

AMERICAN FRIENDS SERVICE COMMITTEE

*FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS*

SEPTEMBER 30, 2022 AND 2021

AMERICAN FRIENDS SERVICE COMMITTEE

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

Opinion

We have audited the accompanying financial statements of American Friends Service Committee (“AFSC”) which comprise the statement of financial position as of September 30, 2022 and 2021, and the related statements of activities, changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AFSC as of September 30, 2022 and 2021, and 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of AFSC and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about AFSC’s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 AFSC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about AFSC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Tait, Weller & Baker LLP

**Philadelphia, Pennsylvania
January 30, 2024**

AMERICAN FRIENDS SERVICE COMMITTEE

STATEMENTS OF FINANCIAL POSITION

September 30, 2022 And 2021

| | <u>2022</u> | <u>2021</u> |
|--|-----------------------|-----------------------|
| ASSETS | | |
| ASSETS | | |
| Cash and cash equivalents | \$ 3,157,669 | \$ 9,560,650 |
| Accounts and notes receivable – net | 3,350,039 | 782,930 |
| Income receivable and prepaid expenses | 578,230 | 1,636,025 |
| Investments: | | |
| Planned giving (<i>Note 3</i>) | 53,294,423 | 67,133,710 |
| Other long-term investments (<i>Note 3</i>) | 98,801,334 | 117,202,720 |
| Investment in Friends Center (<i>Note 4</i>) | <u>2,757,918</u> | <u>2,521,633</u> |
| Total investments | 154,853,675 | 186,858,063 |
| Land, buildings and equipment – net (<i>Note 5</i>) | 709,869 | 804,539 |
| Other assets | 71,380 | 100,694 |
| Agency fund assets (<i>Note 3</i>) | <u>3,806,754</u> | <u>4,345,411</u> |
| Total assets | <u>\$ 166,527,616</u> | <u>\$ 204,088,312</u> |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| Accounts payable and accrued liabilities | \$ 3,313,987 | \$ 3,058,075 |
| Deferred income | 1,804,308 | 3,228,184 |
| Interest-free loans | 634,277 | 631,277 |
| Annuities and unitrusts payable | 26,141,937 | 29,154,462 |
| Liability for pension benefits (<i>Note 7</i>) | 3,913,779 | 7,461,982 |
| Liability for post-retirement benefits (<i>Note 7</i>) | 10,093,934 | 15,051,704 |
| Agency funds | <u>3,806,754</u> | <u>4,345,411</u> |
| Total liabilities | <u>49,708,976</u> | <u>62,931,095</u> |
| NET ASSETS | | |
| Without Donor Restrictions: | | |
| Designated for current and future operations | 6,985,512 | 4,875,953 |
| Funds designated for segregated reserve | 7,298,577 | 8,167,547 |
| Funds functioning as endowment (<i>Note 8</i>) | 26,254,189 | 33,427,112 |
| Funds designated for payment of charitable gift annuities | 8,951,116 | 15,453,664 |
| Funded status of pension and informal retirement benefit plans (<i>Note 7</i>) | 3,130,332 | (996,915) |
| Investment in Friends Center | 2,757,918 | 2,521,633 |
| Land, buildings and equipment | <u>709,869</u> | <u>804,539</u> |
| Total without donor restrictions | <u>56,087,513</u> | <u>64,253,533</u> |
| With Donor Restrictions (<i>Note 8</i>): | | |
| Time restricted | 22,413,777 | 27,125,476 |
| Purpose restricted | 928,800 | 2,223,748 |
| Accumulated gains on endowment assets | 5,394,196 | 16,210,870 |
| Endowment net assets required to be held in perpetuity | <u>31,994,354</u> | <u>31,343,590</u> |
| Total net assets with donor restrictions | <u>60,731,127</u> | <u>76,903,684</u> |
| Total net assets | <u>116,818,640</u> | <u>141,157,217</u> |
| Total liabilities and net assets | <u>\$ 166,527,616</u> | <u>\$ 204,088,312</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, 2022 (With Comparative 2021 Totals)

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>2022 Total</u> | <u>2021 Total</u> |
|---|---------------------------------------|------------------------------------|-----------------------|-----------------------|
| Operating Revenues | | | | |
| Public support: | | | | |
| Contributions for current program work | \$ 12,587,305 | \$ 2,920,667 | \$ 15,507,972 | \$ 14,515,204 |
| Grants from foundations | - | 6,605,147 | 6,605,147 | 6,459,315 |
| Bequests | 9,018,884 | 267,374 | 9,286,258 | 7,976,042 |
| Contributions to planned giving program | 324,070 | 979,627 | 1,303,697 | 1,009,345 |
| Contributions to endowment funds | <u>-</u> | <u>650,764</u> | <u>650,764</u> | <u>1,319,336</u> |
| Total public support | 21,930,259 | 11,423,579 | 33,353,838 | 31,279,242 |
| Government grants | 3,817,527 | - | 3,817,527 | 2,097,526 |
| Investment income, net of fees, appropriated <i>(Note 3)</i> | 3,476,447 | - | 3,476,447 | 3,071,914 |
| Program service income | 246,455 | - | 246,455 | 193,389 |
| Miscellaneous interest and other income | 43,378 | - | 43,378 | 79,149 |
| Net assets released from restrictions | <u>11,520,928</u> | <u>(11,520,928)</u> | <u>-</u> | <u>-</u> |
| Total revenues | <u>41,034,994</u> | <u>(97,349)</u> | <u>40,937,645</u> | <u>36,721,220</u> |
| Operating Expenses | | | | |
| Program services: | | | | |
| International programs | 11,003,804 | - | 11,003,804 | 9,027,213 |
| U.S. programs | <u>18,508,966</u> | <u>-</u> | <u>18,508,966</u> | <u>17,504,733</u> |
| Total program services | <u>29,512,770</u> | <u>-</u> | <u>29,512,770</u> | <u>26,531,946</u> |
| Program Support: | | | | |
| Fund-raising | 4,272,494 | - | 4,272,494 | 4,005,017 |
| Management and general | <u>4,013,875</u> | <u>-</u> | <u>4,013,875</u> | <u>3,775,515</u> |
| Total program support | <u>8,286,369</u> | <u>-</u> | <u>8,286,369</u> | <u>7,780,532</u> |
| Total expenses | <u>37,799,139</u> | <u>-</u> | <u>37,799,139</u> | <u>34,312,478</u> |
| Changes in net assets from operations | 3,235,855 | (97,349) | 3,138,506 | 2,408,742 |
| Nonoperating Changes In Net Assets | | | | |
| Investment (losses) gains not appropriated <i>(Note 3)</i> | (17,423,311) | (11,970,936) | (29,394,247) | 20,450,727 |
| Gain on sale of assets <i>(Note 5)</i> | - | - | - | 2,638,743 |
| PPP SBA grant revenue <i>(Note 6)</i> | - | - | - | 3,805,700 |
| Actuarial (loss) gains on planned giving liabilities | (1,462,473) | (4,104,272) | (5,566,745) | 3,069,154 |
| Net actuarial gain on defined benefit retirement plans | 7,494,690 | - | 7,494,690 | 8,274,144 |
| Other nonoperating changes in net assets | <u>(10,781)</u> | <u>-</u> | <u>(10,781)</u> | <u>(46,821)</u> |
| Changes in net assets | (8,166,020) | (16,172,557) | (24,338,577) | 40,600,389 |
| Net Assets | | | | |
| Beginning of year | <u>64,253,533</u> | <u>76,903,684</u> | <u>141,157,217</u> | <u>100,556,828</u> |
| End of year | <u>\$ 56,087,513</u> | <u>\$ 60,731,127</u> | <u>\$ 116,818,640</u> | <u>\$ 141,157,217</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, 2021

