

AMERICAN FRIENDS SERVICE COMMITTEE

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

SEPTEMBER 30, 2015 AND 2014

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, 2015 and 2014, 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, 2015 and 2014, 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
February 2, 2016**

AMERICAN FRIENDS SERVICE COMMITTEE

STATEMENTS OF FINANCIAL POSITION

September 30, 2015 And 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
ASSETS		
Cash and cash equivalents	\$ 1,113,315	\$ 2,493,623
Accounts and notes receivable – net	141,746	175,583
Income receivable and prepaid expenses	1,283,328	868,704
Investments:		
Planned giving (<i>Note 3</i>)	58,686,057	64,330,122
Other long-term investments (<i>Note 3</i>)	75,327,350	84,504,691
Investment in Friends Center (<i>Note 4</i>)	<u>3,124,253</u>	<u>3,299,033</u>
Total investments	137,137,660	152,133,846
Land, buildings and equipment – net (<i>Note 5</i>)	1,038,358	2,317,945
Other assets	50,087	64,618
Agency fund assets (<i>Note 3</i>)	<u>3,769,466</u>	<u>3,824,630</u>
Total assets	<u>\$ 144,533,960</u>	<u>\$ 161,878,949</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 2,598,764	\$ 3,128,070
Deferred income	917,207	623,893
Interest-free loans	1,307,066	1,381,465
Annuities and unitrusts payable	27,027,656	28,008,766
Liability for pension benefits (<i>Note 6</i>)	5,170,810	5,344,245
Liability for post-retirement benefits (<i>Note 6</i>)	15,928,018	15,263,298
Agency funds	<u>3,769,466</u>	<u>3,824,630</u>
Total liabilities	<u>56,718,987</u>	<u>57,574,367</u>
NET ASSETS		
Unrestricted:		
Designated for current and future operations	20,514,417	30,880,177
Funds functioning as endowment (<i>Note 7</i>)	17,072,201	17,143,052
Funded status of pension and informal retirement benefit plans (<i>Note 6</i>)	(7,346,967)	(6,345,661)
Investment in Friends Center	3,124,253	3,299,033
Land, buildings and equipment	<u>1,038,358</u>	<u>2,317,945</u>
Total unrestricted	<u>34,402,262</u>	<u>47,294,546</u>
Temporarily restricted (<i>Note 7</i>):		
Time restricted	25,853,298	28,294,550
Purpose restricted	2,046,160	2,497,541
Accumulated gains on endowment assets	<u>3,670,915</u>	<u>6,067,058</u>
Total temporarily restricted assets	<u>31,570,373</u>	<u>36,859,149</u>
Permanently restricted (<i>Note 7</i>)	<u>21,842,338</u>	<u>20,150,887</u>
Total net assets	<u>87,814,973</u>	<u>104,304,582</u>
Total liabilities and net assets	<u>\$ 144,533,960</u>	<u>\$ 161,878,949</u>

