

# **AMERICAN FRIENDS SERVICE COMMITTEE**

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

**SEPTEMBER 30, 2017 AND 2016**

# AMERICAN FRIENDS SERVICE COMMITTEE

## TABLE OF CONTENTS

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	<u>Page</u>
<b>REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS</b>	1
<b>FINANCIAL STATEMENTS</b>	
<i>Statements of Financial Position,</i> For the years ended September 30, 2017 and 2016	2
<i>Statement of Activities and Changes in Net Assets,</i> For the year ended September 30, 2017 and 2016	3 - 4
<i>Statements of Cash Flows,</i> For the years ended September 30, 2017 and 2016	5
<i>Statements of Functional Expenses,</i> For the year ended September 30, 2017 and 2016	6 - 7
<i>Notes to Financial Statements</i>	8 - 23

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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, 2017 and 2016, 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, 2017 and 2016, 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 16, 2018**

# AMERICAN FRIENDS SERVICE COMMITTEE

## STATEMENTS OF FINANCIAL POSITION

September 30, 2017 And 2016

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,388,732	\$ 1,495,826
Accounts and notes receivable – net	420,738	264,387
Income receivable and prepaid expenses	1,768,324	1,102,320
Investments:		
Planned giving ( <i>Note 3</i> )	60,138,621	58,951,211
Other long-term investments ( <i>Note 3</i> )	81,642,263	77,146,628
Investment in Friends Center ( <i>Note 4</i> )	<u>2,929,652</u>	<u>3,030,657</u>
<b>Total investments</b>	144,710,536	139,128,496
Land, buildings and equipment – net ( <i>Note 5</i> )	965,414	1,022,882
Other assets	46,164	47,998
Agency fund assets ( <i>Note 3</i> )	<u>4,115,467</u>	<u>3,920,928</u>
<b>Total assets</b>	<u>\$ 154,415,375</u>	<u>\$ 146,982,837</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 2,544,322	\$ 2,939,528
Deferred income	1,181,364	955,130
Interest-free loans	856,216	897,366
Annuities and unitrusts payable	26,472,299	27,056,133
Liability for pension benefits ( <i>Note 6</i> )	4,005,924	5,421,779
Liability for post-retirement benefits ( <i>Note 6</i> )	18,467,791	17,790,434
Agency funds	<u>4,115,467</u>	<u>3,920,928</u>
<b>Total liabilities</b>	<u>57,643,383</u>	<u>58,981,298</u>
<b>NET ASSETS</b>		
Unrestricted:		
Designated for current and future operations	12,911,252	16,340,752
Funds functioning as endowment ( <i>Note 7</i> )	24,261,471	20,370,182
Funded status of pension and informal retirement benefit plans ( <i>Note 6</i> )	(6,413,770)	(8,642,374)
Investment in Friends Center	2,929,652	3,030,657
Land, buildings and equipment	<u>965,414</u>	<u>1,022,882</u>
<b>Total unrestricted</b>	<u>34,654,019</u>	<u>32,122,099</u>
Temporarily restricted ( <i>Note 7</i> ):		
Time restricted	27,815,523	25,534,444
Purpose restricted	3,404,271	2,344,090
Accumulated gains on endowment assets	<u>6,616,986</u>	<u>4,568,081</u>
<b>Total temporarily restricted assets</b>	<u>37,836,780</u>	<u>32,446,615</u>
Permanently restricted ( <i>Note 7</i> )	<u>24,281,193</u>	<u>23,432,825</u>
<b>Total net assets</b>	<u>96,771,992</u>	<u>88,001,539</u>
<b>Total liabilities and net assets</b>	<u>\$ 154,415,375</u>	<u>\$ 146,982,837</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, 2017 (With Comparative 2016 Totals)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
<b>Operating Revenues</b>					
Public support:					
Contributions for current program work	\$ 8,902,150	\$ 3,948,709	\$ -	\$ 12,850,859	\$ 12,891,909
Grants from foundations	-	4,928,310	-	4,928,310	4,143,864
Bequests	9,634,218	104,569	-	9,738,787	8,818,655
Contributions to planned giving program	587,378	55,921	-	643,299	770,570
Contributions to endowment funds	<u>81,053</u>	<u>-</u>	<u>693,997</u>	<u>775,050</u>	<u>1,591,909</u>
<b>Total public support</b>	19,204,799	9,037,509	693,997	28,936,305	28,216,907
Investment income, net of fees, appropriated ( <i>Note 3</i> )	2,739,516	-	-	2,739,516	2,567,215
Program service income	203,038	-	-	203,038	342,810
Miscellaneous interest and other income	190,947	-	1,008	191,955	151,827
