

# AMERICAN FRIENDS SERVICE COMMITTEE

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## Financial Statements

for the years ended September 30, 2010 and 2009

and

Independent Auditors' Report



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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, 2010 and 2009, 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 Committee'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, 2010 and 2009, 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*

March 4, 2011  
Philadelphia, Pennsylvania

AMERICAN FRIENDS SERVICE COMMITTEE  
Statements of Financial Position  
For the years ended September 30, 2010 and 2009

ASSETS	2010	2009
Cash and cash equivalents	\$ 3,889,276	\$ 9,638,527
Accounts and notes receivable - net	853,070	185,841
Income receivable and prepaid expenses	785,759	1,166,158
Property:		
Land, buildings and equipment - net (Notes 2 and 7)	3,298,178	3,057,493
Remainder interest in life estates	165,965	180,342
Other property assets	51,247	51,247
Total property	3,515,390	3,289,082
Investments:		
Investment in Friends Center (Notes 2, 5, and 8)	3,869,088	4,120,181
Planned giving assets (Note 4)	61,758,431	59,474,843
Other investments (Note 4)	59,556,554	49,815,820
Total investments	125,184,073	113,410,844
Agency fund assets (Notes 3 and 4)	5,113,415	4,916,514
Total assets	\$ 139,340,983	\$ 132,606,966
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 2,346,627	\$ 2,332,516
Interest-free loans (Note 2)	1,624,896	1,728,081
Annuities and unitrusts payable (Notes 2 and 3)	27,097,999	25,382,090
Liability for pension benefits (Note 9)	13,155,187	11,484,524 *
Liability for post-retirement benefits (Note 9)	20,596,656	17,113,397 *
Agency funds (Note 3)	5,113,415	4,916,514
Total liabilities	69,934,780	62,957,122
Net assets:		
Unrestricted:		
Undesignated and Board designated	22,772,621	20,232,353
Funds functioning as endowment	10,622,166	8,969,628
Funded status of pension and informal retirement benefit plans	(22,603,516)	(18,199,371)
Investment in Friends Center	3,869,088	4,120,181
Land, buildings, and equipment	3,141,385	2,903,239
Total unrestricted	17,801,744	18,026,030
Temporarily restricted (Note 6):		
Time restricted	31,657,800	31,477,595
Purpose restricted	5,687,757	6,630,014
Accumulated gains on endowment assets	2,944,920	2,306,128
Total temporarily restricted assets	40,290,477	40,413,737
Permanently restricted (Note 3)	11,313,982	11,210,077
Total net assets	69,406,203	69,649,844
Total liabilities and net assets	\$ 139,340,983	\$ 132,606,966

\* Certain numbers in the prior year financial statements have been reclassified to conform to the 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, 2010  
(with comparative totals for the year ended September 30, 2009)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2010 Total</u>	<u>2009 Total</u>
Operating revenues:					
Public support (Note 2):					
Contributions for current program work	\$ 8,515,387	\$ 8,009,424	\$ -	\$ 16,524,811	\$ 15,970,555
Bequests	6,758,729	340,807	-	7,099,536	7,754,144
Contributions to planned giving program	469,274	845,925	-	1,315,199	1,035,736
Contributions to endowment funds	-	-	83,691	83,691	551,458
	<u>15,743,390</u>	<u>9,196,156</u>	<u>83,691</u>	<u>25,023,237</u>	<u>25,311,893</u>
Total public support					
Government grants	-	306,982	-	306,982	136,144
Investment income, net of payments and fees, appropriated (Notes 2 and 4)	1,605,713	-	17,539	1,623,252	3,246,501
Program service income	558,650	-	-	558,650	614,044
Miscellaneous interest and other income	73,620	-	-	73,620	48,680
Net assets released from restrictions	<u>13,230,066</u>	<u>(13,232,741)</u>	<u>2,675</u>	<u>-</u>	<u>-</u>
Total operating revenues	<u>31,211,439</u>	<u>(3,729,603)</u>	<u>103,905</u>	<u>27,585,741</u>	<u>29,357,262</u>
Operating expenses:					
Program services:					
International programs	11,354,113	-	-	11,354,113	14,100,506 *
Domestic programs	<u>15,153,901</u>	<u>-</u>	<u>-</u>	<u>15,153,901</u>	<u>22,229,205 *</u>
Total program services	<u>26,508,014</u>	<u>-</u>	<u>-</u>	<u>26,508,014</u>	<u>36,329,711</u>
Program support:					
Fund-raising	2,714,894	-	-	2,714,894	3,760,674
Management and general	<u>2,685,081</u>	<u>-</u>	<u>-</u>	<u>2,685,081</u>	<u>3,728,223</u>
Total program support	<u>5,399,975</u>	<u>-</u>	<u>-</u>	<u>5,399,975</u>	<u>7,488,897</u>
Total operating expenses	<u>31,907,989</u>	<u>-</u>	<u>-</u>	<u>31,907,989</u>	<u>43,818,608</u>
Changes in net assets from operations	(696,550)	(3,729,603)	103,905	(4,322,248)	(14,461,346)
Nonoperating changes in net assets:					
Investment gains/(losses) not appropriated (Notes 2, 4, and 5)	2,248,793	3,707,717	-	5,956,510	(11,103,878)
Adjustments for changes in planned giving liabilities	-	(396,333)	-	(396,333)	(1,690,846)
Endowment transferred to outside organization	-	(49,590)	-	(49,590)	(2,374,494)
Gain from Securities Litigation Settlement	1,098,378	344,549	-	1,442,927	-
Gain from sale of assets	-	-	-	-	1,097,479
Pension and benefit adjustment	<u>(2,874,907)</u>	<u>-</u>	<u>-</u>	<u>(2,874,907)</u>	<u>(7,376,323)</u>
Changes in net assets	(224,286)	(123,260)	103,905	(243,641)	(35,909,408)
Net assets, beginning of year	<u>18,026,030</u>	<u>\$ 40,413,737</u>	<u>\$ 11,210,077</u>	<u>69,649,844</u>	<u>105,559,252</u>
Net assets, end of year	<u>\$ 17,801,744</u>	<u>\$ 40,290,477</u>	<u>\$ 11,313,982</u>	<u>\$ 69,406,203</u>	<u>\$ 69,649,844</u>

