

AMERICAN FRIENDS SERVICE COMMITTEE

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

SEPTEMBER 30, 2019 AND 2018

AMERICAN FRIENDS SERVICE COMMITTEE

TABLE OF CONTENTS

	<u>Page</u>
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	1
FINANCIAL STATEMENTS	
<i>Statements of Financial Position,</i> For the years ended September 30, 2019 and 2018	2
<i>Statement of Activities and Changes in Net Assets,</i> For the year ended September 30, 2019 and 2018	3 - 4
<i>Statements of Cash Flows,</i> For the years ended September 30, 2019 and 2018	5
<i>Statements of Functional Expenses,</i> For the year ended September 30, 2019 and 2018	6 - 7
<i>Notes to Financial Statements</i>	8 - 24

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, 2019 and 2018, 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, 2019 and 2018, 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
April 2, 2020**

AMERICAN FRIENDS SERVICE COMMITTEE

STATEMENTS OF FINANCIAL POSITION

September 30, 2019 And 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
ASSETS		
Cash and cash equivalents	\$ 4,168,735	\$ 1,964,733
Accounts and notes receivable – net	845,458	830,662
Income receivable and prepaid expenses	1,291,410	1,424,505
Investments:		
Planned giving (<i>Note 3</i>)	60,666,252	61,031,098
Other long-term investments (<i>Note 3</i>)	85,458,982	84,068,829
Investment in Friends Center (<i>Note 4</i>)	<u>2,720,126</u>	<u>2,816,359</u>
Total investments	148,845,360	147,916,286
Land, buildings and equipment – net (<i>Note 5</i>)	753,949	847,851
Other assets	121,983	46,164
Agency fund assets (<i>Note 3</i>)	<u>3,800,091</u>	<u>4,219,940</u>
Total assets	<u>\$ 159,826,986</u>	<u>\$ 157,250,141</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 2,468,824	\$ 2,913,301
Deferred income	2,165,161	1,544,986
Interest-free loans	767,566	757,266
Annuities and unitrusts payable	27,712,702	26,464,625
Liability for pension benefits (<i>Note 6</i>)	9,974,319	1,525,894
Liability for post-retirement benefits (<i>Note 6</i>)	15,746,562	18,261,555
Agency funds	<u>3,800,091</u>	<u>4,219,940</u>
Total liabilities	<u>62,635,225</u>	<u>55,687,567</u>
NET ASSETS		
Without Donor Restrictions:		
Designated for current and future operations	2,496,252	2,091,012
Funds functioning as endowment (<i>Note 7</i>)	26,934,652	25,764,049
Funds designated for payment of charitable gift annuities	10,979,144	10,982,663
Funded status of pension and informal retirement benefit plans (<i>Note 6</i>)	(8,490,196)	(3,175,823)
Investment in Friends Center	2,720,126	2,816,359
Land, buildings and equipment	<u>753,949</u>	<u>847,851</u>
Total without donor restrictions	<u>35,393,927</u>	<u>39,326,111</u>
With Donor Restrictions (<i>Note 7</i>):		
Time restricted	25,839,025	27,494,998
Purpose restricted	1,096,325	2,228,863
Accumulated gains on endowment assets	8,369,825	7,538,056
Endowment net assets required to be held in perpetuity	<u>26,492,659</u>	<u>24,974,546</u>
Total net assets with donor restrictions	<u>61,797,834</u>	<u>62,236,463</u>
Total net assets	<u>97,191,761</u>	<u>101,562,574</u>
Total liabilities and net assets	<u>\$ 159,826,986</u>	<u>\$ 157,250,141</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, 2019 (With Comparative 2018 Totals)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2019 Total</u>	<u>2018 Total</u>
Operating Revenues				
Public support:				
Contributions for current program work	\$ 9,542,174	\$ 2,854,953	\$ 12,397,127	\$ 13,474,617
Grants from foundations	-	5,412,364	5,412,364	5,432,051
Bequests	7,716,656	401,434	8,118,090	7,542,875
Contributions to planned giving program	665,459	936,320	1,601,779	1,313,145
Contributions to endowment funds	<u>-</u>	<u>1,157,515</u>	<u>1,157,515</u>	<u>708,392</u>
Total public support	17,924,289	10,762,586	28,686,875	28,471,080
Government grants	-	442,899	442,899	90,508
Investment income, net of fees, appropriated (<i>Note 3</i>)	2,913,167	-	2,913,167	2,800,000
Program service income	243,987	-	243,987	318,037
Miscellaneous interest and other income	164,010	1,060	165,070	154,065
Net assets released from restrictions	<u>13,212,541</u>	<u>(13,212,541)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>34,457,994</u>	<u>(2,005,996)</u>	<u>32,451,998</u>	<u>31,833,690</u>
Operating Expenses				
Program services:				
International programs	9,063,995	-	9,063,995	10,482,095
U.S. programs	<u>16,682,888</u>	<u>-</u>	<u>16,682,888</u>	<u>16,369,771</u>
Total program services	<u>25,746,883</u>	<u>-</u>	<u>25,746,883</u>	<u>26,851,866</u>
Program Support:				
Fund-raising	4,161,109	-	4,161,109	4,273,119
Management and general	<u>3,398,431</u>	<u>-</u>	<u>3,398,431</u>	<u>3,063,259</u>
Total program support	<u>7,559,540</u>	<u>-</u>	<u>7,559,540</u>	<u>7,336,378</u>
Total expenses	<u>33,306,423</u>	<u>-</u>	<u>33,306,423</u>	<u>34,188,244</u>
Changes in net assets from operations	1,151,571	(2,005,996)	(854,425)	(2,354,554)
Nonoperating Changes In Net Assets				
Investment gains not appropriated (<i>Note 3</i>)	2,478,805	1,031,841	3,510,646	4,080,452
Actuarial (loss) gains on planned giving liabilities	(676,898)	565,608	(111,290)	589,434
Pension and benefits adjustment	(6,856,039)	-	(6,856,039)	2,896,680
Other nonoperating changes in net assets	<u>(29,623)</u>	<u>(30,082)</u>	<u>(59,705)</u>	<u>(421,430)</u>
Changes in net assets	(3,932,184)	(438,629)	(4,370,813)	4,790,582
Net Assets				
Beginning of year	<u>39,326,111</u>	<u>62,236,463</u>	<u>101,562,574</u>	<u>96,771,992</u>
End of year	<u>\$35,393,927</u>	<u>\$ 61,797,834</u>	<u>\$ 97,191,761</u>	<u>\$101,562,574</u>