AMERICAN FRIENDS SERVICE COMMITTEE

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For The Year Ended September 30, 2015 (With Comparative 2014 Totals)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2015 Total</u>	<u>2014 Total</u>
Operating Revenues					
Public support:					
Contributions for current program work	\$ 8,364,032	\$ 2,652,432	\$ -	\$ 11,016,464	\$ 11,386,449
Grants from foundations	-	3,313,340	-	3,313,340	3,360,506
Bequests	6,097,061	1,178,013	-	7,275,074	11,758,914
Contributions to planned giving program	1,265,325	65,481	-	1,330,806	1,164,676
Contributions to endowment funds	<u>-</u>	<u>1,022,500</u>	<u>1,697,077</u>	<u>2,719,577</u>	<u>1,977,232</u>
Total public support	15,726,418	8,231,766	1,697,077	25,655,261	29,647,777
Government grants	-	85,072	-	85,072	183,927
Investment income, net of fees, appropriated (<i>Note 3</i>)	2,269,400	-	-	2,269,400	1,986,663
Program service income	443,477	-	-	443,477	348,859
Miscellaneous interest and other income	161,000	-	2,109	163,109	157,934
Net assets released from restrictions	<u>9,620,822</u>	<u>(9,627,618)</u>	<u>6,796</u>	<u>-</u>	<u>-</u>
Total revenues	<u>28,221,117</u>	<u>(1,310,780)</u>	<u>1,705,982</u>	<u>28,616,319</u>	<u>32,325,160</u>
Operating Expenses					
Program services:					
International programs	10,029,968	-	-	10,029,968	10,318,378
U.S. programs	<u>18,043,737</u>	<u>-</u>	<u>-</u>	<u>18,043,737</u>	<u>16,259,140</u>
Total program services	<u>28,073,705</u>	<u>-</u>	<u>-</u>	<u>28,073,705</u>	<u>26,577,518</u>
Program Support:					
Fund-raising	4,649,668	-	-	4,649,668	4,009,908
Management and general	<u>3,422,112</u>	<u>-</u>	<u>-</u>	<u>3,422,112</u>	<u>3,265,696</u>
Total program support	<u>8,071,780</u>	<u>-</u>	<u>-</u>	<u>8,071,780</u>	<u>7,275,604</u>
Total expenses	<u>36,145,485</u>	<u>-</u>	<u>-</u>	<u>36,145,485</u>	<u>33,853,122</u>
Changes in net assets from operations	(7,924,368)	(1,310,780)	1,705,982	(7,529,166)	(1,527,962)
Nonoperating Changes In Net Assets					
Investment gains (loss) not appropriated (<i>Note 3</i>)	(3,723,305)	(2,552,803)	-	(6,276,108)	6,029,272
Actuarial (loss) gains on planned giving liabilities	(1,194,166)	(1,425,193)	-	(2,619,359)	1,461,006
Retiree medical payments	(71,311)	-	-	(71,311)	(75,730)
Net loss from disposal/sale of assets	(323,931)	-	-	(323,931)	-
Pension and benefits adjustment	509,602	-	-	509,602	(4,617,189)
Other nonoperating changes in net assets	<u>(164,805)</u>	<u>-</u>	<u>(14,531)</u>	<u>(179,336)</u>	<u>(211,352)</u>
Changes in net assets	(12,892,284)	(5,288,776)	1,691,451	(16,489,609)	1,058,045
Net Assets					
Beginning of year	<u>47,294,546</u>	<u>36,859,149</u>	<u>20,150,887</u>	<u>104,304,582</u>	<u>103,246,537</u>
End of year	<u>\$ 34,402,262</u>	<u>\$ 31,570,373</u>	<u>\$ 21,842,338</u>	<u>\$ 87,814,973</u>	<u>\$ 104,304,582</u>

AMERICAN FRIENDS SERVICE COMMITTEE

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For The Year Ended September 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2014 Total</u>
Operating Revenues				
Public support:				
Contributions for current program work	\$ 8,843,156	\$ 5,903,799	\$ -	\$ 14,746,955
Bequests	10,668,686	1,090,228	-	11,758,914
Contributions to planned giving program	749,499	415,177	-	1,164,676
Contributions to endowment funds	<u>-</u>	<u>-</u>	<u>1,977,232</u>	<u>1,977,232</u>
Total public support	20,261,341	7,409,204	1,977,232	29,647,777
Government grants	-	183,927	-	183,927
Investment income, net of fees, appropriated (<i>Note 3</i>)	1,986,663	-	-	1,986,663
Program service income	348,859	-	-	348,859
Miscellaneous interest and other income	154,627	-	3,307	157,934
Net assets released from restrictions	<u>9,051,982</u>	<u>(9,051,982)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>31,803,472</u>	<u>(1,458,851)</u>	<u>1,980,539</u>	<u>32,325,160</u>
Operating Expenses				
Program services:				
International programs	10,318,378	-	-	10,318,378
U.S. programs	<u>16,259,140</u>	<u>-</u>	<u>-</u>	<u>16,259,140</u>
Total program services	<u>26,577,518</u>	<u>-</u>	<u>-</u>	<u>26,577,518</u>
Program Support:				
Fund-raising	4,009,908	-	-	4,009,908
Management and general	<u>3,265,696</u>	<u>-</u>	<u>-</u>	<u>3,265,696</u>
Total program support	<u>7,275,604</u>	<u>-</u>	<u>-</u>	<u>7,275,604</u>
Total expenses	<u>33,853,122</u>	<u>-</u>	<u>-</u>	<u>33,853,122</u>
Changes in net assets from operations	(2,049,650)	(1,458,851)	1,980,539	(1,527,962)
Nonoperating Changes In Net Assets				
Investment gains not appropriated (<i>Note 3</i>)	5,170,879	858,393	-	6,029,272
Actuarial gain on planned giving liabilities	(1,172,213)	2,633,219	-	1,461,006
Retiree medical payments	(75,730)	-	-	(75,730)
Net gain from disposal/sale of assets	-	-	-	-
Pension and benefits adjustment	(4,617,189)	-	-	(4,617,189)
Other nonoperating changes in net assets	<u>(197,225)</u>	<u>-</u>	<u>(14,127)</u>	<u>(211,352)</u>
Changes in net assets	(2,941,128)	2,032,761	1,966,412	1,058,045
Net Assets				
Beginning of year	<u>50,235,674</u>	<u>34,826,388</u>	<u>18,184,475</u>	<u>103,246,537</u>
End of year	<u>\$47,294,546</u>	<u>\$36,859,149</u>	<u>\$20,150,887</u>	<u>\$104,304,582</u>

