

# **AMERICAN FRIENDS SERVICE COMMITTEE**

***FINANCIAL STATEMENTS AND  
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS***

**SEPTEMBER 30, 2013 AND 2012**

# AMERICAN FRIENDS SERVICE COMMITTEE

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

**To the Board of Director  
American Friends Service Committee  
Philadelphia, Pennsylvania**

We have audited the accompanying financial statements of American Friends Service Committee (the "Committee") which comprise the statement of financial position as of September 30, 2013 and 2012, and the statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *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, 2013 and 2012, the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

*Tait, Weller & Baker LLP*

**Philadelphia, Pennsylvania  
January 9, 2014**

# AMERICAN FRIENDS SERVICE COMMITTEE

## STATEMENTS OF FINANCIAL POSITION

September 30, 2013 And 2012

	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,569,386	\$ 3,143,691
Accounts and notes receivable – net	153,413	513,782
Income receivable and prepaid expenses	955,306	706,805
Investments:		
Planned giving ( <i>Note 3</i> )	62,794,931	63,378,251
Other long-term investments ( <i>Note 3</i> )	81,237,226	73,322,730
Investment in Friends Center ( <i>Note 4</i> )	<u>3,469,620</u>	<u>3,576,818</u>
<b>Total investments</b>	147,501,777	140,277,799
Land, buildings and equipment – net ( <i>Note 5</i> )	2,489,852	2,634,352
Other assets	78,631	121,541
Agency fund assets ( <i>Note 3</i> )	<u>3,876,702</u>	<u>4,592,153</u>
<b>Total assets</b>	<u>\$ 157,625,067</u>	<u>\$ 151,990,123</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 3,776,414	\$ 3,316,865
Interest-free loans	1,459,655	1,546,064
Annuities and unitrusts payable ( <i>Note 3</i> )	28,103,740	28,584,534
Liability for pension benefits ( <i>Note 6</i> )	4,222,585	11,231,601
Liability for post-retirement benefits ( <i>Note 6</i> )	12,939,434	14,933,353
Agency funds ( <i>Note 3</i> )	<u>3,876,702</u>	<u>4,592,153</u>
<b>Total liabilities</b>	<u>54,378,530</u>	<u>64,204,570</u>
<b>NET ASSETS</b>		
Unrestricted:		
Designated for current and future operations	31,196,509	28,442,871
Funds functioning as endowment ( <i>Note 7</i> )	15,784,472	12,329,478
Funded status of pension and informal retirement benefit plans ( <i>Note 6</i> )	(2,704,779)	(13,354,900)
Investment in Friends Center ( <i>Note 4</i> )	3,469,620	3,576,818
Land, buildings and equipment ( <i>Note 5</i> )	<u>2,489,852</u>	<u>2,634,352</u>
<b>Total unrestricted</b>	<u>50,235,674</u>	<u>33,628,619</u>
Temporarily restricted ( <i>Note 7</i> ):		
Time restricted	27,155,138	28,900,294
Purpose restricted	2,360,771	3,332,052
Accumulated gains on endowment assets	<u>5,310,479</u>	<u>3,863,725</u>
<b>Total temporarily restricted assets</b>	<u>34,826,388</u>	<u>36,096,071</u>
Permanently restricted ( <i>Note 7</i> )	<u>18,184,475</u>	<u>18,060,863</u>
<b>Total net assets</b>	<u>103,246,537</u>	<u>87,785,553</u>
<b>Total liabilities and net assets</b>	<u>\$ 157,625,067</u>	<u>\$ 151,990,123</u>