AMERICAN FRIENDS SERVICE COMMITTEE

STATEMENT OF ACTIVITIES AND CHANGES, IN NET ASSETS

For The Year Ended September 30, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2018 Total</u>
Operating Revenues			
Public support:			
Contributions for current program work	\$ 10,863,925	\$ 2,610,692	\$ 13,474,617
Grants from foundations	-	5,432,051	5,432,051
Bequests	7,023,502	519,373	7,542,875
Contributions to planned giving program	975,009	338,136	1,313,145
Contributions to endowment funds	<u>-</u>	<u>708,392</u>	<u>708,392</u>
Total public support	18,862,436	9,608,644	28,471,080
Government grants	-	90,508	90,508
Investment income, net of fees, appropriated (<i>Note 3</i>)	2,800,000	-	2,800,000
Program service income	318,037	-	318,037
Miscellaneous interest and other income	153,263	802	154,065
Net assets released from restrictions	<u>12,211,068</u>	<u>(12,211,068)</u>	<u>-</u>
Total revenues	<u>34,344,804</u>	<u>(2,511,114)</u>	<u>31,833,690</u>
Operating Expenses			
Program services:			
International programs	10,482,095	-	10,482,095
U.S. programs	<u>16,369,771</u>	<u>-</u>	<u>16,369,771</u>
Total program services	<u>26,851,866</u>	<u>-</u>	<u>26,851,866</u>
Program Support:			
Fund-raising	4,273,119	-	4,273,119
Management and general	<u>3,063,259</u>	<u>-</u>	<u>3,063,259</u>
Total program support	<u>7,336,378</u>	<u>-</u>	<u>7,336,378</u>
Total expenses	<u>34,188,244</u>	<u>-</u>	<u>34,188,244</u>
Changes in net assets from operations	156,560	(2,511,114)	(2,354,554)
Nonoperating Changes In Net Assets			
Investment gains not appropriated (<i>Note 3</i>)	3,021,846	1,058,606	4,080,452
Actuarial (loss) gains on planned giving liabilities	(1,024,042)	1,613,476	589,434
Pension and benefits adjustment	2,896,680	-	2,896,680
Other nonoperating changes in net assets	<u>(378,952)</u>	<u>(42,478)</u>	<u>(421,430)</u>
Changes in net assets	4,672,092	118,490	4,790,582
Net Assets			
Beginning of year	<u>34,654,019</u>	<u>62,117,973</u>	<u>96,771,992</u>
End of year	<u>\$ 39,326,111</u>	<u>\$ 62,236,463</u>	<u>\$ 101,562,574</u>

AMERICAN FRIENDS SERVICE COMMITTEE

STATEMENTS OF CASH FLOWS

For The Years Ended September 30, 2019 And 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
<i>Total change in net assets</i>	\$ (4,370,813)	\$ 4,790,582
<i>Adjustments to reconcile total change in net assets to net cash used in operating activities</i>		
Realized and unrealized gains on investments	(5,206,160)	(6,509,293)
Unrealized loss on Friends Center Corporation investment	96,233	113,293
Depreciation	118,848	120,743
Contributions to endowment funds	(1,157,515)	(708,392)
Contributions to planned giving program	(1,601,779)	(1,313,145)
Matured gifts from planned giving program	3,680,601	2,614,795
Remainder interest in life estates	3,002,065	1,607,965
Adjustment for changes in planned giving liabilities	1,648,208	1,144,680
Adjustment for changes in pension and post-retirement benefits	6,856,039	(2,896,680)
Changes in assets and liabilities which provided (used) cash		
Accounts and notes receivable	(14,796)	(409,924)
Income receivable and prepaid expenses	133,095	343,819
Accounts payable and accrued liabilities	(444,477)	368,979
Deferred income	620,175	363,622
Liability for pension and post-retirement benefits	<u>(922,607)</u>	<u>210,414</u>
Net cash provided by (used in) operating activities	<u>2,437,117</u>	<u>(158,542)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of land, buildings, and equipment	(24,946)	(3,180)
Purchases of investments	(49,730,935)	(53,178,722)
Sales of investments	<u>54,273,352</u>	<u>57,455,145</u>
Net cash provided by investing activities	<u>4,517,471</u>	<u>4,273,243</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from interest-free loans	10,300	2,500
Repayment of interest-free loans	-	(101,450)
Cash received for endowment funds	1,157,515	706,355
Cash received for planned giving program	1,051,105	918,253
Matured gifts from planned giving program	(3,680,601)	(2,614,795)
Net benefit payments to annuitants	<u>(3,288,905)</u>	<u>(3,348,774)</u>
Net cash used in financing activities	<u>(4,750,586)</u>	<u>(4,437,911)</u>
Net increase (decrease) in cash and cash equivalents	2,204,002	(323,210)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>1,964,733</u>	<u>2,287,943</u>
End of year	<u>\$ 4,168,735</u>	<u>\$ 1,964,733</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, 2019