AMERICAN FRIENDS SERVICE COMMITTEE

STATEMENTS OF CASH FLOWS

For The Years Ended September 30, 2015 And 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
<i>Total change in net assets</i>	\$ (16,489,609)	\$ 1,058,045
<i>Adjustments to reconcile total change in net assets to net cash (used) by operating activities</i>		
Realized and unrealized losses (gains) on investments	4,539,527	(7,711,177)
Unrealized loss on Friends Center Corporation investment	174,780	170,587
Depreciation	139,664	171,907
Loss on sale of building	323,931	-
Contributions to endowment funds	(2,719,577)	(1,977,232)
Contributions to planned giving program	(1,330,806)	(1,164,676)
Matured gifts from planned giving program	2,923,484	2,869,115
Remainder interest in life estates	1,203,927	940,097
Adjustment for changes in planned giving liabilities	5,104,739	843,355
Adjustment for changes in pension and post-retirement benefits	(509,602)	4,617,189
Changes in assets and liabilities which provided (used) cash		
Accounts and notes receivable	33,837	(22,170)
Income receivable and prepaid expenses	(414,624)	86,602
Accounts payable and accrued liabilities	(529,306)	114,238
Deferred income	293,314	(138,689)
Liability for pension and post-retirement benefits	<u>1,000,887</u>	<u>(1,171,665)</u>
Net cash used in operating activities	<u>(6,255,434)</u>	<u>(1,314,474)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of land, buildings, and equipment	(123,644)	-
Proceeds from sale of building	939,636	-
Purchases of investments	(39,253,656)	(61,912,579)
Sales of investments	<u>48,909,308</u>	<u>68,062,129</u>
Net cash provided by investing activities	<u>10,471,644</u>	<u>6,149,550</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from interest-free loans	37,101	37,225
Repayment of interest-free loans	(111,500)	(115,414)
Cash received for endowment funds	1,018,179	1,567,705
Cash received for planned giving program	98,699	341,246
Matured gifts from planned giving program	(2,923,484)	(2,869,115)
Net benefit payments to annuitants	<u>(3,715,513)</u>	<u>(3,872,486)</u>
Net cash used by financing activities	<u>(5,596,518)</u>	<u>(4,910,839)</u>
Net decrease in cash and cash equivalents	(1,380,308)	(75,763)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>2,493,623</u>	<u>2,569,386</u>
End of year	<u>\$ 1,113,315</u>	<u>\$ 2,493,623</u>

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

AMERICAN FRIENDS SERVICE COMMITTEE

STATEMENT OF FUNCTIONAL EXPENSES

For The Year Ended September 30, 2015

	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	\$ 4,966,115	\$ 12,455,042	\$ 17,421,157	\$ 2,696,036	\$ 2,163,907	\$ 4,859,943	\$ 22,281,100
Net periodic pension and retiree medical expense	<u>298,034</u>	<u>817,229</u>	<u>1,115,263</u>	<u>165,976</u>	<u>152,317</u>	<u>318,293</u>	<u>1,433,556</u>
Net compensation expense	5,264,149	13,272,271	18,536,420	2,862,012	2,316,224	5,178,236	23,714,656
Professional fees and services	596,595	990,356	1,586,951	259,984	242,531	502,515	2,089,466
Occupancy	430,352	895,692	1,326,044	312,584	196,487	509,071	1,835,115
Risk management insurance	69,017	105,948	174,965	20,113	81,019	101,132	276,097
Office supplies	44,078	117,033	161,111	14,247	10,383	24,629	185,741
Equipment leasing, purchase, and repairs	87,306	261,039	348,345	23,459	29,067	52,525	400,871
Program activities	982,063	669,634	1,651,697	14,710	25,667	40,377	1,692,074
Telephone and communications	141,200	348,885	490,085	60,352	144,287	204,639	694,724
Postage and shipping	20,866	67,832	88,698	19,276	20,372	39,648	128,346
Travel	641,127	832,762	1,473,889	216,415	196,308	412,723	1,886,612
Conferences, conventions, and meetings	639,785	111,805	751,590	22,727	46,838	69,565	821,155
Fundraising appeals	-	12	12	753,544	-	753,544	753,556
Printing and publishing	63,773	177,248	241,021	40,963	50,195	91,158	332,179
Awards and grants	907,916	23,341	931,257	-	-	-	931,257
Miscellaneous expense	<u>119,748</u>	<u>88,659</u>	<u>208,407</u>	<u>21,918</u>	<u>33,647</u>	<u>55,565</u>	<u>263,972</u>
Total expenses before depreciation	10,007,975	17,962,517	27,970,492	4,642,304	3,393,025	8,035,329	36,005,821
Depreciation of buildings and equipment	<u>21,993</u>	<u>81,220</u>	<u>103,213</u>	<u>7,364</u>	<u>29,087</u>	<u>36,451</u>	<u>139,664</u>
Total expenses	<u>\$ 10,029,968</u>	<u>\$ 18,043,737</u>	<u>\$ 28,073,705</u>	<u>\$ 4,649,668</u>	<u>\$ 3,422,112</u>	<u>\$ 8,071,780</u>	<u>\$ 36,145,485</u>

