

AMERICAN FRIENDS SERVICE COMMITTEE

FINANCIAL STATEMENTS

FOR THE YEARS ENDED
SEPTEMBER 30, 2011 and 2010

AND

INDEPENDENT AUDITORS' REPORT



AMERICAN FRIENDS SERVICE COMMITTEE

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of American Friends Service Committee (“the Committee”) as of September 30, 2011 and 2010, 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, 2011 and 2010, 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 2, 2012
Philadelphia, Pennsylvania

AMERICAN FRIENDS SERVICE COMMITTEE
Statements of Financial Position
For the years ended September 30, 2011 and 2010

ASSETS	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 6,473,637	\$ 3,889,276
Accounts and notes receivable - net	605,737	853,070
Income receivable and prepaid expenses	948,525	785,759
Land, buildings and equipment - net (Notes 2 and 8)	2,809,445	3,298,178
Investments:		
Investment in Friends Center (Notes 2, 5, and 9)	3,732,203	3,869,088
Planned giving assets (Note 4)	56,452,007	61,758,431
Other investments (Note 4)	58,394,911	59,556,554
Total investments	<u>118,579,121</u>	<u>125,184,073</u>
Other assets (Note 6)	300,039	217,212 *
Agency fund assets (Notes 3 and 4)	<u>4,754,400</u>	<u>5,113,415</u>
Total assets	<u>\$ 134,470,904</u>	<u>\$ 139,340,983</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 2,348,103	\$ 2,346,627
Interest-free loans (Note 2)	1,521,696	1,624,896
Annuities and unitrusts payable (Notes 2 and 3)	27,145,021	27,097,999
Liability for post-retirement benefits (Note 10)	38,068,816	33,751,843
Agency funds (Note 3)	<u>4,754,400</u>	<u>5,113,415</u>
Total liabilities	<u>73,838,036</u>	<u>69,934,780</u>
Net assets:		
Unrestricted:		
Designated for current and future operations	24,783,354	22,772,621
Funds functioning as endowment	9,980,188	10,622,166
Funded status of pension and informal retirement benefit plans	(27,180,308)	(22,603,516)
Investment in Friends Center	3,732,203	3,869,088
Land, buildings, and equipment	<u>2,809,445</u>	<u>3,141,385</u>
Total unrestricted	<u>14,124,882</u>	<u>17,801,744</u>
Temporarily restricted (Note 7):		
Time restricted	28,254,751	31,657,800
Purpose restricted	4,278,439	5,687,757
Accumulated gains on endowment assets	<u>2,092,328</u>	<u>2,944,920</u>
Total temporarily restricted assets	<u>34,625,518</u>	<u>40,290,477</u>
Permanently restricted (Note 3)	<u>11,882,468</u>	<u>11,313,982</u>
Total net assets	<u>60,632,868</u>	<u>69,406,203</u>
Total liabilities and net assets	<u>\$ 134,470,904</u>	<u>\$ 139,340,983</u>

