

AMERICAN FRIENDS SERVICE COMMITTEE

FINANCIAL STATEMENTS

FOR THE YEARS ENDED
SEPTEMBER 30, 2007 and 2006

AND

INDEPENDENT AUDITORS' REPORT



AMERICAN FRIENDS SERVICE COMMITTEE

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of American Friends Service Committee ("the Committee") as of September 30, 2007 and 2006, and the related statements of activities and changes in net assets and of cash flows for the years then ended. These consolidated financial statements are the responsibility of the Committee's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Committee as of September 30, 2007 and 2006, and the changes in their net assets and their consolidated cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Milligan & Company LLC

Milligan & Company, LLC

February 26, 2008

AMERICAN FRIENDS SERVICE COMMITTEE
Statements of Financial Position
For the years ended September 30, 2007 and 2006

ASSETS	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	\$ 5,857,273	\$ 3,002,759
Accounts and notes receivable - net	261,424	684,267
Income receivable and prepaid expenses	1,058,697	1,205,968 *
Prepaid pension (Notes 2 and 8)	5,542,188	4,801,378
Property:		
Land, buildings, and equipment - net (Notes 2 and 6)	1,452,963	1,453,126
Property held for resale	51,247	51,247
Remainder interest in life estates	1,383,406	180,342
Total property	<u>2,887,616</u>	<u>1,684,715</u>
Investments:		
Planned giving assets	71,601,808	66,793,290
Investment in Friends Center	3,561,022	3,206,111
Other long term assets	109,451,605	101,988,477
Total investments	<u>184,614,435</u>	<u>171,987,878</u>
Investments held for others	<u>6,346,261</u>	<u>6,836,533 *</u>
Total assets	<u>\$ 206,567,894</u>	<u>\$ 190,203,498</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 2,102,095	\$ 2,907,298
Contribution payable to Friends Center (Note 7)	3,059,195	3,068,505
Liability for pension benefits (Note 8)	16,957,228	10,559,228
Interest-free loans (Note 2)	1,870,465	2,007,277
Annuities and unitrusts payable (Notes 2 and 3)	24,742,991	23,218,558
Agency funds (Note 3)	6,346,261	6,836,533 *
Total liabilities	<u>55,078,235</u>	<u>48,597,399</u>
Net assets:		
Unrestricted:		
Designated for current operations	7,344,949	3,453,696
Designated for future use	59,166,272	49,320,435
Funds functioning as endowment	10,320,575	9,635,011
Designated for employee benefits	1,320,301	5,445,050
Investment in Friends Center	488,099	137,606
Land, buildings, and equipment	1,296,421	1,296,585
Total unrestricted	<u>79,936,617</u>	<u>69,288,383</u>
Temporarily restricted (Note 5):		
Time restricted	42,569,471	42,737,512
Purpose restricted	11,899,678	14,479,634
Accumulated gains on endowment assets	7,874,613	6,627,922
Total temporarily restricted assets	<u>62,343,762</u>	<u>63,845,068</u>
Permanently restricted	<u>9,209,280</u>	<u>8,472,648</u>
Total net assets	<u>151,489,659</u>	<u>141,606,099</u>
Total liabilities and net assets	<u>\$ 206,567,894</u>	<u>\$ 190,203,498</u>

* Certain amounts have been reclassified to conform to current year presentation.