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>2021 Total</u> |
|--|---------------------------------------|------------------------------------|-----------------------|
| Operating Revenues | | | |
| Public support: | | | |
| Contributions for current program work | \$ 11,801,368 | \$ 2,713,836 | \$ 14,515,204 |
| Grants from foundations | - | 6,459,315 | 6,459,315 |
| Bequests | 7,819,796 | 156,246 | 7,976,042 |
| Contributions to planned giving program | 603,700 | 405,645 | 1,009,345 |
| Contributions to endowment funds | <u>-</u> | <u>1,319,336</u> | <u>1,319,336</u> |
| Total public support | 20,224,864 | 11,054,378 | 31,279,242 |
| Government grants | 2,097,526 | - | 2,097,526 |
| Investment income, net of fees, appropriated <i>(Note 3)</i> | 3,071,914 | - | 3,071,914 |
| Program service income | 193,389 | - | 193,389 |
| Miscellaneous interest and other income | 78,193 | 956 | 79,149 |
| Net assets released from restrictions | <u>10,532,233</u> | <u>(10,532,233)</u> | <u>-</u> |
| Total revenues | <u>36,198,119</u> | <u>523,101</u> | <u>36,721,220</u> |
| Operating Expenses | | | |
| Program services: | | | |
| International programs | 9,027,213 | - | 9,027,213 |
| U.S. programs | <u>17,504,733</u> | <u>-</u> | <u>17,504,733</u> |
| Total program services | <u>26,531,946</u> | <u>-</u> | <u>26,531,946</u> |
| Program Support: | | | |
| Fund-raising | 4,005,017 | - | 4,005,017 |
| Management and general | <u>3,775,515</u> | <u>-</u> | <u>3,775,515</u> |
| Total program support | <u>7,780,532</u> | <u>-</u> | <u>7,780,532</u> |
| Total expenses | <u>34,312,478</u> | <u>-</u> | <u>34,312,478</u> |
| Changes in net assets from operations | 1,885,641 | 523,101 | 2,408,742 |
| Nonoperating Changes In Net Assets | | | |
| Investment gains not appropriated <i>(Note 3)</i> | 12,647,177 | 7,803,550 | 20,450,727 |
| Gain on sale of assets <i>(Note 5)</i> | 2,638,743 | - | 2,638,743 |
| PPP SBA grant revenue <i>(Note 6)</i> | 3,805,700 | - | 3,805,700 |
| Actuarial (loss) gains on planned giving liabilities | (1,103,566) | 4,172,720 | 3,069,154 |
| Net actuarial gain (loss) on defined benefit retirement plans | 8,274,144 | - | 8,274,144 |
| Other nonoperating changes in net assets | <u>(46,821)</u> | <u>-</u> | <u>(46,821)</u> |
| Changes in net assets | 28,101,018 | 12,499,371 | 40,600,389 |
| Net Assets | | | |
| Beginning of year | <u>36,152,515</u> | <u>64,404,313</u> | <u>100,556,828</u> |
| End of year | <u>\$ 64,253,533</u> | <u>\$ 76,903,684</u> | <u>\$ 141,157,217</u> |

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

AMERICAN FRIENDS SERVICE COMMITTEE

STATEMENTS OF CASH FLOWS

For The Years Ended September 30, 2022 And 2021

| | <u>2022</u> | <u>2021</u> |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| <i>Total change in net assets</i> | \$(24,338,577) | \$ 40,600,389 |
| <i>Adjustments to reconcile total change in net assets to net cash used in operating activities</i> | | |
| Realized and unrealized (losses) gains on investments | 27,287,428 | (21,720,188) |
| Unrealized (gain) loss on Friends Center Corporation investment | (236,285) | 76,416 |
| Depreciation | 156,348 | 134,183 |
| Actuarial gains on planned giving liabilities | 5,566,745 | (3,069,154) |
| Forgiveness of PPP SBA Loan | - | (3,805,700) |
| Gain on sale of property | - | (2,638,743) |
| Contributions to endowment funds | (650,574) | (1,319,336) |
| Contributions to planned giving program | (1,303,697) | (1,009,345) |
| Matured gifts from planned giving program | 1,206,837 | 2,353,421 |
| Remainder interest in life estates | 1,729,023 | 785,906 |
| Adjustment for changes in planned giving liabilities | (7,911,159) | 2,329,152 |
| Adjustment for changes in pension and post-retirement benefits | (7,494,690) | (8,274,144) |
| Changes in assets and liabilities which provided (used) cash | | |
| Accounts and notes receivable | (2,567,109) | (106,800) |
| Income receivable and prepaid expenses | 1,057,795 | (744,507) |
| Other assets | 29,314 | 20,565 |
| Accounts payable and accrued liabilities | 255,912 | 288,141 |
| Deferred income | (1,423,876) | 232,279 |
| Liability for pension and post-retirement benefits | (1,011,283) | 301,164 |
| Net cash (used for) provided by operating activities | <u>(9,647,848)</u> | <u>4,433,699</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of land, buildings, and equipment | (61,678) | (178,813) |
| Proceeds from sale of land, buildings, and equipment | - | 2,676,698 |
| Proceeds from (purchases of) investments, net Sales of investments | <u>4,953,245</u> | <u>(8,773,503)</u> |
| Net cash provided by (used in) investing activities | <u>4,891,567</u> | <u>(6,275,618)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from interest-free loans | 3,000 | 6,000 |
| Repayment of interest-free loans | - | (10,250) |
| Cash received for endowment funds | 650,574 | 1,319,336 |
| Cash received for planned giving program | 1,303,697 | 472,431 |
| Matured gifts from planned giving program | (1,206,837) | (2,353,421) |
| Net benefit (payments) income to annuitants | <u>(2,397,134)</u> | <u>1,043,150</u> |
| Net cash (used for) provided by financing activities | <u>(1,646,700)</u> | <u>477,246</u> |
| Net decrease in cash and cash equivalents | (6,402,981) | (1,364,673) |
| CASH AND CASH EQUIVALENTS | | |
| Beginning of year | <u>9,560,650</u> | <u>10,925,323</u> |
| End of year | <u>\$ 3,157,669</u> | <u>\$ 9,560,650</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, 2022

