AMERICAN FRIENDS SERVICE COMMITTEE

FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

SEPTEMBER 30, 2012 AND 2011

AMERICAN FRIENDS SERVICE COMMITTEE

TABLE OF CONTENTS

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CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Director
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, 2012, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year 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. The Committee's 2011 financial statements were audited by other auditors, whose report dated March 2, 2012, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 such opinion. An audit also 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Committee as of September 30, 2012, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Tait, Weller & Baker LLP

Philadelphia, Pennsylvania
January 22, 2013

AMERICAN FRIENDS SERVICE COMMITTEE

STATEMENTS OF FINANCIAL POSITION

September 30, 2012 and 2011

	2012	2011
ASSETS		
ASSETS		
Cash and cash equivalents	$ 3,143,691	$ 6,473,637
Accounts and notes receivable – net	513,782	605,737
Income receivable and prepaid expenses	706,805	948,525
Investments:		
Planned giving ***(Note 3)***	63,378,251	56,452,007
Other long-term investments ***(Note 3)***	73,322,730	58,394,911
Investment in Friends Center ***(Note 4)***	3,576,818	3,732,203
Total investments	140,277,799	118,579,121
Land, buildings and equipment – net ***(Note 5)***	2,634,352	2,809,445
Other assets	121,541	300,039
Agency fund assets ***(Note 3)***	4,592,153	4,754,400
Total assets	$ 151,990,123	$ 134,470,904
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	$ 3,316,865	$ 2,348,103
Interest-free loans	1,546,064	1,521,696
Annuities and unitrusts payable ***(Note 3)***	28,584,534	27,145,021
Liability for pension benefits (***Note 6)***	11,231,601	13,706,054
Liability for post-retirement benefits ***(Note 6)***	14,933,353	24,362,762
Agency funds ***(Note 3)***	4,592,153	4,754,400
Total liabilities	64,204,570	73,838,036
NET ASSETS		
Unrestricted:		
Designated for current and future operations	28,442,871	24,783,354
Funds functioning as endowment ***(Note 7)***	12,329,478	9,980,188
Funded status of pension and informal retirement benefit plans ***(Note 6)***	(13,354,900)	(27,180,308)
Investment in Friends Center ***(Note 4)***	3,576,818	3,732,203
Land, buildings and equipment ***(Note 5)***	2,634,352	2,809,445
Total unrestricted	33,628,619	14,124,882
Temporarily restricted ***(Note 7)***:		
Time restricted	28,900,294	28,254,751
Purpose restricted	3,332,052	4,278,439
Accumulated gains on endowment assets	3,863,725	2,092,328
Total temporarily restricted assets	36,096,071	34,625,518
Permanently restricted ***(Note 7)***	18,060,863	11,882,468
Total net assets	87,785,553	60,632,868
Total liabilities and net assets	$ 151,990,123	$ 134,470,904