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

AMERICAN FRIENDS SERVICE COMMITTEE
Statement of Activities and Changes in Net Assets
For the year ended September 30, 2011
(with comparative totals for the year ended September 30, 2010)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2011 Total</u>	<u>2010 Total</u>
Operating revenues:					
Public support (Note 2):					
Contributions for current program work	\$ 8,739,655	\$ 6,279,488	\$ -	\$ 15,019,143	\$ 16,524,811
Bequests	12,634,785	611,710	-	13,246,495	7,099,536
Contributions to planned giving program	421,350	6,967	-	428,317	1,315,199
Contributions to endowment funds	-	-	32,970	32,970	83,691
	<u>21,795,790</u>	<u>6,898,165</u>	<u>32,970</u>	<u>28,726,925</u>	<u>25,023,237</u>
Total public support					
Government grants	-	210,552	-	210,552	306,982
Investment income, net of payments and fees, appropriated (Notes 2 and 4)	1,503,174	-	23,258	1,526,432	1,623,252
Program service income	373,105	-	-	373,105	558,650
Miscellaneous interest and other income	44,755	-	-	44,755	73,620
Net assets released from restrictions	<u>8,626,399</u>	<u>(9,212,623)</u>	<u>586,224</u>	<u>-</u>	<u>-</u>
Total revenues	<u>32,343,223</u>	<u>(2,103,906)</u>	<u>642,452</u>	<u>30,881,769</u>	<u>27,585,741</u>
Operating expenses:					
Program services:					
International programs	10,568,896	-	-	10,568,896	11,354,113
Domestic programs	<u>14,740,233</u>	<u>-</u>	<u>-</u>	<u>14,740,233</u>	<u>15,153,901</u>
Total program services	<u>25,309,129</u>	<u>-</u>	<u>-</u>	<u>25,309,129</u>	<u>26,508,014</u>
Program support:					
Fund-raising	3,170,425	-	-	3,170,425	2,714,894
Management and general	<u>2,731,874</u>	<u>-</u>	<u>-</u>	<u>2,731,874</u>	<u>2,685,081</u>
Total program support	<u>5,902,299</u>	<u>-</u>	<u>-</u>	<u>5,902,299</u>	<u>5,399,975</u>
Total expenses	<u>31,211,428</u>	<u>-</u>	<u>-</u>	<u>31,211,428</u>	<u>31,907,989</u>
Changes in net assets from operations	1,131,795	(2,103,906)	642,452	(329,659)	(4,322,248)
Nonoperating changes in net assets:					
Investment (losses)/gains not appropriated (Notes 2, 4, and 5)	(1,316,717)	(568,134)	-	(1,884,851)	6,806,180 *
Adjustments for changes in planned giving liabilities	-	(2,138,357)	-	(2,138,357)	(396,333)
Planned giving beneficiary payments	(66,034)	(854,562)	-	(920,596)	(849,670) *
Other nonoperating changes in net assets (Note 12)	-	-	(73,966)	(73,966)	1,393,337 *
Net gain from disposal/sale of assets	68,839	-	-	68,839	-
Pension and benefit adjustment	<u>(3,494,745)</u>	<u>-</u>	<u>-</u>	<u>(3,494,745)</u>	<u>(2,874,907)</u>
Changes in net assets	(3,676,862)	(5,664,959)	568,486	(8,773,335)	(243,641)
Net assets, beginning 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>
Net assets, end of year	<u>\$ 14,124,882</u>	<u>\$ 34,625,518</u>	<u>\$ 11,882,468</u>	<u>\$ 60,632,868</u>	<u>\$ 69,406,203</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, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating revenues:				
Public support (Note 2):				
Contributions for current program work	\$ 8,515,387	\$ 8,009,424	\$ -	\$ 16,524,811
Bequests	6,758,729	340,807	-	7,099,536
Contributions to planned giving program	469,274	845,925	-	1,315,199
Contributions to endowment funds	-	-	83,691	83,691
	<u>15,743,390</u>	<u>9,196,156</u>	<u>83,691</u>	<u>25,023,237</u>
Total public support				
Government grants	-	306,982	-	306,982
Investment income, net of payments and fees, appropriated (Notes 2 and 4)	1,605,713	-	17,539	1,623,252
Program service income	558,650	-	-	558,650
Miscellaneous interest and other income	73,620	-	-	73,620
Net assets released from restrictions	<u>13,230,066</u>	<u>(13,232,741)</u>	<u>2,675</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>
Operating expenses:				
Program services:				
International programs	11,354,113	-	-	11,354,113
Domestic programs	<u>15,153,901</u>	<u>-</u>	<u>-</u>	<u>15,153,901</u>
Total program services	<u>26,508,014</u>	<u>-</u>	<u>-</u>	<u>26,508,014</u>
Program support:				
Fund-raising	2,714,894	-	-	2,714,894
Management and general	<u>2,685,081</u>	<u>-</u>	<u>-</u>	<u>2,685,081</u>
Total program support	<u>5,399,975</u>	<u>-</u>	<u>-</u>	<u>5,399,975</u>
Total operating expenses	<u>31,907,989</u>	<u>-</u>	<u>-</u>	<u>31,907,989</u>
Changes in net assets from operations	(696,550)	(3,729,603)	103,905	(4,322,248)
Nonoperating changes in net assets:				
Investment gains/(losses) not appropriated (Notes 2, 4, and 5)	2,307,752	4,498,428	-	6,806,180 *
Adjustments for changes in planned giving liabilities	-	(396,333)	-	(396,333)
Planned giving beneficiary payments	(58,959)	(790,711)	-	(849,670) *
Other nonoperating changes in net assets (Note 12)	1,098,378	294,959	-	1,393,337 *
Pension and benefit adjustment	<u>(2,874,907)</u>	<u>-</u>	<u>-</u>	<u>(2,874,907)</u>
Changes in net assets	(224,286)	(123,260)	103,905	(243,641)
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>
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>