AMERICAN FRIENDS SERVICE COMMITTEE

STATEMENT OF FUNCTIONAL EXPENSES

For The Year Ended September 30, 2014

	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	\$ 5,129,727	\$ 11,076,422	\$ 16,206,149	\$ 2,213,632	\$ 2,062,413	\$ 4,276,045	\$ 20,482,194
Net periodic pension and retiree medical expense	<u>189,456</u>	<u>507,286</u>	<u>696,742</u>	<u>92,140</u>	<u>97,091</u>	<u>189,231</u>	<u>885,973</u>
Net compensation expense	5,319,183	11,583,708	16,902,891	2,305,772	2,159,504	4,465,276	21,368,167
Professional fees and services	548,675	888,474	1,437,149	254,042	280,923	534,965	1,972,114
Occupancy	434,822	846,268	1,281,090	294,794	186,526	481,320	1,762,410
Risk management insurance	88,446	97,058	185,504	19,114	82,276	101,390	286,894
Office supplies	58,229	140,194	198,423	15,440	21,695	37,135	235,558
Equipment leasing, purchase, and repairs	69,429	302,424	371,853	33,023	39,692	72,715	444,568
Program activities	859,848	264,351	1,124,199	16,580	21,293	37,873	1,162,072
Telephone and communications	157,765	311,359	469,124	76,359	139,503	215,862	684,986
Postage and shipping	19,692	60,483	80,175	24,262	14,991	39,253	119,428
Travel	543,570	823,344	1,366,914	176,378	174,814	351,192	1,718,106
Conferences, conventions, and meetings	714,864	183,584	898,448	16,727	39,303	56,030	954,478
Fundraising appeals	164,933	410,335	575,268	714,342	-	714,342	1,289,610
Printing and publishing	50,630	149,717	200,347	42,538	53,974	96,512	296,859
Awards and grants	1,166,478	18,201	1,184,679	36	154	190	1,184,869
Miscellaneous expense	<u>96,417</u>	<u>70,197</u>	<u>166,614</u>	<u>13,513</u>	<u>20,969</u>	<u>34,482</u>	<u>201,096</u>
Total expenses before depreciation	10,292,981	16,149,697	26,442,678	4,002,920	3,235,617	7,238,537	33,681,215
Depreciation of buildings and equipment	<u>25,397</u>	<u>109,443</u>	<u>134,840</u>	<u>6,988</u>	<u>30,079</u>	<u>37,067</u>	<u>171,907</u>
Total expenses	<u>\$ 10,318,378</u>	<u>\$ 16,259,140</u>	<u>\$ 26,577,518</u>	<u>\$ 4,009,908</u>	<u>\$ 3,265,696</u>	<u>\$ 7,275,604</u>	<u>\$ 33,853,122</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, 2015 And 2014

(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-two (32) area offices, two (2) branch offices, and twelve (12) 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, 2015 and 2014, 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 \$2,269,400 in 2015 and \$1,986,663 in 2014. 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, 2015 And 2014

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 \$5,170,810 and \$6,344,245 and total obligations of the informal post-retirement plan of \$15,928,018 and \$14,263,298 have been included in the statements of financial position as of September 30, 2015 and 2014, respectively.

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2015 And 2014

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 with restrictions as noted by the donor.

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2015 And 2014

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.

RECLASSIFICATIONS

Certain reclassifications to the 2014 financial statements were made to conform to the 2015 presentation.

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2015 And 2014

(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. Redemptions and purchases may be made on the first business day of each month using the prior month's NAV.

