

AMERICAN FRIENDS SERVICE COMMITTEE

FINANCIAL STATEMENTS

FOR THE YEARS ENDED
SEPTEMBER 30, 2008 and 2007

AND

INDEPENDENT AUDITORS' REPORT

AMERICAN FRIENDS SERVICE COMMITTEE

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position	2
Statements of Activities and Changes in Net Assets	3-4
Statements of Cash Flows	5
Statements of Functional Expenses	6-7
Notes to Financial Statements	8-17

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, 2008 and 2007, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Committee's management. 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 audits provide 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, 2008 and 2007, and the changes in its net assets and its 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

March 3, 2009
Philadelphia, Pennsylvania

FINAL DRAFT - 03/03/09
 AMERICAN FRIENDS SERVICE COMMITTEE
 Statements of Financial Position
 For the years ended September 30, 2008 and 2007

ASSETS	2008	2007
Cash and cash equivalents	\$ 2,568,178	\$ 5,857,273
Accounts and notes receivable - net	162,482	261,424
Income receivable and prepaid expenses	1,498,738	1,058,697
Prepaid pension (Notes 2 and 8)	-	5,542,188
Property:		
Land, buildings, and equipment - net (Notes 2 and 6)	1,645,655	1,452,963
Property held for resale	51,247	51,247
Remainder interest in life estates	1,383,406	1,383,406
Total property	<u>3,080,308</u>	<u>2,887,616</u>
Investments:		
Investment in Friends Center (Notes 2 and 7)	3,770,542	3,561,022
Planned giving assets (Note 4)	59,789,816	71,601,808
Other long term assets (Note 4)	84,734,556	109,451,605
Total investments	<u>148,294,914</u>	<u>184,614,435</u>
Investments held for others (Notes 3 and 4)	<u>5,536,561</u>	<u>6,346,261</u>
Total assets	<u>\$ 161,141,181</u>	<u>\$ 206,567,894</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 1,899,605	\$ 2,102,095
Contribution payable to Friends Center (Note 7)	1,856,659	3,059,195
Liability for pension benefits (Note 8)	18,752,645	16,957,228
Interest-free loans (Note 2)	1,922,249	1,870,465
Annuities and unitrusts payable (Notes 2 and 3)	25,120,420	24,742,991
Agency funds (Note 3)	5,536,561	6,346,261
Total liabilities	<u>55,088,139</u>	<u>55,078,235</u>
Net assets:		
Unrestricted:		
Designated for current operations	2,128,253	7,344,949
Designated for future use	38,103,815	59,166,272
Funds functioning as endowment	8,497,642	10,320,575
Funded status of pension and informal retirement benefit plans	(8,313,266)	1,320,301
Investment in Friends Center	1,895,926	488,099
Land, buildings, and equipment	1,466,343	1,296,421
Total unrestricted	<u>43,778,713</u>	<u>79,936,617</u>
Temporarily restricted (Note 5):		
Time restricted	34,971,730	42,569,471
Purpose restricted	10,140,848	11,899,678
Accumulated gains on endowment assets	3,733,674	7,874,613
Total temporarily restricted assets	<u>48,846,252</u>	<u>62,343,762</u>
Permanently restricted (Note 3)	<u>13,428,077</u>	<u>9,209,280</u>
Total net assets	<u>106,053,042</u>	<u>151,489,659</u>
Total liabilities and net assets	<u>\$ 161,141,181</u>	<u>\$ 206,567,894</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, 2008
(with comparative totals for the year ended September 30, 2007)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2008 Total</u>	<u>2007 Total</u>
Operating revenues:					
Public support (Note 2):					
Contributions for current program work	\$ 9,992,213	\$ 7,983,019	\$ -	\$ 17,975,232	\$ 21,427,140
Bequests	10,233,176	87,237	-	10,320,413	13,123,117
Contributions to planned giving program	934,469	227,649	-	1,162,118	2,604,077
Contributions to endowment funds	-	50,000	4,084,764	4,134,764	623,145
Total public support	<u>21,159,858</u>	<u>8,347,905</u>	<u>4,084,764</u>	<u>33,592,527</u>	<u>37,777,479</u>
Government grants	-	192,505	-	192,505	130,007
Investment income, net of payments and fees, appropriated (Notes 2 and 4)	3,731,409	-	-	3,731,409	3,745,610
Program service income	617,598	-	-	617,598	654,122
Miscellaneous interest and other income	85,931	-	76,095	162,026	239,768
Net assets released from restrictions	<u>14,056,019</u>	<u>(14,113,957)</u>	<u>57,938</u>	<u>-</u>	<u>-</u>
Total operating revenues	<u>39,650,815</u>	<u>(5,573,547)</u>	<u>4,218,797</u>	<u>38,296,065</u>	<u>42,546,986</u>
Operating expenses:					
Program services:					
International programs	14,421,252	-	-	14,421,252	12,411,107
Domestic programs:					
Community relations	12,641,938	-	-	12,641,938	11,585,560
Peace education	9,948,210	-	-	9,948,210	9,008,386
Special programs	<u>3,301,112</u>	<u>-</u>	<u>-</u>	<u>3,301,112</u>	<u>2,933,976</u>
Total program services	<u>40,312,512</u>	<u>-</u>	<u>-</u>	<u>40,312,512</u>	<u>35,939,029</u>
Program support:					
Fund-raising	4,890,733	-	-	4,890,733	3,738,896
Management and general	<u>3,940,845</u>	<u>-</u>	<u>-</u>	<u>3,940,845</u>	<u>3,245,354</u>
Total program support	<u>8,831,578</u>	<u>-</u>	<u>-</u>	<u>8,831,578</u>	<u>6,984,250</u>
Total operating expenses	<u>49,144,090</u>	<u>-</u>	<u>-</u>	<u>49,144,090</u>	<u>42,923,279</u>
Changes in net assets from operations	(9,493,275)	(5,573,547)	4,218,797	(10,848,025)	(376,293)
Nonoperating changes in net assets:					
Investment (losses)/gains not appropriated (Notes 2 and 4)	(22,069,379)	(6,502,223)	-	(28,571,602)	13,812,339
Adjustments for changes in planned giving liabilities	-	(1,529,783)	-	(1,529,783)	(714,454)
Contribution to Friends Center in excess of equity (Note 7)	296,727	-	-	296,727	-
Adjustment for subsequent events (Note 12)	(108,042)	108,042	-	-	-
Pension and benefit adjustment per FAS 158	<u>(4,783,934)</u>	<u>-</u>	<u>-</u>	<u>(4,783,934)</u>	<u>(2,838,032)</u>
Changes in net assets	(36,157,903)	(13,497,511)	4,218,797	(45,436,617)	9,883,560
Net assets, beginning of year	<u>79,936,616</u>	<u>62,343,763</u>	<u>9,209,280</u>	<u>151,489,659</u>	<u>141,606,099</u>
Net assets, end of year	<u>\$ 43,778,713</u>	<u>\$ 48,846,252</u>	<u>\$ 13,428,077</u>	<u>\$ 106,053,042</u>	<u>\$ 151,489,659</u>