* 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, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Total change in net assets	\$ (8,773,335)	\$ (243,641)
Adjustments to reconcile total change in net assets to net cash provided (used) by operating activities:		
Realized and unrealized losses (gains) on investments	2,230,597	(6,814,102)
Unrealized loss on Friends Center Corporation investment	136,885	251,093
Gain from sale of property	(165,571)	-
Loss from disposal of assets	96,732	-
Depreciation	185,156	184,600
Contributions to endowment funds	(32,970)	(83,691)
Contributions to planned giving program	(428,317)	(1,315,199)
Matured gifts from planned giving program	2,753,263	4,253,494
Remainder interest in life estates	-	14,377
Planned giving beneficiary payments	920,596	849,670 *
Adjustment for changes in planned giving liabilities	3,132,881	1,173,209
Changes in assets and liabilities which provided (used) cash:		
Accounts and notes receivable	247,330	(667,229)
Income receivable and prepaid expenses	(162,766)	380,399
Accounts payable and accrued liabilities	1,476	14,111
Liability for pension and post-retirement benefits	4,316,973	5,153,922
	<u>4,458,930</u>	<u>3,151,013</u>
Cash flows from investing activities:		
Purchase of land, buildings, and equipment	(75,387)	(425,286)
Proceeds from the sale of property	291,010	-
Purchases of investments	(30,059,527)	(77,045,433)
Sales of investments	34,517,010	76,134,333
	<u>4,673,106</u>	<u>(1,336,386)</u>
Cash flows from financing activities:		
Proceeds from interest-free loans	1,900	101,700
Repayment of interest-free loans	(105,100)	(204,885)
Cash received for endowment funds	27,941	78,657
Cash received for planned giving program	287,301	424,739
Matured gifts from planned giving program	(2,753,263)	(4,253,494) *
Net benefit payments to annuitants	(4,006,454)	(3,710,595) *
	<u>(6,547,675)</u>	<u>(7,563,878)</u>
Net increase (decrease) in cash and cash equivalents	2,584,361	(5,749,251)
Cash and cash equivalents, beginning of year	<u>3,889,276</u>	<u>9,638,527</u>
Cash and cash equivalents, end of year	<u>\$ 6,473,637</u>	<u>\$ 3,889,276</u>

Supplemental Disclosure of Non-Cash Transactions:

During fiscal year 2011, the Committee disposed of property with a cost value of \$124,540 and accumulated depreciation totaling \$27,808, resulting in a net loss of \$96,732.

* 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, 2011

	Program Services			Program Support			Total Expenses
	International	Domestic	Total Program Services	Fund-Raising	Management and General	Total Program Support	
Compensation Expense:							
Salaries and benefits	\$ 5,169,126	\$ 8,838,204	\$ 14,007,330	\$ 1,205,214	\$ 1,559,751	\$ 2,764,965	\$ 16,772,295
Net periodic pension and retiree medical expense (Note 6)	1,140,057	2,041,043	3,181,100	419,552	390,895	810,447	3,991,547
Net compensation expense	6,309,183	10,879,247	17,188,430	1,624,766	1,950,646	3,575,412	20,763,842
Professional fees and services	599,878	718,391	1,318,269	149,569	246,903	396,472	1,714,741
Occupancy	639,586	1,013,409	1,652,995	232,883	161,747	394,630	2,047,625
Risk management insurance	95,197	105,987	201,184	4,294	27,057	31,351	232,535
Office supplies	57,421	60,794	118,215	15,947	5,074	21,021	139,236
Equipment leasing, purchase, and repairs	152,019	205,185	357,204	13,268	5,431	18,699	375,903
Program supplies	413,722	208,401	622,123	7,526	4,430	11,956	634,079
Telephone and communications	208,329	334,611	542,940	24,528	79,511	104,039	646,979
Postage and shipping	68,883	141,365	210,248	152,290	37,030	189,320	399,568
Travel	522,569	334,787	857,356	85,363	33,176	118,539	975,895
Conferences, conventions, and meetings	479,993	193,438	673,431	612	44,680	45,292	718,723
Fundraising appeals	143,167	193,776	336,943	781,069	71	781,140	1,118,083
Printing and publishing	49,579	173,022	222,601	34,781	29,782	64,563	287,164
Awards and grants	735,262	57,475	792,737	-	582	582	793,319
Miscellaneous expense	90,749	35,043	125,792	12,123	40,665	52,788	178,580
Total expenses before depreciation	10,565,537	14,654,931	25,220,468	3,139,019	2,666,785	5,805,804	31,026,272
Depreciation of buildings and equipment	3,359	85,302	88,661	31,406	65,089	96,495	185,156
Total expenses	\$ 10,568,896	\$ 14,740,233	\$ 25,309,129	\$ 3,170,425	\$ 2,731,874	\$ 5,902,299	\$ 31,211,428

