restrictions as noted by the donor.

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2020 And 2019

ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and related disclosures and, therefore, actual results could differ from those estimates.

GRANTS AND CONTRACTS AND REVENUE RECOGNITION

AFSC recognizes contributions when cash, securities or other assets, and unconditional promise to give is received. Conditional contributions include donor-imposed conditions with one or more barriers that must be overcome before AFSC is entitled to the assets transferred or promised and there is a right of return to the contributor for assets transferred or a right of release of the promisor from its obligation to transfer assets. AFSC recognizes the contribution when the conditions are substantially met or explicitly waived. Unconditional contributions are classified as without donor restrictions unless there are donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose of the restriction is accomplished, net assets with donor restrictions are then classified to net assets without donor restrictions and reported in the statement of activities as “***net assets released from restrictions.***”

AFSC does not enter into legally enforceable contracts on promises of contributions with the exception of certain types of planned gifts. As a result, AFSC does not record pledges as income until the amounts are received.

A portion of AFSC’s revenue is derived from cost-reimbursable federal, state and other grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when AFSC has incurred expenditures in compliance with specific grant provisions. Amounts received prior to incurring qualifying expenditures are reported as deferred revenue in the statement of financial position.

Legal fees are recognized when the services are performed. Sales of literature or goods are recognized by AFSC when the items are sold. Rental income is recognized over the course of the leases.

AFSC’s Planned Giving Program allows donors to contribute to AFSC and at the same time receive lifetime income payments to their designated beneficiaries. Charitable gift annuities and charitable gift funds are classified as net assets without donor restrictions. All other planned gifts are classified as net assets with donor restrictions-time until the beneficiaries’ death, after which they are classified as net assets without donor restrictions unless specified otherwise by the donor.

GRANTS AND CONTRACTS RECEIVABLE

Grants and contracts receivable are stated at the amount management expects to collect from outstanding balances. On a periodic basis, AFSC evaluates their grants and contracts receivable and establishes an allowance for doubtful accounts based on their history of past write-offs, economic conditions, and conditions surrounding contracts and disallowed costs. At year end, an allowance for doubtful accounts was deemed not necessary.

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2020 And 2019

RECENT ACCOUNTING PRONOUNCEMENTS ADOPTED

Contributions

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this update will assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and determining whether a transaction is conditional. This ASU was adopted by AFSC for the year ended September 30, 2020 and did not have a material effect on the statements of financial position or results of operations.

Revenue Recognition

In May 2014, the Financial Accounting Standards Board (“**FASB**”) issued Accounting Standards Update (“**ASU**”) 2014-09, “*Revenue from Contracts with Customers (Topic 606)*,” which outlines a single comprehensive model to use in accounting for revenue arising from contracts with customers and supersedes and replaces nearly all existing U.S. GAAP revenue recognition guidance, including industry-specific guidance. The core principle of the standard is that revenue is recognized when the transfer of goods or services to customers occurs in an amount that reflects the consideration to which AFSC expects to be entitled in exchange for those goods or services. The standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The standard requires significantly expanded disclosures about revenue recognition and is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. This ASU was adopted by AFSC for the year ended September 30, 2020 and did not have a material effect on the statements of financial position or results of operations.

RECENT ACCOUNTING PRONOUNCEMENTS – NOT YET ADOPTED

Leases

In February 2016, the FASB issued ASU 2016-02 “*Leases (Topic 842)*.” The primary objective of the standard is to increase transparency and comparability among organizations by requiring lessees to recognize lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The new standard clarifies the definition of a lease and causes lessees to recognize leases on the balance sheet as a lease liability with a corresponding right-of-use asset. The standard is effective for fiscal years beginning after December 15, 2021. Early adoption is permitted. AFSC is currently evaluating the standard and its impact on the financial statements.

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2020 And 2019

(3) INVESTMENTS

AFSC used various methods to measure the fair value of its investments on a recurring basis. Generally accepted accounting principles established a hierarchy that prioritizes inputs to valuation methods. The three levels of inputs are described below:

Level 1 – Unadjusted quoted prices in active markets at the measurement date for identical assets and/or liabilities. An active market is one in which transactions for assets or liabilities occur with sufficient frequency and volume to provide pricing information on an ongoing basis. This category includes contracts traded on active exchange markets valued using unadjusted prices quoted directly from the exchange.

Level 2 – Observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument in an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data.

Level 3 – Assets or liabilities whose fair value is estimated based on internally developed models or methodologies using inputs that are generally less readily observable and supported by little, if any, market activity at the measurement date. Unobservable inputs are developed based on the best available information and subject to cost benefit constraints.

Common Stocks: Level 1 common stocks represent an actively managed portfolio of registered securities. These securities trade in active stock markets and are based on daily quoted market prices.

Mutual Funds: Level 1 mutual funds represent international equity funds. These securities trade in active stock markets and are based on daily quoted market prices.

Bonds: Level 2 bonds represent an actively managed portfolio of registered securities. These securities trade in active markets and inputs used to value these bonds generally include relative credit information, observed market movements, sector news, spread to the U.S. Treasury market and other market information.

Cash and Cash Equivalents represent money market funds and are classified as Level 1 investments.