	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	\$ 4,929,274	\$ 12,330,695	\$ 17,259,969	\$ 2,578,405	\$ 2,231,503	\$ 4,809,908	\$ 22,069,877
Net periodic pension and retiree medical expense	<u>(90,253)</u>	<u>(228,008)</u>	<u>(318,261)</u>	<u>(47,131)</u>	<u>(39,872)</u>	<u>(87,003)</u>	<u>(405,264)</u>
Net compensation expense	4,839,021	12,102,687	16,941,708	2,531,274	2,191,631	4,722,905	21,664,613
Professional fees and services	575,582	790,870	1,366,452	330,348	259,788	590,136	1,956,588
Occupancy	502,649	1,024,388	1,527,037	326,425	256,907	583,332	2,110,369
Risk management insurance	67,902	99,044	166,946	17,338	87,260	104,598	271,544
Office supplies	39,127	69,965	109,092	5,885	7,592	13,477	122,569
Equipment leasing, purchase, and repairs	121,225	206,072	327,297	23,057	5,754	28,811	356,108
Program activities	702,740	497,025	1,199,765	16,375	37,308	53,683	1,253,448
Telephone and communications	116,469	261,525	377,994	42,602	152,416	195,018	573,012
Postage and shipping	14,038	50,349	64,387	19,384	17,000	36,384	100,771
Travel	477,431	669,217	1,146,648	153,393	173,454	326,847	1,473,495
Conferences, conventions, and meetings	522,844	90,314	613,158	-	41,051	41,051	654,209
Fundraising appeals	105,397	510,290	615,687	645,320	-	645,320	1,261,007
Printing and publishing	35,516	130,494	166,010	32,949	47,251	80,200	246,210
Awards and grants	747,986	100,026	848,012	-	-	-	848,012
Miscellaneous expense	<u>196,068</u>	<u>61,632</u>	<u>257,700</u>	<u>16,759</u>	<u>21,161</u>	<u>37,920</u>	<u>295,620</u>
Total expenses before depreciation	9,063,995	16,663,898	25,727,893	4,161,109	3,298,573	7,459,682	33,187,575
Depreciation of buildings and equipment	<u>-</u>	<u>18,990</u>	<u>18,990</u>	<u>-</u>	<u>99,858</u>	<u>99,858</u>	<u>118,848</u>
Total expenses	<u>\$ 9,063,995</u>	<u>\$ 16,682,888</u>	<u>\$ 25,746,883</u>	<u>\$ 4,161,109</u>	<u>\$ 3,398,431</u>	<u>\$ 7,559,540</u>	<u>\$ 33,306,423</u>

AMERICAN FRIENDS SERVICE COMMITTEE

STATEMENT OF FUNCTIONAL EXPENSES

For The Year Ended September 30, 2018

	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	\$ 5,322,029	\$ 11,455,891	\$ 16,777,920	\$ 2,393,986	\$ 1,937,587	\$ 4,331,573	\$ 21,109,493
Net periodic pension and retiree medical expense	<u>202,043</u>	<u>434,907</u>	<u>636,950</u>	<u>90,884</u>	<u>73,558</u>	<u>164,442</u>	<u>801,392</u>
Net compensation expense	5,524,072	11,890,798	17,414,870	2,484,870	2,011,145	4,496,015	21,910,885
Professional fees and services	643,223	825,036	1,468,259	326,347	191,482	517,829	1,986,088
Occupancy	499,928	956,912	1,456,840	340,928	224,340	565,268	2,022,108
Risk management insurance	69,864	95,324	165,188	15,278	75,620	90,898	256,086
Office supplies	45,298	81,964	127,262	6,078	5,487	11,565	138,827
Equipment leasing, purchase, and repairs	178,583	173,673	352,256	19,043	19,783	38,826	391,082
Program activities	804,202	444,575	1,248,777	12,533	35,864	48,397	1,297,174
Telephone and communications	156,997	276,317	433,314	42,288	155,998	198,286	631,600
Postage and shipping	18,757	53,641	72,398	12,540	17,321	29,861	102,259
Travel	526,907	675,050	1,201,957	133,356	151,483	284,839	1,486,796
Conferences, conventions, and meetings	744,697	95,248	839,945	6,790	26,779	33,569	873,514
Fundraising appeals	236,634	480,370	717,004	828,447	-	828,447	1,545,451
Printing and publishing	32,115	116,358	148,473	32,751	26,493	59,244	207,717
Awards and grants	802,173	4,211	806,384	-	-	-	806,384
Miscellaneous expense	<u>198,645</u>	<u>181,277</u>	<u>379,922</u>	<u>11,870</u>	<u>19,738</u>	<u>31,608</u>	<u>411,530</u>
Total expenses before depreciation	10,482,095	16,350,754	26,832,849	4,273,119	2,961,533	7,234,652	34,067,501
Depreciation of buildings and equipment	<u>-</u>	<u>19,017</u>	<u>19,017</u>	<u>-</u>	<u>101,726</u>	<u>101,726</u>	<u>120,743</u>
Total expenses	<u>\$ 10,482,095</u>	<u>\$ 16,369,771</u>	<u>\$ 26,851,866</u>	<u>\$ 4,273,119</u>	<u>\$ 3,063,259</u>	<u>\$ 7,336,378</u>	<u>\$ 34,188,244</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, 2019 And 2018