\* Certain numbers in the prior year financial statements have been reclassified to conform to the 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, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2009 Total</u>
Operating revenues:				
Public support (Note 2):				
Contributions for current program work	\$ 8,556,111	\$ 7,414,444	\$ -	\$ 15,970,555
Bequests	7,669,472	84,672	-	7,754,144
Contributions to planned giving program	1,026,114	9,622	-	1,035,736
Contributions to endowment funds	<u>-</u>	<u>-</u>	<u>551,458</u>	<u>551,458</u>
 Total public support	 17,251,697	 7,508,738	 551,458	 25,311,893
Government grants	-	136,144	-	136,144
Investment income, net of payments and fees, appropriated (Notes 2 and 4)	3,246,501	-	-	3,246,501
Program service income	614,044	-	-	614,044
Miscellaneous interest and other income	48,680	-	-	48,680
Net assets released from restrictions	<u>12,473,435</u>	<u>(12,474,435)</u>	<u>1,000</u>	<u>-</u>
 Total operating revenues	 <u>33,634,357</u>	 <u>(4,829,553)</u>	 <u>552,458</u>	 <u>29,357,262</u>
Operating expenses:				
Program services:				
International programs	14,100,505	-	-	14,100,505 *
Domestic programs	<u>22,229,204</u>	<u>-</u>	<u>-</u>	<u>22,229,204 *</u>
 Total program services	 <u>36,329,709</u>	 <u>-</u>	 <u>-</u>	 <u>36,329,709</u>
Program support:				
Fund-raising	3,760,675	-	-	3,760,675
Management and general	<u>3,728,224</u>	<u>-</u>	<u>-</u>	<u>3,728,224</u>
 Total program support	 <u>7,488,899</u>	 <u>-</u>	 <u>-</u>	 <u>7,488,899</u>
 Total operating expenses	 <u>43,818,608</u>	 <u>-</u>	 <u>-</u>	 <u>43,818,608</u>
 Changes in net assets from operations	 (10,184,251)	 (4,829,553)	 552,458	 (14,461,346)
Nonoperating changes in net assets:				
Investment losses not appropriated (Notes 2, 4, and 5)	(8,795,798)	(2,308,080)	-	(11,103,878)
Adjustments for changes in planned giving liabilities	-	(1,690,846)	-	(1,690,846)
Endowment transferred to outside organization	-	395,964	(2,770,458)	(2,374,494)
Gain from sale of assets	1,097,479	-	-	1,097,479
Pension and benefit adjustment	<u>(7,376,323)</u>	<u>-</u>	<u>-</u>	<u>(7,376,323)</u>
 Changes in net assets	 (25,258,893)	 (8,432,515)	 (2,218,000)	 (35,909,408)
Net assets, beginning of year	<u>43,284,923</u>	<u>\$ 48,846,252</u>	<u>\$ 13,428,077</u>	<u>105,559,252</u>
Net assets, end of year	<u>\$ 18,026,030</u>	<u>\$ 40,413,737</u>	<u>\$ 11,210,077</u>	<u>\$ 69,649,844</u>

\* Certain numbers in the prior year financial statements have been reclassified to conform to the current year presentation.