Commingled Funds include commingled funds with underlying securities that have observable Level 1 quoted inputs; however, these commingled funds are not traded in public markets and the net asset value (NAV) is calculated at the end of each month. Redemptions and purchases may be made on the first business day of each month using the prior month's NAV.

Other investments, classified as Level 3, include deeds, leases, property for resale, and insurance policies and are generally listed at contributed value.

The inputs methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2020 And 2019

The summary of inputs used to value AFSC's investments as of September 30, 2020 are as follows:

	Fair Value Measurement At Reporting Date Using:				Net Asset Value
	Total Fair Value	Observable Inputs (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	
2020					
Planned Giving Investments:					
Common Stocks	\$ 14,608,058	\$ 14,608,058	\$ -	\$ -	\$ -
Mutual Funds	6,495,956	6,495,956	-	-	-
Bonds	20,536,599	-	20,536,599	-	-
Commingled Funds	14,228,343	-	-	-	14,228,343
Other	2,310	-	-	2,310	-
Cash and Cash Equivalents	4,842,985	4,842,985	-	-	-
Total Planned Giving Investments	\$ 60,714,251	\$ 25,946,999	\$ 20,536,599	\$ 2,310	\$ 14,228,343
Other Long Term Investments:					
Common Stocks	\$ 17,227,885	\$ 17,227,885	\$ -	\$ -	\$ -
Mutual Funds	7,809,836	7,809,836	-	-	-
Bonds	20,013,668	-	20,013,668	-	-
Commingled Funds	42,534,518	-	-	-	42,534,518
Other	38,285	-	-	38,285	-
Cash and Cash Equivalents	4,967,382	4,967,382	-	-	-
Total Other Long-Term Investments	\$ 92,591,574	\$ 30,005,103	\$ 20,013,668	\$ 38,285	\$ 42,534,518
Total Investments	\$ 153,305,825	\$ 55,952,102	\$ 40,550,267	\$ 40,595	\$ 56,762,861
Agency Fund Assets:					
Common Stocks	\$ 1,400,368	\$ 1,400,368	\$ -	\$ -	\$ -
Mutual Funds	475,387	475,387	-	-	-
Bonds	1,334,976	-	1,334,976	-	-
Commingled Funds	340,608	-	-	-	340,608
Cash and Cash Equivalents	300,777	300,777	-	-	-
Total Agency Fund Assets	\$ 3,852,116	\$ 2,176,532	\$ 1,334,976	\$ -	\$ 340,608

Reconciliation of assets measured at Fair Value on a recurring basis using Significant Unobservable Inputs (Level 3):

	Beginning Market Value	Gains/(Losses)	Revenue	Additions/(Withdrawals)	Ending Market Value
Planned Giving Investments	\$ 2,310	\$ -	\$ 8,011	\$ (8,011)	\$ 2,310
Other Long-Term Investments	38,285	-	-	-	38,285
	<u>\$ 40,595</u>	<u>\$ -</u>	<u>\$ 8,011</u>	<u>\$ (8,011)</u>	<u>\$ 40,595</u>

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2020 And 2019

The summary of inputs used to value AFSC's investments as of September 30, 2019 are as follows:

2019	Fair Value Measurement At Reporting Date Using:				Net Asset Value
	Total Fair Value	Observable Inputs (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	
Planned Giving Investments:					
Common Stocks	\$ 12,977,580	\$ 12,977,580	\$ -	\$ -	\$ -
Mutual Funds	5,093,008	5,093,008	-	-	-
Bonds	21,831,447	-	21,831,447	-	-
Commingled Funds	15,277,886	-	-	-	15,277,886
Other	2,310	-	-	2,310	-
Cash and Cash Equivalents	5,484,021	5,484,021	-	-	-
Total Planned Giving Investments	\$ 60,666,252	\$ 23,554,609	\$ 21,831,447	\$ 2,310	\$ 15,277,886
Other Long Term Investments:					
Common Stocks	\$ 16,555,184	\$ 16,555,184	\$ -	\$ -	\$ -
Mutual Funds	3,882,851	3,882,851	-	-	-
Bonds	18,944,113	-	18,944,113	-	-
Commingled Funds	41,363,858	-	-	-	41,363,858
Other	38,285	-	-	38,285	-
Cash and Cash Equivalents	4,674,691	4,674,691	-	-	-
Total Other Long-Term Investments	\$ 85,458,982	\$ 25,112,726	\$ 18,944,113	\$ 38,285	\$ 41,363,858
Total Investments	\$ 146,125,234	\$ 48,667,335	\$ 40,775,560	\$ 40,595	\$ 56,641,744
Agency Fund Assets:					
Common Stocks	\$ 1,381,432	\$ 1,381,432	\$ -	\$ -	\$ -
Mutual Funds	283,527	283,527	-	-	-
Bonds	1,304,722	-	1,304,722	-	-
Commingled Funds	276,969	-	-	-	276,969
Cash and Cash Equivalents	553,441	553,441	-	-	-
Total Agency Fund Assets	\$ 3,800,091	\$ 2,218,400	\$ 1,304,722	\$ -	\$ 276,969

Reconciliation of assets measured at Fair Value on a recurring basis using Significant Unobservable Inputs (Level 3):

	Beginning Market Value	Gains/ (Losses)	Revenue	Additions/ (Withdrawals)	Ending Market Value
Planned Giving Investments	\$ 2,093	\$ 217	\$ 15,483	\$ (15,483)	\$ 2,310
Other Long-Term Investments	38,212	73	-	-	38,285
	<u>\$ 40,305</u>	<u>\$ 290</u>	<u>\$ 15,483</u>	<u>\$ (15,483)</u>	<u>\$ 40,595</u>

There were no transfers between Level 1 and Level 2 during the years ended September 30, 2020 and 2019.