AMERICAN FRIENDS SERVICE COMMITTEE

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the year ended September 30, 2012 (with comparative 2011 totals)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total	2011 Total
Operating Revenues					
Public support:					
Contributions for current program work	$ 9,168,228	$ 5,161,974	$ -	$ 14,330,202	$ 15,019,143
Bequests	8,371,430	337,125	-	8,708,555	13,246,495
Contributions to planned giving program	844,129	1,222,349	-	2,066,478	428,317
Contributions to endowment funds	-	232,206	6,145,718	6,377,924	32,970
Total public support	18,383,787	6,953,654	6,145,718	31,483,159	28,726,925
Government grants	-	215,837	-	215,837	210,552
Investment income, net of payments and fees, appropriated ***(Note 3)***	1,499,883	-	-	1,499,883	1,410,747
Program service income	519,710	-	-	519,710	373,105
Miscellaneous interest and other income	107,677	-	3,539	111,216	125,560
Net assets released from restrictions	9,715,120	(9,755,979)	40,859	-	-
Total revenues	30,226,177	(2,586,488)	6,190,116	33,829,805	30,846,889
Operating Expenses					
Program services:					
International programs	9,997,974	-	-	9,997,974	10,568,896
Domestic programs	16,005,860	-	-	16,005,860	14,740,233
Total program services	26,003,834	-	-	26,003,834	25,309,129
Program Support:					
Fund-raising	3,628,927	-	-	3,628,927	3,170,425
Management and general	2,974,367	-	-	2,974,367	2,731,874
Total program support	6,603,294	-	-	6,603,294	5,902,299
Total expenses	32,607,128	-	-	32,607,128	31,211,428
Changes in net assets from operations	(2,380,951)	(2,586,488)	6,190,116	1,222,677	(364,539)
Nonoperating Changes In Net Assets					
Investment (losses)/gains not appropriated ***(Note 3)***	6,419,120	5,302,430	-	11,721,550	(2,421,139)
Actuarial gain (loss) on planned giving liabilities	3,187,472	(1,245,389)	-	1,942,083	(2,421,751)
Retiree medical payments	(73,515)	-	-	(73,515)	(66,034)
Net gain from disposal/sale of assets	-	-	-	-	68,839
Pension and benefits adjustment	12,351,611	-	-	12,351,611	(3,494,745)
Other nonoperating changes in net assets	-	-	(11,721)	(11,721)	(73,966)
Changes in net assets	19,503,737	1,470,553	6,178,395	27,152,685	(8,773,335)
Net Assets					
Beginning of year	14,124,882	34,625,518	11,882,468	60,632,868	69,406,203
End of year	$ 33,628,619	$ 36,096,071	$18,060,863	$ 87,785,553	$ 60,632,868

AMERICAN FRIENDS SERVICE COMMITTEE

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the year ended September 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total
Operating Revenues				
Public support:				
Contributions for current program work	$ 8,739,655	$ 6,279,488	$ -	$15,019,143
Bequests	12,634,785	611,710	-	13,246,495
Contributions to planned giving program	421,350	6,967	-	428,317
Contributions to endowment funds	-	-	32,970	32,970
Total public support	21,795,790	6,898,165	32,970	28,726,925
Government grants	-	210,552	-	210,552
Investment income, net of payments and fees, appropriated ***(Note 3)***	1,410,747	-	1,410,747	1,410,747
Program service income	373,105	-	-	373,105
Miscellaneous interest and other income	102,302	-	23,258	125,560
Net assets released from restrictions	8,626,399	(9,212,623)	586,224	-
Total revenues	32,308,343	(2,103,906)	642,452	30,846,889
Operating Expenses				
Program services:				
International programs	10,568,896	-	-	10,568,896
Domestic programs	14,740,233	-	-	14,740,233
Total program services	25,309,129	-	-	25,309,129
Program Support:				
Fund-raising	3,170,425	-	-	3,170,425
Management and general	2,731,874	-	-	2,731,874
Total program support	5,902,299	-	-	5,902,299
Total expenses	31,211,428	-	-	31,211,428
Changes in net assets from operations	1,096,915	(2,103,906)	642,452	(364,539)
Nonoperating Changes In Net Assets				
Investment (losses)/gains not appropriated ***(Note 3)***	(1,281,837)	(1,139,302)	-	(2,421,139)
Adjustments for changes in planned giving liabilities	-	(2,421,751)	-	(2,421,751)
Retiree medical payments	(66,034)	-	-	(66,034)
Net gain from disposal/sale of assets	68,839	-	-	68,839
Pension and benefit adjustment	(3,494,745)	-	-	(3,494,745)
Other nonoperating changes in net assets	-	-	(73,966)	(73,966)
Changes in net assets	(3,676,862)	(5,664,959)	568,486	(8,773,335)
Net Assets				
Beginning of year	17,801,744	40,290,477	11,313,982	69,406,203
End of year	$14,124,882	$34,625,518	$11,882,468	$60,632,868