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

# AMERICAN FRIENDS SERVICE COMMITTEE

## STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For The Year Ended September 30, 2013 (With Comparative 2012 Totals)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2013 Total</u>	<u>2012 Total</u>
<b>Operating Revenues</b>					
Public support:					
Contributions for current program work	\$ 9,938,405	\$ 5,369,324	\$ -	\$ 15,307,729	\$ 14,330,202
Bequests	7,560,344	1,175,663	-	8,736,007	8,708,555
Contributions to planned giving program	1,920,253	114,931	-	2,035,184	2,066,478
Contributions to endowment funds	-	-	137,748	137,748	6,377,924
<b>Total public support</b>	<b>19,419,002</b>	<b>6,659,918</b>	<b>137,748</b>	<b>26,216,668</b>	<b>31,483,159</b>
Government grants	-	93,104	-	93,104	215,837
Investment income, net of fees, appropriated ( <i>Note 3</i> )	1,833,521	-	-	1,833,521	1,499,883
Program service income	425,778	-	-	425,778	519,710
Miscellaneous interest and other income	47,868	-	2,228	50,096	111,216
Net assets released from restrictions	9,785,031	(9,785,031)	-	-	-
<b>Total revenues</b>	<b>31,511,200</b>	<b>(3,032,009)</b>	<b>139,976</b>	<b>28,619,167</b>	<b>33,829,805</b>
<b>Operating Expenses</b>					
Program services:					
International programs	9,480,617	-	-	9,480,617	9,997,974
U.S. programs	16,363,873	-	-	16,363,873	16,005,860
<b>Total program services</b>	<b>25,844,490</b>	<b>-</b>	<b>-</b>	<b>25,844,490</b>	<b>26,003,834</b>
Program Support:					
Fund-raising	3,500,974	-	-	3,500,974	3,628,927
Management and general	2,882,849	-	-	2,882,849	2,974,367
<b>Total program support</b>	<b>6,383,823</b>	<b>-</b>	<b>-</b>	<b>6,383,823</b>	<b>6,603,294</b>
<b>Total expenses</b>	<b>32,228,313</b>	<b>-</b>	<b>-</b>	<b>32,228,313</b>	<b>32,607,128</b>
<b>Changes in net assets from operations</b>	<b>(717,113)</b>	<b>(3,032,009)</b>	<b>139,976</b>	<b>(3,609,146)</b>	<b>1,222,677</b>
<b>Nonoperating Changes In Net Assets</b>					
Investment gains not appropriated ( <i>Note 3</i> )	6,996,558	1,628,420	-	8,624,978	11,721,550
Actuarial gain on planned giving liabilities	2,347,683	133,906	-	2,481,589	1,942,083
Retiree medical payments	(78,256)	-	-	(78,256)	(73,515)
Net gain from disposal/sale of assets	1,581	-	-	1,581	-
Pension and benefits adjustment	8,056,602	-	-	8,056,602	12,351,611
Other nonoperating changes in net assets	-	-	(16,364)	(16,364)	(11,721)
<b>Changes in net assets</b>	<b>16,607,055</b>	<b>(1,269,683)</b>	<b>123,612</b>	<b>15,460,984</b>	<b>27,152,685</b>
<b>Net Assets</b>					
Beginning of year	33,628,619	36,096,071	18,060,863	87,785,553	60,632,868
End of year	<u>\$ 50,235,674</u>	<u>\$ 34,826,388</u>	<u>\$ 18,184,475</u>	<u>\$ 103,246,537</u>	<u>\$ 87,785,553</u>

# AMERICAN FRIENDS SERVICE COMMITTEE

## STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For The Year Ended September 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2012 Total</u>
<b>Operating Revenues</b>				
Public support:				
Contributions for current program work	\$ 9,168,228	\$ 5,161,974	\$ -	\$ 14,330,202
Bequests	8,371,430	337,125	-	8,708,555
Contributions to planned giving program	844,129	1,222,349	-	2,066,478
Contributions to endowment funds	-	232,206	6,145,718	6,377,924
<b>Total public support</b>	<b>18,383,787</b>	<b>6,953,654</b>	<b>6,145,718</b>	<b>31,483,159</b>
Government grants	-	215,837	-	215,837
Investment income, net of fees, appropriated ( <i>Note 3</i> )	1,499,883	-	-	1,499,883
Program service income	519,710	-	-	519,710
Miscellaneous interest and other income	107,677	-	3,539	111,216
Net assets released from restrictions	9,715,120	(9,755,979)	40,859	-
<b>Total revenues</b>	<b>30,226,177</b>	<b>(2,586,488)</b>	<b>6,190,116</b>	<b>33,829,805</b>
<b>Operating Expenses</b>				
Program services:				
International programs	9,997,974	-	-	9,997,974
U.S. programs	16,005,860	-	-	16,005,860
<b>Total program services</b>	<b>26,003,834</b>	<b>-</b>	<b>-</b>	<b>26,003,834</b>
Program Support:				
Fund-raising	3,628,927	-	-	3,628,927
Management and general	2,974,367	-	-	2,974,367
<b>Total program support</b>	<b>6,603,294</b>	<b>-</b>	<b>-</b>	<b>6,603,294</b>
<b>Total expenses</b>	<b>32,607,128</b>	<b>-</b>	<b>-</b>	<b>32,607,128</b>
<b>Changes in net assets from operations</b>	<b>(2,380,951)</b>	<b>(2,586,488)</b>	<b>6,190,116</b>	<b>1,222,677</b>
<b>Nonoperating Changes In Net Assets</b>				
Investment (losses)/gains not appropriated ( <i>Note 3</i> )	6,419,120	5,302,430	-	11,721,550
Actuarial gain (loss) on planned giving liabilities	3,187,472	(1,245,389)	-	1,942,083
Retiree medical payments	(73,515)	-	-	(73,515)
Net gain from disposal/sale of assets	-	-	-	-
Pension and benefits adjustment	12,351,611	-	-	12,351,611
Other nonoperating changes in net assets	-	-	(11,721)	(11,721)
<b>Changes in net assets</b>	<b>19,503,737</b>	<b>1,470,553</b>	<b>6,178,395</b>	<b>27,152,685</b>
<b>Net Assets</b>				
Beginning of year	14,124,882	34,625,518	11,882,468	60,632,868
End of year	<u>\$ 33,628,619</u>	<u>\$ 36,096,071</u>	<u>\$ 18,060,863</u>	<u>\$ 87,785,553</u>