Net assets released from restrictions	<u>8,627,928</u>	<u>(8,783,125)</u>	<u>155,197</u>	<u>-</u>	<u>-</u>
<b>Total revenues</b>	<u>30,966,228</u>	<u>254,384</u>	<u>850,202</u>	<u>32,070,814</u>	<u>31,278,759</u>
<b>Operating Expenses</b>					
Program services:					
International programs	11,322,736	-	-	11,322,736	10,232,871
U.S. programs	<u>18,142,562</u>	<u>-</u>	<u>-</u>	<u>18,142,562</u>	<u>18,823,009</u>
<b>Total program services</b>	<u>29,465,298</u>	<u>-</u>	<u>-</u>	<u>29,465,298</u>	<u>29,055,880</u>
Program Support:					
Fund-raising	3,889,375	-	-	3,889,375	4,557,497
Management and general	<u>2,767,405</u>	<u>-</u>	<u>-</u>	<u>2,767,405</u>	<u>3,646,672</u>
<b>Total program support</b>	<u>6,656,780</u>	<u>-</u>	<u>-</u>	<u>6,656,780</u>	<u>8,204,169</u>
<b>Total expenses</b>	<u>36,122,078</u>	<u>-</u>	<u>-</u>	<u>36,122,078</u>	<u>37,260,049</u>
<b>Changes in net assets       from operations</b>	(5,155,850)	254,384	850,202	(4,051,264)	(5,981,290)
<b>Nonoperating Changes In Net Assets</b>					
Investment gains not appropriated ( <i>Note 3</i> )	6,386,580	2,309,986	-	8,696,566	5,758,378
Actuarial (loss) gains on planned giving liabilities	(218,091)	2,852,694	-	2,634,603	77,192
Net gain from disposal/sale of assets	-	-	-	-	1,512,726
Pension and benefits adjustment	1,886,732	-	-	1,886,732	(1,207,488)
Other nonoperating changes in net assets	<u>(367,451)</u>	<u>(26,899)</u>	<u>(1,834)</u>	<u>(396,184)</u>	<u>27,048</u>
<b>Changes in net assets</b>	2,531,920	5,390,165	848,368	8,770,453	186,566
<b>Net Assets</b>					
Beginning of year	<u>32,122,099</u>	<u>32,446,615</u>	<u>23,432,825</u>	<u>88,001,539</u>	<u>87,814,973</u>
End of year	<u>\$ 34,654,019</u>	<u>\$ 37,836,780</u>	<u>\$ 24,281,193</u>	<u>\$ 96,771,992</u>	<u>\$ 88,001,539</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, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2016 Total</u>
<b>Operating Revenues</b>				
Public support:				
Contributions for current program work	\$ 9,428,724	\$ 3,463,185	\$ -	\$ 12,891,909
Grants from foundations	-	4,143,864	-	4,143,864
Bequests	8,283,106	535,549	-	8,818,655
Contributions to planned giving program	623,636	146,934	-	770,570
Contributions to endowment funds	<u>-</u>	<u>-</u>	<u>1,591,909</u>	<u>1,591,909</u>
<b>Total public support</b>	18,335,466	8,289,532	1,591,909	28,216,907
Government grants	-	-	-	-
Investment income, net of fees, appropriated ( <i>Note 3</i> )	2,567,215	-	-	2,567,215
Program service income	342,810	-	-	342,810
Miscellaneous interest and other income	150,953	-	874	151,827
Net assets released from restrictions	<u>9,711,633</u>	<u>(9,711,633)</u>	<u>-</u>	<u>-</u>
<b>Total revenues</b>	<u>31,108,077</u>	<u>(1,422,101)</u>	<u>1,592,783</u>	<u>31,278,759</u>
<b>Operating Expenses</b>				
Program services:				
International programs	10,232,871	-	-	10,232,871
U.S. programs	<u>18,823,009</u>	<u>-</u>	<u>-</u>	<u>18,823,009</u>
<b>Total program services</b>	<u>29,055,880</u>	<u>-</u>	<u>-</u>	<u>29,055,880</u>
Program Support:				
Fund-raising	4,557,497	-	-	4,557,497
Management and general	<u>3,646,672</u>	<u>-</u>	<u>-</u>	<u>3,646,672</u>
<b>Total program support</b>	<u>8,204,169</u>	<u>-</u>	<u>-</u>	<u>8,204,169</u>
<b>Total expenses</b>	<u>37,260,049</u>	<u>-</u>	<u>-</u>	<u>37,260,049</u>
<b>Changes in net assets from operations</b>	(6,151,972)	(1,422,101)	1,592,783	(5,981,290)
<b>Nonoperating Changes In Net Assets</b>				
Investment gains (loss) not appropriated ( <i>Note 3</i> )	4,747,765	1,010,613	-	5,758,378
Actuarial (loss) gains on planned giving liabilities	(1,237,529)	1,314,721	-	77,192
Net gain (loss) from disposal/sale of assets	1,512,726	-	-	1,512,726
Pension and benefits adjustment	(1,207,488)	-	-	(1,207,488)
Other nonoperating changes in net assets	<u>56,335</u>	<u>(26,991)</u>	<u>(2,296)</u>	<u>27,048</u>
<b>Changes in net assets</b>	(2,280,163)	876,242	1,590,487	186,566
<b>Net Assets</b>				
Beginning of year	<u>34,402,262</u>	<u>31,570,373</u>	<u>21,842,338</u>	<u>87,814,973</u>
End of year	<u>\$32,122,099</u>	<u>\$32,446,615</u>	<u>\$23,432,825</u>	<u>\$88,001,539</u>