| | 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 | \$ 5,593,738 | \$ 13,343,682 | \$ 18,937,420 | \$ 2,864,468 | \$ 3,090,037 | \$ 5,954,505 | \$ 24,891,925 |
| Net periodic pension and retiree medical benefit | <u>(136,631)</u> | <u>(326,973)</u> | <u>(463,604)</u> | <u>(70,191)</u> | <u>(84,430)</u> | <u>(154,621)</u> | <u>(618,225)</u> |
| Net compensation expense | 5,457,107 | 13,016,709 | 18,473,816 | 2,794,277 | 3,005,607 | 5,799,884 | 24,273,700 |
| Professional fees and services | 1,000,854 | 1,253,400 | 2,254,254 | 405,159 | 261,984 | 667,143 | 2,921,397 |
| Occupancy | 317,067 | 942,825 | 1,259,892 | 320,509 | 284,383 | 604,892 | 1,864,784 |
| Risk management insurance | 120,213 | 198,046 | 318,259 | 43,067 | 104,503 | 147,570 | 465,829 |
| Office supplies | 52,409 | 78,812 | 131,221 | 4,211 | 4,330 | 8,541 | 139,762 |
| Equipment leasing, purchase, and repairs | 158,445 | 150,162 | 308,607 | 31,676 | - | 31,676 | 340,283 |
| Program activities | 1,380,732 | 777,057 | 2,157,789 | 21,869 | 14,670 | 36,539 | 2,194,328 |
| Telephone and communications | 182,261 | 282,321 | 464,582 | 59,913 | 92,099 | 152,012 | 616,594 |
| Postage and shipping | 20,538 | 73,958 | 94,496 | 68,926 | 6,678 | 75,604 | 170,100 |
| Travel | 525,017 | 364,858 | 889,875 | 143,097 | 94,934 | 238,031 | 1,127,906 |
| Conferences, conventions, and meetings | 650,127 | 18,371 | 668,498 | 23,323 | 863 | 24,186 | 692,684 |
| Fundraising appeals | 47,040 | 891,034 | 938,074 | 312,613 | 59 | 312,672 | 1,250,746 |
| Printing and publishing | 33,190 | 72,283 | 105,473 | 33,623 | 10,838 | 44,461 | 149,934 |
| Awards and grants | 697,428 | 290,769 | 988,197 | 2,558 | 5,481 | 8,039 | 996,236 |
| Miscellaneous expense | <u>342,554</u> | <u>86,236</u> | <u>428,790</u> | <u>4,845</u> | <u>4,873</u> | <u>9,718</u> | <u>438,508</u> |
| Total expenses before depreciation | 10,984,982 | 18,496,841 | 29,481,823 | 4,269,666 | 3,891,302 | 8,160,968 | 37,642,791 |
| Depreciation of buildings and equipment | <u>18,822</u> | <u>12,125</u> | <u>30,947</u> | <u>2,828</u> | <u>122,573</u> | <u>125,401</u> | <u>156,348</u> |
| Total expenses | <u>\$11,003,804</u> | <u>\$ 18,508,966</u> | <u>\$29,512,770</u> | <u>\$ 4,272,494</u> | <u>\$ 4,013,875</u> | <u>\$ 8,286,369</u> | <u>\$ 37,799,139</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, 2021