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2020 And 2019

Commingled funds which are measured at Net Asset Value and the investment objective of each holding are as follows:

	<u>Fair Value</u>
International Equity Fund ^(a)	\$ 7,253,359
Global and Emerging Markets Bond Fund ^(b)	3,771,908
Local Markets Debt Fund ^(c)	2,151,335
Global Environmental Opportunity Fund ^(d)	19,436,778
Sustainable Climate Fund, LLC ^(e)	2,555,706
Socially Responsible Developed Markets ^(f)	5,292,614
Friends Fiduciary Quaker Index Fund ^(g)	<u>16,641,769</u>
Total Commingled Funds	<u>\$57,103,469</u>

There were no unfunded commitments on the commingled funds at September 30, 2020.

- (a) This fund's investment objectives are to preserve and build capital by investing in economically and geographically diversified portfolios of non-U.S. stocks. Focus is on investments with high quality medium-to-large capitalization companies that are undervalued relative to their long-term fundamental outlook. Redemptions and purchases can be made on the first business day of each month with 10 days' notice.
- (b) This fund's investment objectives are to achieve favorable income-oriented returns from globally diversified portfolios of primarily debt or debt-like securities, of both established and emerging financial markets. An associated objective is the preservation and enhancement of principal. Redemptions and purchases can be made on the first business day of each month with 10 days' notice.
- (c) This fund's investment objective is to achieve favorable income and capital returns from a globally diversified portfolio of primarily sovereign emerging market debt or debt-like securities and currencies. An associated objective is the preservation and enhancement of principal.
- (d) This fund's investment objectives are to achieve long-term returns by investing in companies that area helping to address climate change, resource shortage, water management, and environmental change.
- (e) This fund's investment objective is to invest in companies that are achieving climate mitigation and adaption, or those favorably exposed to climate risk. The fund's four main categories of investment are low carbon electricity, low carbon transport, water and resources management, and energy efficiency/management. Redemptions and purchases can made on the first business day of the month and at no cost.
- (f) This fund's objective is to replicate returns and characteristics of the Russell RAFI Developed Large Company Index while adhering to its Socially Responsible Investing guidelines. Redemptions and purchases can made at any time and at no cost.
- (g) This fund's objective is to be diversified across economic sectors and is designed to track the S&P 500 index with low annual turnover and low tracking error. AFSC utilizes the net asset valuations provided by Friends Fiduciary Corporation. There is no active market for the investment from which to base fair value and fair value is measured using the net asset value practical expedient. Redemptions and purchases can made at any time and at no cost.

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2020 And 2019

Components of investment (loss) income on total investments excluding the planned giving assets other than the charitable gift annuities for the years ended September 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Dividends and interest	\$ 2,597,036	\$ 2,392,902
Net realized and unrealized gains on investments	5,750,442	5,206,160
Net realized loss on FCC	(122,077)	(96,233)
Investment fees	<u>(964,512)</u>	<u>(1,079,016)</u>
Total investment income, net of fees	7,260,889	6,423,813
Less: investment income appropriated	<u>(3,071,914)</u>	<u>(2,913,167)</u>
Investment gains not appropriated	<u>\$ 4,188,975</u>	<u>\$ 3,510,646</u>

Certain states require investments to be segregated (reserves) for planned giving charitable gift annuity contracts. The general reserve follows the State of New York guidelines, which is the actuarial present value liability, plus 26.5%. There are also additional requirements for other states in which annuitant's reside.

	<u>2020</u>	<u>2019</u>
Charitable Gift Annuity (CGA) Investment Value	<u>\$ 25,868,648</u>	<u>\$ 23,972,893</u>
General CGA Liability	(10,377,167)	(10,175,936)
California CGA Liability	(2,787,000)	(2,632,670)
Florida CGA Liability	(110,962)	(150,784)
Tennessee CGA Liability	<u>(32,318)</u>	<u>(34,359)</u>
Total GAAP CGA Liability	<u>(13,307,447)</u>	<u>(12,993,749)</u>
Without Donor Restriction - Funds designated for payment of CGA's	<u>12,561,201</u>	<u>10,979,144</u>
26.5% additional liability required for General	(2,749,949)	(2,696,623)
10% additional liability required for Florida	(11,096)	(15,078)
10% additional liability required for Tennessee	(3,232)	(3,436)
Additional liability for State required lower discount rate*	<u>(2,554,876)</u>	<u>(2,424,450)</u>
Total additional liability per state mandates	<u>(5,319,153)</u>	<u>(5,139,587)</u>
Net excess funding for Charitable Gift Annuity Investment Pool	<u>\$ 7,242,048</u>	<u>\$ 5,839,557</u>

GAAP present value liability is calculated using a 7.5% discount rate, which is the investment return assumption of the CGA investment pool.