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 6)	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
NOTES TO THE FINANCIAL STATEMENTS
For the years ended September 30, 2011 and 2010

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, 2011 and 2010

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 its endowments and funds functioning as endowments, 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 endowment funds, resulted in a Board-approved allocation for program work of approximately \$1,500,000 and \$1,600,000 in fiscal years 2011 and 2010, 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 8 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, 2011 and 2010

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 post-retirement 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 \$13,706,000 and \$13,155,000 and total obligations of the informal retirement plan of approximately \$24,363,000 and \$20,597,000 have been included in the statements of financial position as of September 30, 2011 and 2010, 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, 2011 and 2010

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.

AMERICAN FRIENDS SERVICE COMMITTEE
NOTES TO THE FINANCIAL STATEMENTS
For the years ended September 30, 2011 and 2010

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.

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 2010 amounts have been reclassified to conform to the September 30, 2011 presentation. These changes had no impact on previously reported results of operations or net assets.

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:

AMERICAN FRIENDS SERVICE COMMITTEE
NOTES TO THE FINANCIAL STATEMENTS
For the years ended September 30, 2011 and 2010

3. Fund Accounting, continued:

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.

Endowment Funds

Restricted endowment funds account for the principal amount of gifts and bequests accepted with the donor's stipulation that the principal be maintained in perpetuity or until the occurrence of a specified event or for a specified period. The income from the investment of such funds is available for 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 \$1.4 million in the year ended September 30, 2011 and \$1.5 million in the year ended September 30, 2010 for its operations. This policy is consistent with the Committee's spending policy on investment income (see Note 2).

During 2011, the Committee transferred \$586,224 from temporarily restricted net assets after receiving updated or new instructions from the donor of these funds on the restricted nature and use.

AMERICAN FRIENDS SERVICE COMMITTEE
NOTES TO THE FINANCIAL STATEMENTS
For the years ended September 30, 2011 and 2010

3. Fund Accounting, continued:

As of September 30, 2011 and 2010, the following is a summary of endowments:

Endowment Net Asset Composition by Type of Fund
as of September 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 4,498,928	\$ 11,882,468	\$ 16,381,396
Funds functioning as endowment	<u>9,980,188</u>	<u>-</u>	<u>-</u>	<u>9,980,188</u>
Total funds	<u>\$ 9,980,188</u>	<u>\$ 4,498,928</u>	<u>\$ 11,882,468</u>	<u>\$ 26,361,584</u>

Changes in Endowment Net Assets
for the Year Ended September 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, September 30, 2010	\$ 10,622,166	\$ 5,524,994	\$ 11,313,982	\$ 27,461,142
Investment return:				
Investment income	195,082	311,454	-	506,536
Net depreciation (realized and unrealized)	<u>(264,639)</u>	<u>(435,973)</u>	<u>-</u>	<u>(700,612)</u>
Total investment return	(69,557)	(124,519)	-	(194,076)
Contributions	154,562	-	642,452	797,014
Appropriation of assets for expenditure in accordance with the spending policy	(535,659)	(875,088)	-	(1,410,747)
Other changes:				
Funds functioning as endowment principal transferred to program	(191,324)	-	-	(191,324)
Term endowment principal transferred to general funds	-	(26,459)	-	(26,459)
Property transferred in/out of endowment net assets	<u>-</u>	<u>-</u>	<u>(73,966)</u>	<u>(73,966)</u>
Endowment net assets, September 30, 2011	<u>\$ 9,980,188</u>	<u>\$ 4,498,928</u>	<u>\$ 11,882,468</u>	<u>\$ 26,361,584</u>