| | 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 | \$4,810,699 | \$12,626,532 | \$17,437,231 | \$2,679,524 | \$2,272,279 | \$4,951,803 | \$22,389,034 |
| Net periodic pension and retiree medical expense | <u>175,594</u> | <u>456,404</u> | <u>631,998</u> | <u>77,956</u> | <u>16,924</u> | <u>94,880</u> | <u>726,878</u> |
| Net compensation expense | 4,986,293 | 13,082,936 | 18,069,229 | 2,757,480 | 2,289,203 | 5,046,683 | 23,115,912 |
| Professional fees and services | 786,392 | 1,298,799 | 2,085,191 | 406,910 | 555,434 | 962,344 | 3,047,535 |
| Occupancy | 374,840 | 923,646 | 1,298,486 | 245,158 | 129,329 | 374,487 | 1,672,973 |
| Risk management insurance | 22,821 | 27,683 | 50,504 | 4,795 | 232,306 | 237,101 | 287,605 |
| Office supplies | 27,546 | 65,358 | 92,904 | 3,758 | 5,476 | 9,234 | 102,138 |
| Equipment leasing, purchase, and repairs | 46,835 | 76,796 | 123,631 | 17,329 | 5,868 | 23,197 | 146,828 |
| Program activities | 1,070,649 | 685,233 | 1,755,882 | 14,499 | 52,986 | 67,485 | 1,823,367 |
| Telephone and communications | 183,801 | 317,164 | 500,965 | 46,716 | 251,331 | 298,047 | 799,012 |
| Postage and shipping | 13,669 | 59,474 | 73,143 | 12,257 | 14,943 | 27,200 | 100,343 |
| Travel | 177,223 | 49,080 | 226,303 | 13,687 | 27,002 | 40,689 | 266,992 |
| Conferences, conventions, and meetings | 407,115 | 62,458 | 469,573 | 6,939 | 25,749 | 32,688 | 502,261 |
| Fundraising appeals | 253,798 | 370,882 | 624,680 | 405,073 | - | 405,073 | 1,029,753 |
| Printing and publishing | 27,923 | 70,452 | 98,375 | 30,668 | 32,349 | 63,017 | 161,392 |
| Awards and grants | 402,641 | 296,128 | 698,769 | - | 33,662 | 33,662 | 732,431 |
| Miscellaneous expense | <u>236,275</u> | <u>101,200</u> | <u>337,475</u> | <u>39,748</u> | <u>12,530</u> | <u>52,278</u> | <u>389,753</u> |
| Total expenses before depreciation | 9,017,821 | 17,487,289 | 26,505,110 | 4,005,017 | 3,668,168 | 7,673,185 | 34,178,295 |
| Depreciation of buildings and equipment | <u>9,392</u> | <u>17,444</u> | <u>26,836</u> | <u>-</u> | <u>107,347</u> | <u>107,347</u> | <u>134,183</u> |
| Total expenses | <u>\$ 9,027,213</u> | <u>\$ 17,504,733</u> | <u>\$ 26,531,946</u> | <u>\$ 4,005,017</u> | <u>\$ 3,775,515</u> | <u>\$ 7,780,532</u> | <u>\$ 34,312,478</u> |

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS

For The Years Ended September 30, 2022 And 2021

(1) BACKGROUND

The American Friends Service Committee (“*AFSC*”) 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. AFSC is primarily funded by charitable contributions, grants, and bequests from individuals, corporations and foundations. AFSC 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 AFSC 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 AFSC 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 AFSC’s national, regional, area, and international project offices. All material interoffice accounts have been eliminated.

CASH AND CASH EQUIVALENTS

AFSC 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

AFSC is required to disclose significant concentrations of credit risk regardless of the degree of such risk. As of September 30, 2022 and 2021, AFSC 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.

INVESTMENTS

Investments are stated at fair value (*See Note 3*). AFSC 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 4.5% and 4.7% for the years ended September 30, 2022 and 2021, 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 \$3,476,447 and \$3,071,914 in both 2022 and 2021, respectively. 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, 2022 And 2021

INVESTMENT IN FRIENDS CENTER CORPORATION

The Friends Center Corporation (“**FCC**”) is a 501(c)(3) nonprofit organization comprised of three member organizations, including AFSC, 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 AFSC, 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, AFSC 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. AFSC accounts for its investment in FCC using the equity method of accounting. See Note 9 for further details on AFSC’s transactions with FCC.

LAND, BUILDINGS, AND EQUIPMENT

AFSC 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 AFSC for unspecified periods of time, bearing no interest. All income and gains from the investment of such loans is available to AFSC 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 AFSC.

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 AFSC’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 \$3,913,779 and \$7,461,982 and total obligations of the informal post-retirement plan of \$10,093,934 and \$15,051,704 have been included in the statements of financial position as of September 30, 2022 and 2021, respectively.

AGENCY FUNDS

Agency funds account for assets received by AFSC 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 AFSC’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, 2022 And 2021

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 AFSC.
 - *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 AFSC 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 AFSC'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 AFSC 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, 2022 And 2021

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.

GRANTS AND CONTRACTS AND REVENUE RECOGNITION

AFSC recognizes contributions when cash, securities or other assets, and unconditional promise to give is received. Conditional contributions include donor-imposed conditions with one or more barriers that must be overcome before AFSC is entitled to the assets transferred or promised and there is a right of return to the contributor for assets transferred or a right of release of the promisor from its obligation to transfer assets. AFSC recognizes the contribution when the conditions are substantially met or explicitly waived. Unconditional contributions are classified as without donor restrictions unless there are donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose of the restriction is accomplished, net assets with donor restrictions are then classified to net assets without donor restrictions and reported in the statement of activities as “***net assets released from restrictions.***”

AFSC does not enter into legally enforceable contracts on promises of contributions with the exception of certain types of planned gifts. As a result, AFSC does not record pledges as income until the amounts are received.

A portion of AFSC’s revenue is derived from cost-reimbursable federal, state and other grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when AFSC has incurred expenditures in compliance with specific grant provisions. Amounts received prior to incurring qualifying expenditures are reported as deferred revenue in the statement of financial position.

Legal fees are recognized when the services are performed. Sales of literature or goods are recognized by AFSC when the items are sold. Rental income is recognized over the course of the leases.

AFSC’s Planned Giving Program allows donors to contribute to AFSC 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.

GRANTS AND CONTRACTS RECEIVABLE

Grants and contracts receivable are stated at the amount management expects to collect from outstanding balances. On a periodic basis, AFSC evaluates their grants and contracts receivable and establishes an allowance for doubtful accounts based on their history of past write-offs, economic conditions, and conditions surrounding contracts and disallowed costs. At year end, an allowance for doubtful accounts was deemed not necessary.

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2022 And 2021

RECENT ACCOUNTING PRONOUNCEMENTS – NOT YET ADOPTED

Leases

In February 2016, the FASB issued ASU 2016-02 “*Leases (Topic 842)*.” The primary objective of the standard is to increase transparency and comparability among organizations by requiring lessees to recognize lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The new standard clarifies the definition of a lease and causes lessees to recognize leases on the balance sheet as a lease liability with a corresponding right-of-use asset. The standard is effective for fiscal years beginning after December 15, 2021. Early adoption is permitted. AFSC is currently evaluating the standard and its impact on the financial statements.

(3) INVESTMENTS

AFSC 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.