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.

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2015 And 2014

The summary of inputs used to value the Committee's investments as of September 30, 2015 and 2014 are as follows:

<u>2015</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>
Planned Giving Investments:				
Common Stocks	\$ 22,779,032	\$ 22,779,032	\$ -	\$ -
Mutual Funds	4,549,861	4,549,861	-	-
Bonds	21,396,249	-	21,396,249	-
Commingled Funds	6,244,112	-	6,244,112	-
Other	41,138	-	-	41,138
Cash and Cash Equivalents	<u>3,675,665</u>	<u>3,675,665</u>	<u>-</u>	<u>-</u>
Total Planned Giving Investments	<u>\$ 58,686,057</u>	<u>\$ 31,004,558</u>	<u>\$ 27,640,361</u>	<u>\$ 41,138</u>
Other Long Term Investments:				
Common Stocks	\$ 32,087,639	\$ 32,087,639	\$ -	\$ -
Bonds	16,535,060	-	16,535,060	-
Commingled Funds	21,884,782	-	21,884,782	-
Other	62,094	-	-	62,094
Cash and Cash Equivalents	<u>4,757,775</u>	<u>4,757,775</u>	<u>-</u>	<u>-</u>
Total Other Long-Term Investments	<u>\$ 75,327,350</u>	<u>\$ 36,845,414</u>	<u>\$ 38,419,842</u>	<u>\$ 62,094</u>
Total Investments	<u>\$ 134,013,407</u>	<u>\$ 67,849,972</u>	<u>\$ 66,060,203</u>	<u>\$ 103,232</u>
Agency Fund Assets:				
Common Stocks	\$ 1,373,384	\$ 1,373,384	\$ -	\$ -
Mutual Funds	488,878	488,878	-	-
Bonds	1,518,027	-	1,518,027	-
Commingled Funds	5,422	-	5,422	-
Cash and Cash Equivalents	<u>383,755</u>	<u>383,755</u>	<u>-</u>	<u>-</u>
Total Agency Fund Assets	<u>\$ 3,769,466</u>	<u>\$ 2,246,017</u>	<u>\$ 1,523,449</u>	<u>\$ -</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	\$ 59,123	\$ (17,985)	\$ 15,943	\$ (15,943)	\$ 41,138
Other Long-Term Investments	<u>57,221</u>	<u>(5,995)</u>	<u>5,608</u>	<u>5,260</u>	<u>62,094</u>
	<u>\$ 116,344</u>	<u>\$ (23,980)</u>	<u>\$ 21,551</u>	<u>\$ (10,683)</u>	<u>\$ 103,232</u>

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2015 And 2014

<u>2014</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>
Planned Giving Investments:				
Common Stocks	\$ 26,562,787	\$ 26,562,787	\$ -	\$ -
Mutual Funds	5,126,024	5,126,024	-	-
Bonds	22,222,025	-	22,222,025	-
Commingled Funds	6,601,737	-	6,601,737	-
Other	59,123	-	-	59,123
Cash and Cash Equivalents	<u>3,758,426</u>	<u>3,758,426</u>	<u>-</u>	<u>-</u>
Total Planned Giving Investments	<u>\$ 64,330,122</u>	<u>\$ 35,447,237</u>	<u>\$28,823,762</u>	<u>\$ 59,123</u>
Other Long Term Investments:				
Common Stocks	\$ 36,288,514	\$ 36,288,514	\$ -	\$ -
Bonds	17,879,044	-	17,879,044	-
Commingled Funds	24,432,777	-	24,432,777	-
Other	57,221	-	-	57,221
Cash and Cash Equivalents	<u>5,847,135</u>	<u>5,847,135</u>	<u>-</u>	<u>-</u>
Total Other Long-Term Investments	<u>\$ 84,504,691</u>	<u>\$ 42,135,649</u>	<u>\$42,311,821</u>	<u>\$ 57,221</u>
Total Investments	<u>\$ 148,834,813</u>	<u>\$ 77,582,886</u>	<u>\$ 71,135,583</u>	<u>\$ 116,344</u>
Agency Fund Assets:				
Common Stocks	\$ 1,411,069	\$ 1,411,069	\$ -	\$ -
Mutual Funds	510,208	510,208	-	-
Bonds	1,445,666	-	1,445,666	-
Commingled Funds	5,790	-	5,790	-
Cash and Cash Equivalents	<u>451,897</u>	<u>451,897</u>	<u>-</u>	<u>-</u>
Total Agency Fund Assets	<u>\$ 3,824,630</u>	<u>\$ 2,373,174</u>	<u>\$ 1,451,456</u>	<u>\$ -</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	\$ 64,995	\$ (5,873)	\$ 38,253	\$ (38,252)	\$ 59,123
Other Long-Term Investments	<u>59,179</u>	<u>(1,958)</u>	<u>12,924</u>	<u>(12,924)</u>	<u>57,221</u>
	<u>\$ 124,174</u>	<u>\$ (7,831)</u>	<u>\$ 51,177</u>	<u>\$ (51,176)</u>	<u>\$ 116,344</u>

There were no transfers between Level 1 and Level 2 during the years ended September 30, 2015 and 2014.