* State Insurance Departments that regulate organizations issuing annuity contracts require a lower discount rate to calculate the liability and required reserve. This discount rate is set by the Internal Revenue Service and average between 4.5% and 5.0%.

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2020 And 2019

(4) INVESTMENT IN FRIENDS CENTER

Summarized audited financial information for the Friends Center Corporation (“FCC”) for the years ended June 30, 2020 and 2019 are as follows:

	<u>Balance Sheet (Accrual Basis)</u>	
	<u>2020</u>	<u>2019</u>
Total Assets	<u>\$12,875,049</u>	<u>\$13,320,309</u>
Total Liabilities	\$ 5,853,294	\$ 5,968,617
Net Assets	<u>7,021,755*</u>	<u>7,351,692*</u>
Total Liabilities and Net Assets	<u>\$12,875,049</u>	<u>\$13,320,309</u>

* AFSC’s 37.0% equity interest of \$2,598,049 and \$2,720,126 as of June 30, 2020 and 2019, respectively, is recorded as “Investment in Friends Center” in the statement of financial position. Its share of the FCC’s net changes in net assets was \$(122,077) and \$(96,233) for the years ended June 30, 2020 and 2019, respectively, which is disclosed within “Investment (losses)/gains not appropriated” in the statement of activities.

(5) LAND, BUILDINGS, AND EQUIPMENT

A summary of land, buildings and equipment as of September 30, 2020 and 2019, is as follows:

	<u>2020</u>	<u>2019</u>
Non-depreciable assets		
Land	\$ 42,455	\$ 42,455
Depreciable assets		
Buildings	1,456,976	1,339,102
Vehicles	39,469	-
Furniture and equipment	<u>1,233,082</u>	<u>1,233,082</u>
Subtotal – depreciable assets	2,729,527	2,572,184
Accumulated depreciation	<u>(1,974,118)</u>	<u>(1,860,690)</u>
Subtotal – depreciable assets, net	<u>755,409</u>	<u>711,494</u>
Total land, buildings and equipment, net	<u>\$ 797,864</u>	<u>\$ 753,949</u>

Depreciation expense was \$113,428 and \$118,849 for the years ended September 30, 2020 and 2019, respectively.

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2020 And 2019

(6) REFUNDABLE ADVANCE

On May 4, 2020, AFSC received a \$3,805,700 loan under the Small Business Administration’s (“SBA”) Payment Protection Program (the “PPP Loan”). AFSC considers this to be a conditional contribution as it expects to meet the criteria for loan forgiveness upon incurring eligible expenditures and when its application for forgiveness is accepted by the SBA. AFSC considers the incurrence of eligible expenses and the acceptance of its application for forgiveness to be barriers in the PPP Loan agreement and as such, will recognize contribution income when these conditions are substantially met. If such conditions are not met, AFSC is required to repay the PPP Loan in two years from the date of the agreement at a 1% annual interest rate.

(7) PENSION PLANS AND POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

AFSC has a formal defined benefit pension plan covering substantially all employees. The benefits are based upon years of service and the employee’s five highest years of compensation. AFSC serves as trustee for the plan, but otherwise the plan is an independent entity whose assets are not available for other AFSC uses.

AFSC is not required to comply with the Employee Retirement Income Security Act of 1974 (“ERISA”) because of AFSC’s status as an “association of churches.” However, the formal plan includes certain provisions that do comply with ERISA.

AFSC also has an informal postretirement benefits plan that provides medical benefits to all its retirees who retire directly from AFSC. AFSC has designated \$18,046,894 and \$17,230,685 at September 30, 2020 and 2019, respectively, of investments for the informal post-retirement benefits plan. The plan is discretionary and AFSC has no contractual obligation and as such, the designated investments of the plan are considered to be unrestricted, but designated for this purpose. AFSC pays the cost of the related insurance premiums when due and retirees contribute to the cost of this plan.

The following amounts relate to AFSC’s defined benefit pension plan and the informal postretirement benefit plans at September 30:

	<u>Pension Plan</u>		<u>Informal Postretirement Medical Benefits Plan</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
	<u>(Dollars In Thousands)</u>			
Fair value of plan assets	\$ 52,328	\$ 51,165	\$ -	\$ -
Projected benefit obligation	<u>66,035</u>	<u>61,139</u>	<u>16,780</u>	<u>15,747</u>
Unfunded status	<u>\$(13,707)</u>	<u>\$(9,974)</u>	<u>\$(16,780)</u>	<u>\$(15,747)</u>

The discount rate of 2.75% is mainly based on a 10-year average yield of AA corporate bonds, as of Sept 30, 2020, and is used for GAAP reporting. Alternatively, a discount rate of 5.5% would be used to measure the Defined Benefit Plan’s liabilities if AFSC were to consider increasing the funding of the Plan. For comparison purposes, a 5.5% discount rate would lower the Plan’s Projected Benefit Obligation to \$46.7 million, \$5.6 million lower than the Plan’s Market Value, as of September 30, 2020.