(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, 2019, and 2018, 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 4.5%-5.0%. The approved spending rate was 4.9% and 5.0% for the years ended September 30, 2019 and 2018, respectively. 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 \$2,913,167 in 2019 and \$2,800,000 in 2018. 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, 2019 And 2018

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 \$9,974,319 and \$1,525,894 and total obligations of the informal post-retirement plan of \$15,746,562 and \$18,261,555 have been included in the statements of financial position as of September 30, 2019 and 2018, respectively.

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.

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2019 And 2018

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.

NET ASSETS

A description of each net asset category is as follows:

- *Net Assets without donor-imposed restrictions:* 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.
 - *Funds designated for payment of charitable gift annuities:* The amount by which funds invested for charitable gift annuity obligations exceeds the actuarial present value of future liability under charitable gift annuity agreements.
 - *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.
- *Net Assets with donor-imposed restrictions:* Net assets with donor-imposed restrictions 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 permanent endowments. Net assets with donor-imposed restrictions also 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, 2019 And 2018

CONTRIBUTIONS

Contributions and other public support are recorded as received and are considered available without restriction 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. Time and purpose 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 net assets without donor restrictions. All other planned gifts are classified as net assets with donor restrictions-time until the beneficiaries' death, after which they are classified as net assets without donor restrictions 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.

NEW ACCOUNTING PRONOUNCEMENT

On August 18, 2016, the FASB issued Accounting Standards Update ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements for Not-for-Profit Entities*. The update addressed the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment returns. The main provisions of this guidance include the presentation of two classes of net assets versus the previously required three. This guidance also enhances disclosures for board designated amounts, under water endowment funds, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification. This ASU was adopted by the Committee for the year ended September 30, 2019 and did not have a material effect on the statement of financial position or results of operations.

A summary of the net asset reclassifications driven by the adoption of ASU 2016-14 are as follows:

<u>Net Asset Classifications</u>	<u>Balance At September 30, 2018 As Previously Reported</u>	<u>Adjustment From ASU 2016-14</u>	<u>Balance At October 1, 2018 As Adjusted</u>
Unrestricted Net Assets	\$ 39,326,111	\$(39,326,111)	\$ -
Temporarily Restricted	37,261,917	(37,261,917)	-
Permanently Restricted	24,974,546	(24,974,546)	-
Without Donor Restriction	-	39,326,111	39,326,111
With Donor Restriction	<u>-</u>	<u>62,236,463</u>	<u>62,236,463</u>
Net assets previously presented	<u>\$101,562,574</u>	<u>\$ -</u>	<u>\$101,562,574</u>

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2019 And 2018

NEW ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09). The ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by a year thus the effective date is fiscal years beginning after December 15, 2018. Early adoption is permitted and should be applied retrospectively in the year the ASU is first applied. The Committee plans to adopt the new ASU at the required implementation date.

In 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the statement of financial position and disclosing key information about leasing arrangements. The ASU is effective for private entities for fiscal years beginning after December 31, 2019. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach. The Committee plans to adopt the new ASU at the required implementation date.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this update will assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and determining whether a transaction is conditional. ASU 2018-08 is effective for fiscal years beginning after December 15, 2018. The ASU should be applied using a modified prospective basis. The Committee plans to adopt the new ASU at the required implementation date.

RECLASSIFICATION

Certain account balances in the 2018 financial statements have been reclassified to conform to the 2019 presentation.

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2019 And 2018

(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 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.

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2019 And 2018

The summary of inputs used to value the Committee's investments as of September 30, 2019 are as follows:

2019	Fair Value Measurement At Reporting Date Using:				Net Asset Value
	Total Fair Value	Observable Inputs (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	
Planned Giving Investments:					
Common Stocks	\$ 12,977,580	\$12,977,580	\$ -	\$ -	\$ -
Mutual Funds	5,093,008	5,093,008	-	-	-
Bonds	21,831,447	-	21,831,447	-	-
Commingled Funds	15,277,886	-	-	-	15,277,886
Other	2,310	-	-	2,310	-
Cash and Cash Equivalents	5,484,021	5,484,021	-	-	-
Total Planned Giving Investments	\$ 60,666,252	\$23,554,609	\$21,831,447	\$ 2,310	\$15,277,886
Other Long Term Investments:					
Common Stocks	\$ 16,555,184	\$16,555,184	\$ -	\$ -	\$ -
Mutual Funds	3,882,851	3,882,851	-	-	-
Bonds	18,944,113	-	18,944,113	-	-
Commingled Funds	41,363,858	-	-	-	41,363,858
Other	38,285	-	-	38,285	-
Cash and Cash Equivalents	4,674,691	4,674,691	-	-	-
Total Other Long-Term Investments	\$ 85,458,982	\$25,112,726	\$18,944,113	\$38,285	\$41,363,858
Total Investments	\$146,125,234	\$48,667,335	\$40,775,560	\$40,595	\$56,641,744
Agency Fund Assets:					
Common Stocks	\$ 1,381,432	\$ 1,381,432	\$ -	\$ -	\$ -
Mutual Funds	283,527	283,527	-	-	-
Bonds	1,304,722	-	1,304,722	-	-
Commingled Funds	276,969	-	-	-	276,969
Cash and Cash Equivalents	553,441	553,441	-	-	-
Total Agency Fund Assets	\$ 3,800,091	\$ 2,218,400	\$ 1,304,722	\$ -	\$ 276,969