# AMERICAN FRIENDS SERVICE COMMITTEE

## STATEMENTS OF CASH FLOWS

For The Years Ended September 30, 2017 And 2016

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<i>Total change in net assets</i>	\$ 8,770,453	\$ 186,566
<i>Adjustments to reconcile total change in net assets to net cash used in operating activities</i>		
Realized and unrealized gains on investments	(11,222,904)	(8,236,067)
Unrealized loss on Friends Center Corporation investment	101,005	93,596
Depreciation	110,478	109,951
Gain on sale of building	-	(1,512,726)
Contributions to endowment funds	(775,050)	(1,591,909)
Contributions to planned giving program	(643,299)	(770,570)
Matured gifts from planned giving program	1,294,925	2,166,326
Remainder interest in life estates	661,454	751,498
Adjustment for changes in planned giving liabilities	(548,930)	2,897,286
Adjustment for changes in pension and post-retirement benefits	(1,886,732)	1,207,488
Changes in assets and liabilities which provided (used) cash		
Accounts and notes receivable	(156,351)	(122,641)
Income receivable and prepaid expenses	(666,004)	181,008
Accounts payable and accrued liabilities	(395,206)	340,764
Deferred income	226,234	37,923
Liability for pension and post-retirement benefits	<u>2,564,089</u>	<u>905,897</u>
<b>Net cash used in operating activities</b>	<u>(2,565,838)</u>	<u>(3,355,610)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of land, buildings, and equipment	(53,010)	(110,979)
Proceeds from sale of building	-	1,529,230
Purchases of investments	(40,574,098)	(37,521,613)
Sales of investments	<u>47,874,502</u>	<u>44,401,621</u>
<b>Net cash provided by investing activities</b>	<u>7,247,394</u>	<u>8,298,259</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from interest-free loans	4,100	16,300
Repayment of interest-free loans	(45,250)	(426,000)
Cash received for endowment funds	735,678	1,340,950
Cash received for planned giving program	142,707	472,925
Matured gifts from planned giving program	(1,294,925)	(2,166,326)
Net benefit payments to annuitants	<u>(3,330,960)</u>	<u>(3,697,500)</u>
<b>Net cash used in financing activities</b>	<u>(3,788,650)</u>	<u>(4,459,651)</u>
<b>Net increase in cash and cash equivalents</b>	892,906	482,998
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>1,495,826</u>	<u>1,012,828</u>
End of year	<u>\$ 2,388,732</u>	<u>\$ 1,495,826</u>

# AMERICAN FRIENDS SERVICE COMMITTEE

## STATEMENT OF FUNCTIONAL EXPENSES

For The Year Ended September 30, 2017

	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	\$ 5,733,444	\$ 12,486,974	\$ 18,220,418	\$ 2,230,549	\$ 1,700,295	\$ 3,930,844	\$ 22,151,262
Net periodic pension and retiree medical expense	<u>424,604</u>	<u>949,205</u>	<u>1,373,809</u>	<u>161,645</u>	<u>101,320</u>	<u>262,965</u>	<u>1,636,774</u>
Net compensation expense	6,158,048	13,436,179	19,594,227	2,392,194	1,801,615	4,193,809	23,788,036
Professional fees and services	710,800	986,773	1,697,573	300,394	247,687	548,081	2,245,654
Occupancy	530,383	986,058	1,516,441	234,895	194,736	429,631	1,946,072
Risk management insurance	76,727	110,646	187,373	9,889	69,021	78,910	266,283
Office supplies	39,841	88,805	128,646	8,148	7,077	15,225	143,871
Equipment leasing, purchase, and repairs	105,544	190,878	296,422	10,387	18,882	29,269	325,691
Program activities	1,226,393	483,913	1,710,306	15,040	31,600	46,640	1,756,946
Telephone and communications	166,045	331,746	497,791	33,177	123,959	157,136	654,927
Postage and shipping	20,823	68,066	88,889	14,968	10,365	25,333	114,222
Travel	499,241	744,705	1,243,946	123,461	119,865	243,326	1,487,272
Conferences, conventions, and meetings	591,572	79,594	671,166	3,399	18,065	21,464	692,630
Fundraising appeals	180,118	313,768	493,886	712,564	-	712,564	1,206,450
Printing and publishing	81,739	150,699	232,438	28,435	32,528	60,963	293,401
Awards and grants	861,068	146,847	1,007,915	-	-	-	1,007,915
Miscellaneous expense	<u>74,394</u>	<u>5,412</u>	<u>79,806</u>	<u>2,424</u>	<u>-</u>	<u>2,424</u>	<u>82,230</u>
Total expenses before depreciation	11,322,736	18,124,089	29,446,825	3,889,375	2,675,400	6,564,775	36,011,600
Depreciation of buildings and equipment	<u>-</u>	<u>18,473</u>	<u>18,473</u>	<u>-</u>	<u>92,005</u>	<u>92,005</u>	<u>110,478</u>
Total expenses	<u>\$ 11,322,736</u>	<u>\$ 18,142,562</u>	<u>\$ 29,465,298</u>	<u>\$ 3,889,375</u>	<u>\$ 2,767,405</u>	<u>\$ 6,656,780</u>	<u>\$ 36,122,078</u>