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2020 And 2019

The principal assumptions used in determining the actuarial present value of the projected benefit obligation for the defined benefit plan and the informal postretirement benefit plans were as follows:

	<u>Defined Benefit Pension Plan</u>		<u>Informal Postretirement Medical Benefits Plan</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Discount Rate	2.75%	3.25%	2.75%	3.25%
Expected return on Plan Assets	7.50%	7.50%	-	-
Rate of Compensation Increase	3.00%	3.00%	-	-
COLA Increase Rate	0.00%	0.00%	-	-

The following is the expense recognized, contributions made and plan benefits paid:

	<u>Defined Benefit Pension Plan</u>		<u>Informal Postretirement Medical Benefits Plan</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
	(Dollars In Thousands)			
Pension expense (credit)	\$ 3,732	\$ 8,448	\$ 1,474	\$(1,998)
Contributions	\$ -	\$ -	\$ 440	\$ 517
Benefits Paid	\$(3,051)	\$(3,017)	\$ (708)	\$ (856)
Components of Net Periodic Benefit Cost				
Service cost	\$ 1,291	\$ 978	\$ 517	\$ 381
Interest cost	1,952	2,246	488	548
Return on plan assets	(3,709)	(3,721)	-	-
Recognized net actuarial (gain) loss	607	-	-	(158)
Amortization of prior service cost	-	-	(676)	(678)
Net periodic pension/postretirement cost	<u>\$ 141</u>	<u>\$ (497)</u>	<u>\$ 329</u>	<u>\$ 93</u>

During the year ended September 30, 2019, there was a plan provision amendment in which AFSC switched from a Medicare Supplement plan to a Medicare Advantage Plan, which resulted in a one-time decrease of \$5.4 million in the projected benefit obligation for the Informal Postretirement Medical Benefits Plan.

The summary of inputs used to value AFSC's Formal plan assets carried at fair value as of September 30, 2020 and 2019 were as follows:

	<u>Total</u>	<u>2020</u>			<u>Net Asset Value</u>
		<u>Level 1 Quoted Prices</u>	<u>Level 2 Other Significant Inputs</u>	<u>Level 3 Significant Unobservable Inputs</u>	
Common Stock	\$ 6,567,632	\$ 6,567,632	\$ -	\$ -	\$ -
Mutual Funds	6,552,914	6,552,914	-	-	-
Bonds	11,823,405	-	11,823,405	-	-
Commingled Funds	25,052,442	-	-	-	25,052,442
Cash and Cash Equivalents	<u>2,331,694</u>	<u>2,331,694</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 52,328,087</u>	<u>\$ 15,452,240</u>	<u>\$ 11,823,405</u>	<u>\$ -</u>	<u>\$ 25,052,442</u>

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2020 And 2019

	2019				
	<u>Total</u>	<u>Level 1 Quoted Prices</u>	<u>Level 2 Other Significant Inputs</u>	<u>Level 3 Significant Unobservable Inputs</u>	<u>Net Asset Value</u>
Common Stock	\$ 6,824,303	\$ 6,824,303	\$ -	\$ -	\$ -
Mutual Funds	2,274,616	2,274,616	-	-	-
Bonds	12,480,240	-	12,480,240	-	-
Commingled Funds	27,831,647	-	-	-	27,831,647
Cash and Cash Equivalents	<u>1,755,038</u>	<u>1,755,038</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$51,165,844</u>	<u>\$10,853,957</u>	<u>\$12,480,240</u>	<u>\$ -</u>	<u>\$27,831,647</u>

The long-term investment strategy for the pension plan's assets is to: meet present and future benefit obligations to all participants and beneficiaries; cover reasonable expenses incurred to provide such benefits; and provide total return that maximized the ratio of assets to liabilities by maximizing investment return at the appropriate level of risk. The expected return on plan assets equals a weighted average of the individual expected returns for each asset category in the plans' portfolio.

The pension plan asset allocations by asset category are as follows:

<u>Asset Category</u>	<u>2020</u>
Equities	12.57%
Mutual Funds	12.54
Fixed Income	22.63
Commingled Funds	47.95
Cash and Cash Equivalents	<u>4.31</u>
Total	<u>100.00%</u>

Commingled funds which are measured at Net Asset Value and the investment objective of each holding are as follows:

	<u>Fair Value</u>
Local Markets Debt Fund (a)	\$ 2,777,891
Global and Emerging Markets Bond Funds(b)	4,109,957
Global Environmental Opportunities Fund(c)	3,017,487
Socially Responsible Developed Markets(d)	9,159,647
Friends Fiduciary Quaker Index Fund (e)	<u>5,987,460</u>
Total Commingled Funds	<u>\$25,052,442</u>

There were no unfunded commitments on the commingled funds at September 30, 2020.

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2020 And 2019

- (a) This fund's investment objective is to achieve favorable income and capital returns from a globally diversified portfolio of primarily sovereign emerging market debt or debt-like securities and currencies. An associated objective is the preservation and enhancement of principal.
- (b) This fund's investment objectives are to achieve favorable income-oriented returns from globally diversified portfolios of primarily debt or debt-like securities, of both established and emerging financial markets. An associated objective is the preservation and enhancement of principal. Redemptions and purchases can be made on the first business day of each month with 10 days' notice.
- (c) This fund's investment objectives are to achieve long-term returns by investing in companies that area helping to address climate change, resource shortage, water management, and environmental change.
- (d) This fund's objective is to replicate returns and characteristics of the Russell RAFI Developed Large Company Index while adhering to its Socially Responsible Investing guidelines. Redemptions and purchases can made at any time and at no cost.
- (e) This fund's objective is to be diversified across economic sectors and is designed to track the S&P 500 index with low annual turnover and low tracking error. AFSC utilizes the net asset valuations provided by Friends Fiduciary Corporation. There is no active market for the investment from which to base fair value and fair value is measured using the net asset value practical expedient. Redemptions and purchases can made at any time and at no cost.