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2022 And 2021

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 AFSC's investments as of September 30, 2022 are as follows:

| | 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) | |
| 2022 | | | | | |
| Planned Giving Investments: | | | | | |
| Common Stocks | \$ 12,245,606 | \$ 12,245,606 | \$ - | \$ - | \$ - |
| Mutual Funds | 3,069,154 | 3,069,154 | - | - | - |
| Bonds | 17,425,764 | - | 17,425,764 | - | - |
| Commingled Funds | 16,164,610 | - | - | - | 16,164,610 |
| Other | 2,310 | - | - | 2,310 | - |
| Cash and Cash Equivalents | 4,386,979 | 4,386,979 | - | - | - |
| Total Planned Giving Investments | \$ 53,294,423 | \$ 19,701,739 | \$ 17,425,764 | \$ 2,310 | \$ 16,164,610 |
| Other Long Term Investments: | | | | | |
| Common Stocks | \$ 15,120,538 | \$ 15,120,538 | \$ - | \$ - | \$ - |
| Mutual Funds | 6,990,303 | 6,990,303 | - | - | - |
| Bonds | 30,314,528 | - | 30,314,528 | - | - |
| Commingled Funds | 40,842,552 | - | - | - | 40,842,552 |
| Other | 29,248 | - | - | 29,248 | - |
| Cash and Cash Equivalents | 5,504,165 | 5,504,165 | - | - | - |
| Total Other Long-Term Investments | \$ 98,801,334 | \$ 27,615,006 | \$ 30,314,528 | \$ 29,248 | \$ 40,842,552 |
| Total Investments | \$ 152,095,757 | \$ 47,316,745 | \$ 47,740,292 | \$ 31,558 | \$ 57,007,162 |
| Agency Fund Assets: | | | | | |
| Common Stocks | \$ 1,343,075 | \$ 1,343,075 | \$ - | \$ - | \$ - |
| Mutual Funds | 176,725 | 176,725 | - | - | - |
| Bonds | 1,250,789 | - | 1,250,789 | - | - |
| Commingled Funds | 678,569 | - | - | - | 678,569 |
| Cash and Cash Equivalents | 357,596 | 357,596 | - | - | - |
| Total Agency Fund Assets | \$ 3,806,754 | \$ 1,877,396 | \$ 1,250,789 | \$ - | \$ 678,569 |

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 | \$ 2,310 | \$ - | \$ - | \$ - | \$ 2,310 |
| Other Long-Term Investments | 38,285 | - | - | (9,037) | 29,248 |
| | <u>\$40,595</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (9,037)</u> | <u>\$ 31,558</u> |

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2022 And 2021

The summary of inputs used to value AFSC's investments as of September 30, 2021 are as follows:

| | 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) | |
| 2021 | | | | | |
| Planned Giving Investments: | | | | | |
| Common Stocks | \$ 15,907,202 | \$ 15,907,202 | \$ - | \$ - | \$ - |
| Mutual Funds | 2,497,932 | 2,497,932 | - | - | - |
| Bonds | 21,879,304 | - | 21,879,304 | - | - |
| Commingled Funds | 23,670,061 | - | - | - | 23,670,061 |
| Other | 2,310 | - | - | 2,310 | - |
| Cash and Cash Equivalents | 3,176,901 | 3,176,901 | - | - | - |
| Total Planned Giving Investments | \$ 67,133,710 | \$ 21,582,035 | \$ 21,879,304 | \$ 2,310 | \$ 23,670,061 |
| Other Long Term Investments: | | | | | |
| Common Stocks | \$ 21,735,689 | \$ 21,735,689 | \$ - | \$ - | \$ - |
| Mutual Funds | 9,095,846 | 9,095,846 | - | - | - |
| Bonds | 27,971,780 | - | 27,971,780 | - | - |
| Commingled Funds | 50,903,582 | - | - | - | 50,903,582 |
| Other | 38,285 | - | - | 38,285 | - |
| Cash and Cash Equivalents | 7,457,538 | 7,457,538 | - | - | - |
| Total Other Long-Term Investments | \$ 117,202,720 | \$ 38,289,073 | \$ 27,971,780 | \$ 38,285 | \$ 50,903,582 |
| Total Investments | \$ 184,336,430 | \$ 59,871,108 | \$ 49,851,084 | \$ 40,595 | \$ 74,573,643 |
| Agency Fund Assets: | | | | | |
| Common Stocks | \$ 1,622,866 | \$ 1,622,866 | \$ - | \$ - | \$ - |
| Mutual Funds | 66,746 | 66,746 | - | - | - |
| Bonds | 1,408,095 | - | 1,408,095 | - | - |
| Commingled Funds | 1,052,490 | - | - | - | 1,052,490 |
| Cash and Cash Equivalents | 195,214 | 195,214 | - | - | - |
| Total Agency Fund Assets | \$ 4,345,411 | \$ 1,884,826 | \$ 1,408,095 | \$ - | \$ 1,052,490 |

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 | \$ 2,310 | \$ - | \$ - | \$ - | \$ 2,310 |
| Other Long-Term Investments | 38,285 | - | - | - | 38,285 |
| | <u>\$ 40,595</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 40,595</u> |

There were no transfers between Level 1 and Level 2 during the years ended September 30, 2022 and 2021.

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2022 And 2021

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) | \$ 7,952,318 |
| Global and Emerging Markets Bond Fund (b) | 1,316,487 |
| Local Markets Debt Fund (c) | 6,009,823 |
| Global Environmental Opportunity Fund (d) | 3,945,997 |
| Sustainable Climate Fund, LLC (e) | 2,587,916 |
| Socially Responsible Developed Markets(f) | 18,213,003 |
| Friends Fiduciary Quaker Index Fund (g) | <u>17,660,187</u> |
| Total Commingled Funds | <u>\$57,685,731</u> |

There were no unfunded commitments on the commingled funds at September 30, 2022.