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	\$ 2,093	\$ 217	\$ 15,483	\$ (15,483)	\$ 2,310
Other Long-Term Investments	38,212	73	-	-	38,285
	<u>\$ 40,305</u>	<u>\$ 290</u>	<u>\$ 15,483</u>	<u>\$ (15,483)</u>	<u>\$ 40,595</u>

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2019 And 2018

The summary of inputs used to value the Committee's investments as of September 30, 2018 are as follows:

2018	Fair Value Measurement At Reporting Date Using:				Net Asset Value
	Total Fair Value	Observable Inputs (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	
Planned Giving Investments:					
Common Stocks	\$ 18,121,085	\$18,121,085	\$ -	\$ -	\$ -
Mutual Funds	5,946,621	5,946,621	-	-	-
Bonds	19,317,215	-	19,317,215	-	-
Commingled Funds	11,235,352	-	-	-	11,235,352
Other	2,093	-	-	2,093	-
Cash and Cash Equivalents	6,408,732	6,408,732	-	-	-
Total Planned Giving Investments	\$ 61,031,098	\$30,476,438	\$19,317,215	\$ 2,093	\$11,235,352
Other Long Term Investments:					
Common Stocks	\$ 27,080,995	\$27,080,995	\$ -	\$ -	\$ -
Mutual Funds	3,722,412	3,722,412	-	-	-
Bonds	13,201,345	-	13,201,345	-	-
Commingled Funds	26,492,881	-	-	-	26,492,881
Other	38,212	-	-	38,212	-
Cash and Cash Equivalents	13,532,984	13,532,984	-	-	-
Total Other Long-Term Investments	\$ 84,068,829	\$44,336,391	\$13,201,345	\$38,212	\$26,492,881
Total Investments	\$145,099,927	\$74,812,829	\$32,518,560	\$40,305	\$37,728,233
Agency Fund Assets:					
Common Stocks	\$ 1,341,889	\$ 1,341,889	\$ -	\$ -	\$ -
Mutual Funds	595,628	595,628	-	-	-
Bonds	1,315,322	-	1,315,322	-	-
Commingled Funds	352,735	-	-	-	352,735
Cash and Cash Equivalents	614,366	614,366	-	-	-
Total Agency Fund Assets	\$ 4,219,940	\$ 2,551,883	\$ 1,315,322	\$ -	\$ 352,735

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	\$ 16,163	\$ (14,070)	\$ 12,404	\$ (12,404)	\$ 2,093
Other Long-Term Investments	42,902	(4,690)	-	-	38,212
	<u>\$ 59,605</u>	<u>\$ (18,760)</u>	<u>\$ 12,404</u>	<u>\$ (12,404)</u>	<u>\$ 40,305</u>

There were no transfers between Level 1 and Level 2 during the years ended September 30, 2019 and 2018.

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2019 And 2018

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 ^(a)	\$ 6,203,953
Global and Emerging Markets Bond Fund ^(b)	7,513,904
Global Environmental Opportunity Fund ^(c)	4,284,705
Sustainable Climate Fund, LLC ^(d)	1,917,834
Socially Responsible Developed Markets ^(e)	21,405,396
Friends Fiduciary Quaker Index Fund ^(f)	<u>15,592,921</u>
Total Commingled Funds	<u>\$56,918,713</u>

There were no unfunded commitments on the commingled funds at September 30, 2019.

- (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) This fund's investment objectives are to achieve favorable income-oriented returns from globally diversified portfolios of primarily debt or debt-like securities, of both established and emerging financial markets. An associated objective is the preservation and enhancement of principal. Redemptions 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 achieve long-term returns by investing in companies that area helping to address climate change, resource shortage, water management, and environmental change.
- (d) This fund's investment objective is to invest in companies that are achieving climate mitigation and adaption, or those favorably exposed to climate risk. The fund's four main categories of investment are low carbon electricity, low carbon transport, water and resources management, and energy efficiency/management. Redemptions and purchases can made on the first business day of the month and at no cost.
- (e) This fund's objective is to replicate returns and characteristics of the Russell RAFI Developed Large Company Index while adhering to its Socially Responsible Investing guidelines. Redemptions and purchases can made at any time and at no cost.
- (f) This fund's objective is to be diversified across economic sectors and is designed to track the S&P 500 index with low annual turnover and low tracking error. The Committee utilizes the net asset valuations provided by Friends Fiduciary Corporation. There is no active market for the investment from which to base fair value and fair value is measured using the net asset value practical expedient. Redemptions and purchases can made at any time and at no cost.

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2019 And 2018

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, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Dividends and interest	\$ 2,392,902	\$ 1,551,170
Net realized and unrealized gains on investments	5,206,160	6,509,293
Net realized loss on FCC	(96,233)	(113,293)
Investment fees	<u>(1,079,016)</u>	<u>(1,066,718)</u>
Total investment income, net of fees	6,423,813	6,880,452
Less: investment income appropriated	<u>(2,913,167)</u>	<u>(2,800,000)</u>
Investment gains not appropriated	<u>\$ 3,510,646</u>	<u>\$ 4,080,452</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.