Benefit payments, which reflect expected future service, as appropriate, that are anticipated to be paid for the years ending September 30, are as follows:

	<u>Pension Plan</u>	<u>Informal Medical Plan</u>
2021	\$ 3,197,500	\$ 511,800
2022	3,210,000	510,900
2023	3,219,000	523,400
2024	3,222,200	524,900
2025	3,242,100	547,200
2026 – 2031	<u>15,742,800</u>	<u>3,039,000</u>
Total	<u>\$ 31,833,600</u>	<u>\$ 5,657,200</u>

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2020 And 2019

(8) NET ASSETS

Net assets with donor restrictions for 2020 and 2019 are available for the following purposes:

	<u>2020</u>	<u>2019</u>
<u>Purpose-restricted:</u>		
International programs	\$ 92,999	\$ 95,822
U.S. programs	709,726	199,168
Courageous Acts campaign	559,438	634,923
Program support	<u>99,132</u>	<u>166,412</u>
	<u>1,461,295</u>	<u>1,096,325</u>
<u>Subject to the passage of time:</u>		
Time-restricted (planned gifts)*	23,984,803	25,839,025
Accumulated earnings on endowment	<u>9,061,615</u>	<u>8,369,825</u>
	<u>33,046,418</u>	<u>34,208,850</u>
<u>Perpetual in nature:</u>		
Endowment Funds	<u>29,896,600</u>	<u>26,492,659</u>
Total donor restricted net assets	<u>\$ 64,404,313</u>	<u>\$ 61,797,834</u>

* Includes \$3,901,402 and \$3,864,618 of term endowments as of September 30, 2020 and 2019, respectively.

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

	<u>2020</u>	<u>2019</u>
International programs	\$ 2,159,315	\$ 2,749,250
U.S. programs	4,376,518	4,574,504
Courageous Acts campaign	286,835	908,709
Program support	599,005	1,652,035
Time Restrictions met	<u>3,836,207</u>	<u>3,328,043</u>
	<u>\$ 11,257,880</u>	<u>\$ 13,212,541</u>

NET ASSETS WITH DONOR RESTRICTIONS - ENDOWMENT FUNDS

Restricted endowment funds account for the principal amount of gifts and bequests accepted with the donor's stipulation that the principal be maintained in perpetuity or until the occurrence of a specified event or for a specified period. The income from the investment of such funds is available for use without restriction, unless specifically restricted by the donor.

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2020 And 2019

Endowment net asset composition by type of fund as of September 30, 2020 and 2019:

	<u>2020</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted “true” endowment:			
Historical gift value	\$ –	\$ 29,896,600	\$ 29,896,600
Appreciation	–	9,061,615	9,061,615
Term endowments	–	3,901,402	3,901,402
Funds functioning as endowment funds	<u>27,916,811</u>	<u>–</u>	<u>27,916,811</u>
	<u>\$27,916,811</u>	<u>\$ 42,859,617</u>	<u>\$ 70,776,428</u>

	<u>2019</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted “true” endowment:			
Historical gift value	\$ –	\$ 26,492,659	\$ 26,492,659
Appreciation	–	8,369,825	8,369,825
Term endowments	–	3,864,618	3,864,618
Funds functioning as endowment funds	<u>26,934,652</u>	<u>–</u>	<u>26,934,652</u>
	<u>\$26,934,652</u>	<u>\$ 38,727,102</u>	<u>\$ 65,661,754</u>

Change in endowment net assets for the years ended September 30, 2020 and 2019:

	<u>2020</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Net assets, beginning of year	\$ 26,934,652	\$ 38,727,102	\$ 65,661,754
Investment return:			
Investment income, net of fees	481,642	708,246	1,189,888
Net realized/unrealized gains	<u>1,300,359</u>	<u>1,860,866</u>	<u>3,161,225</u>
Total investment return	1,782,001	2,569,112	4,351,113
Contributions and other transfers	464,039	3,406,177	3,870,216
Appropriation of assets for expenditures in accordance with the spending policy	(1,263,881)	(1,808,033)	(3,071,914)
Other Changes:			
Term endowment principal transferred to general funds	<u>–</u>	<u>(34,741)</u>	<u>(34,741)</u>
	<u>\$ 27,916,811</u>	<u>\$ 42,859,617</u>	<u>\$ 70,776,428</u>

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2020 And 2019

	2019		<u>Total</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	
Net assets, beginning of year	\$ 25,764,049	\$ 36,331,498	\$ 62,095,547
Investment return:			
Investment income, net of fees	428,671	615,776	1,044,447
Net realized/unrealized gains	<u>1,338,405</u>	<u>1,994,154</u>	<u>3,332,559</u>
Total investment return	1,767,076	2,609,930	4,377,006
Contributions and other transfers	615,245	1,517,205	2,132,450
Appropriation of assets for expenditures in Accordance with the spending policy	(1,211,718)	(1,701,449)	(2,913,167)
Other Changes:			
Term endowment principal transferred to general funds	<u>-</u>	<u>(30,082)</u>	<u>(30,082)</u>
	<u>\$ 26,934,652</u>	<u>\$ 38,727,102</u>	<u>\$ 65,661,754</u>

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 or state standards require AFSC to retain as a fund of perpetual duration. There were no such deficiencies as of September 30, 2020 and 2019.