The accompanying notes are an integral part of the financial statements

FINAL DRAFT - 03/03/09
 AMERICAN FRIENDS SERVICE COMMITTEE
 Statement of Activities and Changes in Net Assets
 For the year ended September 30, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	2007 Total
Operating revenues:				
Public support (Note 2):				
Contributions for current program work	\$ 10,838,203	\$ 10,588,937	\$ -	\$ 21,427,140
Bequests	12,997,581	125,536	-	13,123,117
Contributions to planned giving program	720,389	1,883,688	-	2,604,077
Contributions to endowment funds	-	51,042	572,103	623,145
	24,556,173	12,649,203	572,103	37,777,479
Total public support				
Government grants	-	130,007	-	130,007
Investment income, net of fees, appropriated (Notes 2 and 4)	3,745,610	-	-	3,745,610
Program service income	654,122	-	-	654,122
Miscellaneous interest and other income	239,768	-	-	239,768
Net assets released from restrictions	16,058,623	(16,223,152)	164,529	-
	45,254,296	(3,443,942)	736,632	42,546,986
Total operating revenues				
Operating expenses:				
Program services:				
International programs	12,411,107	-	-	12,411,107
Domestic programs:				
Community relations	11,585,560	-	-	11,585,560
Peace education	9,008,386	-	-	9,008,386
Special programs	2,933,976	-	-	2,933,976
	35,939,029	-	-	35,939,029
Total program services				
Program support:				
Fund-raising	3,738,896	-	-	3,738,896
Management and general	3,245,354	-	-	3,245,354
	6,984,250	-	-	6,984,250
Total program support				
Total operating expenses	42,923,279	-	-	42,923,279
Changes in net assets from operations	2,331,017	(3,443,942)	736,632	(376,293)
Nonoperating changes in net assets:				
Investment gains not appropriated (Notes 2 and 4)	11,155,249	2,657,090	-	13,812,339
Adjustments for changes in planned giving liabilities	-	(714,454)	-	(714,454)
Pension and benefit adjustment per FAS 158	(2,838,032)	-	-	(2,838,032)
	10,648,234	(1,501,306)	736,632	9,883,560
Changes in net assets				
Net assets, beginning of year	69,288,383	63,845,068	8,472,648	141,606,099
Net assets, end of year	\$ 79,936,617	\$ 62,343,762	\$ 9,209,280	\$ 151,489,659