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, 2007
(with comparative totals for the year ended September 30, 2006)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2007 Total</u>	<u>2006 Total</u>
Operating revenues:					
Public support (Note 2):					
Contributions for current program work	\$ 10,838,203	\$ 10,588,937	\$ -	\$ 21,427,140	\$ 21,677,901
Bequests	12,997,581	125,536	-	13,123,117	13,410,437
Contributions to planned giving program	720,389	1,883,688	-	2,604,077	816,356
Contributions to endowment funds	<u>-</u>	<u>51,042</u>	<u>572,103</u>	<u>623,145</u>	<u>787,762</u>
Total public support	24,556,173	12,649,203	572,103	37,777,479	36,692,456
Government grants	-	130,007	-	130,007	189,092
Investment income, net of fees, appropriated (Notes 2 and 4)	3,745,610	-	-	3,745,610	3,515,694
Program service income	654,122	-	-	654,122	561,231
Miscellaneous interest and other income	239,768	-	-	239,768	237,381
Net assets released from restrictions	<u>16,058,623</u>	<u>(16,223,152)</u>	<u>164,529</u>	<u>-</u>	<u>-</u>
Total operating revenues	<u>45,254,296</u>	<u>(3,443,942)</u>	<u>736,632</u>	<u>42,546,986</u>	<u>41,195,854</u>
Operating expenses:					
Program services:					
International programs	12,411,107	-	-	12,411,107	11,970,381
Domestic programs:					
Community relations	11,585,560	-	-	11,585,560	11,357,929
Peace education	9,008,386	-	-	9,008,386	9,524,202
Special programs	<u>2,933,976</u>	<u>-</u>	<u>-</u>	<u>2,933,976</u>	<u>3,719,104</u>
Total program services	<u>35,939,029</u>	<u>-</u>	<u>-</u>	<u>35,939,029</u>	<u>36,571,616</u>
Program support:					
Fund-raising	3,738,896	-	-	3,738,896	3,546,418
Management and general	<u>3,245,354</u>	<u>-</u>	<u>-</u>	<u>3,245,354</u>	<u>3,177,400</u>
Total program support	<u>6,984,250</u>	<u>-</u>	<u>-</u>	<u>6,984,250</u>	<u>6,723,818</u>
Total operating expenses	<u>42,923,279</u>	<u>-</u>	<u>-</u>	<u>42,923,279</u>	<u>43,295,434</u>
Changes in net assets from operations	2,331,017	(3,443,942)	736,632	(376,293)	(2,099,580)
Nonoperating changes in net assets:					
Investment gains not appropriated (Notes 2 and 4)	11,155,249	2,657,090	-	13,812,339	6,515,292
Adjustments for changes in planned giving liabilities	-	(714,454)	-	(714,454)	(823,757)
Pension and benefit adjustment per FAS 158	<u>(2,838,032)</u>	<u>-</u>	<u>-</u>	<u>(2,838,032)</u>	<u>-</u>
Changes in net assets	10,648,234	(1,501,306)	736,632	9,883,560	3,591,955
Net assets, beginning of year	<u>69,288,383</u>	<u>63,845,068</u>	<u>8,472,648</u>	<u>141,606,099</u>	<u>138,014,144</u>
Net assets, end of year	<u>\$ 79,936,617</u>	<u>\$ 62,343,762</u>	<u>\$ 9,209,280</u>	<u>\$ 151,489,659</u>	<u>\$ 141,606,099</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, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	2006 Total
Operating revenues:				
Public support (Note 2):				
Contributions for current program work	\$ 9,836,943	\$ 11,840,958	\$ -	\$ 21,677,901
Bequests	12,519,487	890,950	-	13,410,437
Contributions to planned giving program	-	816,356	-	816,356
Contributions to endowment funds	-	1,200	786,562	787,762
	22,356,430	13,549,464	786,562	36,692,456
Total public support				
Government grants	-	189,092	-	189,092
Investment income, net of fees, appropriated (Notes 2 and 4)	2,926,841	588,853	-	3,515,694
Program service income	561,231	-	-	561,231
Miscellaneous interest and other income	237,381	-	-	237,381
Net assets released from restrictions	13,040,459	(13,040,459)	-	-
	39,122,342	1,286,950	786,562	41,195,854
Total operating revenues				
Operating expenses:				
Program services:				
International programs	11,970,381	-	-	11,970,381
Domestic programs:				
Community relations	11,357,929	-	-	11,357,929
Peace education	9,524,202	-	-	9,524,202
Special programs	3,719,104	-	-	3,719,104
	36,571,616	-	-	36,571,616
Total program services				
Program support:				
Fund-raising	3,546,418	-	-	3,546,418
Management and general	3,177,400	-	-	3,177,400
	6,723,818	-	-	6,723,818
Total program support				
Total operating expenses	43,295,434	-	-	43,295,434
Changes in net assets from operations	(4,173,092)	1,286,950	786,562	(2,099,580)
Nonoperating changes in net assets:				
Investment gains not appropriated (Notes 2 and 4)	3,959,046	2,556,246	-	6,515,292
Adjustments for changes in planned giving liabilities	-	(823,757)	-	(823,757)
	(214,046)	3,019,439	786,562	3,591,955
Changes in net assets				
Net assets, beginning of year	69,502,429	60,825,629	7,686,086	138,014,144
Net assets, end of year	\$ 69,288,383	\$ 63,845,068	\$ 8,472,648	\$ 141,606,099