	<u>2019</u>
Charitable Gift Annuity (CGA) Investment Value	<u>\$ 23,972,893</u>
General CGA Liability	(10,175,936)
California CGA Liability	(2,632,670)
Florida CGA Liability	(150,784)
Tennessee CGA Liability	<u>(34,359)</u>
Total GAAP CGA Liability	<u>(12,993,749)</u>
Without Donor Restriction - Funds designated for payment of CGA's	<u>10,979,144</u>
26.5% additional liability required for General	(2,696,623)
10% additional liability required for Florida	(15,078)
10% additional liability required for Tennessee	(3,436)
Additional liability for State required lower discount rate*	<u>(2,424,450)</u>
Total additional liability per state mandates	<u>(5,139,587)</u>
Net excess funding for Charitable Gift Annuity Investment Pool	<u>\$ 5,839,557</u>

GAAP present value liability is calculated using a 7.5% discount rate, which is the investment return assumption of the CGA investment pool.

* State Insurance Departments that regulate organizations issuing annuity contracts require a lower discount rate to calculate the liability and required reserve. This discount rate is set by the Internal Revenue Service and average between 4.5% and 5.0%.

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2019 And 2018

(4) INVESTMENT IN FRIENDS CENTER

Summarized audited financial information for the Friends Center Corporation (“FCC”) for the years ended June 30, 2019 and 2018 are as follows:

	<u>Balance Sheet (Accrual Basis)</u>	
	<u>2019</u>	<u>2018</u>
Total Assets	<u>\$ 13,320,309</u>	<u>\$ 13,728,757</u>
Total Liabilities	\$ 5,968,617	\$ 6,116,974
Net Assets	<u>7,351,692*</u>	<u>7,611,783*</u>
Total Liabilities and Net Assets	<u>\$ 13,320,309</u>	<u>\$ 13,728,757</u>

* The Committee’s 37.0% equity interest of \$2,720,126 and \$2,816,359 as of June 30, 2019 and 2018, 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 \$(96,234) and \$(113,293) for the years ended June 30, 2019 and 2018, 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, 2019 and 2018, is as follows:

	<u>2019</u>	<u>2018</u>
Non-depreciable assets		
Land	\$ 42,455	\$ 42,455
Depreciable assets		
Buildings	1,339,102	1,219,391
Furniture and equipment	<u>1,233,082</u>	<u>1,327,846</u>
Subtotal – depreciable assets	2,572,184	2,547,237
Accumulated depreciation	<u>(1,860,690)</u>	<u>(1,741,841)</u>
Subtotal – depreciable assets, net	<u>711,494</u>	<u>805,396</u>
Total land, buildings and equipment, net	<u>\$ 753,949</u>	<u>\$ 847,851</u>

Depreciation expense was \$118,849 and \$120,743 for the years ended September 30, 2019 and 2018, respectively.

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2019 And 2018

(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 \$17,230,685 and \$16,611,626 at September 30, 2019 and 2018, 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>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	<u>(Dollars In Thousands)</u>			
Fair value of plan assets	\$ 51,165	\$ 51,312	\$ -	\$ -
Projected benefit obligation	<u>61,139</u>	<u>52,838</u>	<u>15,747</u>	<u>18,262</u>
Unfunded status	<u>\$ (9,974)</u>	<u>\$ (1,526)</u>	<u>\$ (15,747)</u>	<u>\$ (18,262)</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>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Discount Rate	3.25%	4.35%	3.25%	4.35%
Expected return on Plan Assets	7.50%	7.50%	-	-
Rate of Compensation Increase	3.00%	3.00%	-	-
COLA Increase Rate	0.00%	0.00%	-	-

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2019 And 2018

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>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	(Dollars In Thousands)			
Pension expense (credit)	\$ 8,448	\$ (2,480)	\$(1,998)	\$ 410
Contributions	\$ -	\$ -	\$ 517	\$ 617
Benefits Paid	\$(3,017)	\$(2,978)	\$(856)	\$(1,054)
Components of Net Periodic Benefit Cost				
Service cost	\$ 978	\$ 989	\$ 381	\$ 591
Interest cost	2,246	2,170	548	740
Return on plan assets	(3,721)	(3,676)	-	-
Recognized net actuarial (gain) loss	-	-	(158)	-
Amortization of prior service cost	-	-	(678)	(13)
Net periodic pension/postretirement cost	<u>\$ (497)</u>	<u>\$ (517)</u>	<u>\$ 93</u>	<u>\$ 1,318</u>

During the year ended September 30, 2019, there was a plan provision amendment in which AFSC switched from a Medicare Supplement plan to a Medicare Advantage Plan, which resulted in a one-time decrease of \$5.4 million in the projected benefit obligation for the Informal Postretirement Medical Benefits Plan.