# AMERICAN FRIENDS SERVICE COMMITTEE

## STATEMENTS OF CASH FLOWS

For The Years Ended September 30, 2013 And 2012

	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<i>Total change in net assets</i>	\$ 15,460,984	\$ 27,152,685
<i>Adjustments to reconcile total change in net assets to net cash (used) by operating activities</i>		
Realized and unrealized gains on investments	(9,938,350)	(12,401,716)
Unrealized loss on Friends Center Corporation investment	107,198	155,385
Depreciation	177,975	184,423
Contributions to endowment funds	(137,748)	(6,377,924)
Contributions to planned giving program	(2,035,184)	(2,066,478)
Matured gifts from planned giving program	3,506,919	1,893,186
Remainder interest in life estates	679,581	2,323,619
Adjustment for changes in planned giving liabilities	1,255,252	1,227,532
Adjustment for changes in pension and post-retirement benefits	(8,056,602)	(12,351,611)
Changes in assets and liabilities which provided (used) cash		
Accounts and notes receivable	360,369	91,955
Income receivable and prepaid expenses	(248,501)	241,720
Accounts payable and accrued liabilities	459,549	968,762
Liability for pension and post-retirement benefits	(946,333)	447,749
<b>Net cash provided by operating activities</b>	<u>645,109</u>	<u>1,489,287</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of land, buildings, and equipment	(33,475)	(9,330)
Purchases of investments	(39,062,072)	(32,526,737)
Sales of investments	<u>43,626,589</u>	<u>33,603,643</u>
<b>Net cash provided by investing activities</b>	<u>4,531,042</u>	<u>1,067,576</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from interest-free loans	65,000	144,007
Repayment of interest-free loans	(151,409)	(119,638)
Cash received for endowment funds	136,675	139,260
Cash received for planned giving program	1,554,368	157,266
Matured gifts from planned giving program	(3,506,919)	(1,893,186)
Net benefit payments to annuitants	<u>(3,848,171)</u>	<u>(4,314,518)</u>
<b>Net cash used by financing activities</b>	<u>(5,750,456)</u>	<u>(5,886,809)</u>
<b>Net decrease in cash and cash equivalents</b>	(574,305)	(3,329,946)
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>3,143,691</u>	<u>6,473,637</u>
End of year	<u>\$ 2,569,386</u>	<u>\$ 3,143,691</u>

# AMERICAN FRIENDS SERVICE COMMITTEE

## STATEMENT OF FUNCTIONAL EXPENSES

For The Year Ended September 30, 2013

	Program Services			Program Support			Total Expenses
	International	U.S	Total Program Services	Fund-Raising	Management and General	Total Program Support	
Compensation Expense:							
Salaries and benefits	\$ 4,421,414	\$ 10,497,480	\$ 14,918,894	\$ 1,726,311	\$ 1,794,559	\$ 3,520,870	\$ 18,439,764
Net periodic pension and retiree medical expense	<u>464,489</u>	<u>1,185,755</u>	<u>1,650,244</u>	<u>197,678</u>	<u>200,729</u>	<u>398,407</u>	<u>2,048,651</u>
Net compensation expense	4,885,903	11,683,235	16,569,138	1,923,989	1,995,288	3,919,277	20,488,415
Professional fees and services	550,942	855,040	1,405,982	153,867	221,768	375,635	1,781,617
Occupancy	459,871	882,581	1,342,452	209,988	189,489	399,477	1,741,929
Risk management insurance	84,021	132,288	216,309	11,009	33,697	44,706	261,015
Office supplies	45,577	121,802	167,379	9,163	13,094	22,257	189,636
Equipment leasing, purchase, and repairs	153,752	253,266	407,018	10,786	17,778	28,564	435,582
Program supplies	579,577	222,604	802,181	9,398	16,171	25,569	827,750
Telephone and communications	184,275	358,555	542,830	52,539	87,427	139,966	682,796
Postage and shipping	15,614	66,237	81,851	8,310	18,638	26,948	108,799
Travel	516,027	753,216	1,269,243	123,271	137,770	261,041	1,530,284
Conferences, conventions, and meetings	516,234	114,610	630,844	11,668	14,944	26,612	657,456
Fundraising appeals	221,631	554,969	776,600	880,931	10,036	890,967	1,667,567
Printing and publishing	86,941	198,745	285,686	37,158	77,571	114,729	400,415
Awards and grants	1,066,686	19,854	1,086,540	96	7,341	7,437	1,093,977
Miscellaneous expense	<u>95,082</u>	<u>42,831</u>	<u>137,913</u>	<u>23,719</u>	<u>21,468</u>	<u>45,187</u>	<u>183,100</u>
Total expenses before depreciation	9,462,133	16,259,833	25,721,966	3,465,892	2,862,480	6,328,372	32,050,338
Depreciation of buildings and equipment	<u>18,484</u>	<u>104,040</u>	<u>122,524</u>	<u>35,082</u>	<u>20,369</u>	<u>55,451</u>	<u>177,975</u>
Total expenses	<u>\$ 9,480,617</u>	<u>\$ 16,363,873</u>	<u>\$ 25,844,490</u>	<u>\$ 3,500,974</u>	<u>\$ 2,882,849</u>	<u>\$ 6,383,823</u>	<u>\$ 32,228,313</u>