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, 2007 and 2006

	2007	2006*
Cash flows from operating activities:		
Total change in net assets	\$ 9,883,560	\$ 3,591,955
Adjustments to reconcile total change in net assets to net cash used by operating activities:		
Realized and unrealized gains on investments	(14,908,038)	(7,706,056)
Unrealized gain on Friends Center Corporation investment	(354,911)	(125,072)
Depreciation	66,017	69,444
Contributions to endowment funds	(623,145)	(787,762)
Contributions to planned giving program	(2,604,076)	(816,356)
Remainder interest in life estates	(1,203,064)	-
Adjustment for changes in planned giving liabilities	714,454	823,757
Non-cash contribution to Friends Center Corporation	(9,310)	(245,304)
Changes in assets and liabilities which provided (used) cash:		
Accounts and notes receivable	422,843	906,931
Income receivable and prepaid expenses	147,271	321,407
Other assets	-	(34,746)
Prepaid pension	(740,810)	2,100,369
Accounts payable and accrued liabilities	(805,203)	(112,989)
Postretirement benefits obligation	6,398,000	1,433,000
	<u>(3,616,412)</u>	<u>(581,422)</u>
Cash flows from investing activities:		
Purchase of land, buildings, and equipment	(65,854)	(132,829)
Sale of land, buildings, and equipment	-	3,802
Purchases of investments	(113,179,143)	(120,697,396)
Sales of investments	117,807,831	122,855,450
	<u>4,562,834</u>	<u>2,029,027</u>
Cash flows from financing activities:		
Proceeds from interest-free loans	196,189	59,235
Repayment of interest-free loans	(333,000)	(140,456)
Cash received for endowment funds	623,145	787,762
Cash received for planned giving program	4,047,741	2,208,894
Net benefit payments to annuitants	(2,625,983)	(2,555,688)
	<u>1,908,092</u>	<u>359,747</u>
Net increase in cash and cash equivalents	2,854,514	1,807,352
Cash and cash equivalents, beginning of year	<u>3,002,759</u>	<u>1,195,407</u>
Cash and cash equivalents, end of year	<u>\$ 5,857,273</u>	<u>\$ 3,002,759</u>

*Some amounts have been reclassified to conform to the 2007 presentation.

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, 2007

	Program Services					Program Support			Total Expenses
	International	Community Relations	Peace Education	Special Programs	Total Program Services	Fund-Raising	Management and General	Total Program Support	
Compensation Expense:									
Salaries and benefits	\$ 6,494,302	\$ 7,079,100	\$ 5,401,826	\$ 1,672,275	\$ 20,647,503	\$ 1,530,402	\$ 1,982,089	\$ 3,512,491	\$ 24,159,994
Net periodic pension and retiree medical expense (Note 8)	488,524	1,000,468	761,253	241,640	2,491,885	259,084	282,064	541,148	3,033,033
Net compensation expense	6,982,826	8,079,568	6,163,079	1,913,915	23,139,388	1,789,486	2,264,153	4,053,639	27,193,027
Professional fees and services	1,008,107	929,652	717,621	220,177	2,875,557	1,247,262	281,831	1,529,093	4,404,650
Occupancy	523,208	596,935	387,310	123,695	1,631,148	99,510	174,943	274,453	1,905,601
Risk management insurance	91,642	52,735	31,775	38,239	214,391	4,756	28,000	32,756	247,147
Office supplies	69,998	65,511	58,098	22,686	216,293	25,365	20,341	45,706	261,999
Equipment leasing, purchase, and repairs	274,901	200,257	155,883	54,932	685,973	28,609	68,921	97,530	783,503
Program supplies	848,535	159,032	257,042	24,601	1,289,210	11,352	16,557	27,909	1,317,119
Telephone and communications	205,497	243,204	166,142	58,061	672,904	48,225	66,463	114,688	787,592
Postage and shipping	90,244	111,381	96,252	40,531	338,408	214,477	15,829	230,306	568,714
Travel	650,490	386,834	371,773	137,448	1,546,545	139,284	80,124	219,408	1,765,953
Conferences, conventions, and meetings	426,184	306,664	258,123	123,533	1,114,504	43,341	110,432	153,773	1,268,277
Printing and publishing	72,997	198,964	266,343	87,795	626,099	70,834	27,966	98,800	724,899
Awards and grants	980,628	139,431	28,668	34,902	1,183,629	140	36,130	36,270	1,219,899
In-kind distribution of materials	15	18	756	4,801	5,590	-	28	28	5,618
Miscellaneous expense	171,456	88,440	21,350	34,171	315,417	13,158	29,859	43,017	358,434
Prior period adjustments	8,802	10,078	7,667	2,387	28,934	-	15,896	15,896	44,830
Total expenses before depreciation	12,405,530	11,568,704	8,987,882	2,921,874	35,883,990	3,735,799	3,237,473	6,973,272	42,857,262
Depreciation of buildings and equipment	5,577	16,856	20,504	12,102	55,039	3,097	7,881	10,978	66,017
Total expenses	<u>\$ 12,411,107</u>	<u>\$ 11,585,560</u>	<u>\$ 9,008,386</u>	<u>\$ 2,933,976</u>	<u>\$ 35,939,029</u>	<u>\$ 3,738,896</u>	<u>\$ 3,245,354</u>	<u>\$ 6,984,250</u>	<u>\$ 42,923,279</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, 2006