- (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 objective is to achieve favorable income and capital returns from a globally diversified portfolio of primarily sovereign emerging market debt or debt-like securities and currencies. An associated objective is the preservation and enhancement of principal.
- (d) 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.
- (e) 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.
- (f) 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.
- (g) 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. AFSC 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, 2022 And 2021

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, 2022 and 2021 are as follows:

| | <u>2022</u> | <u>2021</u> |
|---|------------------------------|----------------------------|
| Dividends and interest | \$ 3,071,290 | \$ 3,215,395 |
| Net realized and unrealized (losses) gains on investments | (27,528,892) | 21,720,188 |
| Net realized gain (loss) on FCC | 236,285 | (76,416) |
| Investment fees | <u>(1,696,483)</u> | <u>(1,336,526)</u> |
| Total investment (loss) income, net of fees | (25,917,800) | 23,522,641 |
| Less: investment income appropriated | <u>(3,476,447)</u> | <u>(3,071,914)</u> |
| Investment (losses) gains not appropriated | <u><u>\$(29,394,247)</u></u> | <u><u>\$20,450,727</u></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 and the reserve meets the minimum requirements for the states in which AFSC is registered.

| | <u>2022</u> | <u>2021</u> |
|---|----------------------------|-----------------------------|
| Charitable Gift Annuity (CGA) Investment Value | <u>\$ 21,539,422</u> | <u>\$ 28,418,588</u> |
| General CGA Liability | (10,045,036) | (10,234,791) |
| California CGA Liability | (2,406,390) | (2,588,658) |
| Florida CGA Liability | (107,458) | (110,595) |
| Tennessee CGA Liability | <u>(29,422)</u> | <u>(30,880)</u> |
| Total GAAP CGA Liability | <u>(12,588,306)</u> | <u>(12,964,924)</u> |
| Without Donor Restriction - Funds designated for payment of CGA's | <u>8,951,116</u> | <u>15,453,664</u> |
| 26.5% additional liability required for General | (2,661,935) | (2,712,220) |
| 10% additional liability required for Florida | (10,746) | (11,059) |
| 10% additional liability required for Tennessee | (2,942) | (3,088) |
| Additional liability for State required lower discount rate* | <u>(2,338,078)</u> | <u>(2,468,668)</u> |
| Total additional liability per state mandates | <u>(5,013,701)</u> | <u>(5,195,035)</u> |
| Net excess funding for Charitable Gift Annuity Investment Pool | <u><u>\$ 3,937,415</u></u> | <u><u>\$ 10,258,629</u></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, 2022 And 2021

(4) INVESTMENT IN FRIENDS CENTER

Summarized audited financial information for the Friends Center Corporation (“FCC”) for the years ended June 30, 2022 and 2021 are as follows:

| | <u>Balance Sheet (Accrual Basis)</u> | |
|----------------------------------|---|---------------------|
| | <u>2022</u> | <u>2021</u> |
| Total Assets | <u>\$13,243,507</u> | <u>\$12,278,759</u> |
| Total Liabilities | \$ 5,789,674 | \$ 5,463,534 |
| Net Assets | <u>7,453,833*</u> | <u>6,815,225*</u> |
| Total Liabilities and Net Assets | <u>\$13,243,507</u> | <u>\$12,278,759</u> |

* AFSC’s 37.0% equity interest of \$2,757,918 and \$2,521,633 as of June 30, 2022 and 2021, 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 \$236,285 and \$(76,416) for the years ended June 30, 2022 and 2021, 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, 2022 and 2021, is as follows:

| | <u>2022</u> | <u>2021</u> |
|--|--------------------|--------------------|
| Non-depreciable assets | | |
| Land | \$ 4,500 | \$ 4,500 |
| Depreciable assets | | |
| Buildings | 1,683,472 | 1,621,315 |
| Vehicles | 53,943 | 53,943 |
| Furniture and equipment | <u>1,233,082</u> | <u>1,233,082</u> |
| Subtotal – depreciable assets | 2,970,497 | 2,908,340 |
| Accumulated depreciation | <u>(2,265,128)</u> | <u>(2,108,301)</u> |
| Subtotal – depreciable assets, net | <u>705,369</u> | <u>800,039</u> |
| Total land, buildings and equipment, net | <u>\$ 709,869</u> | <u>\$ 804,539</u> |

Depreciation expense was \$156,348 and \$134,183 for the years ended September 30, 2022 and 2021, respectively.

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2022 And 2021

(6) PAYCHECK PROTECTION PROGRAM

On May 4, 2020, AFSC received a \$3,805,700 loan under the Small Business Administration's ("SBA") Payment Protection Program (the "PPP Loan"). AFSC considered this to be a conditional contribution as it expected to meet the criteria for loan forgiveness upon incurring eligible expenditures and when its application for forgiveness is accepted by the SBA. AFSC considered the incurrence of eligible expenses and the acceptance of its application for forgiveness to be barriers in the PPP Loan agreement and as such, would recognize contribution income when these conditions were substantially met. During the year ended September 30, 2021, AFSC had met all conditions of the program and the loan was forgiven on September 21, 2021. As such, the loan has been recognized in the Statement of Activities and Changes in Net Assets as PPP SBA Grant Revenue in fiscal year 2021.

(7) PENSION PLANS AND POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

AFSC 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. AFSC serves as trustee for the plan, but otherwise the plan is an independent entity whose assets are not available for other AFSC uses.

AFSC is not required to comply with the Employee Retirement Income Security Act of 1974 ("*ERISA*") because of AFSC's status as an "association of churches." However, the formal plan includes certain provisions that do comply with ERISA.

AFSC also has an informal postretirement benefits plan that provides medical benefits to all its retirees who retire directly from AFSC. AFSC has designated \$17,138,045 and \$21,516,771 at September 30, 2022 and 2021, respectively, of investments for the informal post-retirement benefits plan. The plan is discretionary and AFSC has no contractual obligation and as such, the designated investments of the plan are considered to be unrestricted, but designated for this purpose. AFSC pays the cost of the related insurance premiums when due and retirees contribute to the cost of this plan.

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NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2022 And 2021

The following amounts relate to AFSC'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>2022</u> | <u>2021</u> | <u>2022</u> | <u>2021</u> |
| | (Dollars In Thousands) | | | |
| Fair value of plan assets | \$ 46,103 | \$ 60,181 | \$ - | \$ - |
| Projected benefit obligation | <u>50,017</u> | <u>67,643</u> | <u>10,094</u> | <u>15,052</u> |
| Unfunded status | <u>\$ (3,914)</u> | <u>\$ (7,462)</u> | <u>\$ (10,094)</u> | <u>\$ (15,052)</u> |

The discount rate of 5.36% and 5.38% for the pension and informal postretirement medical benefits plan, respectively, is mainly based on a 10-year average yield of AA corporate bonds, as of Sept 30, 2022, and is used for GAAP reporting.