# AMERICAN FRIENDS SERVICE COMMITTEE

## STATEMENT OF FUNCTIONAL EXPENSES

For The Year Ended September 30, 2012

	Program Services			Program Support			Total Expenses
	International	U.S	Total Program Services	Fund-Raising	Management and General	Total Program Support	
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	<u>1,051,662</u>	<u>2,113,001</u>	<u>3,164,663</u>	<u>450,464</u>	<u>262,846</u>	<u>713,310</u>	<u>3,877,973</u>
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	<u>123,691</u>	<u>45,334</u>	<u>169,025</u>	<u>39,945</u>	<u>117,334</u>	<u>157,279</u>	<u>326,304</u>
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	<u>19,262</u>	<u>109,742</u>	<u>129,004</u>	<u>34,964</u>	<u>20,455</u>	<u>55,419</u>	<u>184,423</u>
Total expenses	<u>\$ 9,997,974</u>	<u>\$ 16,005,860</u>	<u>\$ 26,003,834</u>	<u>\$ 3,628,927</u>	<u>\$ 2,974,367</u>	<u>\$ 6,603,294</u>	<u>\$ 32,607,128</u>

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

# AMERICAN FRIENDS SERVICE COMMITTEE

## NOTES TO FINANCIAL STATEMENTS

For The Years Ended September 30, 2013 And 2012

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### (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, 2013 and 2012, the Committee maintained bank deposits that exceeded the limit of insurability under the Federal Deposit Insurance Corporation. The risk is managed by monitoring the financial institutions in which deposits are made.

#### ***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 \$1,833,521 in 2013 and \$1,499,883 in 2012. This allocated investment income is included in operating revenue on the statement of activities. Investment return on long-term investments not allocated for operations is included in “Non-operating changes in net assets” on the statement of activities.

# AMERICAN FRIENDS SERVICE COMMITTEE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2013 And 2012

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### **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.

### **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 as assets. 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 \$4,222,585 and \$11,231,601 and total obligations of the informal post-retirement plan of \$12,939,434 and \$14,933,353 have been included in the statements of financial position as of September 30, 2013 and 2012, respectively.

# AMERICAN FRIENDS SERVICE COMMITTEE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

### For The Years Ended September 30, 2013 And 2012

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#### **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 7.5% 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, 10-year trusts, and charitable trusts that designate a third party remainderman.

#### **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 funded 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.

# AMERICAN FRIENDS SERVICE COMMITTEE

## *NOTES TO FINANCIAL STATEMENTS – (Continued)*

**For The Years Ended September 30, 2013 And 2012**

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### ***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. Charitable gift annuities and charitable gift funds are classified as unrestricted. All other planned gifts are classified as 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.

### ***PRIOR YEAR INFORMATION***

The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Committee's audited financial statements for the year ended September 30, 2012, from which the summarized information was derived.

### ***RECLASSIFICATIONS***

Certain reclassifications were made to the 2012 financial statements to conform to the 2013 presentation.

# AMERICAN FRIENDS SERVICE COMMITTEE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

### For The Years Ended September 30, 2013 And 2012

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#### (3) INVESTMENTS

The Committee used 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.