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, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Total change in net assets	\$ (45,436,617)	\$ 9,883,560
Adjustments to reconcile total change in net assets to net cash used by operating activities:		
Realized and unrealized losses (gains) on investments	27,444,002	(14,908,038)
Unrealized gain on Friends Center Corporation investment	(560,417)	(354,911)
Depreciation	73,844	66,017
Contributions to endowment funds	(4,134,764)	(623,145)
Contributions to planned giving program	(1,162,118)	(2,604,076)
Remainder interest in life estates	-	(1,203,064)
Adjustment for changes in planned giving liabilities	1,529,783	714,454
Non-cash contribution to Friends Center Corporation	(851,639)	(9,310)
Changes in assets and liabilities which provided (used) cash:		
Accounts and notes receivable	98,942	422,843
Income receivable and prepaid expenses	(440,041)	147,271
Prepaid pension	5,542,188	(740,810)
Accounts payable and accrued liabilities	(202,490)	(805,203)
Liability for pension benefits	1,795,417	6,398,000
Net cash used by operating activities	(16,303,910)	(3,616,412)
Cash flows from investing activities:		
Purchase of land, buildings, and equipment	(266,536)	(65,854)
Purchases of investments	(123,705,248)	(113,179,143)
Sales of investments	133,261,177	119,770,395
Net cash provided by investing activities	9,289,393	6,525,398
Cash flows from financing activities:		
Proceeds from interest-free loans	37,471	196,189
Repayment of interest-free loans	(110,688)	(333,000)
Cash received for endowment funds	3,746,807	488,431
Cash received for planned giving program	2,816,187	2,219,891
Net benefit payments to annuitants	(2,764,355)	(2,625,983)
Net cash provided (used) by financing activities	3,725,422	(54,472)
Net (decrease) increase in cash and cash equivalents	(3,289,095)	2,854,514
Cash and cash equivalents, beginning of year	5,857,273	3,002,759
Cash and cash equivalents, end of year	\$ 2,568,178	\$ 5,857,273

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, 2008

	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	\$ 6,580,778	\$ 7,774,639	\$ 5,953,724	\$ 1,823,453	\$ 22,132,594	\$ 1,710,600	\$ 2,016,588	\$ 3,727,188	\$ 25,859,782
Net periodic pension and retiree medical expense (Note 8)	605,815	891,930	687,897	219,976	2,405,618	202,094	234,694	436,788	2,842,406
Net compensation expense	7,186,593	8,666,569	6,641,621	2,043,429	24,538,212	1,912,694	2,251,282	4,163,976	28,702,188
Professional fees and services	1,407,184	1,159,058	1,022,373	330,576	3,919,191	2,140,444	486,675	2,627,119	6,546,310
Occupancy	672,830	618,635	436,461	250,142	1,978,068	103,119	167,716	270,835	2,248,903
Risk management insurance	86,748	39,933	29,275	33,402	189,358	4,307	36,644	40,951	230,309
Office supplies	85,864	68,391	59,271	18,909	232,435	27,581	16,600	44,181	276,616
Equipment leasing, purchase, and repairs	575,297	170,567	131,741	28,906	906,511	65,350	20,297	85,647	992,158
Program supplies	716,698	203,919	275,746	39,290	1,235,653	21,656	22,829	44,485	1,280,138
Telephone and communications	219,953	246,913	169,044	55,304	691,214	50,798	52,836	103,634	794,848
Postage and shipping	107,092	134,204	121,958	50,903	414,157	325,691	19,397	345,088	759,245
Travel	813,257	459,791	388,102	165,023	1,826,173	110,551	81,353	191,904	2,018,077
Conferences, conventions, and meetings	565,341	361,038	300,444	148,739	1,375,562	45,035	113,097	158,132	1,533,694
Printing and publishing	83,224	194,940	272,836	74,074	625,074	68,070	35,570	103,640	728,714
Awards and grants	1,773,117	226,911	42,627	16,031	2,058,686	83	13,430	13,513	2,072,199
In-kind distribution of materials	706	586	264	-	1,556	-	-	-	1,556
Miscellaneous expense	126,739	78,836	41,627	35,366	282,568	10,274	29,286	39,560	322,128
Prior period adjustments	-	-	-	-	-	-	563,163	563,163	563,163
Total expenses before depreciation	14,420,643	12,630,291	9,933,390	3,290,094	40,274,418	4,885,653	3,910,175	8,795,828	49,070,246
Depreciation of buildings and equipment	609	11,647	14,820	11,018	38,094	5,080	30,670	35,750	73,844
Total expenses	<u>\$ 14,421,252</u>	<u>\$ 12,641,938</u>	<u>\$ 9,948,210</u>	<u>\$ 3,301,112</u>	<u>\$ 40,312,512</u>	<u>\$ 4,890,733</u>	<u>\$ 3,940,845</u>	<u>\$ 8,831,578</u>	<u>\$ 49,144,090</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, 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	\$ 12,411,107	\$ 11,585,560	\$ 9,008,386	\$ 2,933,976	\$ 35,939,029	\$ 3,738,896	\$ 3,245,354	\$ 6,984,250	\$ 42,923,279