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>2022</u> | <u>2021</u> | <u>2022</u> | <u>2021</u> |
| Discount Rate | 5.36% | 2.80% | 5.38% | 2.90% |
| Expected return on Plan Assets | 6.50% | 7.50% | - | - |
| Rate of Compensation Increase | 3.00% | 3.00% | - | - |
| COLA Increase Rate | 0.00% | 0.00% | - | - |

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

| | <u>Defined Benefit Pension Plan</u> | | <u>Informal Postretirement Medical Benefits Plan</u> | |
|--|---|---------------|--|---------------|
| | <u>2022</u> | <u>2021</u> | <u>2022</u> | <u>2021</u> |
| | (Dollars In Thousands) | | | |
| Pension expense (credit) | \$(3,548) | \$(6,245) | \$(4,543) | \$(1,354) |
| Contributions | \$ - | \$ - | \$ 415 | \$ 374 |
| Benefits Paid | \$(3,311) | \$(3,068) | \$ (635) | \$ (610) |
| Components of Net Periodic Benefit Cost | | | | |
| Service cost | \$ 1,582 | \$ 1,572 | \$ 535 | \$ 598 |
| Interest cost | 1,861 | 1,768 | 401 | 410 |
| Return on plan assets | (4,372) | (3,796) | - | - |
| Recognized net actuarial (gain) loss | - | 851 | (194) | - |
| Amortization of prior service cost | <u>245</u> | <u>-</u> | <u>(676)</u> | <u>(676)</u> |
| Net periodic pension/postretirement cost | <u>\$ (684)</u> | <u>\$ 395</u> | <u>\$ 66</u> | <u>\$ 332</u> |

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NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2022 And 2021

The summary of inputs used to value AFSC's Formal plan assets carried at fair value as of September 30, 2022 and 2021 were as follows:

| | <u>2022</u> | | | | |
|---------------------------|---------------------|--------------------------------------|---|--|--------------------------------|
| | <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 | \$ 5,556,005 | \$ 5,556,005 | \$ - | \$ - | \$ - |
| Mutual Funds | 6,016,493 | 6,016,493 | - | - | - |
| Bonds | 10,983,502 | - | 10,983,502 | - | - |
| Commingled Funds | 21,307,262 | - | - | - | 21,307,262 |
| Cash and Cash Equivalents | <u>2,240,172</u> | <u>2,240,172</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>\$46,103,434</u> | <u>\$13,812,670</u> | <u>\$10,983,502</u> | <u>\$ -</u> | <u>\$ 21,307,262</u> |

| | <u>2021</u> | | | | |
|---------------------------|---------------------|--------------------------------------|---|--|--------------------------------|
| | <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 | \$ 8,075,488 | \$ 8,075,488 | \$ - | \$ - | \$ - |
| Mutual Funds | 7,471,574 | 7,471,574 | - | - | - |
| Bonds | 12,572,843 | - | 12,572,843 | - | - |
| Commingled Funds | 28,715,368 | - | - | - | 28,715,368 |
| Cash and Cash Equivalents | <u>3,346,184</u> | <u>3,346,184</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>\$60,181,457</u> | <u>\$18,893,246</u> | <u>\$12,572,843</u> | <u>\$ -</u> | <u>\$ 28,715,368</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:

| <u>Asset Category</u> | <u>2022</u> |
|---------------------------|----------------|
| Equities | 12.05% |
| Mutual Funds | 13.05 |
| Fixed Income | 23.82 |
| Commingled Funds | 46.22 |
| Cash and Cash Equivalents | <u>4.86</u> |
| Total | <u>100.00%</u> |

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NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2022 And 2021

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

| | <u>Fair Value</u> |
|--|---------------------|
| Local Markets Debt Fund (a) | \$ 2,781,757 |
| Global and Emerging Markets Bond Funds(b) | 3,109,849 |
| Global Environmental Opportunities Fund(c) | 2,277,426 |
| Socially Responsible Developed Markets(d) | 7,545,516 |
| Friends Fiduciary Quaker Index Fund (e) | <u>5,592,714</u> |
| Total Commingled Funds | <u>\$21,307,262</u> |

There were no unfunded commitments on the commingled funds at September 30, 2022.

- (a) This fund's investment objective is to achieve favorable income and capital returns from a globally diversified portfolio of primarily sovereign emerging market debt or debt-like securities and currencies. An associated objective is the preservation and enhancement of principal.
- (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 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.
- (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. AFSC 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.

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 Medical Plan</u> |
|-------------|----------------------|----------------------------------|
| 2023 | \$ 3,501,800 | \$ 444,500 |
| 2024 | 3,488,800 | 469,400 |
| 2025 | 3,513,600 | 467,900 |
| 2026 | 3,509,200 | 488,400 |
| 2027 | 3,424,600 | 501,600 |
| 2028 – 2033 | <u>16,634,200</u> | <u>2,840,400</u> |
| Total | <u>\$ 34,072,200</u> | <u>\$ 5,212,200</u> |

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2022 And 2021

(8) NET ASSETS

Net assets with donor restrictions for 2022 and 2021 are available for the following purposes:

| | <u>2022</u> | <u>2021</u> |
|---|---------------------|----------------------|
| <u>Purpose-restricted:</u> | | |
| International programs | \$ - | \$ 622,125 |
| U.S. programs | 831,386 | 1,507,920 |
| Program support | <u>97,414</u> | <u>93,703</u> |
| | <u>928,800</u> | <u>2,223,748</u> |
| <u>Subject to the passage of time:</u> | | |
| Time-restricted (planned gifts)* | 22,413,777 | 27,125,476 |
| Accumulated earnings on endowment | <u>5,394,196</u> | <u>16,210,870</u> |
| | <u>28,736,773</u> | <u>45,560,094</u> |
| <u>Perpetual in nature:</u> | | |
| Endowment Funds | <u>31,994,354</u> | <u>31,343,590</u> |
| Total donor restricted net assets | <u>\$60,731,127</u> | <u>\$ 76,903,684</u> |

* Includes \$3,559,131 and \$4,599,892 of term endowments as of September 30, 2022 and 2021, respectively.

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

| | <u>2022</u> | <u>2021</u> |
|--------------------------|---------------------|----------------------|
| International programs | \$ 4,368,892 | \$ 2,759,017 |
| U.S. programs | 6,555,497 | 4,787,014 |
| Courageous Acts campaign | - | 559,438 |
| Program support | 163,747 | 174,023 |
| Time Restrictions met | <u>432,792</u> | <u>2,252,741</u> |
| | <u>\$11,520,928</u> | <u>\$ 10,532,233</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.