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, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Total change in net assets	\$ (243,641)	\$ (35,909,408)
Adjustments to reconcile total change in net assets to net cash used by operating activities:		
Realized and unrealized (gains) losses on investments	(6,814,102)	8,882,689
Unrealized loss (gain) on Friends Center Corporation investment	251,093	(283,642)
Gain from sale of land, buildings, and equipment	-	(1,097,479)
Depreciation	184,600	123,472
Contributions to endowment funds	(83,691)	(551,458)
Contributions to planned giving program	(1,315,199)	(1,035,736)
Matured gifts from planned giving program	4,253,494	3,095,867 *
Remainder interest in life estates	14,377	1,203,064
Adjustment for changes in planned giving liabilities	1,173,209	1,690,846
Changes in assets and liabilities which provided (used) cash:		
Accounts and notes receivable	(667,229)	(23,359)
Income receivable and prepaid expenses	380,399	332,580
Accounts payable and accrued liabilities	14,111	432,911
Payable to Friends Center	-	(1,856,659)
Liability for pension and post-retirement benefits	5,153,922	9,351,486
Net cash provided (used) by operating activities	2,301,343	(15,644,826)
Cash flows from investing activities:		
Purchase of land, buildings, and equipment	(425,286)	(1,645,126)
Proceeds from the sale of land, buildings, and equipment	-	1,207,605
Increase of Friends Center Corporation investment	-	(65,997)
Purchases of investments	(77,045,433)	(71,252,520)
Sales of investments	76,134,333	98,371,967
Net cash (used) provided by investing activities	(1,336,386)	26,615,929
Cash flows from financing activities:		
Proceeds from interest-free loans	101,700	132,682
Repayment of interest-free loans	(204,885)	(326,850)
Cash received for endowment funds	78,657	551,458
Cash received for planned giving program	424,739	1,602,977
Matured gifts from planned giving program	(4,253,494)	(3,095,867) *
Net benefit payments to annuitants	(2,860,925)	(2,765,154)
Net cash (used) provided by financing activities	(6,714,208)	(3,900,754)
Net increase (decrease) in cash and cash equivalents	(5,749,251)	7,070,349
Cash and cash equivalents, beginning of year	9,638,527	2,568,178
Cash and cash equivalents, end of year	\$ 3,889,276	\$ 9,638,527

\* Certain numbers in the prior year financial statements have been reclassified to conform to the current year 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, 2010

	Program Services			Program Support			Total Expenses
	International	Domestic	Total Program Services	Fund-Raising	Management and General	Total Program Support	
Compensation Expense:							
Salaries and benefits	\$ 5,661,703	\$ 9,816,591	\$ 15,478,294	\$ 1,280,203	\$ 1,468,254	\$ 2,748,457	\$ 18,226,751
Net periodic pension and retiree medical expense (Note 9)	701,364	1,551,926	2,253,290	275,573	421,490	697,063	2,950,353
Net compensation expense	6,363,067	11,368,517	17,731,584	1,555,776	1,889,744	3,445,520	21,177,104
Professional fees and services	601,382	640,732	1,242,114	69,417	225,873	295,290	1,537,404
Occupancy	682,938	1,023,716	1,706,654	118,965	229,260	348,225	2,054,879
Risk management insurance	100,935	106,728	207,663	4,600	34,981	39,581	247,244
Office supplies	86,089	75,583	161,672	9,191	23,710	32,901	194,573
Equipment leasing, purchase, and repairs	240,529	203,773	444,302	5,735	22,140	27,875	472,177
Program supplies	525,857	200,670	726,527	5,972	1,880	7,852	734,379
Telephone and communications	203,540	379,336	582,876	38,756	90,794	129,550	712,426
Postage and shipping	47,099	88,339	135,438	38,028	24,788	62,816	198,254
Travel	533,558	299,864	833,422	75,814	30,090	105,904	939,326
Conferences, conventions, and meetings	640,872	213,907	854,779	2,803	53,930	56,733	911,512
Fundraising appeals	152,086	185,155	337,241	746,746	217	746,963	1,084,204
Printing and publishing	56,381	148,638	205,019	26,246	25,011	51,257	256,276
Awards and grants	1,023,138	64,263	1,087,401	-	5,914	5,914	1,093,315
Miscellaneous expense	61,176	37,117	98,293	11,427	596	12,023	110,316
Total expenses before depreciation	11,318,647	15,036,338	26,354,985	2,709,476	2,658,928	5,368,404	31,723,389
Depreciation of buildings and equipment	35,466	117,563	153,029	5,418	26,153	31,571	184,600
Total expenses	\$ 11,354,113	\$ 15,153,901	\$ 26,508,014	\$ 2,714,894	\$ 2,685,081	\$ 5,399,975	\$ 31,907,989

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, 2009

	Program Services			Program Support			Total Expenses
	International	Domestic	Total Program Services	Fund-Raising	Management and General	Total Program Support	
Compensation Expense:							
Salaries and benefits	\$ 7,066,504 *	\$ 15,212,331 *	\$ 22,278,835	\$ 1,850,969	\$ 2,294,878	\$ 4,145,847	\$ 26,424,682
Net periodic pension and retiree medical expense (Note 9)	573,663 *	1,502,811 *	2,076,474	198,404	220,706	419,110	2,495,584
Net compensation expense	7,640,167	16,715,142	24,355,309	2,049,373	2,515,584	4,564,957	28,920,266
Professional fees and services	1,074,036 *	1,100,734 *	2,174,770	686,863	300,254	987,117	3,161,887
Occupancy	924,533 *	1,291,390 *	2,215,923	157,557	253,801	411,358	2,627,281
Risk management insurance	116,996 *	111,811 *	228,807	4,651	49,852	54,503	283,310
Office supplies	110,451 *	104,982 *	215,433	28,537	16,145	44,682	260,115
Equipment leasing, purchase, and repairs	241,411 *	287,155 *	528,566	12,880	58,415	71,295	599,861
Program supplies	690,327 *	321,600 *	1,011,927	13,091	4,834	17,925	1,029,852
Telephone and communications	249,759 *	474,191 *	723,950	55,585	104,706	160,291	884,241
Postage and shipping	101,884 *	204,940 *	306,824	200,002	43,845	243,847	550,671
Travel	682,314 *	568,659 *	1,250,973	98,788	48,884	147,672	1,398,645
Conferences, conventions, and meetings	962,142 *	435,166 *	1,397,308	70,086	74,631	144,717	1,542,025
Printing and publishing	144,628 *	422,082 *	566,710	362,102	45,856	407,958	974,668
Awards and grants	1,155,997 *	164,097 *	1,320,094	-	175,653	175,653	1,495,747
Miscellaneous expense	2,102 *	(27,032) *	(24,930)	15,728	(24,231)	(8,503)	(33,433) *
Total expenses before depreciation	14,096,747	22,174,917	36,271,664	3,755,243	3,668,229	7,423,472	43,695,136
Depreciation of buildings and equipment	3,758 *	54,287 *	58,045	5,432	59,995	65,427	123,472
Total expenses	\$ 14,100,505	\$ 22,229,204	\$ 36,329,709	\$ 3,760,675	\$ 3,728,224	\$ 7,488,899	\$ 43,818,608