	Program Services					Program Support			Total Expenses
	International	Community Relations	Peace Education	Special Programs	Total Program Services	Fund-Raising	Management and General	Total Program Support	
Compensation Expense:									
Salaries and benefits	\$ 5,188,656	\$ 6,647,929	\$ 5,580,484	\$ 1,544,101	\$ 18,961,170	\$ 1,467,443	\$ 1,880,944	\$ 3,348,387	\$ 22,309,557
Net periodic pension and retiree medical expense (Note 8)	599,216	1,249,577	1,038,786	293,476	3,181,055	280,336	331,448	611,784	3,792,839
Net compensation expense	5,787,872	7,897,506	6,619,270	1,837,577	22,142,225	1,747,779	2,212,392	3,960,171	26,102,396
Professional fees and services	968,978	1,012,909	812,736	778,270	3,572,893	1,138,038	370,156	1,508,194	5,081,087
Occupancy	494,806	541,064	390,053	(4,166)	1,421,757	71,685	125,154	196,839	1,618,596
Risk management insurance	109,237	45,164	31,111	31,813	217,325	3,845	17,979	21,824	239,149
Office supplies	66,678	66,699	72,406	21,022	226,805	24,018	20,844	44,862	271,667
Equipment leasing, purchase, and repairs	309,182	161,587	159,369	44,268	674,406	27,412	75,764	103,176	777,582
Program supplies	1,122,897	159,291	171,237	38,621	1,492,046	11,050	20,497	31,547	1,523,593
Telephone and communications	185,739	236,667	177,095	53,907	653,408	45,812	56,424	102,236	755,644
Postage and shipping	111,068	144,018	126,909	55,246	437,241	303,019	12,469	315,488	752,729
Travel	614,624	416,813	429,130	159,950	1,620,517	129,904	70,976	200,880	1,821,397
Conferences, conventions, and meetings	434,078	297,407	267,031	122,316	1,120,832	9,849	83,090	92,939	1,213,771
Printing and publishing	47,887	187,759	187,675	81,463	504,784	35,453	17,967	53,420	558,204
Awards and grants	1,591,203	138,157	38,824	450,787	2,218,971	29	50,621	50,650	2,269,621
In-kind distribution of materials	3	111	5,295	-	5,409	-	-	-	5,409
Miscellaneous expense	121,227	34,256	13,712	35,281	204,476	(5,881)	36,550	30,669	235,145
Total expenses before depreciation	11,965,479	11,339,408	9,501,853	3,706,355	36,513,095	3,542,012	3,170,883	6,712,895	43,225,990
Depreciation of buildings and equipment	4,902	18,521	22,349	12,749	58,521	4,406	6,517	10,923	69,444
Total expenses	<u>\$ 11,970,381</u>	<u>\$ 11,357,929</u>	<u>\$ 9,524,202</u>	<u>\$ 3,719,104</u>	<u>\$ 36,571,616</u>	<u>\$ 3,546,418</u>	<u>\$ 3,177,400</u>	<u>\$ 6,723,818</u>	<u>\$ 43,295,434</u>

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

AMERICAN FRIENDS SERVICE COMMITTEE
NOTES TO THE FINANCIAL STATEMENTS
For the years ended September 30, 2007 and 2006

1. Background:

The American Friends Service Committee (the “Committee”) 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. The Committee is primarily funded by charitable contributions, grants, and bequests from individuals, corporations and foundations. The Committee has a national office, 9 regional offices, 23 area offices, and over 30 international project offices.

The Internal Revenue Service (“IRS”) has determined the Committee 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 the Committee are deductible by the donors to the extent allowed by law.