# AMERICAN FRIENDS SERVICE COMMITTEE

## STATEMENT OF FUNCTIONAL EXPENSES

For The Year Ended September 30, 2016

	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	\$ 5,362,328	\$ 13,287,334	\$ 18,649,662	\$ 2,718,377	\$ 2,289,849	\$ 5,008,226	\$ 23,657,888
Net periodic pension and retiree medical expense	<u>304,037</u>	<u>743,937</u>	<u>1,047,974</u>	<u>152,061</u>	<u>151,977</u>	<u>304,038</u>	<u>1,352,012</u>
Net compensation expense	5,666,365	14,031,271	19,697,636	2,870,438	2,441,826	5,312,264	25,009,900
Professional fees and services	745,802	891,609	1,637,411	234,929	299,100	534,029	2,171,440
Occupancy	467,529	951,042	1,418,571	325,227	217,568	542,795	1,961,366
Risk management insurance	70,236	103,864	174,100	16,689	83,248	99,937	274,037
Office supplies	50,714	84,619	135,333	7,549	4,476	12,025	147,358
Equipment leasing, purchase, and repairs	79,359	236,841	316,200	9,629	18,885	28,514	344,714
Program activities	951,184	565,270	1,516,454	16,543	42,571	59,114	1,575,568
Telephone and communications	135,750	335,250	471,000	53,568	134,270	187,838	658,838
Postage and shipping	18,850	66,724	85,574	12,356	15,092	27,448	113,022
Travel	505,454	781,596	1,287,050	161,097	165,730	326,827	1,613,877
Conferences, conventions, and meetings	479,478	104,102	583,580	19,087	52,168	71,255	654,835
Fundraising appeals	136,303	287,838	424,141	788,428	-	788,428	1,212,569
Printing and publishing	64,003	146,809	210,812	23,769	43,973	67,742	278,554
Awards and grants	736,301	78,552	814,853	286	1,384	1,670	816,523
Miscellaneous expense	<u>125,543</u>	<u>134,131</u>	<u>259,674</u>	<u>17,902</u>	<u>39,921</u>	<u>57,823</u>	<u>317,497</u>
Total expenses before depreciation	10,232,871	18,799,518	29,032,389	4,557,497	3,560,212	8,117,709	37,150,098
Depreciation of buildings and equipment	<u>-</u>	<u>23,491</u>	<u>23,491</u>	<u>-</u>	<u>86,460</u>	<u>86,460</u>	<u>109,951</u>
Total expenses	<u>\$ 10,232,871</u>	<u>\$ 18,823,009</u>	<u>\$ 29,055,880</u>	<u>\$ 4,557,497</u>	<u>\$ 3,646,672</u>	<u>\$ 8,204,169</u>	<u>\$ 37,260,049</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, 2017 And 2016

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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 central office, four (4) U.S. regional offices, thirty-two (32) 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, 2017, and 2016, 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 \$2,739,516 in 2017 and \$2,567,215 in 2016. 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, 2017 And 2016

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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 \$4,005,924 and \$5,421,779 and total obligations of the informal post-retirement plan of \$18,467,791 and \$17,790,434 have been included in the statements of financial position as of September 30, 2017 and 2016, respectively.

# AMERICAN FRIENDS SERVICE COMMITTEE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

### For The Years Ended September 30, 2017 And 2016

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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 with restrictions as noted by the donor.

# AMERICAN FRIENDS SERVICE COMMITTEE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

### For The Years Ended September 30, 2017 And 2016

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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.

#### **RECLASSIFICATIONS**

Certain reclassifications were made to the 2016 financial statements to conform to the 2017 presentation.

### **(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.

# AMERICAN FRIENDS SERVICE COMMITTEE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

### For The Years Ended September 30, 2017 And 2016

*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 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 (NAV) 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.

The summary of inputs used to value the Committee's investments as of September 30, 2017 and 2016 are as follows:

	<u>Fair Value Measurement At Reporting Date Using:</u>				<u>Net Asset Value</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>2017</b>					
<b>Planned Giving Investments:</b>					
Common Stocks	\$ 24,870,120	\$24,870,120	\$ -	\$ -	\$ -
Mutual Funds	5,119,812	5,119,812	-	-	-
Bonds	20,637,494	-	20,637,494	-	-
Commingled Funds	6,544,677	-	-	-	6,544,677
Other	16,163	-	-	16,163	-
Cash and Cash Equivalents	<u>2,950,355</u>	<u>2,950,355</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Planned Giving Investments</b>	<u>\$ 60,138,621</u>	<u>\$32,940,287</u>	<u>\$20,637,494</u>	<u>\$16,163</u>	<u>\$ 6,544,677</u>
<b>Other Long Term Investments:</b>					
Common Stocks	\$ 39,513,367	\$39,513,367	\$ -	\$ -	\$ -
Bonds	13,397,406	-	13,397,406	-	-
Commingled Funds	23,003,279	-	-	-	23,003,279
Other	42,902	-	-	42,902	-
Cash and Cash Equivalents	<u>5,685,309</u>	<u>5,685,309</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Other Long-Term Investments</b>	<u>\$ 81,642,263</u>	<u>\$45,198,676</u>	<u>\$13,397,406</u>	<u>\$42,902</u>	<u>\$23,003,279</u>
<b>Total Investments</b>	<u>\$141,780,884</u>	<u>\$78,138,963</u>	<u>\$34,034,900</u>	<u>\$59,065</u>	<u>\$29,547,956</u>