\* Certain numbers in the prior year financial statements have been reclassified to conform to the current year presentation.

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, 2010 and 2009

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, nineteen (19) area offices, two (2) branch offices, and sixteen (16) 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 the 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 pledges as income until the amounts are received.

AMERICAN FRIENDS SERVICE COMMITTEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the years ended September 30, 2010 and 2009

2. Summary of Significant Accounting Policies, continued:

Investments

Investments are stated at fair value (see Note 4). The Committee allocates investment income for program work from long-term investment funds, including endowments, funds functioning as 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 \$1,600,000 and \$3,300,000 in fiscal years 2010 and 2009, respectively. 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.

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, 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 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 or dissolution, the Committee 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. 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. Interest-free loans are received mainly from individuals, who wish to support the Service Committee. Other Quaker organizations, such as Monthly Meetings (Quaker congregations), may also support the Committee through these loans.

AMERICAN FRIENDS SERVICE COMMITTEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the years ended September 30, 2010 and 2009

2. Summary of Significant Accounting Policies, continued:

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

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 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 the Committee’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.” Changes in the funded status are shown within “Nonoperating changes in net assets” on the accompanying statement of activities. Underfunded liabilities of the formal pension plan of approximately \$13,155,000 and \$11,485,000 and total obligations of the informal retirement plan of approximately \$20,597,000 and \$17,113,000 have been included in the statements of financial position as of September 30, 2010 and 2009, respectively.

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 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.

AMERICAN FRIENDS SERVICE COMMITTEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the years ended September 30, 2010 and 2009

2. Summary of Significant Accounting Policies, continued:

Net Assets

A description of each net asset category is as follows:

- *Unrestricted Net Assets*: 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 the Committee.
  - *Funded status of pension and informal retirement benefit plans*: The amount by which the pension plan and informal retirement benefit plan is overfunded or underfunded is shown as a category of net assets. A positive number indicates an overfunded status, a negative number indicates an underfunded status.
  - *Investment in Friends Center*: The Investment in Friends Center represents the Committee's equity in Friends Center Corporation (see Note 5).
  - *Land, building, and equipment*: Land, building, and equipment is the depreciated value of land, buildings, furniture, and equipment.
- *Temporarily Restricted Net Assets*: Temporarily restricted net assets are those whose use by the Committee 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 permanently restricted endowments.
- *Permanently Restricted Net Assets*: Permanently restricted net assets consist of permanent endowment fund investments to be held indefinitely, the income from which is expendable when the restrictions imposed by donors have been met.

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.

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2. Summary of Significant Accounting Policies, continued:

Contributions, continued

The Committee's Planned Giving Program allows donors to contribute to the Committee and at the same time receive lifetime income streams for their appointed beneficiaries. The gifts are temporarily restricted until the beneficiaries' death, after which they are unrestricted. The value of a charitable gift annuity in excess of the liability to the beneficiary is classified as unrestricted income.

Fair Value of Financial Instruments

Fair values of the Committee's Level 1 and Level 2 investments are based on quoted market values, directly for Level 1 investments and indirectly for Level 2 investments. Level 2 investments are commingled funds, which invest in Level 1 securities. The carrying amounts of the Committee's Level 3 investments are based on cost-based activities.

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 2009 amounts have been reclassified to conform to the September 30, 2010 presentation. These changes had no impact on previously reported results of operations or net assets.

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3. Fund Accounting:

Though the Committee has adopted FASB ASC 958-205 *Reporting Endowment Funds*, 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.

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

Unrestricted Net Assets

Unrestricted net assets are generally available for use by the Committee in carrying out its programs subject to the following policies of the Board of Directors:

- To maintain the principal of the Funds Functioning as Endowment in the same manner as in the Endowment while using the income for the program activities of the Committee. The long term investment goals and the spending policy of these funds is the same as the Endowment.
- To provide certain discretionary retirement benefits, such as medical benefits, not provided under the Committee’s formal pension plan.
- To provide reserves for future purposes as instructed by the Board of Directors.

Temporarily Restricted Funds

Time restricted funds include planned giving net assets and time restricted endowments that will be available to the Committee when the aforementioned time restrictions on the investments expire. Purpose restricted net assets is income designated for specific program work that has not been spent through the current fiscal year. Accumulated gains on endowments include the realized and unrealized gain on the initial endowment principal less the spending income appropriated to operations.

