

# **AMERICAN FRIENDS SERVICE COMMITTEE**

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

**SEPTEMBER 30, 2021 AND 2020**

# AMERICAN FRIENDS SERVICE COMMITTEE

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the accompanying financial statements of American Friends Service Committee (“AFSC”) which comprise the statement of financial position as of September 30, 2021 and 2020, 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 AFSC as of September 30, 2021 and 2020, 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 29, 2022

# AMERICAN FRIENDS SERVICE COMMITTEE

## STATEMENTS OF FINANCIAL POSITION

September 30, 2021 And 2020

	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>		
<b>ASSETS</b>		
Cash and cash equivalents	\$ 9,560,650	\$ 10,925,323
Accounts and notes receivable – net	782,930	676,130
Income receivable and prepaid expenses	1,636,025	891,518
Investments:		
Planned giving ( <i>Note 3</i> )	67,133,710	60,714,251
Other long-term investments ( <i>Note 3</i> )	117,202,720	92,591,574
Investment in Friends Center ( <i>Note 4</i> )	<u>2,521,633</u>	<u>2,598,049</u>
<b>Total investments</b>	186,858,063	155,903,874
Land, buildings and equipment – net ( <i>Note 5</i> )	804,539	797,864
Other assets	100,694	121,259
Agency fund assets ( <i>Note 3</i> )	<u>4,345,411</u>	<u>3,852,116</u>
<b>Total assets</b>	<u>\$ 204,088,312</u>	<u>\$ 173,168,084</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 3,058,075	\$ 2,769,934
Refundable advance	-	3,805,700
Deferred income	3,228,184	2,995,905
Interest-free loans	631,277	635,527
Annuities and unitrusts payable	29,154,462	28,065,408
Liability for pension benefits ( <i>Note 7</i> )	7,461,982	13,706,774
Liability for post-retirement benefits ( <i>Note 7</i> )	15,051,704	16,779,892
Agency funds	<u>4,345,411</u>	<u>3,852,116</u>
<b>Total liabilities</b>	<u>62,931,095</u>	<u>72,611,256</u>
<b>NET ASSETS</b>		
Without Donor Restrictions:		
Designated for current and future operations	4,875,953	4,718,362
Funds designated for segregated reserve	8,167,547	-
Funds functioning as endowment ( <i>Note 8</i> )	33,427,112	27,916,811
Funds designated for payment of charitable gift annuities	15,453,664	12,561,201
Funded status of pension and informal retirement benefit plans ( <i>Note 7</i> )	(996,915)	(12,439,772)
Investment in Friends Center	2,521,633	2,598,049
Land, buildings and equipment	<u>804,539</u>	<u>797,864</u>
<b>Total without donor restrictions</b>	<u>64,253,533</u>	<u>36,152,515</u>
With Donor Restrictions ( <i>Note 8</i> ):		
Time restricted	27,125,476	23,984,803
Purpose restricted	2,223,748	1,461,295
Accumulated gains on endowment assets	16,210,870	9,061,615
Endowment net assets required to be held in perpetuity	<u>31,343,590</u>	<u>29,896,600</u>
<b>Total net assets with donor restrictions</b>	<u>76,903,684</u>	<u>64,404,313</u>
<b>Total net assets</b>	<u>141,157,217</u>	<u>100,556,828</u>
<b>Total liabilities and net assets</b>	<u>\$ 204,088,312</u>	<u>\$ 173,168,084</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 (With Comparative 2020 Totals)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2021 Total</u>	<u>2020 Total</u>
<b>Operating Revenues</b>				
Public support:				
Contributions for current program work	\$ 11,801,368	\$ 2,713,836	\$ 14,515,204	\$ 13,405,109
Grants from foundations	-	6,459,315	6,459,315	5,107,676
Bequests	7,819,796	156,246	7,976,042	8,854,927
Contributions to planned giving program	603,700	405,645	1,009,345	1,230,181
Contributions to endowment funds	<u>-</u>	<u>1,319,336</u>	<u>1,319,336</u>	<u>3,311,879</u>
<b>Total public support</b>	20,224,864	11,054,378	31,279,242	31,909,772
Government grants	2,097,526	-	2,097,526	1,367,375
Investment income, net of fees, appropriated <i>(Note 3)</i>	3,071,914	-	3,071,914	3,071,914