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2015 And 2014

Commingled funds which are measured using Level 2 inputs and the investment objective of each holding are as follows:

	<u>Fair Value</u>
International Equity Fund ^(a)	\$ 17,235,663
Global and Emerging Markets Bond Fund ^(b)	7,510,931
Commodity Fund ^(c)	<u>3,387,722</u>
Total Commingled Funds	<u>\$ 28,134,316</u>

There were no unfunded commitments on the commingled funds at September 30, 2015.

- (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 and purchases 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 and purchases 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 and purchases 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, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Dividends and interest	\$ 1,856,742	\$ 1,645,794
Net realized and unrealized (loss) gain on investments	(4,538,666)	7,711,177
Net realized loss on FCC	(174,780)	(170,587)
Net realized loss on life estate	(2,129)	(3,066)
Investment fees	<u>(1,147,875)</u>	<u>(1,167,383)</u>
Total investment (loss) income, net of fees	(4,006,708)	8,015,935
Less: investment income appropriated	<u>(2,269,400)</u>	<u>(1,986,663)</u>
Investment (losses) gains not appropriated	<u>\$ (6,276,108)</u>	<u>\$ 6,029,272</u>

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.

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2015 And 2014

The 2015 reserve was calculated as follows:

Actuarial present value liability - California	\$ 3,214,254
Actuarial present value liability – Florida	229,968
10% additional reserves	22,997
Actuarial present value liability – General (New York)	10,836,203
26.5% additional reserves	2,871,594
Actuarial present value liability – Tennessee	9,505
10% additional reserves	<u>951</u>
Total Required Reserve	<u>\$ 17,185,472</u>

Gift annuity investments amounted to \$23,932,733 at September 30, 2015.

(4) INVESTMENT IN FRIENDS CENTER

Summarized audited financial information for the Friends Center Corporation (“FCC”) for the years ended June 30, 2015 and 2014 are as follows:

	<u>Balance Sheet (Accrual Basis)</u>	
	<u>2015</u>	<u>2014</u>
Total Assets	<u>\$ 15,204,460</u>	<u>\$ 15,831,453</u>
Total Liabilities	\$ 6,760,532	\$ 6,915,147
Net Assets	<u>8,443,928*</u>	<u>8,916,306*</u>
Total Liabilities and Net Assets	<u>\$ 15,204,460</u>	<u>\$ 15,831,453</u>

* The Committee’s 37.0% equity interest of \$3,124,253 and \$3,299,033 as of June 30, 2015 and 2014, 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 \$(174,780) and \$(170,587) for the years ended June 30, 2015 and 2014, 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, 2015 And 2014

(5) LAND, BUILDINGS, AND EQUIPMENT

A summary of land, buildings and equipment as of September 30, 2015 and 2014, is as follows:

	<u>2015</u>	<u>2014</u>
Non-depreciable assets		
Land	\$ 58,958	\$ 58,958
Depreciable assets		
Buildings	1,196,225	2,636,393
Furniture and equipment	<u>1,183,844</u>	<u>1,132,815</u>
Subtotal – depreciable assets	2,380,069	3,769,208
Accumulated depreciation	<u>(1,400,669)</u>	<u>(1,510,221)</u>
Subtotal – depreciable assets, net	<u>979,400</u>	<u>2,258,987</u>
Total land, buildings and equipment, net	<u>\$ 1,038,358</u>	<u>\$ 2,317,945</u>

Depreciation was \$139,664 and \$171,907 for the years ended September 30, 2015 and 2014, 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 \$13,751,861 and \$14,261,882 at September 30, 2015 and 2014, respectively, of investments for the informal post-retirement 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 had 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 and the estimated liability at September 30, 2014 was \$1,000,000. The plan was combined with the formal defined benefit pension plan in 2015.