*Mutual Funds:* Level 1 mutual funds represent international equity funds. 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, leases, property for resale, and insurance policies and are generally listed at 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, 2013 and 2012 are as follows:

# AMERICAN FRIENDS SERVICE COMMITTEE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2013 And 2012

<u>2013</u>	<u>Fair Value Measurement At Reporting Date Using:</u>			
	<u>Total Fair Value</u>	<u>Observable Inputs (Level 1)</u>	<u>Other Observable Inputs (Level 2)</u>	<u>Unobservable Inputs (Level 3)</u>
<b>Planned Giving Investments:</b>				
Common Stocks	\$ 27,484,997	\$ 27,484,997	\$ -	\$ -
Mutual Funds	5,255,732	5,255,732	-	-
Bonds	20,172,648	-	20,172,648	-
Commingled Funds	6,847,256	-	6,847,256	-
Other	64,995	-	-	64,995
Cash and Cash Equivalents	<u>2,969,303</u>	<u>2,969,303</u>	<u>-</u>	<u>-</u>
<b>Total Planned Giving Investments</b>	<b><u>\$ 62,794,931</u></b>	<b><u>\$ 35,710,032</u></b>	<b><u>\$ 27,019,904</u></b>	<b><u>\$ 64,995</u></b>
<b>Other Long Term Investments:</b>				
Common Stocks	\$ 36,716,827	\$ 36,716,827	\$ -	\$ -
Bonds	16,610,505	-	16,610,505	-
Commingled Funds	24,580,846	-	24,580,846	-
Other	59,179	-	-	59,179
Cash and Cash Equivalents	<u>3,269,869</u>	<u>3,269,869</u>	<u>-</u>	<u>-</u>
<b>Total Other Long-Term Investments</b>	<b><u>\$ 81,237,226</u></b>	<b><u>\$ 39,986,696</u></b>	<b><u>\$ 41,191,351</u></b>	<b><u>\$ 59,179</u></b>
<b>Total Investments</b>	<b><u>\$ 144,032,157</u></b>	<b><u>\$ 75,696,728</u></b>	<b><u>\$ 68,211,255</u></b>	<b><u>\$ 124,174</u></b>
<b>Agency Fund Assets:</b>				
Common Stocks	\$ 1,517,520	\$ 1,517,520	\$ -	\$ -
Mutual Funds	563,820	563,820	-	-
Bonds	1,435,414	-	1,435,414	-
Commingled Funds	6,006	-	6,006	-
Cash and Cash Equivalents	<u>353,942</u>	<u>353,942</u>	<u>-</u>	<u>-</u>
<b>Total Agency Fund Assets</b>	<b><u>\$ 3,876,702</u></b>	<b><u>\$ 2,435,282</u></b>	<b><u>\$ 1,441,420</u></b>	<b><u>\$ -</u></b>

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

	<u>Beginning Market Value</u>	<u>Gains/ (Losses)</u>	<u>Revenue</u>	<u>Additions/ (Withdrawals)</u>	<u>Ending Market Value</u>
Planned Giving Investments	\$ 94,500	\$(21,340)	\$ 43,647	\$ (51,812)	\$ 64,995
Other Long-Term Investments	37,514	-	-	21,665	59,179
Other Investments	<u>13,500</u>	<u>-</u>	<u>-</u>	<u>(13,500)</u>	<u>-</u>
	<b><u>\$ 145,514</u></b>	<b><u>\$ (21,340)</u></b>	<b><u>\$ 43,647</u></b>	<b><u>\$ (43,647)</u></b>	<b><u>\$ 124,174</u></b>

# AMERICAN FRIENDS SERVICE COMMITTEE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2013 And 2012

<u>2012</u>	<u>Fair Value Measurement At Reporting Date Using:</u>			
	<u>Total Fair Value</u>	<u>Observable Inputs (Level 1)</u>	<u>Other Observable Inputs (Level 2)</u>	<u>Unobservable Inputs (Level 3)</u>
<b>Planned Giving Investments:</b>				
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	<u>3,513,685</u>	<u>3,513,685</u>	<u>-</u>	<u>-</u>
<b>Total Planned Giving Investments</b>	<u>\$ 63,378,251</u>	<u>\$ 34,508,017</u>	<u>\$ 28,775,734</u>	<u>\$ 94,500</u>
<b>Other Long Term Investments:</b>				
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	<u>5,347,614</u>	<u>5,347,614</u>	<u>-</u>	<u>-</u>
<b>Total Other Long-Term Investments</b>	<u>\$ 73,322,730</u>	<u>\$ 35,375,624</u>	<u>\$ 37,909,592</u>	<u>\$ 37,514</u>
<b>Total Investments</b>	<u>\$ 136,700,981</u>	<u>\$ 69,883,641</u>	<u>\$ 66,685,326</u>	<u>\$ 132,014</u>
<b>Agency Fund Assets;</b>				
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	<u>499,265</u>	<u>499,265</u>	<u>-</u>	<u>-</u>
<b>Total Agency Fund Assets</b>	<u>\$ 4,592,153</u>	<u>\$ 3,082,583</u>	<u>\$ 1,496,070</u>	<u>\$ 13,500</u>