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, 2008 and 2007

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, nine (9) regional offices, twenty-three (23) area offices, and over thirty (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 \$3,700,000 in fiscal year 2008 and \$3,290,000 in fiscal year 2007. 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, 2008 and 2007

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 by 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 a one-third amount of the Friends Center’s net assets, as defined in the FCC Agreement. In the event of dissolution, the member organization is entitled to receive an amount equal to a percentage (37% for the Committee) of the Friends Center’s net assets. 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 plan is shown as an asset under “Prepaid pension” on the accompanying statements of financial position, and the under-funded status 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 \$0 and \$5,542,188 and Liability for pension benefits of \$18,752,645 and \$16,957,228 have been included in the statements of financial position as of September 30, 2008 and 2007, 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, 2008 and 2007.

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, 2008 and 2007

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, 2008 and 2007.

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 2007 amounts have been reclassified to conform to the September 30, 2008 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 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.

AMERICAN FRIENDS SERVICE COMMITTEE
NOTES TO THE FINANCIAL STATEMENTS
For the years ended September 30, 2008 and 2007

3. Fund Accounting, continued:

The following is a summary of the nature of the various funds used for internal financial reporting and pertinent accounting policies:

Current Designated 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 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 use only the income from Funds Functioning as Endowments, while maintaining the principal.
- To provide certain discretionary retirement benefits, such as medical benefits, that 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, 2008 and 2007, the following is a summary of endowments:

	Market Value	
	<u>2008</u>	<u>2007</u>
Endowments unrestricted as to purpose:		
General endowment	\$ 2,057,255	\$ 1,699,874
Individual endowments unrestricted as to purpose	<u>7,272,538</u>	<u>6,439,736</u>
Total	9,329,793	8,139,610
 Endowments restricted as to purpose	 <u>7,831,958</u>	 <u>8,944,283</u>
 Total endowments	 17,161,751	 17,083,893
Less: Accumulated gains on endowment assets	<u>(3,733,674)</u>	<u>(7,874,613)</u>
Permanently restricted	<u>\$ 13,428,077</u>	<u>\$ 9,209,280</u>

Annuity and Life Income Funds

Annuity and life income funds account for certain gifts that 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.

AMERICAN FRIENDS SERVICE COMMITTEE
NOTES TO THE FINANCIAL STATEMENTS
For the years ended September 30, 2008 and 2007

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, 2008 and 2007 are summarized as follows:

	2008	2007
Planned gifts *:		
Common stocks	\$ 29,296,034	\$ 38,852,679
Bonds	27,334,302	29,015,227
Short-term investments	2,626,450	3,186,372
Other	155,464	133,851
Gifts in transit	-	10,000
Accrued income	377,568	403,679
Total planned gifts	\$ 59,789,816	\$ 71,601,808
Other:		
Common stocks	\$ 49,618,505	\$ 66,825,943
Bonds	29,029,740	36,938,121
Short-term investments	3,274,638	5,222,226
Other	2,478,688	42,502
Accrued income	332,985	422,813
Total other	\$ 84,734,556	\$ 109,451,605
Investments held for others:		
Common stocks	\$ 2,656,653	\$ 3,379,392
Bonds	2,207,856	2,273,928
Short-term investments	610,340	633,770
Other	26,271	22,016
Accrued income	35,441	37,155
Total investments held for others	\$ 5,536,561	\$ 6,346,261

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

As of December 31, 2008, the market values for planned gifts, other investments, and investments held for others decreased to \$53,968,048, \$64,356,380, and \$4,866,022, respectively.