2. Summary of Significant Accounting Policies:

Basis of Presentation

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

Cash and Cash Equivalents

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

Receivables

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

Investments

Investments are stated at fair value (see Note 4). The Committee allocates investment income for program work from long-term investment funds, including funds functioning as endowments, endowments, and unrestricted long-term investment funds, using the total return method. Under this method, allocations consist of net investment income and may, under certain conditions, include a portion of the cumulative realized gains. The Board of Directors has established a spending rate of 5%. This spending rate, which is applied to a three-year average of the market value of the related long-term investments, resulted in a Board-approved allocation for program work of approximately \$3,290,000 in fiscal year 2007 and \$3,115,000 in fiscal year 2006. 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 THE FINANCIAL STATEMENTS
For the years ended September 30, 2007 and 2006

2. Summary of Significant Accounting Policies, continued:

Investment in Friends Center Corporation

The Friends Center Corporation (“FCC”) is a 501(c)(3) nonprofit organization comprised of three member organizations, including the Committee, 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 of the Committee, 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, the member organization is entitled to receive an amount equal to a percentage (37% for the Committee) of the Friends Center’s net assets, as defined in the FCC Agreement. The Committee accounts for its investment in FCC using the equity method of accounting. See Note 7 for further details on the Committee’s transactions with FCC.

Interest-Free Loans

This balance is comprised of amounts loaned to the Committee for unspecified periods of time, bearing no interest. All income and gains from the investment of such loans is available to the Committee for unrestricted use, unless specifically restricted by the lender, who may at any time recall only the original principal portion of the loan.

Land, Buildings, and Equipment

The Committee 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. Depreciation is provided on the straight-line basis over the estimated useful lives (ranging from 3 to 50 years) of the respective assets.

Prepaid Pension and Funding Status

Effective for fiscal year 2007, the Committee adopted the provisions of SFAS No. 158, *Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of SFAS Nos. 87, 88, 106, and 132(R) (see Note 8). SFAS No. 158 requires an organization to recognize the over-funded or under-funded status of a defined 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. The over-funded status of the Committee’s formal pension plan is shown as an asset under “Prepaid pension” on the accompanying statements of financial position, and the under-funded status of the Committee’s informal pension plan is shown as a liability under “Liability for pension benefits”. Changes in the funded status are shown within “Nonoperating changes in net assets” on the accompanying statements of activities. Prepaid pension of \$5,542,188 and \$4,801,378 and Liability for pension benefits of \$16,957,228 and \$10,559,228 have been included in the statements of financial position as of September 30, 2007 and 2006, respectively.

Prior to the adoption of SFAS No. 158, the Committee had recognized the fair value of the investments for the formal pension plan as part of “Investments held for others,” which is offset by the corresponding liability “Agency funds.” These items do not include the pension investment balance as of September 30, 2007 and the balance as of September 30, 2006 has been restated to conform to the fiscal year 2007 presentation.

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.

AMERICAN FRIENDS SERVICE COMMITTEE
NOTES TO THE FINANCIAL STATEMENTS
For the years ended September 30, 2007 and 2006

2. Summary of Significant Accounting Policies, continued:

Annuity and Life Income Gifts, continued

Annuity liabilities are computed using standard life expectancy and annuity tables at a 6% 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.

Contributions

Investments, property, and other non-cash contributions are recorded at fair value at the date of gift or bequest. All contributions and other public support are considered available for unrestricted use unless specifically restricted by the donor. Temporarily and permanently restricted funds represent amounts donated or granted to the Committee, the use of which is specified by the donor as a condition of the donation or grant.

Fair Value of Financial Instruments

Fair values of the Committee's investments are based on quoted market values and are disclosed in Note 4 to the financial statements. The carrying amounts of the Committee's other financial instruments are a reasonable estimate of their values at September 30, 2007 and 2006.

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.

Liquidity of Assets and Liabilities

The accompanying statements of financial position are presented in order of liquidity. That is, assets are sequenced according to their nearness of conversion to cash, and liabilities according to their nearness of maturity and resulting use of cash.

Reclassifications

Certain 2006 amounts have been reclassified to conform to the September 30, 2007 presentation. These changes had no impact on previously reported results of operations or net assets.