Program service income	193,389	-	193,389	217,037
Miscellaneous interest and other income	78,193	956	79,149	616,046
Net assets released from restrictions	<u>10,532,233</u>	<u>(10,532,233)</u>	<u>-</u>	<u>-</u>
<b>Total revenues</b>	<u>36,198,119</u>	<u>523,101</u>	<u>36,721,220</u>	<u>37,182,144</u>
<b>Operating Expenses</b>				
Program services:				
International programs	9,027,213	-	9,027,213	8,959,059
U.S. programs	<u>17,504,733</u>	<u>-</u>	<u>17,504,733</u>	<u>17,914,645</u>
<b>Total program services</b>	<u>26,531,946</u>	<u>-</u>	<u>26,531,946</u>	<u>26,873,704</u>
Program Support:				
Fund-raising	4,005,017	-	4,005,017	4,384,536
Management and general	<u>3,775,515</u>	<u>-</u>	<u>3,775,515</u>	<u>2,545,630</u>
<b>Total program support</b>	<u>7,780,532</u>	<u>-</u>	<u>7,780,532</u>	<u>6,930,166</u>
<b>Total expenses</b>	<u>34,312,478</u>	<u>-</u>	<u>34,312,478</u>	<u>33,803,870</u>
<b>Changes in net assets from operations</b>	1,885,641	523,101	2,408,742	3,378,274
<b>Nonoperating Changes In Net Assets</b>				
Investment gains not appropriated <i>(Note 3)</i>	12,647,177	7,803,550	20,450,727	4,188,975
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	1,237,278
Net actuarial gain (loss) on defined benefit retirement plans	8,274,144	-	8,274,144	(4,761,218)
Other nonoperating changes in net assets	<u>(46,821)</u>	<u>-</u>	<u>(46,821)</u>	<u>(678,242)</u>
<b>Changes in net assets</b>	28,101,018	12,499,371	40,600,389	3,365,067
<b>Net Assets</b>				
Beginning of year	<u>36,152,515</u>	<u>64,404,313</u>	<u>100,556,828</u>	<u>97,191,761</u>
End of year	<u>\$ 64,253,533</u>	<u>\$ 76,903,684</u>	<u>\$ 141,157,217</u>	<u>\$ 100,556,828</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, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2020 Total</u>
<b>Operating Revenues</b>			
Public support:			
Contributions for current program work	\$ 10,725,767	\$ 2,679,342	\$ 13,405,109
Grants from foundations	-	5,107,676	5,107,676
Bequests	8,765,085	89,842	8,854,927
Contributions to planned giving program	1,230,181	-	1,230,181
Contributions to endowment funds	-	<u>3,311,879</u>	<u>3,311,879</u>
<b>Total public support</b>	20,721,033	11,188,739	31,909,772
Government grants	1,367,375	-	1,367,375
Investment income, net of fees, appropriated <i>(Note 3)</i>	3,071,914	-	3,071,914
Program service income	217,037	-	217,037
Miscellaneous interest and other income	615,745	301	616,046
Net assets released from restrictions	<u>11,257,880</u>	<u>(11,257,880)</u>	<u>-</u>
<b>Total revenues</b>	<u>37,250,984</u>	<u>(68,840)</u>	<u>37,182,144</u>
<b>Operating Expenses</b>			
Program services:			
International programs	8,959,059	-	8,959,059
U.S. programs	<u>17,914,645</u>	<u>-</u>	<u>17,914,645</u>
<b>Total program services</b>	<u>26,873,704</u>	<u>-</u>	<u>26,873,704</u>
Program Support:			
Fund-raising	4,384,536	-	4,384,536
Management and general	<u>2,545,630</u>	<u>-</u>	<u>2,545,630</u>
<b>Total program support</b>	<u>6,930,166</u>	<u>-</u>	<u>6,930,166</u>
<b>Total expenses</b>	<u>33,803,870</u>	<u>-</u>	<u>33,803,870</u>
<b>Changes in net assets from operations</b>	3,447,114	(68,840)	3,378,274
<b>Nonoperating Changes In Net Assets</b>			
Investment gains not appropriated <i>(Note 3)</i>	3,369,938	819,037	4,188,975
Actuarial (loss) gains on planned giving liabilities	(653,745)	1,891,023	1,237,278
Net actuarial loss on defined benefit retirement plans	(4,761,218)	-	(4,761,218)
Other nonoperating changes in net assets	<u>(643,501)</u>	<u>(34,741)</u>	<u>(678,242)</u>
<b>Changes in net assets</b>	758,588	2,606,479	3,365,067
<b>Net Assets</b>			
Beginning of year	<u>35,393,927</u>	<u>61,797,834</u>	<u>97,191,761</u>
End of year	<u>\$ 36,152,515</u>	<u>\$ 64,404,313</u>	<u>\$ 100,556,828</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, 2021 And 2020