AMERICAN FRIENDS SERVICE COMMITTEE
NOTES TO THE FINANCIAL STATEMENTS
For the years ended September 30, 2008 and 2007

4. Investments, continued:

Components of investment (loss) income for the years ended September 30, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Dividends and interest	\$ 4,697,746	\$ 4,945,929
Net realized and unrealized (losses) gains on investments	(27,444,002)	14,908,038
Net unrealized gain on Friends Center	560,417	354,911
Investment fees	<u>(1,450,730)</u>	<u>(1,204,235)</u>
Total investment (loss) income	(23,636,569)	19,004,643
Planned giving beneficiary payments	<u>(1,203,624)</u>	<u>(1,446,694)</u>
Total investment (loss) income, net of payments	(24,840,193)	17,557,949
Less: Investment income appropriated	<u>(3,731,409)</u>	<u>(3,745,610)</u>
Investment (losses) gains not appropriated	<u>\$ (28,571,602)</u>	<u>\$ 13,812,339</u>

5. Temporarily Restricted Net Assets:

Temporarily restricted net assets for 2008 and 2007 are available for the following purposes:

	<u>2008</u>	<u>2007</u>
Purpose-restricted:		
International programs	\$ 3,609,369	\$ 4,286,601
Community relations	887,649	950,935
Peace education	373,072	439,540
Special programs	5,210,124	6,185,649
Program support	<u>60,634</u>	<u>36,953</u>
Total purpose restricted	10,140,848	11,899,678
Time-restricted (planned gifts)	34,971,730	42,569,471
Accumulated gain on endowment assets	<u>3,733,674</u>	<u>7,874,613</u>
Total	<u>\$ 48,846,252</u>	<u>\$ 62,343,762</u>

AMERICAN FRIENDS SERVICE COMMITTEE
NOTES TO THE FINANCIAL STATEMENTS
For the years ended September 30, 2008 and 2007

6. Land, Buildings, and Equipment:

A summary of land, buildings, and equipment as of September 30, 2008 and 2007, is as follows:

	<u>2008</u>	<u>2007</u>
Land	\$ 233,939	\$ 233,939
Buildings	2,046,516	2,021,516
Furniture and equipment	<u>1,405,632</u>	<u>1,164,096</u>
Total fixed assets	3,686,087	3,419,551
Accumulated depreciation	<u>(2,040,432)</u>	<u>(1,966,588)</u>
Total	<u>\$ 1,645,555</u>	<u>\$ 1,452,963</u>

Depreciation expense was \$73,844 and \$66,017 for the years ended September 30, 2008 and 2007, 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 2005 to contribute \$4,893,000 to FCC. The Committee's portion of the contribution commitment was \$3,460,000, which is about \$1,735,000 in excess of the Committee's equity interest in FCC.

In fiscal 2008, the member organizations executed a second amendment to the FCC agreement that effectively reduced each member's prior commitment because FCC had obtained third-party financing to help fund the renovation of the complex. This resulted in a reduction of the Committee's commitment by \$296,727, the effect of which is recorded as "Contribution to Friends Center in excess of equity" in the statement of activities. The balance of the Committee's commitment to FCC due as of September 30, 2008 is \$1,856,659, which is recorded as "Contribution payable to Friends Center" and is expected to be paid within one (1) year.

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 is 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. The Committee pays for these benefits as claims are made.

AMERICAN FRIENDS SERVICE COMMITTEE
NOTES TO THE FINANCIAL STATEMENTS
For the years ended September 30, 2008 and 2007

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

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% for the years ended September 30, 2008 and 2007.

There were no employer or employee contributions made into the defined benefit pension plan for the years ended September 30, 2008 and 2007, 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.