AMERICAN FRIENDS SERVICE COMMITTEE  
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3. Fund Accounting, continued:

Endowment Funds

Permanently 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, 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. The Board of Directors has established a policy of appropriating 5% of the average previous three year's endowment market value (including historical cost and accumulated gain) for use in the Committee's work. The Committee used approximately \$1.5 million in the year ended September 30, 2010 and \$1.5 million in the year ended September 30, 2009 for its operations. This policy is consistent with the Committee's spending policy on investment income (see Note 2).

As of September 30, 2010 and 2009, the following is a summary of endowments:

**Endowment Net Asset Composition by Type of Fund  
as of September 30, 2010**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 5,524,994	\$ 11,313,982	\$16,838,976
Funds functioning as endowment	<u>10,622,166</u>	<u>-</u>	<u>-</u>	<u>10,622,166</u>
Total funds	<u>\$ 10,622,166</u>	<u>\$ 5,524,994</u>	<u>\$ 11,313,982</u>	<u>\$27,461,142</u>



AMERICAN FRIENDS SERVICE COMMITTEE  
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3. Fund Accounting, continued:

**Changes in Endowment Net Assets  
for the Year Ended September 30, 2010**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, September 30, 2009	\$ 8,969,628	\$ 5,510,078	\$ 11,210,077	\$25,689,783
Investment return:				
Investment income	174,116	311,201	-	485,317
Net depreciation (realized and unrealized)	<u>656,434</u>	<u>1,179,312</u>	<u>-</u>	<u>1,835,746</u>
Total investment return	830,550	1,490,513	-	2,321,063
Contributions	433,777	-	103,905	537,682
Appropriation of assets for expenditure in accordance with the spending policy	(540,349)	(978,507)	-	(1,518,856)
Other changes:				
Endowment transferred to outside organization	-	(49,590)	-	(49,590)
Securities litigation settlement	163,453	341,805	-	505,258
Term endowment principal transferred to unrestricted endowment funds	765,107	(765,107)	-	-
Term endowment principal transferred to general funds	<u>-</u>	<u>(24,198)</u>	<u>-</u>	<u>(24,198)</u>
Endowment net assets, September 30, 2010	<u>\$ 10,622,166</u>	<u>\$ 5,524,994</u>	<u>\$ 11,313,982</u>	<u>\$27,461,142</u>

**Endowment Net Asset Composition by Type of Fund  
as of September 30, 2009**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 5,510,078	\$ 11,210,077	\$16,720,155
Funds functioning as endowment	<u>8,969,628</u>	<u>-</u>	<u>-</u>	<u>8,969,628</u>
Total funds	<u>\$ 8,969,628</u>	<u>\$ 5,510,078</u>	<u>\$ 11,210,077</u>	<u>\$25,689,783</u>

AMERICAN FRIENDS SERVICE COMMITTEE  
NOTES TO THE FINANCIAL STATEMENTS  
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3. Fund Accounting, continued:

**Changes in Endowment Net Assets  
for the Year Ended September 30, 2009**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, September 30, 2008	\$ 8,497,642	\$ 7,332,006	\$ 13,428,077	\$29,257,725
Investment return:				
Investment income	175,383	385,216	-	560,599
Net depreciation (realized and unrealized)	<u>(393,180)</u>	<u>(1,549,397)</u>	<u>-</u>	<u>(1,942,577)</u>
Total investment return	(217,797)	(1,164,181)	-	(1,381,978)
Contributions	1,205,284	-	552,458	1,757,742
Appropriation of assets for expenditure in accordance with the spending policy	(515,501)	(1,032,817)	-	(1,548,318)
Other changes:				
Endowment transferred to outside organization	-	395,964	(2,770,458)	(2,374,494)
Term endowment principal transferred to general funds	<u>-</u>	<u>(20,894)</u>	<u>-</u>	<u>(20,894)</u>
Endowment net assets, September 30, 2009	<u>\$ 8,969,628</u>	<u>\$ 5,510,078</u>	<u>\$ 11,210,077</u>	<u>\$25,689,783</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  
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For the years ended September 30, 2010 and 2009

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:

In accordance with FASB ASC 820, the fair value of investments is categorized into a three-tier hierarchy, which assigns priorities to inputs of valuation techniques used to measure fair value. Inputs refer to assumptions market participants would use when pricing an asset and are classified as observable (i.e. assumptions based on market prices obtained from independent sources) and unobservable (i.e. assumptions based on best information available or the reporting entity's own assumptions). The hierarchy of inputs is summarized below:

- Level 1 – observable, represents assets with quoted market prices for identical assets (registered securities).
- Level 2 – other observable, not quoted market prices for identical assets. Inputs that are obtained from the utilization of models or other valuation methodologies.
- Level 3 – unobservable, reflects reporting entity's own assumptions and significant management judgments that would be made by market participants.

*Common Stocks:* Level (1) common stocks represent an actively managed portfolio of registered securities. These securities trade in active markets and are based on daily quoted market prices. Level (2) common stocks are commingled funds with underlying securities that have observable Level 1 quoted pricing inputs. However, these commingled funds are not traded in public markets and the net asset value is calculated at the end of each month.