AMERICAN FRIENDS SERVICE COMMITTEE
NOTES TO THE FINANCIAL STATEMENTS
For the years ended September 30, 2011 and 2010

3. Fund Accounting, continued:

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>

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>

AMERICAN FRIENDS SERVICE COMMITTEE
NOTES TO THE FINANCIAL STATEMENTS
For the years ended September 30, 2011 and 2010

3. Fund Accounting, continued:

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.

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.

AMERICAN FRIENDS SERVICE COMMITTEE
NOTES TO THE FINANCIAL STATEMENTS
For the years ended September 30, 2011 and 2010

4. Investments, continued:

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

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, classified as Level (3), include deeds to oil wells and insurance policies. Oil wells are appraised annually or held at its contributed fair value; insurance policies are listed at its contributed fair value.

AMERICAN FRIENDS SERVICE COMMITTEE
NOTES TO THE FINANCIAL STATEMENTS
For the years ended September 30, 2011 and 2010

4. Investments, continued:

The fair values of the investment securities which the Committee held as of September 30, 2011, are as follows:

	Fair Value Measurement at Reporting Date Using:			
	Total Fair Value	Observable Inputs (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Planned Gifts:				
Common Stocks	\$ 29,329,941	\$25,449,862	\$3,880,079	\$ -
Bonds	24,426,741	22,369,890	2,056,851	-
Short-term investments	2,260,086	2,260,086	-	-
Other	84,268	-	7,014	77,254
A/R (Gifts in Transit)	112,000	112,000	-	-
Accrued income	238,971	238,971	-	-
Total planned gifts	\$ 56,452,007	\$50,430,809	\$ 5,943,944	\$ 77,254
Other long term assets:				
Common Stocks	\$ 33,024,295	\$22,331,741	\$10,692,554	\$ -
Bonds	22,186,784	19,108,236	3,078,548	-
Short-term investments	554,807	554,807	-	-
Other	2,428,001	-	2,385,499	42,502
Accrued income	201,024	201,024	-	-
Total other long term assets	\$ 58,394,911	\$42,195,808	\$16,156,601	\$ 42,502
Total Investments	\$114,846,918	\$92,626,617	\$22,100,545	\$ 119,756
Agency fund assets:				
Common Stocks	\$ 2,295,050	\$ 2,247,658	\$ 47,392	\$ -
Bonds	1,674,541	1,660,923	13,618	-
Short-term investments	734,685	734,685	-	-
Other	30,676	6,053	13,587	11,036
Accrued income	19,448	19,448	-	-
Total Agency fund assets	\$ 4,754,400	\$ 4,668,767	\$ 74,597	\$ 11,036

AMERICAN FRIENDS SERVICE COMMITTEE
NOTES TO THE FINANCIAL STATEMENTS
For the years ended September 30, 2011 and 2010

4. Investments, continued:

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

	Beginning Market Value	Gains/ (Losses)	Revenue	Additions/ (Withdrawals)	Ending Market Value
Oil well	\$ 70,236	\$ 7,018	\$ 43,260	\$ (43,260)	\$ 77,254
Other long-term investments	42,502	-	-	-	42,502
Other agency fund assets	10,034	1,002	5,941	(5,941)	11,036
	<u>\$ 122,772</u>	<u>\$ 8,020</u>	<u>\$ 49,201</u>	<u>\$ (49,201)</u>	<u>\$ 130,792</u>