AMERICAN FRIENDS SERVICE COMMITTEE

STATEMENTS OF CASH FLOWS

For the years ended September 30, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Total change in net assets	$ 27,152,685	$ (8,773,335)
Adjustments to reconcile total change in net assets to net cash (used) by operating activities		
Realized and unrealized (gains) losses on investments	(14,604,595)	2,230,597
Unrealized loss on Friends Center Corporation investment	155,385	136,885
Gain from sale of property	-	(165,571)
Loss from disposal of assets	-	96,732
Depreciation	184,423	185,156
Contributions to endowment funds	(6,377,924)	(32,970)
Contributions to planned giving program	(2,066,478)	(428,317)
Matured gifts from planned giving program	1,893,186	2,753,263
Remainder interest in life estates	165,965	-
Adjustment for changes in planned giving liabilities	5,754,030	4,053,477
Changes in assets and liabilities which provided (used) cash		
Accounts and notes receivable	91,955	247,330
Income receivable and prepaid expenses	241,720	(162,766)
Accounts payable and accrued liabilities	968,762	1,476
Liability for pension and post-retirement benefits	(11,903,862)	4,316,973
Net cash provided by operating activities	1,655,252	4,458,930
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of land, buildings, and equipment	(9,330)	(75,387)
Proceeds from the sale of property	-	291,010
Purchases of investments	(32,526,737)	(30,059,527)
Sales of investments	33,437,678	34,517,010
Net cash provided by investing activities	901,611	4,673,106
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from interest-free loans	144,007	1,900
Repayment of interest-free loans	(119,638)	(105,100)
Cash received for endowment funds	139,260	27,941
Cash received for planned giving program	157,266	287,301
Matured gifts from planned giving program	(1,893,186)	(2,753,263)
Net benefit payments to annuitants	(4,314,518)	(4,006,454)
Net cash used by financing activities	(5,886,809)	(6,547,675)
Net (decrease) increase in cash and cash equivalents	(3,329,946)	2,584,361
CASH AND CASH EQUIVALENTS		
Beginning of year	6,473,637	3,889,276
End of year	$ 3,143,691	$ 6,473,637

AMERICAN FRIENDS SERVICE COMMITTEE

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended September 30, 2012

	Program Services			Program Support			
	International	**Domestic**	**Total Program Services**	**Fund-Raising**	**Management And General**	**Total Program Support**	**Total Expenses**
Compensation Expense:							
Salaries and benefits	$ 4,413,870	$ 9,296,835	$ 13,710,705	$ 1,561,789	$ 1,835,778	$ 3,397,567	$ 17,108,272
Net periodic pension and retiree medical expense	1,051,662	2,113,001	3,164,663	450,464	262,846	713,310	3,877,973
Net compensation expense	5,465,532	11,409,836	16,875,368	2,012,253	2,098,624	4,110,877	20,986,245
Professional fees and services	612,039	1,003,632	1,615,671	230,586	194,803	425,389	2,041,060
Occupancy	520,337	927,862	1,448,199	232,904	180,439	413,343	1,861,542
Risk management insurance	81,649	115,297	196,946	9,214	28,149	37,363	234,309
Office supplies	56,426	98,028	154,454	10,618	10,078	20,696	175,150
Equipment leasing, purchase, and repairs	77,375	296,518	373,893	18,910	17,815	36,725	410,618
Program supplies	748,270	656,255	1,404,525	15,251	16,424	31,675	1,436,200
Telephone and communications	254,907	443,542	698,449	72,281	97,250	169,531	867,980
Postage and shipping	22,741	81,910	104,651	28,462	10,902	39,364	144,015
Travel	445,701	486,364	932,065	79,450	88,744	168,194	1,100,259
Conferences, conventions, and meetings	588,878	132,312	721,190	3,824	25,254	29,078	750,268
Fundraising appeals	-	-	-	810,366	28	810,394	810,394
Printing and publishing	78,001	181,935	259,936	29,683	66,641	96,324	356,260
Awards and grants	903,165	17,293	920,458	216	1,427	1,643	922,101
Miscellaneous expense	123,691	45,334	169,025	39,945	117,334	157,279	326,304
Total expenses before depreciation	9,978,712	15,896,118	25,874,830	3,593,963	2,953,912	6,547,875	32,422,705
Depreciation of buildings and equipment	19,262	109,742	129,004	34,964	20,455	55,419	184,423
Total expenses	$ 9,997,974	$ 16,005,860	$ 26,003,834	$ 3,628,927	$ 2,974,367	$ 6,603,294	$ 32,607,128

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			
	International	**Domestic**	**Total Program Services**	**Fund-Raising**	**Management And General**	**Total Program Support**	**Total Expenses**
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	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.

(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, four (4) regional offices, thirty-four (34) 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 accompanying 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.

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, 2012 and 2011, the Committee maintained bank deposits that exceeded the limit of insurability under the Federal Deposit Insurance Corporation. The Committee manages the risk by investing in high quality institutions.