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2015 And 2014

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>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
	(Dollars In Thousands)			
Fair value of plan assets	\$ 44,952	\$ 48,572	\$ -	\$ -
Projected benefit obligation	<u>50,123</u>	<u>53,916</u>	<u>15,928</u>	<u>15,263</u>
Unfunded status	<u>\$ (5,171)</u>	<u>\$ (5,344)</u>	<u>\$ (15,928)</u>	<u>\$ (15,263)</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>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Discount Rate	4.50%	4.50%	4.50%	4.50%
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>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
	(In Thousands)			
Pension expense (credit)	\$ (173)	\$ 2,772	\$ 2,094	\$ 2,757
Contributions	\$ -	\$ 1,650	\$ 430	\$ 433
Benefits Paid	<u>\$ (2,398)</u>	<u>\$ (2,297)</u>	<u>\$ (780)</u>	<u>\$ (793)</u>
Components of Net Periodic Benefit Cost				
Service cost	\$ 1,229	\$ 996	\$ 454	\$ 360
Interest cost	2,401	2,432	638	607
Return on plan assets	(3,607)	(3,362)	-	-
Recognized net actuarial (gain) loss	778	423	(446)	(557)
Amortization of prior service cost	<u>-</u>	<u>-</u>	<u>(13)</u>	<u>(13)</u>
Net periodic pension/postretirement cost	<u>\$ 801</u>	<u>\$ 489</u>	<u>\$ 633</u>	<u>\$ 397</u>

During the year ended September 30, 2015, there were changes in assumptions made relating to mortality and cost of living adjustments which decreased the defined benefit pension plan liability by approximately \$5,900,000. In 2014, a change in the discount rate increased the liability by approximately \$3,500,000.

During the year ended September 30, 2015, there were changes in assumptions made relating to mortality and claim cost which increased the liability for the informal postretirement medical benefits plan by approximately \$800,000.

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2015 And 2014

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>2015</u>
Equities	44.29 %
Fixed Income	22.81 %
Commingled Funds	26.85 %
Cash and Cash Equivalents	<u>6.05 %</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, 2015 and 2014 were as follows:

	<u>2015</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	\$ 19,909,836	\$ 19,909,836	\$ -	\$ -
Bonds	10,254,004	-	10,254,004	-
Commingled Funds	12,067,470	-	12,067,470	-
Cash and Cash Equivalents	<u>2,721,069</u>	<u>2,721,069</u>	<u>-</u>	<u>-</u>
	<u>\$ 44,952,379</u>	<u>\$ 22,630,905</u>	<u>\$ 22,321,474</u>	<u>\$ -</u>

	<u>2014</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	\$ 22,554,531	\$ 22,554,531	\$ -	\$ -
Bonds	10,396,933	-	10,396,933	-
Commingled Funds	13,301,509	-	13,301,509	-
Cash and Cash Equivalents	<u>2,319,101</u>	<u>2,319,101</u>	<u>-</u>	<u>-</u>
	<u>\$ 48,572,074</u>	<u>\$ 24,873,632</u>	<u>\$ 23,698,442</u>	<u>\$ -</u>

Commingled funds which are measured using Level 2 inputs and the investment objective of each holding are as follows:

	<u>Fair Value</u>
International Equity Fund ^(a)	\$ 8,655,398
Global and Emerging Markets Bond Funds ^(b)	<u>3,412,072</u>
Total Commingled Funds	<u>\$ 12,067,470</u>

There were no unfunded commitments on the commingled funds at September 30, 2015.

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2015 And 2014

- (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 and purchases 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 and purchases 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>
2016	\$ 2,629,000	\$ 524,000
2017	2,688,000	547,000
2018	2,685,000	572,000
2019	2,753,000	587,000
2020	2,889,000	624,000
2020 – 2023	<u>15,788,000</u>	<u>3,786,000</u>
Total	<u>\$ 29,432,000</u>	<u>\$ 6,640,000</u>

(7) NET ASSETS

Temporarily restricted net assets for 2015 and 2014 are available for the following purposes:

	<u>2015</u>	<u>2014</u>
Purpose-restricted		
International programs	\$ 67,763	\$ 114,529
U.S. programs	606,941	940,504
Courageous Acts campaign	1,011,414	1,007,135
Program support	<u>360,042</u>	<u>435,373</u>
Total purpose restricted	2,046,160	2,497,541
Time-restricted (planned gifts)*	25,853,298	28,294,550
Accumulated gain on endowment assets	<u>3,670,915</u>	<u>6,067,058</u>
Total	<u>\$ 31,570,373</u>	<u>\$ 36,859,149</u>

* Includes \$3,837,700 and \$3,161,292 of term endowments as of September 30, 2015 and 2014, respectively.