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

	Fair Value Measurement at Reporting Date Using:			
	Total Fair Value	Observable Inputs (Level 1)	Observable Inputs (Level 2)	Other Unobservable Inputs (Level 3)
Planned Gifts:				
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	-	-
Total planned gifts	<u>\$61,758,431</u>	<u>\$55,168,014</u>	<u>\$6,520,181</u>	<u>\$ 70,236</u>
Other long term assets:				
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	-	-
Total other long term assets	<u>\$59,556,554</u>	<u>\$43,164,890</u>	<u>\$16,349,162</u>	<u>\$ 42,502</u>
Total Investments	<u>\$121,314,985</u>	<u>\$98,332,904</u>	<u>\$22,869,343</u>	<u>\$ 112,738</u>

AMERICAN FRIENDS SERVICE COMMITTEE
NOTES TO THE FINANCIAL STATEMENTS
For the years ended September 30, 2011 and 2010

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	-	-
Total Agency fund assets	<u>\$ 5,113,415</u>	<u>\$ 5,020,859</u>	<u>\$ 82,522</u>	<u>\$ 10,034</u>

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

	Beginning Market Value	Gains/ (Losses)	Revenue	Additions/ (Withdrawals)	Ending Market Value
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>

Components of investment (loss) income for the years ended September 30, 2011 and 2010 are as follows:

	2011	2010
Dividends and interest	\$ 2,822,033	\$ 2,696,055
Net realized and unrealized (loss) gain on Investments	(2,230,597)	6,814,102
Net realized loss on FCC	(136,885)	(251,093)
Net realized gain on life estate	207,789	207,789
Investment fees	(1,020,759)	(1,037,421)
Total investment (loss) income, net of fees	(358,419)	8,429,432
Less: Investment income appropriated	(1,526,432)	(1,623,252)
Investment (losses) gains not appropriated	<u>\$ (1,884,851)</u>	<u>\$ 6,806,180</u>

AMERICAN FRIENDS SERVICE COMMITTEE
NOTES TO THE FINANCIAL STATEMENTS
For the years ended September 30, 2011 and 2010

5. Investment in Friends Center:

Summarized audited financial information for the Friends Center Corporation ("FCC") for the years ended June 30, 2011 and 2010 are as follows:

Balance Sheet (Accrual Basis)		
	<u>2011</u>	<u>2010</u>
Total Assets	\$ <u>17,342,181</u>	\$ <u>17,796,559</u>
Total Liabilities	7,255,145	7,339,564
Net Assets	<u>10,087,036</u> *	<u>10,456,995</u> *
Total Liabilities and Net Assets	\$ <u>17,342,181</u>	\$ <u>17,796,559</u>

* The Committee's 37.0% membership interest of \$3,732,203 and \$3,869,088 as of June 30, 2011 and 2010, 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 \$136,885 and \$251,093 for the years ended June 30, 2011 and 2010, respectively, which is disclosed within "Investment (losses)/gains not appropriated" in the statement of activities.

6. Other Assets:

The Committee's other assets as of September 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Remainder interest in life estates	\$ 165,965	\$ 165,965
Intellectual property	82,827	-
Property held for resale	<u>51,247</u>	<u>51,247</u>
Total land, buildings and equipment, net	\$ <u>300,039</u>	\$ <u>217,212</u>

The remainder interest in life estates represents the Committee's interest in a portion of property included in a bequest that has not yet been liquidated. The property held for resale represents gifts of property received by the Committee at various times that are intended for resale.

The intellectual property is a copyright for a series of books with the donor-imposed restriction that the income be used for work in international programs and received by the Committee as a bequest. The valuation of the copyright includes inputs that are calculated based on future expected cash flows, which are a rolling 5 year average of prior years' cash flows from the asset and projected out in perpetuity. The future expected cash flows are then divided by the discount rate as reported by the informal and formal post retirement benefit plans disclosed in Note 9.