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.

INVESTMENTS

Investments are stated at fair value ***(See Note 3)***. The Committee allocates investment income for program work from its endowments and funds functioning as endowments, using the total return method. The Board of Directors has established a spending rate of 5%. This spending rate, which is applied to a three-year average of the net asset value of the related endowment funds, resulted in a Board-approved allocation for program work of $1,499,883 in 2012 and $1,410,747 in 2011. 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 9 for further details on the Committee's transactions with FCC.

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 assets.

INTEREST-FREE LOANS

Interest-free loans are 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 Committee.

ACCRUED PENSION AND POST-RETIREMENT BENEFITS AND FUNDING STATUS

FASB Accounting Standards Codification ***("FASB ASC")*** Topic 715, *Compensation – Retirement Benefits* (FASB ASC 715), requires an organization to recognize the over-funded or under-funded status of a defined benefit and post-retirement benefit plan in its statement of financial position and to recognize changes in funded status in the year in which the changes occur through changes in unrestricted net assets. Any over-funded status of 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" and "liability for post-retirement benefits." Changes in the funded status, net of the net periodic benefit cost, are shown within "Nonoperating changes in net assets" on the accompanying statement of activities. Underfunded liabilities of the defined benefit pension plan of $11,231,601 and $13,706,054 and total obligations of the informal post-retirement plan of $14,933,353 and $24,362,762 have been included in the statements of financial position as of September 30, 2012 and 2011, 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.

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 and 10-year trusts.

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 underfunded as compared to the investments designated by the Committee for such purposes, but not placed in a separate trust, for the informal post-retirement benefit plan.

  - *Investment in Friends Center*: The Investment in Friends Center represents the Committee's equity in Friends Center Corporation ***(See Note 4)***.

  - *Land, building and equipment*: Land, building, and equipment is the net book value of land, buildings, furniture, and equipment.

- *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 for operations or such restrictions as noted by the donor.

CONTRIBUTIONS

Contributions and other public support are recorded as received and are considered available for unrestricted use unless specifically restricted by the donor. Investments, property, and other non-cash contributions are recorded at fair value at the date of gift or bequest. 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.

The Committee's Planned Giving Program allows donors to contribute to the Committee and at the same time receive lifetime income payments to their designated beneficiaries. The gifts are temporarily restricted until the beneficiaries' death, after which they are unrestricted unless specified otherwise by the donor.

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.

RECLASSIFICATIONS

Certain 2011 amounts have been reclassified to conform to the September 30, 2012 presentation. These changes had no impact on previously reported results of operations or total net assets.

(3) INVESTMENTS

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

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

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

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

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

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

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

Commingled Funds include Level 2 commingled funds with underlying securities that have observable Level 1 quoted inputs; however, these commingled funds are not traded in public markets and the net asset value is calculated at the end of each month and timely distributions may be requested.

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 value.

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

The summary of inputs used to value the Committee's investments as of September 30, 2012 and 2011 are as follows:

	Fair Value Measurement At Reporting Date Using:			
2012	**Total Fair Value**	**Observable Inputs (Level 1)**	**Other Observable Inputs (Level 2)**	**Unobservable Inputs (Level 3)**
Planned Giving Investments:				
Common Stocks	$ 30,994,332	$ 30,994,332	$ -	$ -
Bonds	21,882,241	-	21,882,241	-
Commingled Funds	6,893,493	-	6,893,493	-
Other	94,500	-	-	94,500
Cash and Cash Equivalents	3,513,685	3,513,685	-	-
Total Planned Giving Investments	$ 63,378,251	$ 34,508,017	$ 28,775,734	$ 94,500
Other Long Term Investments:				
Common Stocks	$ 30,028,010	$ 30,028,010	$ -	$ -
Bonds	16,374,817	-	16,374,817	-
Commingled Funds	21,534,775	-	21,534,775	-
Other	37,514	-	-	37,514
Cash and Cash Equivalents	5,347,614	5,347,614	-	-
Total Other Long-Term Investments	$ 73,322,730	$ 35,375,624	$ 37,909,592	$ 37,514
Total Investments	$ 136,700,981	$ 69,883,641	$ 66,685,326	$ 132,014
Agency Fund Assets;				
Common Stocks	$ 2,583,318	$ 2,583,318	$ -	$ -
Bonds	1,412,712	-	1,412,712	-
Commingled Funds	83,358	-	83,358	-
Other	13,500	-	-	13,500
Cash and Cash Equivalents	499,265	499,265	-	-
Total Agency Fund Assets	$ 4,592,153	$ 3,082,583	$ 1,496,070	$ 13,500