# AMERICAN FRIENDS SERVICE COMMITTEE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2017 And 2016

	Fair Value Measurement At Reporting Date Using:				
	Total Fair Value	Observable Inputs (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Net Asset Value
<b>2017</b>					
<b>Agency Fund Assets:</b>					
Common Stocks	\$ 1,623,369	\$ 1,623,369	\$ -	\$ -	\$ -
Mutual Funds	557,751	557,751	-	-	-
Bonds	1,398,667	-	1,398,667	-	-
Commingled Funds	4,532	-	-	-	4,532
Cash and Cash Equivalents	531,148	531,148	-	-	-
<b>Total Agency Fund Assets</b>	<b>\$ 4,115,467</b>	<b>\$ 2,712,268</b>	<b>\$ 1,398,667</b>	<b>\$ -</b>	<b>\$ 4,532</b>

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

	Beginning Market Value	Gains/ (Losses)	Revenue	Additions/ (Withdrawals)	Ending Market Value
Planned Giving Investments	\$ 21,105	\$ (4,942)	\$ 11,150	\$ (11,150)	\$ 16,163
Other Long-Term Investments	44,550	(1,648)	3,717	(3,717)	42,902
	<u>\$ 65,655</u>	<u>\$ (6,590)</u>	<u>\$ 14,867</u>	<u>\$ (14,867)</u>	<u>\$ 59,065</u>

	Fair Value Measurement At Reporting Date Using:				
	Total Fair Value	Observable Inputs (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Net Asset Value
<b>2016</b>					
<b>Planned Giving Investments:</b>					
Common Stocks	\$ 23,470,626	\$ 23,470,626	\$ -	\$ -	\$ -
Mutual Funds	4,888,046	4,888,046	-	-	-
Bonds	20,444,903	-	20,444,903	-	-
Commingled Funds	6,360,830	-	-	-	6,360,830
Other	21,105	-	-	21,105	-
Cash and Cash Equivalents	3,765,701	3,765,701	-	-	-
<b>Total Planned Giving Investments</b>	<b>\$ 58,951,211</b>	<b>\$ 32,124,373</b>	<b>\$ 20,444,903</b>	<b>\$ 21,105</b>	<b>\$ 6,360,830</b>
<b>Other Long Term Investments:</b>					
Common Stocks	\$ 32,980,999	\$ 32,980,999	\$ -	\$ -	\$ -
Bonds	15,099,551	-	15,099,551	-	-
Commingled Funds	24,449,141	-	-	-	24,449,141
Other	44,550	-	-	44,550	-
Cash and Cash Equivalents	4,572,387	4,572,387	-	-	-
<b>Total Other Long-Term Investments</b>	<b>\$ 77,146,628</b>	<b>\$ 37,553,386</b>	<b>\$ 15,099,551</b>	<b>\$ 44,550</b>	<b>\$ 24,449,141</b>
<b>Total Investments</b>	<b>\$ 136,097,839</b>	<b>\$ 69,677,759</b>	<b>\$ 35,544,454</b>	<b>\$ 65,655</b>	<b>\$ 30,809,971</b>
<b>Agency Fund Assets:</b>					
Common Stocks	\$ 1,450,938	\$ 1,450,938	\$ -	\$ -	\$ -
Mutual Funds	539,804	539,804	-	-	-
Bonds	1,468,212	-	1,468,212	-	-
Commingled Funds	6,046	-	-	-	6,046
Cash and Cash Equivalents	455,928	455,928	-	-	-
<b>Total Agency Fund Assets</b>	<b>\$ 3,920,928</b>	<b>\$ 2,446,670</b>	<b>\$ 1,468,212</b>	<b>\$ -</b>	<b>\$ 6,046</b>

# AMERICAN FRIENDS SERVICE COMMITTEE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

### For The Years Ended September 30, 2017 And 2016

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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	\$ 41,138	\$ (20,033)	\$ 10,585	\$ (10,585)	\$ 21,105
Other Long-Term Investments	<u>62,095</u>	<u>(6,677)</u>	<u>3,528</u>	<u>(14,396)</u>	<u>44,550</u>
	<u>\$ 103,233</u>	<u>\$ (26,710)</u>	<u>\$ 14,113</u>	<u>\$ (24,981)</u>	<u>\$ 65,655</u>

There were no transfers between Level 1 and Level 2 during the years ended September 30, 2017 and 2016.

Commingled funds which are measured at Net Asset Value and the investment objective of each holding are as follows:

	<u>Fair Value</u>
International Equity Fund <sup>(a)</sup>	\$ 19,643,152
Global and Emerging Markets Bond Fund <sup>(b)</sup>	6,391,237
Commodity Fund <sup>(c)</sup>	<u>3,518,099</u>
Total Commingled Funds	<u>\$ 29,552,488</u>

There were no unfunded commitments on the commingled funds at September 30, 2017.