AMERICAN FRIENDS SERVICE COMMITTEE
NOTES TO THE FINANCIAL STATEMENTS
For the years ended September 30, 2011 and 2010

7. Temporarily Restricted Net Assets:

Temporarily restricted net assets for 2011 and 2010 are available for the following purposes:

	<u>2011</u>	<u>2010</u>
Purpose-restricted:		
International programs	\$ 2,036,351	\$ 3,057,001
Domestic programs	1,929,597	2,467,784
Program support	<u>312,491</u>	<u>162,972</u>
Total purpose restricted	4,278,439	5,687,757
Time-restricted (planned gifts)	28,254,751	31,657,800
Accumulated gain on endowment assets	<u>2,092,328</u>	<u>2,944,920</u>
Total	\$ <u>34,625,518</u>	\$ <u>40,290,477</u>

8. Land, Buildings, and Equipment:

A summary of land, buildings and equipment as of September 30, 2011 and 2010, is as follows:

	<u>2011</u>	<u>2010</u>
<i>Non-depreciable assets:</i>		
Land	\$ 58,958	\$ 149,539
<i>Depreciable assets:</i>		
Buildings	3,442,750	3,777,761
Furniture and equipment	<u>1,655,211</u>	<u>1,579,824</u>
Subtotal – depreciable assets	5,097,961	5,357,585
Accumulated depreciation	<u>(2,347,474)</u>	<u>(2,365,739)</u>
Subtotal – depreciable assets, net	<u>2,750,487</u>	<u>2,991,846</u>
Total land, buildings and equipment, net	\$ <u>2,809,445</u>	\$ <u>3,298,178</u>

Depreciation expense was \$185,156 and \$184,600 for the years ended September 30, 2011 and 2010, respectively. In addition, some of the Committee's regional offices utilize space provided by Quaker organizations at a nominal rental rate.

The Committee disposed of property during 2011, including the sale of a building for \$291,010. The total cost value of the disposed property of \$425,593 and the associated accumulated depreciation value of \$203,422 were removed from the Committee's balances, which resulted in a net realized gain of \$68,839.

AMERICAN FRIENDS SERVICE COMMITTEE
NOTES TO THE FINANCIAL STATEMENTS
For the years ended September 30, 2011 and 2010

9. Related Party Transactions:

Financing for the Friends Center complex's renovations 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 the Friends Center Corporation and is passed onto the partners through annual rent. The loan, which has a balance of \$6.2 million as of September 30, 2011, is guaranteed jointly and severally by the partners. The Committee's portion of rent for 2011 and 2010 was \$829,620 and \$889,705, respectively. The Committee's projected portion of rent for 2012 is \$739,823.

10. 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 5.45%, 3.0%, and 7.5% for the year ended September 30, 2011, and 5.05%, 3.00%, and 7.50% for the year ended September 30, 2010.

The Committee made a contribution to the defined benefit pension plan totaling \$2,500,000 for the year ended September 30, 2011. There were no employee contributions made into the pension plan for the year ended September 30, 2011, and no employer or employee contributions for the year ended September 30, 2010, and none were required. The plan uses the aggregate cost method for computing annual pension contributions. The Committee uses this valuation method as a guide to determine the necessity, timing, and amounts of future contributions.

AMERICAN FRIENDS SERVICE COMMITTEE
NOTES TO THE FINANCIAL STATEMENTS
For the years ended September 30, 2011 and 2010

10. 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, 2011 and 2010, were approximately \$70,000 for each year.

The assumed discount rate for the retiree medical plan was 5.45% for fiscal year 2011 and 5.05% for fiscal year 2010. The healthcare cost trend was 9.5% for fiscal year 2011 and 10.0% for fiscal year 2010. The effect of a 1% increase in the healthcare cost trend would increase service and interest costs for the retiree medical plan by \$359,137 and \$269,263 and would increase the Actuarial Postretirement Benefit Obligation by \$3,666,037 and \$3,092,392 for the years ended September 30, 2011 and 2010, respectively.

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

	Pension Plan		Informal Retirement Plan	
	(Dollars in thousands)			
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Fair value of plan assets at Sep 30 ^a	\$ 33,516	\$ 33,800	\$ 10,889	\$ 11,148
Projected benefit obligation at Sep 30	<u>47,222</u>	<u>46,955</u>	<u>23,363</u>	<u>19,597</u>
Funded status – overfunded (underfunded)	<u>\$ (13,706)</u>	<u>\$ (13,155)</u>	<u>\$ (12,474)</u>	<u>\$ (8,449)</u>
Prepaid pension expense (postretirement benefits obligation) – beginning of year	<u>\$ 331</u>	<u>\$ 1,737</u>	<u>\$ (17,889)</u>	<u>\$ (16,345)</u>
Service cost	(902)	(754)	(772)	(529)
Interest cost	(2,327)	(2,353)	(1,123)	(959)
Return on plan assets	2,523	2,423	-	-
Amortization & deferral of gain/loss	(962)	(722)	(390)	(19)
Amortization of prior service cost	<u>-</u>	<u>-</u>	<u>(38)</u>	<u>(37)</u>
Net periodic pension/ postretirement credit (cost) ^a	(1,668)	(1,406)	(2,323)	(1,544)
Prior period distribution of net periodic pension/postretirement credit (cost)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Prepaid pension expense (postretirement benefits obligation) – end of year	<u>\$ (1,337)</u>	<u>\$ 331</u>	<u>\$ (20,212)</u>	<u>\$ (17,889)</u>