3. Fund Accounting:

Though the Committee has adopted SFAS No. 117, *Financial Statements of Not-for-Profit Organizations*, for external reporting purposes, it has not altered the way it administers its internal accounting to ensure observation of limitations and restrictions placed on the use of resources available to the Committee. The accounts of the Committee are internally maintained in accordance with the principles of "fund accounting." This is the procedure by which resources for

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3. Fund Accounting, continued:

various purposes are classified for accounting purposes into funds that are in accordance with specified activities or objectives. Separate accounts are maintained for each fund. The following is a summary of the nature of the various funds used for internal financial reporting and pertinent accounting policies:

Current Restricted and Unrestricted Funds

Current funds, funds designated for future use, funds functioning as endowments (funds held for long-term investment), and the informal pension plan are generally available for current restricted and unrestricted use by the Committee in carrying out its programs. Use of these funds is subject to the following policies of the Board of Directors:

- To allocate bequest receipts for operating purposes using the prior three-year average of receipts, in order to use this fluctuating public support most effectively for Committee programs.
- To use only the income from Funds Functioning as Endowments, while maintaining the principal.
- To provide certain discretionary retirement benefits, such as medical benefits, which are not provided under the Committee's formal pension plan.

Endowment Funds

Endowment funds account for the principal amount of gifts and bequests accepted with the donor's stipulation that the principal be maintained in perpetuity, until the occurrence of a specified event or for a specified period. The income from the investment of such funds is available for unrestricted use, unless specifically restricted by the donor. As of September 30, 2007 and 2006, the following is a summary of endowments:

	Market Value	
	<u>2007</u>	<u>2006</u>
Endowments unrestricted as to purpose:		
General endowment	\$ 1,699,874	\$ 1,575,394
Individual endowments unrestricted as to purpose	6,439,736	5,169,527
Total	\$ 8,139,610	\$ 6,744,921
Endowments restricted as to purpose	8,944,283	8,355,649
Total endowments	\$ 17,083,893	\$ 15,100,570
Less: Accumulated gains on endowment assets	(7,874,613)	(6,627,922)
Permanently restricted	\$ 9,209,280	\$ 8,472,648

Annuity and Life Income Funds

Annuity and life income funds account for certain gifts which the Committee has received, under trust, subject to the payment of income or specified amounts to one or more beneficiaries for life. These gifts are received under four general types of trusts—life income gifts, unitrusts, gift annuities (annuity reserve funds), and annuity trusts—which differ primarily based on the terms covering income or benefit payment and the availability of the principal of the gifts to pay benefits. The Committee's policy is to pay for custodian and management fees of the annuity trusts, unitrusts, and life income funds from its own resources.

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For the years ended September 30, 2007 and 2006

3. Fund Accounting, continued:

Agency Funds

Agency funds account for assets received by the Committee 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 the Committee's revocable trusts, 10-year trusts, charitable gift funds, and remainderman assets. The Committee acts as Trustee for all of these funds. Income designated for the Committee from the revocable trusts, 10-year trusts, and charitable gift funds are included in the statement of activities. Charitable gift funds are funds held by the Committee for future donations to the Committee and other charitable institutions as directed by the donor.

4. Investments:

The market values of investments and investments held for others as of September 30, 2007 and 2006 are summarized as follows:

	2007	2006
Planned gifts *:		
Common stocks	\$ 38,852,679	\$ 36,759,235
Bonds	29,015,227	27,319,013
Short-term investments	3,186,372	2,100,091
Other	133,851	54,349
Gifts in transit	10,000	188,000
Accrued income	403,679	372,602
Total planned gifts	\$ 71,601,808	\$ 66,793,290
Other:		
Common stocks	\$ 66,825,943	\$ 62,237,189
Bonds	36,938,121	33,022,886
Short-term investments	5,222,226	2,437,929
Other	42,502	3,935,272
Accrued income	422,813	355,201
Total other	\$ 109,451,605	\$ 101,988,477
Investments held for others:		
Common stocks	\$ 3,379,392	\$ 3,359,163
Bonds	2,273,928	2,949,443
Short-term investments	633,770	477,765
Other	22,016	14,907
Accrued income	37,155	35,255
Total investments held for others	\$ 6,346,261	\$ 6,836,533

*Planned gifts include the investments of the annuity and life income funds (see Note 2).