- (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.



# AMERICAN FRIENDS SERVICE COMMITTEE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

### For The Years Ended September 30, 2017 And 2016

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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, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Dividends and interest	\$ 1,452,780	\$ 1,486,449
Net realized and unrealized gains on investments	11,222,904	8,236,067
Net realized loss on FCC	(101,005)	(93,596)
Investment fees	<u>(1,138,597)</u>	<u>(1,303,327)</u>
Total investment income, net of fees	11,436,082	8,325,593
Less: investment income appropriated	<u>(2,739,516)</u>	<u>(2,567,215)</u>
Investment gains not appropriated	<u>\$ 8,696,566</u>	<u>\$ 5,758,378</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.

The 2017 reserve was calculated as follows:

Actuarial present value liability - California	\$ 2,902,646
Actuarial present value liability – Florida	195,336
10% additional reserves	19,534
Actuarial present value liability – General (New York)	9,812,099
26.5% additional reserves	2,600,206
Actuarial present value liability – Tennessee	8,651
10% additional reserves	<u>865</u>
Total Required Reserve	<u>\$ 15,539,337</u>

Gift annuity investments amounted to \$22,830,230 at September 30, 2017. The additional reserves of \$2,620,605 are included in the designated for current and future operations of the unrestricted net assets but are required to be maintained in a segregated investment account for the benefit of the charitable gift annuitants.

# AMERICAN FRIENDS SERVICE COMMITTEE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

### For The Years Ended September 30, 2017 And 2016

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#### (4) INVESTMENT IN FRIENDS CENTER

Summarized audited financial information for the Friends Center Corporation (“FCC”) for the years ended June 30, 2017 and 2016 are as follows:

	<u>Balance Sheet (Accrual Basis)</u>	
	<u>2017</u>	<u>2016</u>
Total Assets	<u>\$ 14,221,709</u>	<u>\$ 14,625,742</u>
Total Liabilities	\$ 6,301,730	\$ 6,432,777
Net Assets	<u>7,919,979*</u>	<u>8,192,965*</u>
Total Liabilities and Net Assets	<u>\$ 14,221,709</u>	<u>\$ 14,625,742</u>

\* The Committee’s 37.0% equity interest of \$2,929,652 and \$3,030,657 as of June 30, 2017 and 2016, 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 \$(101,005) and \$(93,596) for the years ended June 30, 2017 and 2016, respectively, which is disclosed within “Investment (losses)/ gains not appropriated” in the statement of activities.

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

A summary of land, buildings and equipment as of September 30, 2017 and 2016, is as follows:

	<u>2017</u>	<u>2016</u>
<b>Non-depreciable assets</b>		
Land	\$ 42,455	\$ 42,455
<b>Depreciable assets</b>		
Buildings	1,219,391	1,219,391
Furniture and equipment	<u>1,324,666</u>	<u>1,271,656</u>
Subtotal – depreciable assets	2,544,057	2,491,047
Accumulated depreciation	<u>(1,621,098)</u>	<u>(1,510,620)</u>
Subtotal – depreciable assets, net	<u>922,959</u>	<u>980,427</u>
Total land, buildings and equipment, net	<u>\$ 965,414</u>	<u>\$ 1,022,882</u>

Depreciation expense was \$110,478 and \$109,951 for the years ended September 30, 2017 and 2016, respectively.

# AMERICAN FRIENDS SERVICE COMMITTEE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2017 And 2016

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### (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 \$16,059,945 and \$14,569,839 at September 30, 2017 and 2016, 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 retirees contribute to the cost of this plan.

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>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
	<u>(Dollars In Thousands)</u>			
Fair value of plan assets	\$ 50,665	\$ 46,832	\$ -	\$ -
Projected benefit obligation	<u>54,671</u>	<u>52,254</u>	<u>18,468</u>	<u>17,790</u>
Unfunded status	<u>\$ (4,006)</u>	<u>\$ (5,422)</u>	<u>\$ (18,468)</u>	<u>\$ (17,790)</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>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Discount Rate	4.10%	4.00%	4.10%	4.00%
Expected return on Plan Assets	7.50%	7.50%	-	-
Rate of Compensation Increase	3.00%	3.00%	-	-

# AMERICAN FRIENDS SERVICE COMMITTEE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

### For The Years Ended September 30, 2017 And 2016

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>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
	<u>(In Thousands)</u>			
Pension expense (credit)	\$ (1,416)	\$ 250	\$ 1,116	\$ 2,303
Contributions	\$ -	\$ -	\$ 439	\$ 440
Benefits Paid	\$ (2,442)	\$ (2,371)	\$ (805)	\$ (804)
 Components of Net Periodic Benefit Cost				
Service cost	\$ 1,215	\$ 1,046	\$ 572	\$ 538
Interest cost	2,091	2,143	652	711
Return on plan assets	(3,400)	(3,263)	-	-
Recognized net actuarial (gain) loss	731	391	(211)	(200)
Amortization of prior service cost	<u>-</u>	<u>-</u>	<u>(13)</u>	<u>(13)</u>
Net periodic pension/postretirement cost	<u>\$ 637</u>	<u>\$ 317</u>	<u>\$ 1,000</u>	<u>\$ 1,036</u>
 Special termination benefit	 <u>1,662</u>	 <u>-</u>	 <u>-</u>	 <u>-</u>
 Total benefit cost	 <u>\$ 2,299</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ -</u>

During the year ended September 30, 2017, there was a Retirement Incentive Program (the “Program”) offered which resulted in a one-time special termination benefit of \$1,661,594. The Program granted five years of age and five years of service in determining retirement benefits for those who elected to retire under the Program.