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

	Beginning Market Value	Gains/ (Losses)	Revenue	Additions/ (Withdrawals)	Ending Market Value
Planned Giving Investments	$ 77,254	$ 17,246	$ 36,957	$(36,957)	$ 94,500
Other Long-Term Investments	42,502	-	-	(4,988)	37,514
Other Investments	11,036	2,464	8,529	(8,529)	13,500
	$130,792	$ 19,710	$ 45,486	$(50,474)	$ 145,514

2011	Total Fair Value	Fair Value Measurement At Reporting Date Using: Observable Inputs (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Planned Giving Investments:				
Common Stocks	$ 25,449,862	$25,449,862	$ -	$ -
Bonds	22,369,890	-	22,369,890	-
Commingled Funds	5,943,944	-	5,943,944	-
Other	77,254	-	-	77,254
Cash and Cash Equivalents	2,611,057	2,611,057	-	-
Total Planned Giving Investments	$ 56,452,007	$28,060,919	$28,313,834	$ 77,254
Other Long Term Investments:				
Common Stocks	$ 22,331,741	$22,331,741	$ -	$ -
Bonds	19,108,236	-	19,108,236	-
Commingled Funds	16,156,601	-	16,156,601	-
Other	42,502	-	-	42,502
Cash and Cash Equivalents	755,831	755,831	-	-
Total Other Long-Term Investments	$ 58,394,911	$23,087,572	$35,264,837	$ 42,502
Total Investments	$114,846,918	$51,148,491	$63,578,671	$119,756
Agency Fund Assets;				
Common Stocks	$ 2,247,658	$ 2,247,658	$ -	$ -
Bonds	1,660,923	-	1,660,923	-
Commingled Funds	74,597	-	74,597	-
Other	17,089	6,053	-	11,036
Cash and Cash Equivalents	754,133	754,133	-	-
Total Agency Fund Assets	$ 4,754,400	$ 3,007,844	$ 1,735,520	$ 11,036

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

	Beginning Market Value	Gains/ (Losses)	Revenue	Additions/ (Withdrawals)	Ending Market Value
Planned Giving Investments	$ 70,236	$ 7,018	$ 43,260	$ (43,260)	$ 77,254
Other Long-Term Investments	42,502	-	-	-	42,502
Agency Fund Assets	10,034	1,002	5,941	(5,941)	11,036
	$ 122,772	$ 8,020	$ 49,201	$ (49,201)	$ 130,792

There were no transfers between Level 1 and Level 2 during the years ended September 30, 2012 and 2011.

Investments and unfunded commitments, by class, that are measured using Level 2 inputs and the investment objective of each holding are as follows:

	Fair Value	Unfunded Commitment
International Equity Fund [(a)]	$ 17,966,250	$ -
Global and Emerging Markets Bond Fund [(b)]	7,177,984	-
Commodity Fund [(c)]	3,367,392	-
Total Commingled Funds	$ 28,511,626	$ -

(a) This fund's investment objectives are to preserve and build capital by investing in economically and geographically diversified portfolios of non-U.S. stocks. Focus is on investments with high quality medium-to-large capitalization companies that are undervalued relative to their long-term fundamental outlook. Redemptions can be made on the first business day of each month with 10 days' notice.

(b) These fund's investment objectives are to achieve favorable income-oriented returns from globally diversified portfolios of primarily debt or debt-like securities, of both established and emerging financial markets. An associated objective is the preservation and enhancement of principal. Redemptions can be made on the first business day of each month with 10 days' notice.

(c) This fund's investment objectives are to provide an enhancement to an investor's portfolio of financial investments and to provide a partial inflation hedge with an attractive risk/return portfolio as compared to other products using a commodity index or a pool of commodities. Redemptions can be made on the first business day of each month with 5 days' notice.