The assumed discount rate for the retiree medical plan was 6.25% for fiscal years 2008 and 2007. The healthcare cost trend was 8.0% for fiscal years 2008 and 2007. The effect of a 1% increase in the healthcare cost trend would increase service and interest costs for the retiree medical plan by \$321,000 and \$299,000 and would increase the Actuarial Postretirement Benefit Obligation by \$2,799,000 and \$2,595,000 for the years ended September 30, 2008 and 2007, respectively.

The Committee also has an informal retirement benefits 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 retirement benefits plan for the year ended September 30, 2008 and 2007, were approximately \$70,000 for each year.

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)			
	2008	2007	2008	2007
Fair value of plan assets at June 30*	\$ 40,290	\$ 44,806	\$ 11,600	\$ 12,480
Projected benefit obligation at June 30	40,833	39,264	18,209	16,957
Funded status – overfunded (underfunded)	\$ (543)	\$ 5,542	\$ (6,609)	\$ (4,477)
Prepaid pension expense (postretirement benefits obligation) – beginning of year	\$ 3,486	\$ 4,801	\$ (12,063)	\$ (10,559)
Service cost	(1,222)	(1,101)	(719)	(677)
Interest cost	(2,395)	(2,340)	(983)	(909)
Actual investment gain/loss	(2,629)	5,713	-	-
Amortization & deferral of gain/loss	5,918	(2,713)	(210)	(250)
Amortization of prior service cost	(696)	(874)	(68)	(68)
Net periodic pension/ postretirement credit (cost)	(1,024)	(1,315)	(1,980)	(1,904)
Employer contributions	-	-	450	400
Prepaid pension expense (postretirement benefits obligation) – end of year	\$ 2,462	\$ 3,486	\$ (13,593)	\$ (12,063)

*Note: The amounts presented as the fair value of plan assets for the informal retirement benefits 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.

AMERICAN FRIENDS SERVICE COMMITTEE
 NOTES TO THE FINANCIAL STATEMENTS
 For the years ended September 30, 2008 and 2007

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

In addition, SFAS No. 158 requires plan valuations to be made as of the fiscal year-end. AFSC's actuary will report the valuation as of September 30 in fiscal 2009.

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 actual asset allocation of the pension plan as of September 30, 2008 and 2007 is as follows:

Asset Class:	<u>2008</u>	<u>2007</u>
Cash	5.6%	5.0%
Equity securities	61.4%	66.5%
Fixed income	33.0%	28.5%
	<u>100.0%</u>	<u>100.0%</u>

The Committee expects to contribute \$0 to its pension plan in fiscal 2009.

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 Pension Plan</u>
2009	\$ 2,236,000	\$ 526,000
2010	2,326,000	569,000
2011	2,488,000	625,000
2012	2,581,000	683,000
2013	2,744,000	745,000
2014-2018	<u>15,809,000</u>	<u>4,818,000</u>
Total	<u>\$ 28,184,000</u>	<u>\$ 7,966,000</u>

AMERICAN FRIENDS SERVICE COMMITTEE
NOTES TO THE FINANCIAL STATEMENTS
For the years ended September 30, 2008 and 2007

9. Allocation of Joint Costs:

For the years ended September 30, 2008 and 2007, the Committee incurred joint costs of \$2,682,548 and \$1,737,551 for informational materials and activities that included fund-raising appeals. For the years ended September 30, 2008 and 2007, these joint costs were allocated as follows:

	<u>2008</u>	<u>2007</u>
Fundraising	\$ 1,341,274	\$ 868,774
International Program Services	517,153	322,359
Community Relations Program Services	316,313	209,752
Peace Building Services	399,697	267,158
Special Program Services	<u>108,111</u>	<u>69,508</u>
Total	<u>\$ 2,682,548</u>	<u>\$ 1,737,551</u>

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, 2008 and 2007, 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 (the "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.

On February 6, 2009, the Court issued a Consent Decree requiring the Committee to refund \$108,042 to the Fund. This amount is reflected as a reclassification from unrestricted to temporarily restricted net assets under the "Nonoperating changes in net assets" section of the Committee's statement of activities. The Court also issued a Decree of Distributions for three of the additional thirteen funds, noting no instances of noncompliance.

13. Fair Value Measurement:

SFAS No. 157 *Fair Value Measurements* provides a common definition of fair value as well as establishes a framework to measure fair value within U.S. generally accepted accounting principles and expands the disclosures about fair value measurements. The Board of Directors is currently evaluating the impact of this standard on future financial presentations, which is effective for the Committee's fiscal year ending September 30, 2009.