(9) RELATED PARTY TRANSACTIONS

In connection with the renovations of the Friends Center, Economic Development Revenue Bonds (“Bonds”) were issued through the Narberth Industrial Development Authority to Friends Center Corporation. The Friends Center is responsible for the payment of debt service on the Bonds, which is passed onto the partners of the Friends Center in the annual rent. At June 30, 2020 and 2019, the Friends Center’s fiscal year-end, the Bonds, which mature in 2038, had outstanding balances of approximately \$5.7 million and \$5.8 million, respectively, and is guaranteed, jointly and severally by AFSC and the other partners of the Friends Center.

AFSC owns shares of Friends Fiduciary Quaker Index Fund, a related party, which totaled approximately \$23 million at September 30, 2020 and 2019.

(10) ALLOCATION OF JOINT COSTS

For the years ended September 30, 2020 and 2019, AFSC incurred joint costs of \$1,744,538 and \$1,996,732 for informational materials and activities that included fund-raising appeals. For the years ended September 30, 2020 and 2019, these joint costs were allocated as follows:

	<u>2020</u>	<u>2019</u>
Fundraising	\$ 814,411	\$ 1,175,449
International Programs	20,555	141,047
US Programs	<u>909,572</u>	<u>680,236</u>
Total	<u>\$ 1,744,538</u>	<u>\$ 1,996,732</u>

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2020 And 2019

(11) COMMITMENTS

COMMITMENTS

AFSC leases certain facilities where AFSC has program offices under leases expiring through December 2030. In addition, AFSC leases certain office equipment under operating leases expiring through May 2022. Most international office leases are paid in advance or are month-to-month basis. Rent expense for the years ended September 30, 2020 and 2019 was approximately \$1,052,000 and \$1,195,000, respectively.

The minimum annual rentals payable under the leases are as follows:

Year Ending September 30,

2021	\$ 490,290
2022	287,204
2023	118,766
2024	104,756
2025	47,530
Thereafter	<u>229,400</u>
Future minimum lease payments	<u>\$1,277,946</u>

(12) CONTINGENCIES

At September 30, 2020, AFSC is a party to certain lawsuits in the ordinary course of business. While any litigation has an element of uncertainty, after reviewing these actions with legal counsel, management is of the opinion that the liability, if any, resulting from these actions will not have a material effect on the financial condition of AFSC.

In early 2020, an outbreak of a novel strain of coronavirus (COVID-19) emerged globally. As a result, there have been mandates from federal, state and local authorities resulting in an overall decline in economic activity. The current operating environment is changing rapidly. The extent of the impact that the COVID-19 pandemic will have on the financial performance of AFSC's operations and investments is not reasonably estimable as of the date that the financial statements were available for issuance. AFSC will continue to monitor the effects of the COVID-19 pandemic and will adjust its operations as necessary.

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2020 And 2019

(13) FINANCIAL ASSETS AND LIQUIDITY RESOURCES

The following table reflects AFSC's financial assets as of September 30, 2020 and 2019, reduced by amounts that are not available by contractual restrictions and/or Board designations to meet general expenditures within one year of the statement of financial position date because of contractual restrictions.

Financial Assets	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 10,925,323	\$ 4,168,735
Accounts and notes receivable – net	676,130	845,458
Investments	<u>92,591,574</u>	<u>85,458,982</u>
Total financial assets	104,193,027	90,473,175
Less:		
Endowment funds' assets	(70,776,428)	(65,661,754)
Net assets with donor restrictions	(1,461,295)	(1,096,325)
Over funded status of informal retirement benefit plan	<u>(1,267,002)</u>	<u>(1,484,123)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 30,688,302</u>	<u>\$ 22,230,973</u>

AFSC's strives to maintain liquid financial assets to be available as its general expenditures, liabilities and other obligations become due. Financial assets in excess of daily cash requirements are invested in money market funds. As part of AFSC's liquidity management, it has a practice to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. AFSC has donor-restricted endowment and investments used similar to quasi-endowment. Although AFSC does not intend to spend from its quasi-endowment of approximately \$28 million, with the exception of budgeted draws, amounts from its quasi-endowment could be made available, if necessary, with Board approval. In addition, AFSC has a liability for the informal retirement benefit plan of approximately \$16.8 million which is funded by assets held in the investments.