Components of investment (loss) income on total investments excluding the planned giving assets other than the charitable gift annuities for the years ended September 30, 2012 and 2011 are as follows:

	2012	2011
Dividends and interest	$ 1,839,412	$ 1,886,666
Net realized and unrealized gain (loss) on investments	12,401,716	(1,947,203)
Net realized loss on FCC	(155,385)	(136,885)
Net realized gain on life estate	226,663	207,789
Investment fees	(1,090,973)	(1,020,759)
Total investment (loss) income, net of fees	13,221,433	(1,010,392)
Less: investment income appropriated	(1,499,883)	(1,410,747)
Investment (losses) gains not appropriated	$11,721,550	$ (2,421,139)

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

The 2012 reserve was calculated as follows:

Actuarial present value liability - California	$ 4,329,345
Actuarial present value liability – Florida	330,076
10% additional reserves	33,008
Actuarial present value liability – General (New York)	11,903,304
26.5% additional reserves	3,154,376
Actuarial present value liability – Tennessee	885
10% additional reserves	89
Total Required Reserve	$ 19,751,083

Gift annuity investments amounted to $25,382,222 at September 30, 2012.

(4) INVESTMENT IN FRIENDS CENTER

Summarized audited financial information for the Friends Center Corporation ***("FCC")*** for the years ended June 30, 2012 and 2011 are as follows:

Balance Sheet (Accrual Basis)

	2012	2011
Total Assets	$ 16,795,053	$ 17,342,181
Total Liabilities	$ 7,127,977	$ 7,255,145
Net Assets	9,667,076*	10,087,036*
Total Liabilities and Net Assets	$ 16,795,053	$ 17,342,181

***** The Committee's 37.0% membership interest of $3,576,818 and $3,732,203 as of June 30, 2012 and 2011, respectively, is recorded as "Investment in Friends Center" in the statement of financial position. Its share of the FCC's net changes in net assets was $(155,385) and $(136,885) for the years ended June 30, 2012 and 2011, respectively, which is disclosed within "Investment (losses)/ gains not appropriated" in the statement of activities.

(5) LAND, BUILDINGS, AND EQUIPMENT

A summary of land, buildings and equipment as of September 30, 2012 and 2011, is as follows:

	2012	2011
Non-depreciable assets		
Land	$ 58,958	$ 58,958
Depreciable assets		
Buildings	2,636,393	3,442,750
Furniture and equipment	1,099,340	1,655,211
Subtotal – depreciable assets	3,735,733	5,097,961
Accumulated depreciation	(1,160,339)	(2,347,474)
Subtotal – depreciable assets, net	2,575,394	2,750,487
Total land, buildings and equipment, net	$ 2,634,352	$ 2,809,445

Depreciation was $184,423 and $185,156 for the years ended September 30, 2012 and 2011, respectively. The Committee disposed of property during 2011, including the sale of a building for $291,010. The cost of the disposed property of $425,593 net of accumulated depreciation of $203,422 resulted in a net realized gain of $68,839.

In addition to the use of owned properties, certain of the Committee's regional offices utilize space provided by Quaker organizations at nominal rental rates.

(6) PENSION PLANS AND POSTRETIREMENT 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 also has an informal postretirement benefits plan that provides medical benefits to all its retirees who retire directly from the Committee. The Committee has designated $12,810,055 and $10,888,507 at September 30, 2012 and 2011, respectively, of investments for the informal postretirement benefits plan. The plan is discretionary and the Committee has no contractual obligation and as such, the designated investments of the plan are considered to be unrestricted, but designated for this purpose. The Committee pays the cost of the related insurance premiums when due and employees contribute to the cost of this plan.

In addition, the Committee has an actuarial liability for a supplemental retirement benefits plan designed to provide retirement benefits for employees not otherwise covered by the formal defined benefit pension plan. Payments made from this plan for the year ended September 30, 2012 and 2011 were approximately $84,000 for each year and the estimated liability recorded was $1,000,000 at September 30, 2012 and 2011.