During the year ended September 30, 2016, there were changes in assumptions made relating to mortality which decreased the defined benefit pension plan liability by approximately \$894,000. In 2016, a change in the discount rate increased the liability by approximately \$3,271,000.

During the year ended September 30, 2017, the underlying model to set the future healthcare cost trend was updated to the 2018 model to reflect the increasing healthcare rates which increased the liability for the informal postretirement medical benefits plan by approximately \$1.2 million.

During the year ended September 30, 2016, there were changes in assumptions made relating to mortality which decreased the liability for the informal postretirement medical benefits plan by approximately \$520,000. In 2016, a change in the discount rate increased the liability by approximately \$1,386,000.

# AMERICAN FRIENDS SERVICE COMMITTEE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

### For The Years Ended September 30, 2017 And 2016

The summary of inputs used to value the Committee’s Formal plan assets carried at fair value as of September 30, 2017 and 2016 were as follows:

	<b>2017</b>				<b>Net Asset Value</b>
	<b>Total</b>	<b>Level 1 Quoted Prices</b>	<b>Level 2 Other Significant Inputs</b>	<b>Level 3 Significant Unobservable Inputs</b>	
Common Stock	\$ 23,050,241	\$ 23,050,241	\$ -	\$ -	\$ -
Bonds	10,302,051	-	10,302,051	-	-
Commingled Funds	14,404,562	-	-	-	14,404,562
Cash and Cash Equivalents	<u>2,907,892</u>	<u>2,907,892</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 50,664,746</u>	<u>\$ 25,958,133</u>	<u>\$ 10,302,051</u>	<u>\$ -</u>	<u>\$ 14,404,562</u>

  

	<b>2016</b>				<b>Net Asset Value</b>
	<b>Total</b>	<b>Level 1 Quoted Prices</b>	<b>Level 2 Other Significant Inputs</b>	<b>Level 3 Significant Unobservable Inputs</b>	
Common Stock	\$ 20,901,057	\$ 20,901,057	\$ -	\$ -	\$ -
Bonds	9,339,015	-	9,339,015	-	-
Commingled Funds	13,180,226	-	-	-	13,180,226
Cash and Cash Equivalents	<u>3,411,481</u>	<u>3,411,481</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 46,831,779</u>	<u>\$ 24,312,538</u>	<u>\$ 9,339,015</u>	<u>\$ -</u>	<u>\$ 13,180,226</u>

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:

<b><u>Asset Category</u></b>	<b><u>2017</u></b>
Equities	45.50%
Fixed Income	20.33%
Commingled Funds	28.43%
Cash and Cash Equivalents	<u>5.74%</u>
Total	<u>100.00%</u>

# AMERICAN FRIENDS SERVICE COMMITTEE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

### For The Years Ended September 30, 2017 And 2016

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Commingled funds which are measured at Net Asset Value and the investment objective of each holding are as follows:

	<u>Fair Value</u>
International Equity Fund <sup>(a)</sup>	\$ 10,718,007
Global and Emerging Markets Bond Funds <sup>(b)</sup>	<u>3,686,555</u>
Total Commingled Funds	<u>\$14,404,562</u>

There were no unfunded commitments on the commingled funds at September 30, 2017.

- (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>
2018	\$ 2,958,000	\$ 742,000
2019	2,967,000	754,000
2020	3,007,000	709,000
2021	3,032,000	706,000
2022	3,123,000	715,000
2023 – 2026	<u>16,333,000</u>	<u>4,151,000</u>
Total	<u>\$31,420,000</u>	<u>\$ 7,777,000</u>

### (7) NET ASSETS

Temporarily restricted net assets for 2017 and 2016 are available for the following purposes:

	<u>2017</u>	<u>2016</u>
Purpose-restricted		
International programs	\$ 221,905	\$ 165,072
U.S. programs	184,246	443,364
Courageous Acts campaign	2,830,481	1,494,600
Program support	<u>167,639</u>	<u>241,054</u>
Total purpose restricted	3,404,271	2,344,090
Time-restricted (planned gifts)*	27,815,523	25,534,444
Accumulated gain on endowment assets	<u>6,616,986</u>	<u>4,568,081</u>
Total	<u>\$37,836,780</u>	<u>\$32,446,615</u>

\* Includes \$4,189,548 and \$3,939,411 of term endowments as of September 30, 2017 and 2016, respectively.