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

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.

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, 2011 and 2010 is as follows:

Asset Class:	<u>2011</u>	<u>2010</u>
Cash	6.5%	2.4%
Equity securities	64.3%	67.3%
Fixed income	29.2%	30.3%
	<hr/>	<hr/>
Total	<u>100.0%</u>	<u>100.0%</u>

The Committee expects to contribute \$2,500,000 to its pension plan in fiscal 2012.

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
	<hr/>	<hr/>
2012	\$ 2,473,000	\$ 986,000
2013	2,508,000	1,044,000
2014	2,589,000	1,067,000
2015	2,720,000	1,106,000
2016	2,819,000	1,189,000
2017-2021	15,864,000	5,516,000
	<hr/>	<hr/>
Total	<u>\$ 28,973,000</u>	<u>\$ 10,908,000</u>

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11. Allocation of Joint Costs:

For the years ended September 30, 2011 and 2010, the Committee incurred joint costs of \$1,536,943 and \$1,255,328 for informational materials and activities that included fund-raising appeals. For the years ended September 30, 2011 and 2010, these joint costs were allocated as follows:

	<u>2011</u>	<u>2010</u>
Fundraising	\$ 768,472	\$ 627,664
International Program Services	330,556	283,009
Domestic Program Services	<u>437,915</u>	<u>344,655</u>
 Total	 <u>\$ 1,536,943</u>	 <u>\$ 1,255,328</u>

12. Other Nonoperating Changes in Net Assets:

The Committee recognized certain other nonoperating changes in net assets for the years ended September 30, 2011 and 2010.

For the year ended September 30, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Recognition of intellectual property ^a	\$ -	\$ -	\$ 82,827	\$ 82,827
Reclassification of net assets ^b	156,793	-	(156,793)	-
Recognition of prior period depreciation ^b	<u>(156,793)</u>	<u>-</u>	<u>-</u>	<u>(156,793)</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (73,966)</u>	<u>\$ (73,966)</u>

For the year ended September 30, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Securities litigation settlement ^c	\$ 1,098,378	\$ 344,549	\$ -	\$ 1,442,927
Endowment transferred to an external Organization ^d	-	(49,590)	-	(49,590)
	<u>\$ 1,098,378</u>	<u>\$ 294,959</u>	<u>\$ -</u>	<u>\$ 1,393,337</u>

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12. Other Nonoperating Changes in Net Assets, continued:

^aThe Committee received a royalty on the sales of a series of books with the donor-imposed restriction that the income be used for work in international programs. In 2011, the Committee determined that the royalty itself should be considered an asset (see Note 6).

^bIn 1935, the Committee received a bequest in the form of a house in Washington DC. At the time, the house was classified as an endowment gift. Subsequent review of the documentation indicates that the appropriate classification of the gift would be unrestricted property, and the adjustment was made in 2011. As the gift was received more than forty years ago, the property would have been fully depreciated, and the accumulated depreciation was also recognized in 2011.

^cIn 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.

^dThe securities settlement received in 2010, as referenced above, included funds associated with the Eloesser endowment that was transferred to Maharry College in 2009. As a result, \$49,590 of the settlement was transferred to Maharry as part of the endowment transfer agreement.

13. 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, 2011 and 2010, the Committee maintained bank deposits that exceeded the limit of insurability under the Federal Deposit Insurance Corporation.

14. 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.

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15. Subsequent Events:

Management has evaluated subsequent events through March 2, 2012, the date which the financial statements were available to be issued. There were no material subsequent events required to be disclosed.