	<u>2021</u>	<u>2020</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<i>Total change in net assets</i>	\$ 40,600,389	\$ 3,365,067
<i>Adjustments to reconcile total change in net assets to net cash used in operating activities</i>		
Realized and unrealized gains on investments	(21,720,188)	(5,750,442)
Unrealized loss on Friends Center Corporation investment	76,416	122,077
Depreciation	134,183	113,428
Actuarial gains on planned giving liabilities	(3,069,154)	(1,237,278)
Forgiveness of PPP SBA Loan	(3,805,700)	-
Gain on sale of property	(2,638,743)	-
Contributions to endowment funds	(1,319,336)	(3,311,879)
Contributions to planned giving program	(1,009,345)	(1,230,181)
Matured gifts from planned giving program	2,353,421	4,159,909
Remainder interest in life estates	785,906	1,528,598
Adjustment for changes in planned giving liabilities	2,329,152	2,254,960
Adjustment for changes in pension and post-retirement benefits	(8,274,144)	4,761,218
Changes in assets and liabilities which provided (used) cash		
Accounts and notes receivable	(106,800)	169,328
Income receivable and prepaid expenses	(744,507)	399,892
Other assets	20,565	-
Accounts payable and accrued liabilities	288,141	301,110
Deferred income	232,279	830,744
Liability for pension and post-retirement benefits	<u>301,164</u>	<u>469,843</u>
<b>Net cash provided by operating activities</b>	<u>4,433,699</u>	<u>6,946,394</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of land, buildings, and equipment	(178,813)	(157,343)
Proceeds from sale of land, buildings, and equipment	2,676,698	-
Purchase of investments	(70,945,328)	(67,299,796)
Sales of investments	<u>62,171,825</u>	<u>66,175,831</u>
<b>Net cash used in investing activities</b>	<u>(6,275,618)</u>	<u>(1,281,308)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from interest-free loans	6,000	6,000
Repayment of interest-free loans	(10,250)	(138,039)
Cash received from refundable advance	-	3,805,700
Cash received for endowment funds	1,319,336	3,311,879
Cash received for planned giving program	472,431	1,696,723
Matured gifts from planned giving program	(2,353,421)	(4,159,909)
Net benefit income (payments) to annuitants	<u>1,043,150</u>	<u>(3,430,852)</u>
<b>Net cash provided by financing activities</b>	<u>477,246</u>	<u>1,091,502</u>
<b>Net (decrease) increase in cash and cash equivalents</b>	(1,364,673)	6,756,588
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>10,925,323</u>	<u>4,168,735</u>
End of year	<u>\$ 9,560,650</u>	<u>\$ 10,925,323</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

## STATEMENT OF FUNCTIONAL EXPENSES

For The Year Ended September 30, 2020

	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	\$5,357,459	\$13,257,289	\$18,614,748	\$2,864,513	\$1,582,936	\$4,447,449	\$23,062,197
Net periodic pension and retiree medical expense	<u>109,147</u>	<u>270,089</u>	<u>379,236</u>	<u>58,358</u>	<u>32,249</u>	<u>90,607</u>	<u>469,843</u>
Net compensation expense	5,466,606	13,527,378	18,993,984	2,922,871	1,615,185	4,538,056	23,532,040
Professional fees and services	395,984	829,741	1,225,725	493,233	162,842	656,075	1,881,800
Occupancy	478,341	1,090,811	1,569,152	352,201	40,460	392,661	1,961,813
Risk management insurance	21,314	19,610	40,924	2,627	279,973	282,600	323,524
Office supplies	30,655	67,199	97,854	5,637	8,973	14,610	112,464
Equipment leasing, purchase, and repairs	57,973	110,696	168,669	9,224	5,086	14,310	182,979
Program activities	848,642	445,998	1,294,640	21,544	30,597	52,141	1,346,781
Telephone and communications	137,199	317,143	454,342	52,159	190,419	242,578	696,920
Postage and shipping	14,366	29,774	44,140	9,945	25,242	35,187	79,327
Travel	272,430	281,671	554,101	74,379	49,864	124,243	678,344
Conferences, conventions, and meetings	547,896	70,563	618,459	4,758	28,968	33,726	652,185
Fundraising appeals	15,432	682,905	698,337	408,884	-	408,884	1,107,221
Printing and publishing	19,474	65,058	84,532	20,545	4,944	25,489	110,021
Awards and grants	387,266	305,864	693,130	-	-	-	693,130
Miscellaneous expense	<u>262,930</u>	<u>49,249</u>	<u>312,179</u>	<u>6,529</u>	<u>13,185</u>	<u>19,714</u>	<u>331,893</u>
Total expenses before depreciation	8,956,508	17,893,660	26,850,168	4,384,536	2,455,738	6,840,274	33,690,442
Depreciation of buildings and equipment	<u>2,551</u>	<u>20,985</u>	<u>23,536</u>	<u>-</u>	<u>89,892</u>	<u>89,892</u>	<u>113,428</u>
Total expenses	<u>\$8,959,059</u>	<u>\$17,914,645</u>	<u>\$26,873,704</u>	<u>\$4,384,536</u>	<u>\$2,545,630</u>	<u>\$6,930,166</u>	<u>\$33,803,870</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, 2021 And 2020