# AMERICAN FRIENDS SERVICE COMMITTEE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

### For The Years Ended September 30, 2017 And 2016

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>2017</u>	<u>2016</u>
International programs	\$ 3,225,243	\$ 1,668,714
U.S. programs	3,499,990	3,921,497
Courageous Acts campaign	811,673	1,469,062
Program support	406,247	785,395
Time Restrictions met	<u>839,972</u>	<u>1,866,965</u>
	<u>\$ 8,783,125</u>	<u>\$ 9,711,633</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, 2017 and 2016:

	<u>2017</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 10,806,534	\$ 24,281,193	\$ 35,087,727
Funds functioning as endowment	<u>24,261,471</u>	<u>-</u>	<u>-</u>	<u>24,261,471</u>
Total funds	<u>\$ 24,261,471</u>	<u>\$ 10,806,534</u>	<u>\$ 24,281,193</u>	<u>\$ 59,349,198</u>

  

	<u>2016</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 8,507,491	\$ 23,432,825	\$ 31,940,316
Funds functioning as endowment	<u>20,370,182</u>	<u>-</u>	<u>-</u>	<u>20,370,182</u>
Total funds	<u>\$ 20,370,182</u>	<u>\$ 8,507,491</u>	<u>\$ 23,432,825</u>	<u>\$ 52,310,498</u>

# AMERICAN FRIENDS SERVICE COMMITTEE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

### For The Years Ended September 30, 2017 And 2016

Change in endowment net assets for the years ended September 30, 2017 and 2016:

	<b>2017</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
Endowment net assets, September 30, 2016	\$ 20,370,182	\$ 8,507,491	\$ 23,432,825	\$ 52,310,498
Investment return:				
Investment income, net of fees	144,054	209,996	-	354,050
Net realized/unrealized gains (losses)	<u>2,565,174</u>	<u>3,745,317</u>	<u>(826)</u>	<u>6,309,665</u>
Total investment return	2,709,228	3,955,313	(826)	6,663,715
Contributions and other transfers	2,292,206	-	849,194	3,141,400
Appropriation of assets for expenditure in accordance with the spending policy	(1,110,145)	(1,629,371)	-	(2,739,516)
Other changes:				
Term endowment principal transferred to general funds	<u>-</u>	<u>(26,899)</u>	<u>-</u>	<u>(26,899)</u>
Endowment net assets, September 30, 2017	<u>\$ 24,261,471</u>	<u>\$ 10,806,534</u>	<u>\$ 24,281,193</u>	<u>\$ 59,349,198</u>
	<b>2016</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, September 30, 2015	\$ 17,072,201	\$ 7,508,615	\$ 21,842,338	\$ 46,423,154
Investment return:				
Investment income, net of fees	109,885	174,346	-	284,231
Net realized/unrealized gains (losses)	<u>1,501,922</u>	<u>2,434,526</u>	<u>(1,422)</u>	<u>3,935,026</u>
Total investment return	1,611,807	2,608,872	(1,422)	4,219,257
Contributions and other transfers	2,670,385	-	1,591,909	4,262,294
Appropriation of assets for expenditure in accordance with the spending policy	(984,211)	(1,583,004)	-	(2,567,215)
Other changes:				
Term endowment principal transferred to general funds	<u>-</u>	<u>(26,992)</u>	<u>-</u>	<u>(26,992)</u>
Endowment net assets, September 30, 2016	<u>\$ 20,370,182</u>	<u>\$ 8,507,491</u>	<u>\$ 23,432,825</u>	<u>\$ 52,310,498</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, 2017 and 2016.



# AMERICAN FRIENDS SERVICE COMMITTEE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2017 And 2016

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### (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, 2017 and 2016, the Friends Center’s fiscal year-end, the Bonds, which mature in 2038, had outstanding balances of approximately \$6.2 million and \$6.4 million, respectively, 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, 2017 and 2016, the Committee incurred joint costs of \$1,554,982 and \$1,564,364 for informational materials and activities that included fund-raising appeals. For the years ended September 30, 2017 and 2016, these joint costs were allocated as follows:

	<u>2017</u>	<u>2016</u>
Fundraising	\$ 1,034,150	\$ 913,522
International Programs	160,490	209,305
US Programs	<u>360,342</u>	<u>441,537</u>
Total	<u>\$ 1,554,982</u>	<u>\$ 1,564,364</u>

### (10) COMMITMENTS

#### **COMMITMENTS**

The Committee leases certain facilities where the Committee has program offices under leases expiring through November 2023. In addition, the Committee leases certain office equipment under operating leases expiring through April 2022. Most international office leases are paid in advance or are month-to-month basis. Rent expense for the years ended September 30, 2017 and 2016 was approximately \$1,178,000 and \$1,019,000, respectively.

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

<u>Year Ending September 30,</u>	
2018	\$ 647,366
2019	440,252
2020	305,737
2021	122,215
2022	93,377
2023 and thereafter	<u>12,221</u>
Future minimum lease payments	<u>\$ 1,621,168</u>

### (11) SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 16, 2018, the date which the financial statements were available to be issued. There were no material subsequent events required to be disclosed.