The summary of inputs used to value the Committee's Formal plan assets carried at fair value as of September 30, 2019 and 2018 were as follows:

	2019				
	<u>Total</u>	<u>Level 1 Quoted Prices</u>	<u>Level 2 Other Significant Inputs</u>	<u>Level 3 Significant Unobservable Inputs</u>	<u>Net Asset Value</u>
Common Stock	\$ 6,824,303	\$ 6,824,303	\$ -	\$ -	\$ -
Mutual Funds	2,274,616	2,274,616	-	-	-
Bonds	12,480,240	-	12,480,240	-	-
Commingled Funds	27,831,647	-	-	-	27,831,647
Cash and Cash Equivalents	<u>1,755,038</u>	<u>1,755,038</u>	-	-	-
	<u>\$ 51,165,844</u>	<u>\$ 10,853,957</u>	<u>\$ 12,480,240</u>	<u>\$ -</u>	<u>\$ 27,831,647</u>

	2018				
	<u>Total</u>	<u>Level 1 Quoted Prices</u>	<u>Level 2 Other Significant Inputs</u>	<u>Level 3 Significant Unobservable Inputs</u>	<u>Net Asset Value</u>
Common Stock	\$ 14,289,763	\$ 14,289,763	\$ -	\$ -	\$ -
Mutual Funds	2,179,612	2,179,612	-	-	-
Bonds	10,447,431	-	10,447,431	-	-
Commingled Funds	18,131,611	-	-	-	18,131,611
Cash and Cash Equivalents	<u>6,263,995</u>	<u>6,263,995</u>	-	-	-
	<u>\$ 51,312,412</u>	<u>\$ 22,733,370</u>	<u>\$ 10,447,431</u>	<u>\$ -</u>	<u>\$ 18,131,611</u>

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2019 And 2018

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>2019</u>
Equities	13.34%
Mutual Funds	4.45%
Fixed Income	24.39%
Commingled Funds	54.39%
Cash and Cash Equivalents	<u>3.43%</u>
Total	<u>100.00%</u>

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 ^(a)	\$ 3,514,558
Global and Emerging Markets Bond Funds ^(b)	3,832,625
Global Environmental Opportunities Fund ^(c)	2,442,307
Socially Responsible Developed Markets ^(d)	10,625,375
Friends Fiduciary Quaker Index Fund ^(e)	<u>7,416,782</u>
Total Commingled Funds	<u>\$27,831,647</u>

There were no unfunded commitments on the commingled funds at September 30, 2019.

- (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) These fund's investment objectives are to achieve long-term returns by investing in companies that area helping to address climate change, resource shortage, water management, and environmental change.
- (d) This fund's objective is to replicate returns and characteristics of the Russell RAFI Developed Large Company Index while adhering to its Socially Responsible Investing guidelines. Redemptions and purchases can made at any time and at no cost.

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2019 And 2018

- (e) This fund's objective is to be diversified across economic sectors and is designed to track the S&P 500 index with low annual turnover and low tracking error. The Committee utilizes the net asset valuations provided by Friends Fiduciary Corporation. There is no active market for the investment from which to base fair value and fair value is measured using the net asset value practical expedient. Redemptions and purchases can be made at any time and at no cost.

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>
2020	\$ 3,075,000	\$ 525,000
2021	3,110,000	516,000
2022	3,133,000	519,000
2023	3,138,000	553,000
2024	3,159,000	565,000
2025 – 2028	<u>15,573,000</u>	<u>3,330,900</u>
Total	<u>\$31,188,000</u>	<u>\$ 5,987,000</u>

(7) NET ASSETS

Net assets with donor restrictions for 2019 and 2018 are available for the following purposes:

	<u>2019</u>	<u>2018</u>
<u>Purpose-restricted:</u>		
International programs	\$ 95,822	\$ 237,044
U.S. programs	199,168	245,773
Courageous Acts campaign	634,923	1,022,305
Program support	<u>166,412</u>	<u>723,741</u>
	<u>1,096,325</u>	<u>2,228,863</u>
<u>Subject to the passage of time:</u>		
Time-restricted (planned gifts)*	25,839,025	27,494,998
Accumulated earnings on endowment	<u>8,369,825</u>	<u>7,538,056</u>
	<u>34,208,850</u>	<u>37,261,917</u>
<u>Perpetual in nature:</u>		
Endowment Funds	<u>26,492,659</u>	<u>24,974,546</u>
Total donor restricted net assets	<u>\$ 61,797,834</u>	<u>\$ 62,236,463</u>

* Includes \$3,864,618 and \$3,818,896 of term endowments as of September 30, 2019 and 2018, respectively.

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2019 And 2018

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>2019</u>	<u>2018</u>
International programs	\$ 2,749,250	\$ 2,779,259
U.S. programs	4,574,504	3,685,075
Courageous Acts campaign	908,709	2,218,749
Program support	1,652,035	282,896
Time Restrictions met	<u>3,328,043</u>	<u>3,271,726</u>
	<u>\$13,212,541</u>	<u>\$12,237,705</u>

NET ASSETS WITH DONOR RESTRICTIONS - 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 use without restriction, unless specifically restricted by the donor.