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

	Pension Plan		Informal Postretirement Medical Benefits Plan	
	2012	2011	2012	2011
	(Dollars In Thousands)			
Fair value of plan assets	$ 39,715	$ 33,516	$ -	$ -
Projected benefit obligation	50,947	47,222	13,933	23,363
Unfunded status	$(11,232)	$(13,706)	$(13,933)	$(23,363)

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

	Defined Benefit Pension Plan		Informal Postretirement Medical Benefits Plan	
	2012	2011	2012	2011
Discount Rate	4.25%	5.45%	4.25%	5.45%
Expected return on Plan Assets	7.50%	7.50%	-	-
Rate of Compensation Increase	3.00%	3.00%	-	-

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

	Defined Benefit Pension Plan		Informal Postretirement Medical Benefits Plan	
	2012	2011	2012	2011
	(In Thousands)			
Pension expense (credit)	$ 26	$ 3,051	$(8,157)	$ 4,380
Contributions	$ 2,500	$ 2,500	$ 535	$ 614
Benefits Paid	$(2,316)	$(2,311)	$ (991)	$(1,152)
Components of Net Periodic Benefit Cost				
Service cost	$ 780	$ 902	$ 632	$ 772
Interest cost	2,459	2,327	1,175	1,123
Return on plan assets	(2,484)	(2,523)	-	-
Recognized net actuarial (gain) loss	1,050	962	228	390
Amortization of prior service cost	-	-	38	38
Net periodic pension/postretirement credit (cost)	$ 1,805	$ 1,668	$ 2,073	$ 2,323

The Committee expects to contribute $2,500,000 to its pension plan in fiscal 2013. During the year ended September 30, 2012, the Committee revised its assumptions used in valuing the post-retirement medical plan regarding the cost of health insurance for retirees and the projected medical trend for these costs which resulted in a decrease in the projected benefit obligation. This decrease was offset by a decrease in the discount rate, resulting in a credit of approximately $8.1 million.

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

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

Asset Category	2012
Equities	47.05%
Fixed Income	21.17%
Alternative Investments	27.12%
Cash and Cash Equivalents	4.66%
Total	100.00%

The summary of inputs used to value the Committee's Formal plan assets carried at fair value as of September 30, 2012 and 2011 were as follows:

	2012			
	Total	Level 1 Quoted Prices	Level 2 Other Significant Inputs	Level 3 Significant Unobservable Inputs
Common Stock	$ 18,618,898	$ 18,618,898	$ -	$ -
Bonds	8,397,575	-	8,397,575	-
Commingled Funds	10,701,177	-	10,701,177	-
Cash and Cash Equivalents	1,997,333	1,997,333	-	-
	$ 39,714,983	$ 20,616,231	$ 19,098,752	$ -

	2011			
	Total	Level 1 Quoted Prices	Level 2 Other Significant Inputs	Level 3 Significant Unobservable Inputs
Common Stocks	$ 14,859,668	$ 14,859,668	$ -	$ -
Bonds	7,798,512	-	7,798,512	-
Commingled Funds	8,582,416	-	8,582,416	-
Cash and Cash Equivalents	2,275,815	2,275,815	-	-
	$ 33,516,411	$ 17,135,483	$ 16,380,928	$ -

Investments and unfunded commitments, by class, that are measured using Level 2 inputs and the investment objective of each holding are as follows:

	Fair Value	Unfunded Commitment
International Equity Fund [(a)]	$ 2,727,806	$ -
Global and Emerging Markets Bond Funds [(b)]	7,973,371	-
Total Commingled Funds	$ 10,701,177	$ -

(a) This fund's investment objectives are to preserve and build capital by investing in economically and geographically diversified portfolios of 40 to 60 non-U.S. stocks. Focus is on investments with high quality medium-to-large capitalization companies that are undervalued relative to their long-term fundamental outlook. Redemptions can be made on the first business day of each month with 10 days' notice.

(b) This fund's investment objectives are to achieve favorable income-oriented returns from globally diversified portfolios of primarily debt or debt-like securities, of both established and emerging financial markets. An associated objective is the preservation and enhancement of principal. Redemptions can be made on the first business day of each month with 10 days' notice.