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2022 And 2021

Endowment net asset composition by type of fund as of September 30, 2022 and 2021:

| | <u>2022</u> | | |
|--------------------------------------|---------------------------------------|------------------------------------|---------------------|
| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
| Donor-restricted “true” endowment: | | | |
| Historical gift value | \$ – | \$ 31,994,354 | \$ 31,994,354 |
| Appreciation | – | 5,394,196 | 5,394,196 |
| Term endowments | – | 3,559,131 | 3,559,131 |
| Funds functioning as endowment funds | <u>26,254,189</u> | <u>–</u> | <u>26,254,189</u> |
| | <u>\$26,254,189</u> | <u>\$40,947,681</u> | <u>\$67,201,870</u> |
| | | | |
| | <u>2021</u> | | |
| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
| Donor-restricted “true” endowment: | | | |
| Historical gift value | \$ – | \$ 31,343,590 | \$ 31,343,590 |
| Appreciation | – | 16,210,870 | 16,210,870 |
| Term endowments | – | 4,599,892 | 4,599,892 |
| Funds functioning as endowment funds | <u>33,427,112</u> | <u>–</u> | <u>33,427,112</u> |
| | <u>\$33,427,112</u> | <u>\$52,154,352</u> | <u>\$85,581,464</u> |

Change in endowment net assets for the years ended September 30, 2022 and 2021:

| | <u>2022</u> | | |
|--|---------------------------------------|------------------------------------|----------------------|
| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
| Net assets, beginning of year | \$ 33,427,112 | \$ 52,154,352 | \$ 85,581,464 |
| Investment return: | | | |
| Investment income, net of fees | 385,446 | 597,269 | 982,715 |
| Net realized/unrealized losses | <u>(6,682,484)</u> | <u>(10,334,165)</u> | <u>(17,016,649)</u> |
| Total investment return | (6,297,038) | (9,736,896) | (16,033,934) |
| Contributions and other transfers | 480,023 | 650,764 | 1,130,787 |
| Appropriation of assets for expenditures in accordance with the spending policy | <u>(1,355,908)</u> | <u>(2,120,539)</u> | <u>(3,476,447)</u> |
| | <u>\$ 26,254,189</u> | <u>\$ 40,947,681</u> | <u>\$ 67,201,870</u> |

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2022 And 2021

| | 2021 | | |
|--|---------------------------------------|------------------------------------|----------------------|
| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
| Net assets, beginning of year | \$ 27,916,811 | \$ 42,859,617 | \$ 70,776,428 |
| Investment return: | | | |
| Investment income, net of fees | 609,317 | 942,099 | 1,551,416 |
| Net realized/unrealized gains | <u>5,714,585</u> | <u>8,713,679</u> | <u>14,428,264</u> |
| Total investment return | 6,323,902 | 9,655,778 | 15,979,680 |
| Contributions and other transfers | 450,280 | 1,446,990 | 1,897,270 |
| Appropriation of assets for expenditures in accordance with the spending policy | <u>(1,263,881)</u> | <u>(1,808,033)</u> | <u>(3,071,914)</u> |
| | <u>\$ 33,427,112</u> | <u>\$ 52,154,352</u> | <u>\$ 85,581,464</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 AFSC to retain as a fund of perpetual duration. There were no such deficiencies as of September 30, 2022 and 2021.

(9) 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, 2022 and 2021, the Friends Center’s fiscal year-end, the Bonds, which mature in 2038, had outstanding balances of approximately \$5.2 million and \$5.4 million, respectively, and is guaranteed, jointly and severally by AFSC and the other partners of the Friends Center.

AFSC owns shares of Friends Fiduciary Quaker Index Fund, a related party, which totaled approximately \$23.3 million and \$26.2 million at September 30, 2022 and 2021, respectively.

(10) COMMITMENTS

COMMITMENTS

AFSC leases certain facilities where AFSC has program offices under leases expiring through December 2030. In addition, AFSC leases certain office equipment under operating leases expiring through January 2026. Most international office leases are paid in advance or are month-to-month basis. Rent expense for the years ended September 30, 2022 and 2021 was approximately \$903,000 and \$919,000, respectively.

AMERICAN FRIENDS SERVICE COMMITTEE

NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2022 And 2021

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

| <u>Year Ending September 30,</u> | |
|----------------------------------|--------------------|
| 2023 | \$ 629,575 |
| 2024 | 383,499 |
| 2025 | 113,052 |
| 2026 | 106,948 |
| 2027 | 84,490 |
| Thereafter | <u>133,200</u> |
| Future minimum lease payments | <u>\$1,450,764</u> |

(11) FINANCIAL ASSETS AND LIQUIDITY RESOURCES

The following table reflects AFSC's financial assets as of September 30, 2022 and 2021, 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>2022</u> | <u>2021</u> |
|---|----------------------|----------------------|
| Cash and cash equivalents | \$ 3,157,669 | \$ 9,560,650 |
| Accounts and notes receivable – net | 3,350,039 | 782,930 |
| Investments | <u>98,801,334</u> | <u>117,202,720</u> |
| Total financial assets | 105,309,042 | 127,546,300 |
| Less: | | |
| Endowment funds' assets | (67,201,870) | (85,581,464) |
| Net assets with donor restrictions | (928,800) | (2,223,748) |
| Over funded status of informal retirement benefit plan | (7,044,111) | (6,465,067) |
| Funds designated for segregated reserve | <u>(7,298,577)</u> | <u>(8,167,547)</u> |
| Financial assets available to meet general expenditures within one year | <u>\$ 22,835,684</u> | <u>\$ 25,108,474</u> |

AFSC'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 AFSC'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. AFSC has donor-restricted endowment and investments used similar to quasi-endowment. Although AFSC does not intend to spend from its quasi-endowment of approximately \$26.3 million, with the exception of budgeted draws, amounts from its quasi-endowment could be made available, if necessary, with Board approval. In addition, AFSC has a liability for the informal retirement benefit plan of approximately \$10.1 million which is funded by assets held in the investments.

(12) SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 30, 2024, the date which the financial statements were available to be issued.