*Bonds:* Level (1) bonds represent an actively managed portfolio of registered securities. These securities trade in active markets and are based on daily quoted market prices. Level (2) bonds are commingled funds with underlying securities that have observable Level 1 quoted pricing inputs. However, these commingled funds are not traded in public markets and the net asset value is calculated at the end of each month.

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4. Investments, continued:

*Short Term Investments* represent money market funds traded by major financial institutions and are classified as Level (1) investments.

*Other Investments* include Level (2) commingled funds with underlying securities that have observable Level 1 quoted pricing inputs; however, these commingled funds are not traded in public markets and the net asset value is calculated at the end of each month. Other Investments also include deeds to oil wells and insurance policies which are listed at cost and are classified as Level (3).

The fair values of the investment securities which the Committee held as of September 30, 2010, are as follows:

	<b>Fair Value Measurement at Reporting Date Using:</b>			
	<b>Total Fair Value</b>	<b>Observable Inputs (Level 1)</b>	<b>Other Observable Inputs (Level 2)</b>	<b>Unobservable Inputs (Level 3)</b>
<b>Planned Gifts:</b>				
Common Stocks	\$33,744,265	\$29,281,775	\$4,462,490	\$ -
Bonds	25,479,902	23,435,869	2,044,033	-
Short-term investments	2,194,488	2,194,488	-	-
Other	84,056	162	13,658	70,236
A/R (Gifts in Transit)	-	-	-	-
Accrued income	255,720	255,720	-	-
<b>Total planned gifts</b>	<b>\$61,758,431</b>	<b>\$55,168,014</b>	<b>\$6,520,181</b>	<b>\$ 70,236</b>
<b>Other long term assets:</b>				
Common Stocks	\$33,004,969	\$22,281,390	\$10,723,579	\$ -
Bonds	23,404,700	20,133,288	3,271,412	-
Short-term investments	545,014	545,014	-	-
Other	2,396,673	-	2,354,171	42,502
Accrued income	205,198	205,198	-	-
<b>Total other long term assets</b>	<b>\$59,556,554</b>	<b>\$43,164,890</b>	<b>\$16,349,162</b>	<b>\$ 42,502</b>
<b>Total Investments</b>	<b>\$121,314,985</b>	<b>\$98,332,904</b>	<b>\$22,869,343</b>	<b>\$ 112,738</b>

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4. Investments, continued:

**Agency fund assets:**

Common Stocks	\$ 2,654,132	\$ 2,602,110	\$ 52,022	\$ -
Bonds	1,748,962	1,733,110	15,852	-
Short-term investments	664,502	664,502	-	-
Other	25,168	486	14,648	10,034
Accrued income	20,651	20,651	-	-
<b>Total Agency fund assets</b>	<u>\$ 5,113,415</u>	<u>\$ 5,020,859</u>	<u>\$ 82,522</u>	<u>\$ 10,034</u>

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
Oil well	\$ 70,236	\$ -	\$ 41,140	\$ (41,140)	\$ 70,236
Other long-term investments	47,502	(5,000)	-	-	42,502
Other agency fund assets	10,034	-	5,877	(5,877)	10,034
	<u>\$ 127,772</u>	<u>\$ (5,000)</u>	<u>\$ 47,017</u>	<u>\$ (47,017)</u>	<u>\$ 122,772</u>

The fair values of the investment securities which the Committee held as of September 30, 2009, are as follows:

**Fair Value Measurement at Reporting Date Using:**

	<b>Total Fair Value</b>	<b>Observable Inputs (Level 1)</b>	<b>Other Observable Inputs (Level 2)</b>	<b>Unobservable Inputs (Level 3)</b>
<b>Planned Gifts:</b>				
Common Stocks	\$ 36,245,002	\$32,074,103	\$ 4,170,899	\$ -
Bonds	21,391,584	19,504,218	1,887,366	-
Short-term investments	1,531,664	1,531,664	-	-
Other	81,373	129	11,008	70,236
A/R (Gifts in Transit)	-	-	-	-
Accrued income	225,220	225,220	-	-
<b>Total planned gifts</b>	<u>\$ 59,474,843</u>	<u>\$53,335,334</u>	<u>\$ 6,069,273</u>	<u>\$ 70,236</u>

AMERICAN FRIENDS SERVICE COMMITTEE  
NOTES TO THE FINANCIAL STATEMENTS  
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4. Investments, continued:

**Other long term assets:**

Common Stocks	\$ 29,366,392	\$21,239,061	\$ 8,127,331	\$ -
Bonds	17,465,438	15,082,152	2,383,286	-
Short-term investments	1,247,432	1,247,432	-	-
Other	1,566,161	-	1,518,659	47,502
Accrued income	170,397	170,397	-	-

<b>Total other long term assets</b>	<u>\$ 49,815,820</u>	<u>\$37,739,042</u>	<u>\$12,029,276</u>	<u>\$ 47,502</u>
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<b>Total Investments</b>	<u>\$109,290,663</u>	<u>\$91,074,376</u>	<u>\$18,098,549</u>	<u>\$ 117,738</u>
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**Agency fund assets:**

Common Stocks	\$ 2,804,050	\$ 2,758,917	\$ 45,133	\$ -
Bonds	1,571,366	1,557,393	13,973	-
Short-term investments	499,534	499,534	-	-
Other	22,194	388	11,772	10,034
Accrued income	19,370	19,370	-	-