(14) SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 21, 2021, the date which the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

AMERICAN FRIENDS SERVICE COMMITTEE

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended September 30, 2020

Federal or State Grantor Pass-Through Grantor Program Title	CFDA Number	Award / Contract / Grant Number	Grant Period	Program Award Amount	Expenditures
FEDERAL FINANCIAL ASSISTANCE					
U.S. Department of Justice					
Pass-through New Jersey Department of Law and Public Safety Office of the Attorney General Immigrant Survivor Legal Representation and Education Project	16.575	2018-V2-GX-0052	9/1/19-8/31/21	\$ 433,586	<u>\$ 157,015</u>
Total Federal Financial Assistance					<u>157,015</u>
STATE FINANCIAL ASSISTANCE					
New Jersey Department of the Treasury					
Pass-through Legal Services of New Jersey Legal Assistance for Individuals Facing Detention and Deportation	N/A	N/A	11/1/19-10/31/20	\$1,254,250	<u>\$ 1,178,159</u>
Total State Financial Assistance					<u>1,178,159</u>
Total Federal and State Assistance					<u>\$ 1,335,174</u>

The accompanying Notes to the Schedule of Expenditures of Federal and State Financial Awards are an integral part of this Schedule.

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

For The Year Ended September 30, 2020

(1) GENERAL

The accompanying Schedule of Expenditures of Federal and State Financial Awards presents the activity of all federal and state expense reimbursement awards of AFSC. All awards received directly from federal and state agencies as well as financial assistance passed through other government agencies or non-profit organizations are included on the schedule.

(2) BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal and State Financial Awards is a summary of the activity of the AFSC's federal and state awards on the accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of New Jersey Circular 15-08-OMB, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. Therefore, some amounts presented on this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

(3) RELATIONSHIP TO STATE FINANCIAL REPORTS

Amounts reported in the accompanying schedule agree, in all material respects, with the amounts reported in related state financial reports.

(4) INDIRECT RATE

AFSC has elected to use the 10% de minimis indirect cost rate.

(5) SUBRECIPIENTS

AFSC did not pass any awards through to subrecipients.

SECTION 2

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
 OVER FINANCIAL REPORTING AND ON COMPLIANCE
 AND OTHER MATTERS BASED ON AN AUDIT OF
 FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
 GOVERNMENT AUDITING STANDARDS**

**To the Board of Director
 American Friends Service Committee
 Philadelphia, Pennsylvania**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of American Friends Service Committee (a nonprofit organization), which comprise the statement of financial position as of September 30, 2020, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 21, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered American Friends Service Committee's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of American Friends Service Committee's internal control. Accordingly, we do not express an opinion on the effectiveness of the American Friends Service Committee's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of Director
American Friends Service Committee
Philadelphia, Pennsylvania

Compliance And Other Matters

As part of obtaining reasonable assurance about whether American Friends Service Committee's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the American Friends Service Committee's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering American Friends Service Committee's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Tait, Weller & Baker LLP

Philadelphia, Pennsylvania
April 21, 2021

SECTION 3

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
 FOR EACH MAJOR STATE PROGRAM AND ON
 INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
 STATE OF NEW JERSEY CIRCULAR 15-08-OMB**

**To the Board of Director
 American Friends Service Committee
 Philadelphia, Pennsylvania**

Report on Compliance for Each Major State Program

We have audited American Friends Service Committee's compliance with the types of compliance requirements described in the *New Jersey State Grant Compliance Supplement* that could have a direct and material effect on each of American Friends Service Committee's major state programs for the year ended September 30, 2020. American Friends Service Committee's major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of American Friends Service Committee's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and State of New Jersey Circular 15-08-OMB, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. Those standards and State of New Jersey Circular 15-08-OMB require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about American Friends Service Committee's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of American Friends Service Committee's compliance with those requirements.

To the Board of Director
American Friends Service Committee
Philadelphia, Pennsylvania

Opinion on Each Major State Program

In our opinion, American Friends Service Committee complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended September 30, 2020.

Report on Internal Control Over Compliance

Management of American Friends Service Committee. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered American Friends Service Committee's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with New Jersey Circular 15-08-OMB, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of American Friends Service Committee's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we considered to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of New Jersey Circular 15-08-OMB. Accordingly, this report is not suitable for any other purpose.



Philadelphia, Pennsylvania
April 21, 2021

AMERICAN FRIENDS SERVICE COMMITTEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended September 30, 2020

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued Unmodified

Internal control over financial reporting:

Material weaknesses identified? yes no

Were significant deficiencies identified that were
Not considered to be a material weakness? yes no

Noncompliance material to financial statements noted? yes no

Federal Awards

Not Applicable

State Awards

Internal control over compliance:

Material weaknesses identified? yes no

Were significant deficiencies identified that were
Not considered to be a material weakness? yes no

Type of auditor's report on compliance for major programs Unmodified

Any audit findings disclosed that are required to be reported in
accordance with New Jersey Circular 15-08-OMB? yes no

Identification of major program:

State Account Number

Name of State Program

N/A

Legal Assistance for Individuals Facing Detention and Deportation

Dollar threshold used to determine Type A programs \$750,000

Auditee qualified as low-risk auditee? yes no

SECTION 2 – FINANCIAL STATEMENT FINDINGS

None

SECTION 3 – STATE AWARD FINDINGS AND QUESTIONED COSTS

None

SECTION 5

AMERICAN FRIENDS SERVICE COMMITTEE

SCHEDULE OF FINDINGS

For The Year Ended September 30, 2020

Our audit for the year ended September 30, 2020 was the initial audit under the requirements of New Jersey Circular 15-08 OMB.