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

	<u>Beginning Market Value</u>	<u>Gains/ (Losses)</u>	<u>Revenue</u>	<u>Additions/ (Withdrawals)</u>	<u>Ending Market Value</u>
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	<u>11,036</u>	<u>2,464</u>	<u>8,529</u>	<u>(8,529)</u>	<u>13,500</u>
	<u>\$ 130,792</u>	<u>\$ 19,710</u>	<u>\$ 45,486</u>	<u>\$ (50,474)</u>	<u>\$ 145,514</u>

# AMERICAN FRIENDS SERVICE COMMITTEE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

### For The Years Ended September 30, 2013 And 2012

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There were no transfers between Level 1 and Level 2 during the years ended September 30, 2013 and 2012.

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

	<u>Fair Value</u>	<u>Unfunded Commitment</u>
International Equity Fund <sup>(a)</sup>	\$ 20,239,798	\$ -
Global and Emerging Markets Bond Fund <sup>(b)</sup>	7,637,349	-
Commodity Fund <sup>(c)</sup>	<u>3,556,961</u>	<u>-</u>
Total Commingled Funds	<u>\$ 31,434,108</u>	<u>\$ -</u>

- (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, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Dividends and interest	\$ 1,886,935	\$ 1,839,412
Net realized and unrealized gain on investments	9,938,350	12,401,716
Net realized loss on FCC	(107,198)	(155,385)
Net realized (loss)/gain on life estate	(38,715)	226,663
Investment fees	<u>(1,220,873)</u>	<u>(1,090,973)</u>
Total investment income, net of fees	10,458,499	13,221,433
Less: investment income appropriated	<u>(1,833,521)</u>	<u>(1,499,883)</u>
Investment gains not appropriated	<u>\$ 8,624,978</u>	<u>\$ 11,721,550</u>

# AMERICAN FRIENDS SERVICE COMMITTEE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

### For The Years Ended September 30, 2013 And 2012

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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 2013 reserve was calculated as follows:

Actuarial present value liability - California	\$ 3,593,437
Actuarial present value liability – Florida	271,570
10% additional reserves	27,157
Actuarial present value liability – General (New York)	10,584,465
26.5% additional reserves	2,804,883
Actuarial present value liability – Tennessee	10,466
10% additional reserves	<u>1,047</u>
Total Required Reserve	<u>\$ 17,293,025</u>

Gift annuity investments amounted to \$25,084,832 at September 30, 2013.

#### (4) INVESTMENT IN FRIENDS CENTER

Summarized audited financial information for the Friends Center Corporation (“FCC”) for the years ended June 30, 2013 and 2012 are as follows:

	<u>Balance Sheet (Accrual Basis)</u>	
	<u>2013</u>	<u>2012</u>
Total Assets	<u>\$ 16,393,305</u>	<u>\$ 16,795,053</u>
Total Liabilities	\$ 7,015,954	\$ 7,127,977
Net Assets	<u>9,377,351*</u>	<u>9,667,076*</u>
Total Liabilities and Net Assets	<u>\$ 16,393,305</u>	<u>\$ 16,795,053</u>

\* The Committee's 37.0% equity interest of \$3,469,620 and \$3,576,818 as of June 30, 2013 and 2012, 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 \$(107,198) and \$(155,385) for the years ended June 30, 2013 and 2012, respectively, which is disclosed within “Investment (losses)/gains not appropriated” in the statement of activities.

# AMERICAN FRIENDS SERVICE COMMITTEE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

### For The Years Ended September 30, 2013 And 2012

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#### (5) LAND, BUILDINGS, AND EQUIPMENT

A summary of land, buildings and equipment as of September 30, 2013 and 2012, is as follows:

	<u>2013</u>	<u>2012</u>
<b>Non-depreciable assets</b>		
Land	\$ 58,958	\$ 58,958
<b>Depreciable assets</b>		
Buildings	2,636,393	2,636,393
Furniture and equipment	<u>1,132,815</u>	<u>1,099,340</u>
Subtotal – depreciable assets	3,769,208	3,735,733
Accumulated depreciation	<u>(1,338,314)</u>	<u>(1,160,339)</u>
Subtotal – depreciable assets, net	<u>2,430,894</u>	<u>2,575,394</u>
Total land, buildings and equipment, net	<u>\$ 2,489,852</u>	<u>\$ 2,634,352</u>

Depreciation was \$177,975 and \$184,423 for the years ended September 30, 2013 and 2012, respectively.

#### (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 \$14,457,241 and \$12,810,055 at September 30, 2013 and 2012, 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, 2013 and 2012 were approximately \$84,000 for each year and the estimated liability recorded was \$1,000,000 at September 30, 2013 and 2012.