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
2013	$ 2,447,000	$ 589,000
2014	2,455,000	536,000
2015	2,500,000	508,000
2016	2,545,000	530,000
2017	2,606,000	578,000
2018 – 2022	14,262,000	3,413,000
Total	$26,815,000	$ 6,154,000

(7) NET ASSETS

Temporarily restricted net assets for 2012 and 2011 are available for the following purposes:

	2012	2011
Purpose-restricted		
International programs	$ 922,518	$ 2,036,351
Domestic programs	1,456,470	1,929,597
Program support	953,064	312,491
Total purpose restricted	3,332,052	4,278,439
Time-restricted (planned gifts)*	28,900,924	28,254,751
Accumulated gain on endowment assets	3,863,725	2,092,328
Total	$36,096,701	$34,625,518

**** Includes $2,925,189 and $2,406,600 of term endowments as of September 30, 2012 and 2011, respectively.***

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

	2012
International Programs	$3,090,354
Domestic Programs	3,045,112
Program Support	525,856
Time Restrictions met	3,094,657
	$9,755,979

PERMANENTLY RESTRICTED NET ASSETS 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.

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.

Endowment net asset composition by type of fund as of September 30, 2012 and 2011:

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$ 6,788,914	$18,060,863	$24,849,777
Funds functioning as endowment	12,329,478	-	-	12,329,478
Total funds	$12,329,478	$ 6,788,914	$18,060,863	$37,179,255

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$4,498,928	$11,882,468	$16,381,396
Funds functioning as endowment	9,980,188	-	-	9,980,188
Total funds	$9,980,188	$4,498,928	$11,882,468	$26,361,584

Change in endowment net assets for the years ended September 30, 2012 and 2011:

	2012			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment net assets, September 30, 2011	$ 9,980,188	$ 4,498,928	$11,882,468	$26,361,584
Investment return:				
Investment income	199,710	360,769	-	560,479
Net realized/unrealized gains	1,649,634	2,682,450	-	4,332,084
Total investment return	1,849,344	3,043,219	-	4,892,563
Contributions	751,702	232,206	6,190,116	7,174,024
Appropriation of assets for expenditure in accordance with the spending policy	(540,552)	(959,331)	-	(1,499,883)
Other changes:				
Funds functioning as endowment principal transferred to program	288,796	-	-	288,796
Term endowment principal transferred to general funds	-	(26,108)	-	(26,108)
Property transferred in/out of endowment net assets	-	-	(11,721)	(11,721)
Endowment net assets, September 30, 2012	$12,329,478	$ 6,788,914	$18,060,863	$37,179,255

	2011			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
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 realized/unrealized losses	(264,639)	(435,973)	-	(700,612)
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	-	-	(73,966)	(73,966)
Endowment net assets, September 30, 2011	$ 9,980,188	$4,498,928	$11,882,468	$26,361,584

FUNDS WITH DEFICIENCIES

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or state standards require the Committee to retain as a fund of perpetual duration. There were no such deficiencies as of September 30, 2012 and 2011.

(8) RELATED PARTY TRANSACTIONS

In connection with the renovations of the Friends Center, Economic Development Revenue Bonds (“Bonds”) were issued through the Industrial Development Authority to The Friends Center. The Friends Center is responsible for the payment of debt service on the Bonds, which is passed onto the partners of the Friends Center in the annual rent. At June 30, 2012, the Bonds, which mature in 2038, had an outstanding balance of approximately $7 million and is guaranteed, jointly and severally by the Committee and the other partners of the Friends Center.

(9) ALLOCATION OF JOINT COSTS

For the years ended September 30, 2012 and 2011, the Committee incurred joint costs of $3,267,408 and $3,073,886 for informational materials and activities that included fund-raising appeals. For the years ended September 30, 2012 and 2011, these joint costs were allocated as follows:

	2012	**2011***
Fundraising	$1,633,704	$1,536,943
International Programs	753,989	661,112
US Programs	879,715	875,831
Total	$3,267,408	$3,073,886

*** Figures from 2011 are restated to conform to 2012 presentation.***

(10) COMMITMENTS

COMMITMENTS

The Committee leases certain facilities where the Committee has program offices under leases expiring through July 2018. In addition, the Committee leases certain office equipment under operating leases expiring through 2017. Most international office leases are paid in advance or are month-to-month basis.

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

Year ending September 30,	
2013	$366,000
2014	218,700
2015	77,700
2016	30,200
2017	28,200
2018 and thereafter	21,900
Future minimum lease payments	$742,700

(11) SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 22, 2013, the date which the financial statements were available to be issued. There were no material subsequent events required to be disclosed.