<b>Total Agency fund assets</b>	<u>\$ 4,916,514</u>	<u>\$ 4,835,602</u>	<u>\$ 70,878</u>	<u>\$ 10,034</u>
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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
Oil well	\$ 67,786	\$ 2,450	\$ 34,421	\$ (34,421)	\$ 70,236
Other long-term investments	47,502	-	-	-	47,502
Other agency fund assets	9,684	350	7,855	(7,855)	10,034
	<u>\$ 124,972</u>	<u>\$ 2,800</u>	<u>\$ 42,276</u>	<u>\$ (42,276)</u>	<u>\$ 127,772</u>

AMERICAN FRIENDS SERVICE COMMITTEE  
NOTES TO THE FINANCIAL STATEMENTS  
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4. Investments, continued:

Components of investment (loss) income for the years ended September 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Dividends and interest	\$ 2,696,055	\$ 2,880,368
Net realized and unrealized gain (loss) on investments	6,814,102	(8,885,691)
Net realized (loss) gain on FCC	(251,093)	283,642
Net realized gain on life estate	207,789	-
Investment fees	<u>(1,037,421)</u>	<u>(1,167,618)</u>
Total investment income (loss), net of fees	8,429,432	(6,889,299)
Planned giving beneficiary payments	<u>(849,670)</u>	<u>(968,078)</u>
Total investment income (loss), net of payments	7,579,762	(7,857,377)
Less: Investment income appropriated	\$ <u>(1,623,252)</u>	\$ <u>(3,246,501)</u>
Investment gains (losses) not appropriated	\$ <u><u>5,956,510</u></u>	\$ <u><u>(11,103,878)</u></u>

5. Investment in Friends Center:

Summarized audited financial information for the Friends Center Corporation ("FCC") for the years ended June 30, 2010 and 2009 are as follows:

Balance Sheet (Accrual Basis)		
	<u>2010</u>	<u>2009</u>
Total Assets	\$ <u>17,796,559</u>	\$ <u>19,772,427</u>
Total Liabilities	7,339,564	8,636,803
Net Assets	<u>10,456,995</u> *	<u>11,135,624</u> *
Total Liabilities and Net Assets	\$ <u>17,796,559</u>	\$ <u>19,772,427</u>

\* The Committee's 37.0% membership interest of \$3,869,088 and \$4,120,181 as of June 30, 2010 and 2009, 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 were (\$251,093) and \$283,642 for the years ended June 30, 2010 and 2009, respectively, which is disclosed within "Investment gains/(losses) not appropriated" in the statement of activities.

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6. Temporarily Restricted Net Assets:

Temporarily restricted net assets for 2010 and 2009 are available for the following purposes:

	<u>2010</u>	<u>2009</u>
Purpose-restricted:		
International programs	\$ 3,057,001	\$ 2,741,005
Domestic programs	2,467,784	3,836,452
Program support	<u>162,972</u>	<u>52,557</u>
Total purpose restricted	5,687,757	6,630,014
Time-restricted (planned gifts)	31,657,800	31,477,595
Accumulated gain on endowment assets	<u>2,944,920</u>	<u>2,306,128</u>
Total	\$ <u>40,290,477</u>	\$ <u>40,413,737</u>

7. Land, Buildings, and Equipment:

A summary of land, buildings and equipment as of September 30, 2010 and 2009, is as follows:

	<u>2010</u>	<u>2009</u>
<i>Non-depreciable assets:</i>		
Land	\$ 149,539	\$ 149,539
<i>Depreciable assets:</i>		
Buildings	3,777,761	3,359,771
Furniture and equipment	<u>1,579,824</u>	<u>1,572,529</u>
Subtotal – depreciable assets	5,357,585	4,932,300
Accumulated depreciation	<u>(2,208,946)</u>	<u>(2,024,346)</u>
Subtotal – depreciable assets, net	<u>3,148,639</u>	<u>2,907,954</u>
Total land, buildings and equipment, net	\$ <u>3,298,178</u>	\$ <u>3,057,493</u>

Depreciation expense was \$184,600 and \$123,472 for the years ended September 30, 2010 and 2009, respectively. In addition, some of the Committee's regional offices utilize space provided by Quaker organizations at a nominal rental rate.



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8. Related Party Transactions:

In fiscal 2008, Friends Center Corporation (FCC) and AFSC executed an 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. The financing consists of a \$7.1 million thirty-year loan that will mature in 2038. Debt service on the bond is considered as operating expense for FCC and is passed onto the partners through annual rent. The loan, which has a balance of \$7.1 million as of September 30, 2010, is guaranteed jointly and severally by the partners. The Committee's portion of rent for 2010 and 2009 was \$889,705 and \$1,030,684, respectively. The Committee's projected portion of rent for 2011 is \$905,943.

9. 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.

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 5.05%, 3.00%, and 7.50% for the year ended September 30, 2010, and 5.65%, 3.00%, and 7.50% for the year ended September 30, 2009.

There were no employer or employee contributions made into the defined benefit pension plan for the years ended September 30, 2010 and 2009, 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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9. Pension Plans and Post Retirement Benefits Other Than Pensions, continued:

The Committee also recognizes an actuarial liability for 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, 2010 and 2009, were approximately \$70,000 for each year.