# AMERICAN FRIENDS SERVICE COMMITTEE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

### For The Years Ended September 30, 2013 And 2012

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

	<u>Pension Plan</u>		<u>Informal Postretirement Medical Benefits Plan</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	<u>(Dollars In Thousands)</u>			
Fair value of plan assets	\$ 45,223	\$ 39,715	\$ -	\$ -
Projected benefit obligation	<u>49,446</u>	<u>50,947</u>	<u>11,939</u>	<u>13,933</u>
Unfunded status	<u>\$ (4,223)</u>	<u>\$ (11,232)</u>	<u>\$ (11,939)</u>	<u>\$ (13,933)</u>

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:

	<u>Defined Benefit Pension Plan</u>		<u>Informal Postretirement Medical Benefits Plan</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Discount Rate	5.00%	4.25%	5.00%	4.25%
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:

	<u>Defined Benefit Pension Plan</u>		<u>Informal Postretirement Medical Benefits Plan</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	<u>(In Thousands)</u>			
Pension expense (credit)	\$ 4,509	\$ 26	\$ (1,521)	\$ (8,855)
Contributions	\$ 2,500	\$ 2,500	\$ 473	\$ 575
Benefits Paid	<u>\$ (2,267)</u>	<u>\$ (2,316)</u>	<u>\$ (861)</u>	<u>\$ (991)</u>
Components of Net Periodic Benefit Cost				
Service cost	\$ 987	\$ 780	\$ 366	\$ 632
Interest cost	2,178	2,459	538	1,175
Return on plan assets	(2,948)	(2,484)	-	-
Recognized net actuarial (gain) loss	1,355	1,050	(453)	228
Amortization of prior service cost	<u>-</u>	<u>-</u>	<u>25</u>	<u>38</u>
Net periodic pension/postretirement cost	<u>\$ 1,572</u>	<u>\$ 1,805</u>	<u>\$ 476</u>	<u>\$ 2,073</u>

The Committee expects to contribute \$2,500,000 to its pension plan in fiscal 2014. 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 \$12.4 million for the year ended September 30, 2012. The credit of approximately \$8.1 million for the year ended September 30, 2013 was a result primarily of the increase in the discount rate and investment performance on the plan assets.

# AMERICAN FRIENDS SERVICE COMMITTEE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

### For The Years Ended September 30, 2013 And 2012

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:

<u>Asset Category</u>	<u>2013</u>
Equities	47.30%
Fixed Income	20.14%
Commingled Funds	27.70%
Cash and Cash Equivalents	<u>4.86%</u>
Total	<u>100.00%</u>

The summary of inputs used to value the Committee's Formal plan assets carried at fair value as of September 30, 2013 and 2012 were as follows:

	<u>2013</u>			
	<u>Total</u>	<u>Level 1 Quoted Prices</u>	<u>Level 2 Other Significant Inputs</u>	<u>Level 3 Significant Unobservable Inputs</u>
Common Stock	\$ 21,392,108	\$ 21,392,108	\$ -	\$ -
Bonds	9,108,493	-	9,108,493	-
Commingled Funds	12,524,946	-	12,524,946	-
Cash and Cash Equivalents	<u>2,197,605</u>	<u>2,197,605</u>	-	-
	<u>\$ 45,223,152</u>	<u>\$ 23,589,713</u>	<u>\$ 21,633,439</u>	<u>\$ -</u>

  

	<u>2012</u>			
	<u>Total</u>	<u>Level 1 Quoted Prices</u>	<u>Level 2 Other Significant Inputs</u>	<u>Level 3 Significant Unobservable Inputs</u>
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	<u>1,997,333</u>	<u>1,997,333</u>	-	-
	<u>\$ 39,714,983</u>	<u>\$ 20,616,231</u>	<u>\$ 19,098,752</u>	<u>\$ -</u>

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

	<u>Fair Value</u>	<u>Unfunded Commitment</u>
International Equity Fund <sup>(a)</sup>	\$ 9,367,849	\$ -
Global and Emerging Markets Bond Funds <sup>(b)</sup>	<u>3,157,097</u>	-
Total Commingled Funds	<u>\$ 12,524,946</u>	<u>\$ -</u>

# AMERICAN FRIENDS SERVICE COMMITTEE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

### For The Years Ended September 30, 2013 And 2012

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- (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.