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NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2015 And 2014

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>2015</u>	<u>2014</u>
International programs	\$ 2,242,678	\$ 2,634,421
U.S. programs	2,905,368	2,549,076
Courageous Acts campaign	1,113,020	312,474
Program support	1,463,545	1,545,214
Time Restrictions met	<u>1,903,007</u>	<u>2,010,797</u>
	<u>\$ 9,627,618</u>	<u>\$ 9,051,982</u>

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, 2015 and 2014:

	<u>2015</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 7,508,615	\$ 21,842,338	\$ 29,350,953
Funds functioning as endowment	<u>17,072,201</u>	<u>-</u>	<u>-</u>	<u>17,072,201</u>
Total funds	<u>\$ 17,072,201</u>	<u>\$ 7,508,615</u>	<u>\$ 21,842,338</u>	<u>\$ 46,423,154</u>

	<u>2014</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 9,228,350	\$ 20,150,887	\$ 29,379,237
Funds functioning as endowment	<u>17,143,052</u>	<u>-</u>	<u>-</u>	<u>17,143,052</u>
Total funds	<u>\$ 17,143,052</u>	<u>\$ 9,228,350</u>	<u>\$ 20,150,887</u>	<u>\$ 46,522,289</u>

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NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2015 And 2014

Change in endowment net assets for the years ended September 30, 2015 and 2014:

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, September 30, 2014	\$ 17,143,052	\$ 9,228,350	\$ 20,150,887	\$ 46,522,289
Investment return:				
Investment income, net of fees	123,509	213,020	-	336,529
Net realized/unrealized gains (losses)	<u>(894,757)</u>	<u>(1,489,110)</u>	<u>(5,626)</u>	<u>(2,389,493)</u>
Total investment return	(771,248)	(1,276,090)	(5,626)	(2,052,964)
Contributions and other transfers	1,532,840	1,022,500	1,697,077	4,252,417
Appropriation of assets for expenditure in accordance with the spending policy	(832,443)	(1,436,957)	-	(2,269,400)
Other changes:				
Term endowment principal transferred to general funds	<u>-</u>	<u>(29,188)</u>	<u>-</u>	<u>(29,188)</u>
Endowment net assets, September 30, 2015	<u>\$ 17,072,201</u>	<u>\$ 7,508,615</u>	<u>\$ 21,842,338</u>	<u>\$ 46,423,154</u>

	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, September 30, 2013	\$ 15,784,472	\$ 8,399,321	\$ 18,184,475	\$ 42,368,268
Investment return:				
Investment income, net of fees	117,640	195,722	-	313,362
Net realized/unrealized gains (losses)	<u>1,140,866</u>	<u>1,899,012</u>	<u>(14,127)</u>	<u>3,025,751</u>
Total investment return	1,258,506	2,094,734	-	3,339,113
Contributions	850,396	-	1,980,539	2,830,935
Appropriation of assets for expenditure in accordance with the spending policy	(750,322)	(1,236,341)	-	(1,986,663)
Other changes:				
Term endowment principal transferred to general funds	<u>-</u>	<u>(29,364)</u>	<u>-</u>	<u>(29,364)</u>
Endowment net assets, September 30, 2014	<u>\$ 17,143,052</u>	<u>\$ 9,228,350</u>	<u>\$ 20,150,887</u>	<u>\$ 46,522,289</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, 2015 and 2014.

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2015 And 2014

(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, 2015, the Friends Center’s fiscal year-end, the Bonds, which mature in 2038, had an outstanding balance of approximately \$6.6 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, 2015 and 2014, the Committee incurred joint costs of \$1,509,697 and \$2,172,405 for informational materials and activities that included fund-raising appeals. For the years ended September 30, 2015 and 2014, these joint costs were allocated as follows:

	<u>2015</u>	<u>2014</u>
Fundraising	\$ 935,971	\$ 1,086,203
International Programs	217,518	311,389
US Programs	<u>356,208</u>	<u>774,813</u>
Total	<u>\$ 1,509,697</u>	<u>\$ 2,172,405</u>

(10) COMMITMENTS

COMMITMENTS

The Committee leases certain facilities where the Committee has program offices under leases expiring through September 2020. In addition, the Committee leases certain office equipment under operating leases expiring through February 2020. 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>	
2016	\$ 515,173
2017	413,556
2018	296,699
2019	185,826
2020	<u>105,193</u>
Future minimum lease payments	<u>\$1,516,447</u>

(11) SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 2, 2016, the date which the financial statements were available to be issued. There were no material subsequent events required to be disclosed.