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### (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, 2021 and 2020, 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 4.7% and 4.8% for the years ended September 30, 2021 and 2020, 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 \$3,071,914 in both 2021 and 2020. 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, 2021 And 2020

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### **INVESTMENT IN FRIENDS CENTER CORPORATION**

The Friends Center Corporation (“**FCC**”) is a 501(c)(3) nonprofit organization comprised of three member organizations, including 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 \$7,461,982 and \$13,706,774 and total obligations of the informal post-retirement plan of \$15,051,704 and \$16,779,892 have been included in the statements of financial position as of September 30, 2021 and 2020, 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, 2021 And 2020

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### ***ANNUITY AND LIFE INCOME GIFTS***

Gifts under split-interest agreements, generally charitable gift annuities and charitable remainder unitrusts, are recorded at their fair value at date of receipt. Contribution revenue is recognized as the difference between the assets received and the actuarially determined liability to the beneficiaries.

Annuity liabilities are computed using standard life expectancy and annuity tables at a 7.5% rate of interest. The liability for such payments is subsequently adjusted for annuities paid and the effects of actuarial gains and losses. Charitable remainder unitrust liabilities are recorded at the present value of the estimated future payments to be distributed over the beneficiary's expected lives. The liability for such payments is subsequently adjusted to reflect amortization of the discount, revaluations of the present value of the estimated future payments to the beneficiaries, and changes in actuarial assumptions.

### ***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, 2021 And 2020

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### ***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, 2021 And 2020

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### **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.

### **RECLASSIFICATIONS**

Certain reclassifications were made to the 2021 financial statements to conform to the 2020 presentation.

### **(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, 2021 And 2020

*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, 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)	
<b>2021</b>					
<b>Planned Giving Investments:</b>					
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	-	-	-
<b>Total Planned Giving Investments</b>	<b>\$ 67,133,710</b>	<b>\$ 21,582,035</b>	<b>\$ 21,879,304</b>	<b>\$ 2,310</b>	<b>\$ 23,670,061</b>
<b>Other Long Term Investments:</b>					
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	-	-	-
<b>Total Other Long-Term Investments</b>	<b>\$ 117,202,720</b>	<b>\$ 38,289,073</b>	<b>\$ 27,971,780</b>	<b>\$ 38,285</b>	<b>\$ 50,903,582</b>
<b>Total Investments</b>	<b>\$ 184,336,430</b>	<b>\$ 59,871,108</b>	<b>\$ 49,851,084</b>	<b>\$ 40,595</b>	<b>\$ 74,573,643</b>
<b>Agency Fund Assets:</b>					
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	-	-	-
<b>Total Agency Fund Assets</b>	<b>\$ 4,345,411</b>	<b>\$ 1,884,826</b>	<b>\$ 1,408,095</b>	<b>\$ -</b>	<b>\$ 1,052,490</b>

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

	Beginning Market Value	Gains/ (Losses)	Revenue	Additions/ (Withdrawals)	Ending Market Value
Planned Giving Investments	\$ 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>