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

	<u>Pension Plan</u>	<u>Informal Pension Plan</u>
2014	\$ 2,467,000	\$ 533,000
2015	2,508,000	504,000
2016	2,557,000	520,000
2017	2,610,000	565,000
2018	2,675,000	601,000
2019 – 2023	<u>15,569,000</u>	<u>3,410,000</u>
Total	<u>\$ 28,386,000</u>	<u>\$ 6,133,000</u>

### (7) NET ASSETS

Temporarily restricted net assets for 2013 and 2012 are available for the following purposes:

	<u>2013</u>	<u>2012</u>
Purpose-restricted		
International programs	\$ 285,449	\$ 922,518
U.S. programs	947,832	1,456,470
Program support	<u>1,127,490</u>	<u>953,064</u>
Total purpose restricted	2,360,771	3,332,052
Time-restricted (planned gifts)*	27,155,138	28,900,294
Accumulated gain on endowment assets	<u>5,310,479</u>	<u>3,863,725</u>
Total	<u>\$ 34,826,388</u>	<u>\$ 36,096,701</u>

\* Includes \$3,088,842 and \$2,925,189 of term endowments as of September 30, 2013 and 2012, 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:

	<u>2013</u>	<u>2012</u>
International Programs	\$ 3,168,871	\$ 3,090,354
U.S. programs	3,228,471	3,045,112
Program Support	1,212,032	525,856
Time Restrictions met	<u>2,175,657</u>	<u>3,094,657</u>
	<u>\$ 9,785,031</u>	<u>\$ 9,755,979</u>

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# AMERICAN FRIENDS SERVICE COMMITTEE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

### For The Years Ended September 30, 2013 And 2012

#### **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.

Endowment net asset composition by type of fund as of September 30, 2013 and 2012:

	<b>2013</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
Donor restricted endowment funds	\$ -	\$ 8,399,321	\$ 18,184,475	\$ 26,583,796
Funds functioning as endowment	<u>15,784,472</u>	<u>-</u>	<u>-</u>	<u>15,784,472</u>
Total funds	<u>\$ 15,784,472</u>	<u>\$ 8,399,321</u>	<u>\$ 18,184,475</u>	<u>\$ 42,368,268</u>

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

Change in endowment net assets for the years ended September 30, 2013 and 2012:

	<b>2013</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
Endowment net assets, September 30, 2012	\$ 12,329,478	\$ 6,788,914	\$ 18,060,863	\$ 37,179,255
Investment return:				
Investment income	237,242	408,708	-	645,950
Net realized/unrealized gains	<u>1,385,583</u>	<u>2,397,000</u>	<u>-</u>	<u>3,782,583</u>
Total investment return	1,622,825	2,805,708	-	4,428,533
Contributions	2,496,694	-	139,976	2,636,670
Appropriation of assets for expenditure in accordance with the spending policy	(664,525)	(1,168,996)	-	(1,833,521)
Other changes:				
Term endowment principal transferred to general funds	-	(26,305)	-	(26,305)
Property transferred in/out of endowment net assets	<u>-</u>	<u>-</u>	<u>(16,364)</u>	<u>(16,364)</u>
Endowment net assets, September 30, 2013	<u>\$ 15,784,472</u>	<u>\$ 8,399,321</u>	<u>\$ 18,184,475</u>	<u>\$ 42,368,268</u>

# AMERICAN FRIENDS SERVICE COMMITTEE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

### For The Years Ended September 30, 2013 And 2012

	<u>2012</u>			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
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	<u>1,649,634</u>	<u>2,682,450</u>	<u>-</u>	<u>4,332,084</u>
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	<u>-</u>	<u>-</u>	<u>(11,721)</u>	<u>(11,721)</u>
Endowment net assets, September 30, 2012	<u>\$12,329,478</u>	<u>\$ 6,788,914</u>	<u>\$ 18,060,863</u>	<u>\$ 37,179,255</u>

### **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, 2013 and 2012.

### **(8) RELATED PARTY TRANSACTIONS**

In connection with the renovations of the Friends Center, Economic Development Revenue Bonds (“Bonds”) were issued through the Narberth Industrial Development Authority to Friends Center Corporation. 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, 2013, the Bonds, which mature in 2038, had an outstanding balance of approximately \$6.9 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, 2013 and 2012, the Committee incurred joint costs of \$2,722,122 and \$3,267,408 for informational materials and activities that included fund-raising appeals. For the years ended September 30, 2013 and 2012, these joint costs were allocated as follows:

	<u>2013</u>	<u>2012</u>
Fundraising	\$ 1,361,061	\$ 1,633,704
International Programs	392,731	753,989
US Programs	<u>968,330</u>	<u>879,715</u>
Total	<u>\$ 2,722,122</u>	<u>\$ 3,267,408</u>

# AMERICAN FRIENDS SERVICE COMMITTEE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2013 And 2012

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### (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 May 2018. 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:

<u>Year ending September 30,</u>	
2014	\$ 448,300
2015	185,300
2016	56,900
2017	48,700
2018	<u>33,000</u>
Future minimum lease payments	<u>\$ 772,200</u>

### (11) SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 9, 2014, the date which the financial statements were available to be issued. There were no material subsequent events required to be disclosed.