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For the years ended September 30, 2007 and 2006

4. Investments, continued:

Components of investment income for the years ended September 30, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Dividends and interest	\$ 4,945,929	\$ 4,861,216
Net realized and unrealized gains	15,262,949	7,831,128
Planned giving beneficiary payments	(1,446,694)	(1,124,886)
Investment fees	<u>(1,204,235)</u>	<u>(1,536,472)</u>
Total investment income	17,557,949	10,030,986
Less: Investment income appropriated	<u>(3,745,610)</u>	<u>(3,515,694)</u>
Investment gains not appropriated	<u>\$ 13,812,339</u>	<u>\$ 6,515,292</u>

5. Temporarily Restricted Net Assets:

Temporarily restricted net assets for 2007 and 2006 are available for the following purposes:

	<u>2007</u>	<u>2006</u>
Purpose-restricted:		
International programs	\$ 4,286,601	\$ 5,557,664
Community relations	950,935	1,385,937
Peace education	439,540	633,313
Special programs	6,185,649	6,446,802
Program support	<u>36,953</u>	<u>455,918</u>
Total purpose restricted	11,899,678	14,479,634
Time-restricted (planned gifts)	42,569,471	42,737,512
Accumulated gain on endowment assets	<u>7,874,613</u>	<u>6,627,922</u>
Total	<u>\$ 62,343,762</u>	<u>\$ 63,845,068</u>

6. Land, Buildings, and Equipment:

A summary of land, buildings, and equipment as of September 30, 2007 and 2006, is as follows:

	<u>2007</u>	<u>2006</u>
Land	\$ 233,939	\$ 233,939
Buildings	2,021,516	2,021,516
Furniture and equipment	<u>1,164,096</u>	<u>1,098,242</u>
Total fixed assets	3,419,551	3,353,697
Accumulated depreciation	<u>(1,966,588)</u>	<u>(1,900,571)</u>
Total	<u>\$ 1,452,963</u>	<u>\$ 1,453,126</u>

AMERICAN FRIENDS SERVICE COMMITTEE
NOTES TO THE FINANCIAL STATEMENTS
For the years ended September 30, 2007 and 2006

6. Land, Buildings, and Equipment, continued:

Depreciation expense was \$66,017 and \$69,444 for the years ended September 30, 2007 and 2006, respectively. In addition, some of the Committee's regional offices utilize space provided by Quaker organizations at a nominal rental rate.

7. Related Party Transactions:

In fiscal 2004, FCC commenced a renovation project for the Friends Center complex. FCC is a related party to the Committee since the Committee is one of three member organizations that incorporated and funded FCC. To provide partial funding for the project, the member organizations amended the FCC Agreement and effectively made commitments during fiscal 2006 to contribute \$4,893,000 to FCC. The Committee's portion of the contribution commitment was \$3,460,000. The excess of this commitment over the Committee's equity interest in FCC has been recognized as a contribution to FCC in the "Nonoperating changes in net assets" of the Committee's statement of activities. Contribution payable to FCC as of September 30, 2007 is expected to be paid as follows:

In less than one year	\$ 54,913
In one to five years	3,074,565
More than five years	674,918
Total	3,804,396
Less: discount to present value at 6%	(745,201)
 Total contribution payable to FCC	 \$ 3,059,195

8. Pension Plans and Post Retirement Benefits Other Than Pensions:

The Committee 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. The Committee serves as trustee for the plan, but otherwise the plan in an independent entity whose assets are not available for other Committee uses.

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

The Committee has a retiree medical plan that provides medical benefits to all its retirees who retire directly from the Committee. As of September 30, 2007 and 2006, the Committee has not funded these benefits and essentially pays for the benefits as claims are made.

The pension plan's assumed discount rate, rate of increase in long-term compensation levels, and expected long-term rates of return on assets for the pension plan were 6.25%, 3.00%, and 7.50%, respectively for the year ended September 30, 2007, and 6.25%, 3.00%, and 7.50%, respectively for the year ended September 30, 2006.

There were no employer or employee contributions made into the defined benefit pension plan for the years ended September 30, 2007 and 2006, and none were required. The plan uses the aggregate cost method for computing annual pension contributions. It is the Committee's policy to contribute the amounts determined by this actuarial valuation method.

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8. Pension Plans and Post Retirement Benefits Other Than Pensions, continued:

The assumed discount rate for the retiree medical plan was 6.25% for fiscal years 2007 and 2006. The healthcare cost trend was 8.0% for fiscal years 2007 and 2006. The effect of a 1% increase in the healthcare cost trend would increase service and interest costs for the retiree medical plan by \$299,000 and \$299,000 and would increase the Actuarial Pension Benefit Obligation by \$2,595,000 and \$2,402,000 for the years ended September 30, 2007 and 2006, respectively.

The Committee also has an informal pension plan designed to provide for retiree medical benefits and for employees not otherwise covered by the formal pension plan that is a discretionary plan for which the Committee has no contractual obligation; accordingly, the net assets of the plan are considered to be unrestricted, but designated for this purpose. Payments made from the informal pension plan for the year ended September 30, 2007 and 2006, were approximately \$70,000 and \$72,000, respectively.