The assumed discount rate for the retiree medical plan was 5.05% for fiscal year 2010 and 5.65% for fiscal year 2009. The healthcare cost trend was 8.0% for fiscal years 2010 and 2009. The effect of a 1% increase in the healthcare cost trend would increase service and interest costs for the retiree medical plan by \$269,263 and \$382,630 and would increase the Actuarial Postretirement Benefit Obligation by \$3,092,392 and \$2,664,199 for the years ended September 30, 2010 and 2009, respectively.

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

In accordance with FASB ASC 715, the following information is provided:

	Pension Plan		Informal Retirement Plan	
	(Dollars in thousands)			
	<u>2010</u>	<u>2009<sup>a</sup></u>	<u>2010</u>	<u>2009<sup>a</sup></u>
Fair value of plan assets at Sep 30 <sup>b</sup>	\$ 33,800	\$ 33,475	\$ 11,148	\$ 10,400
Projected benefit obligation at Sep 30	46,955	44,960	19,597	16,113
Funded status – overfunded (underfunded)	<u>\$ (13,155)</u>	<u>\$ (11,485)</u>	<u>\$ (8,449)</u>	<u>\$ (5,713)</u>
Prepaid pension expense (postretirement benefits obligation) – beginning of year	<u>\$ 1,737</u>	<u>\$ 2,317</u>	<u>\$ (16,345)</u>	<u>\$ (14,143)</u>
Service cost	(754)	(1,312)	(529)	(1,143)
Interest cost	(2,353)	(3,065)	(959)	(1,304)
Return on plan assets	2,423	3,652	-	(67)
Amortization & deferral of gain/loss	(722)	-	(19)	(153)
Amortization of prior service cost	-	-	(37)	(85)
Net periodic pension/ postretirement credit (cost) <sup>a</sup>	(1,406)	(725)	(1,544)	(2,752)
Prior period distribution of net periodic pension/postretirement credit (cost)	-	145	-	550
Adjusted net periodic pension/postretirement credit (cost)	-	(580)	(1,544)	(2,202)
Employer contributions	-	-	-	-
Prepaid pension expense (postretirement benefits obligation) – end of year	<u>\$ 331</u>	<u>\$ 1,737</u>	<u>\$ (17,889)</u>	<u>\$ (16,345)</u>

(a) In 2009, the Committee changed the measurement date of its projected benefit obligation in compliance with FASB ASC 715. In 2010, the projected benefit obligation was measured as of September 30 and the fair value of assets recorded on September 30. In 2009 the measurement date was June 30 and the fair value of assets recorded on June 30. The calculation of the net periodic pension cost between the two dates was \$725,000. That amount was distributed on a pro rata basis with \$145,000 shown in 2008 (for the period of July through September 2008) and \$580,000 in 2010 (for the period October 2008 through September 2009).

(b) The amounts presented as the fair market value of the plan assets for the informal retirement benefits plan represent funds held in reserve for retiree medical benefits at the Committee's discretion. Since there is no contractual obligation to fund this plan, the underfunded status of the informal plan is the projected benefit obligation.

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

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, 2010 and 2009 is as follows:

Asset Class:	<u>2010</u>	<u>2009</u>
Cash	2.4%	2.1%
Equity securities	67.3%	73.5%
Fixed income	30.3%	24.4%
	<u>100.0%</u>	<u>100.0%</u>

The Committee expects to contribute \$0 to its pension plan in fiscal 2010.

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

	Pension Plan	Informal Pension Plan
2011	\$ 2,311,000	\$ 836,000
2012	2,422,000	795,000
2013	2,459,000	833,000
2014	2,544,000	841,000
2015	2,645,000	864,000
2016-2020	14,197,000	5,516,000
Total	<u>\$ 26,578,000</u>	<u>\$ 9,685,000</u>

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10. Allocation of Joint Costs:

For the years ended September 30, 2010 and 2009, the Committee incurred joint costs of \$1,255,328 and \$1,517,662 for informational materials and activities that included fund-raising appeals. For the years ended September 30, 2010 and 2009, these joint costs were allocated as follows:

	<u>2010</u>	<u>2009</u>
Fundraising	\$ 627,664	\$ 758,831
International Program Services	283,009	293,568
Domestic Program Services	344,655	465,263
11. Total	\$ 1,255,328	\$ 1,517,662

Securities Litigation Settlement:

In February 2010, the Securities and Exchange Commission (SEC) charged an investment banking company (the “company”) with misleading its investors to their exposure to sub-prime investments within several investment funds managed by one of its subsidiary. The case was settled out of court and the company partially compensated its investors for their losses. The Committee received \$1,442,927 as part of the company’s settlement agreement with the SEC.

12. Concentration of Credit Risk:

The Committee is required to disclose significant concentrations of credit risk regardless of the degree of such risk. As of September 30, 2010 and 2009, the Committee maintained bank deposits that exceeded the limit of insurability under the Federal Deposit Insurance Corporation.

13. 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.

14. Subsequent Events:

Management has evaluated subsequent events through March 4, 2011, the date which the financial statements were available to be issued. There were no material subsequent events required to be disclosed.