Endowment net asset composition by type of fund as of September 30, 2019 and 2018:

	<u>2019</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted "true" endowment:			
Historical gift value	\$ –	\$26,492,659	\$ 26,492,659
Appreciation	–	8,369,825	8,369,825
Term endowments	–	3,864,618	3,864,618
Funds functioning as endowment funds	<u>26,934,652</u>	<u>–</u>	<u>26,934,652</u>
	<u>\$26,934,652</u>	<u>\$38,727,102</u>	<u>\$65,661,754</u>
	<u>2018</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted "true" endowment:			
Historical gift value	\$ –	\$ 24,974,546	\$24,974,546
Appreciation	–	7,538,056	7,538,056
Term endowments	–	3,818,896	3,818,896
Fund functioning as endowment funds	<u>25,764,049</u>	<u>–</u>	<u>25,764,049</u>
	<u>\$25,764,049</u>	<u>\$ 36,331,498</u>	<u>\$ 62,095,547</u>

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2019 And 2018

Change in endowment net assets for the years ended September 30, 2019 and 2018:

	2019		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Net assets, beginning of year	\$25,764,049	\$36,331,498	\$ 62,095,547
Investment return:			
Investment income, net of fees	428,671	615,776	1,044,447
Net realized/unrealized gains	<u>1,338,405</u>	<u>1,994,154</u>	<u>3,332,559</u>
Total investment return	1,767,076	2,609,930	4,377,006
Contributions and other transfers	615,245	1,517,205	2,132,450
Appropriation of assets for expenditures in Accordance with the spending policy	(1,211,718)	(1,701,449)	(2,913,167)
Other Changes:			
Term endowment principal transferred to general funds	<u>-</u>	<u>(30,082)</u>	<u>(30,082)</u>
	<u>\$26,934,652</u>	<u>\$38,727,102</u>	<u>\$65,661,754</u>
	2018		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Net assets, beginning of year	\$24,261,471	\$35,087,727	\$ 59,349,198
Investment return:			
Investment income, net of fees	205,377	290,557	495,934
Net realized/unrealized gains	<u>1,674,685</u>	<u>2,391,958</u>	<u>4,066,643</u>
Total investment return	1,880,062	2,682,515	4,562,577
Contributions and other transfers	779,645	692,551	1,472,196
Appropriation of assets for expenditures in Accordance with the spending policy	(1,157,129)	(1,642,871)	(2,800,000)
Other Changes:			
Term endowment principal transferred to general funds	<u>-</u>	<u>(488,424)</u>	<u>(488,424)</u>
	<u>\$25,764,049</u>	<u>\$36,331,498</u>	<u>\$62,095,547</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, 2019 and 2018.

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2019 And 2018

(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, 2019 and 2018, the Friends Center’s fiscal year-end, the Bonds, which mature in 2038, had outstanding balances of approximately \$5.9 million and \$6.1 million, respectively, and is guaranteed, jointly and severally by the Committee and the other partners of the Friends Center.

The Committee owns shares of Friends Fiduciary Quaker Index Fund, a related party, which totaled approximately \$23 million and \$27.5 million at September 30, 2019 and 2018, respectively.

(9) ALLOCATION OF JOINT COSTS

For the years ended September 30, 2019 and 2018, the Committee incurred joint costs of \$1,996,732 and \$2,065,509 for informational materials and activities that included fund-raising appeals. For the years ended September 30, 2019 and 2018, these joint costs were allocated as follows:

	<u>2019</u>	<u>2018</u>
Fundraising	\$ 1,175,449	\$ 1,215,664
International Programs	141,047	280,476
US Programs	<u>680,236</u>	<u>569,369</u>
Total	<u>\$ 1,996,732</u>	<u>\$ 2,065,509</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, 2019 and 2018 was approximately \$1,195,000 and \$1,082,000, respectively.

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

<u>Year Ending September 30,</u>	
2020	\$ 589,468
2021	296,828
2022	186,112
2023	49,245
2024	38,589
2025 and thereafter	<u>3,224</u>
Future minimum lease payments	<u>\$1,163,466</u>

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2019 And 2018

(11) CONTINGENCIES

At September 30, 2019, the Committee is a party to certain lawsuits in the ordinary course of business. While any litigation has an element of uncertainty, after reviewing these actions with legal counsel, management is of the opinion that the liability, if any, resulting from these actions will not have a material effect on the financial condition of the Committee.

(12) FINANCIAL ASSETS AND LIQUIDITY RESOURCES

The following table reflects the Committee's financial assets as of September 30, 2019, reduced by amounts that are not available by contractual restrictions and/or Board designations to meet general expenditures within one year of the statement of financial position date because of contractual restrictions.

Financial Assets	<u>2019</u>
Cash and cash equivalents	\$ 4,168,735
Accounts and notes receivable – net	845,458
Investments	<u>85,458,982</u>
Total financial assets	90,473,175
Less:	
Endowment funds' assets	(65,661,754)
Net assets with donor restrictions	(1,096,325)
Over funded status of informal retirement benefit plan	<u>(1,484,123)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 22,230,973</u>

The Committee's strives to maintain liquid financial assets to be available as its general expenditures, liabilities and other obligations become due. Financial assets in excess of daily cash requirements are invested in money market funds. As part of the Committee's liquidity management, it has a practice to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. The Committee has donor-restricted endowment and investments used similar to quasi-endowment. Although the Committee does not intend to spend from its quasi-endowment of approximately \$27 million, with the exception of budgeted draws, amounts from its quasi-endowment could be made available, if necessary, with Board approval. In addition, the Committee has a liability for the informal retirement benefit plan of approximately \$15.7 million which is funded by assets held in the investments.

(13) SUBSEQUENT EVENTS

In early 2020, an outbreak of a novel strain of coronavirus (COVID-19) emerged globally. As a result, there have been mandates from federal, state and local authorities resulting in an overall decline in economic activity. The ultimate impact of COVID-19 on the financial performance of the Organization's investments and operations is not reasonably estimable at this time.

Management has evaluated subsequent events through April 2, 2020, the date which the financial statements were available to be issued.