In accordance with SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, the following information is provided:

	Pension Plan		Informal Pension Plan	
	(Dollars in thousands)			
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Fair value of plan assets at June 30*	\$ 44,806	\$ 40,943	\$ 12,480	\$ 11,022
Projected benefit obligation at June 30	<u>39,264</u>	<u>38,383</u>	<u>16,957</u>	<u>14,771</u>
Funded status – overfunded (underfunded)	<u>\$ 5,542</u>	<u>\$ 2,560</u>	<u>\$ (4,477)</u>	<u>\$ (3,749)</u>
Prepaid pension expense (postretirement benefits obligation) – beginning of year	<u>\$ 4,801</u>	<u>\$ 6,902</u>	<u>\$ (10,559)</u>	<u>\$ (9,126)</u>
Service cost	(1,101)	(1,328)	(677)	(664)
Interest cost	(2,340)	(2,170)	(909)	(766)
Actual investment gain/loss	5,713	3,560	-	-
Amortization & deferral of gain/loss	(2,713)	(1,075)	(250)	(407)
Amortization of prior service cost	<u>(874)</u>	<u>(1,088)</u>	<u>(68)</u>	<u>(68)</u>
Net periodic pension/ postretirement credit (cost)	(1,315)	(2,101)	(1,904)	(1,905)
Employer contributions	<u>-</u>	<u>-</u>	<u>400</u>	<u>472</u>
Prepaid pension expense (postretirement benefits obligation) – end of year	<u>\$ 3,486</u>	<u>\$ 4,801</u>	<u>\$ (12,063)</u>	<u>\$ (10,559)</u>

*Note: The amounts presented as the fair value of plan assets for the informal pension plan represent funds held in reserve for retiree medical benefits at the Committees' discretion. Since there is no contractual obligation to fund this plan, the under-funded status of the informal plan is the projected benefit obligation.

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.

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8. Pension Plans and Post Retirement Benefits Other Than Pensions, continued:

The actual asset allocation of the pension plan as of September 30, 2007 and 2006, is as follows:

Asset Class:	<u>2007</u>	<u>2006</u>
Cash	5.0%	2.9%
Equity securities	66.5%	68.5%
Fixed income	28.5%	28.6%
	<u>100.0%</u>	<u>100.0%</u>

The Committee expects to contribute \$0 to its pension plan in fiscal 2008.

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

	<u>Pension Plan</u>	<u>Informal Pension Plan</u>
2008	\$ 2,192,000	\$ 481,000
2009	2,244,000	526,000
2010	2,354,000	569,000
2011	2,534,000	625,000
2012	2,650,000	683,000
2013-2017	15,589,000	5,563,000
Total	<u>\$ 27,563,000</u>	<u>\$ 8,447,000</u>

9. Allocation of Joint Costs:

For the years ended September 30, 2007 and 2006, the Committee incurred joint costs of \$1,737,551 and \$1,626,240 for informational materials and activities that included fund-raising appeals. For the years ended September 30, 2007 and 2006, these joint costs were allocated as follows:

	<u>2007</u>	<u>2006</u>
Fundraising	\$ 868,774	\$ 813,120
International Program Services	322,359	283,770
Community Relations Program Services	209,752	204,021
Peace Building Services	267,158	241,571
Special Program Services	69,508	83,758
Total	<u>\$ 1,737,551</u>	<u>\$ 1,626,240</u>

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10. Concentration of Credit Risk:

The Committee is required by SFAS No. 105 to disclose significant concentrations of credit risk regardless of the degree of such risk. As of September 30, 2007 and 2006, the Committee maintained bank deposits that exceeded the limit of insurability under the Federal Deposit Insurance Corporation.

11. Contingencies:

The Committee is subject to certain claims, which arise in the ordinary course of its business and other legal proceedings. Management believes that the ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the Committee.

12. Subsequent Event:

On October 15, 2007, the Philadelphia Orphans' Court issued an Order requiring the Committee to file an Account of a Fund on or before December 5, 2007 and an Account of thirteen additional funds held by the Committee by a date to be determined by agreement between the Attorney General and the Committee. The Account of the Fund that was filed on December 5, 2007 was called for audit on January 7, 2008. A date for the filing of the Account of the additional thirteen funds has not yet been agreed upon.

Due to the early nature of these proceedings, any potential loss resulting from an adverse judgment is not determinable as of the date of the auditors' report.