# AMERICAN FRIENDS SERVICE COMMITTEE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2021 And 2020

The summary of inputs used to value AFSC's investments as of September 30, 2020 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)	
<b>2020</b>					
<b>Planned Giving Investments:</b>					
Common Stocks	\$ 14,608,058	\$ 14,608,058	\$ -	\$ -	\$ -
Mutual Funds	6,495,956	6,495,956	-	-	-
Bonds	20,536,599	-	20,536,599	-	-
Commingled Funds	14,228,343	-	-	-	14,228,343
Other	2,310	-	-	2,310	-
Cash and Cash Equivalents	4,842,985	4,842,985	-	-	-
<b>Total Planned Giving Investments</b>	<b>\$ 60,714,251</b>	<b>\$ 25,946,999</b>	<b>\$ 20,536,599</b>	<b>\$ 2,310</b>	<b>\$ 14,228,343</b>
<b>Other Long Term Investments:</b>					
Common Stocks	\$ 17,227,885	\$ 17,227,885	\$ -	\$ -	\$ -
Mutual Funds	7,809,836	7,809,836	-	-	-
Bonds	20,013,668	-	20,013,668	-	-
Commingled Funds	42,534,518	-	-	-	42,534,518
Other	38,285	-	-	38,285	-
Cash and Cash Equivalents	4,967,382	4,967,382	-	-	-
<b>Total Other Long-Term Investments</b>	<b>\$ 92,591,574</b>	<b>\$ 30,005,103</b>	<b>\$ 20,013,668</b>	<b>\$ 38,285</b>	<b>\$ 42,534,518</b>
<b>Total Investments</b>	<b>\$ 153,305,825</b>	<b>\$ 55,952,102</b>	<b>\$ 40,550,267</b>	<b>\$ 40,595</b>	<b>\$ 56,762,861</b>
<b>Agency Fund Assets:</b>					
Common Stocks	\$ 1,400,368	\$ 1,400,368	\$ -	\$ -	\$ -
Mutual Funds	475,387	475,387	-	-	-
Bonds	1,334,976	-	1,334,976	-	-
Commingled Funds	340,608	-	-	-	340,608
Cash and Cash Equivalents	300,777	300,777	-	-	-
<b>Total Agency Fund Assets</b>	<b>\$ 3,852,116</b>	<b>\$ 2,176,532</b>	<b>\$ 1,334,976</b>	<b>\$ -</b>	<b>\$ 340,608</b>

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

	Beginning Market Value	Gains/(Losses)	Revenue	Additions/(Withdrawals)	Ending Market Value
Planned Giving Investments	\$ 2,310	\$ -	\$ 8,011	\$ (8,011)	\$ 2,310
Other Long-Term Investments	38,285	-	-	-	38,285
	<u>\$ 40,595</u>	<u>\$ -</u>	<u>\$ 8,011</u>	<u>\$ (8,011)</u>	<u>\$ 40,595</u>

There were no transfers between Level 1 and Level 2 during the years ended September 30, 2021 and 2020.



# AMERICAN FRIENDS SERVICE COMMITTEE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

### For The Years Ended September 30, 2021 And 2020

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

	<u>Fair Value</u>
International Equity Fund (a)	\$ 15,180,065
Global and Emerging Markets Bond Fund (b)	518,511
Local Markets Debt Fund (c)	7,261,097
Global Environmental Opportunity Fund (d)	5,674,825
Sustainable Climate Fund, LLC (e)	2,002,527
Socially Responsible Developed Markets(f)	25,523,513
Friends Fiduciary Quaker Index Fund (g)	<u>19,465,595</u>
Total Commingled Funds	<u>\$75,626,133</u>

There were no unfunded commitments on the commingled funds at September 30, 2021.

- (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, 2021 And 2020

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Components of investment (loss) income on total investments excluding the planned giving assets other than the charitable gift annuities for the years ended September 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Dividends and interest	\$ 3,215,395	\$ 2,597,036
Net realized and unrealized gains on investments	21,720,188	5,750,442
Net realized loss on FCC	(76,416)	(122,077)
Investment fees	<u>(1,336,526)</u>	<u>(964,512)</u>
Total investment income, net of fees	23,522,641	7,260,889
Less: investment income appropriated	<u>(3,071,914)</u>	<u>(3,071,914)</u>
Investment gains not appropriated	<u>\$20,450,727</u>	<u>\$ 4,188,975</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>2021</u>	<u>2020</u>
Charitable Gift Annuity (CGA) Investment Value	<u>\$ 28,418,588</u>	<u>\$ 25,868,648</u>
General CGA Liability	(10,234,791)	(10,377,167)
California CGA Liability	(2,588,658)	(2,787,000)
Florida CGA Liability	(110,595)	(110,962)
Tennessee CGA Liability	<u>(30,880)</u>	<u>(32,318)</u>
Total GAAP CGA Liability	<u>(12,964,924)</u>	<u>(13,307,447)</u>
Without Donor Restriction - Funds designated for payment of CGA's	<u>15,453,664</u>	<u>12,561,201</u>
26.5% additional liability required for General	(2,712,220)	(2,749,949)
10% additional liability required for Florida	(11,059)	(11,096)
10% additional liability required for Tennessee	(3,088)	(3,232)
Additional liability for State required lower discount rate*	<u>(2,468,668)</u>	<u>(2,554,876)</u>
Total additional liability per state mandates	<u>(5,195,035)</u>	<u>(5,319,153)</u>
Net excess funding for Charitable Gift Annuity Investment Pool	<u>\$ 10,258,629</u>	<u>\$ 7,242,048</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, 2021 And 2020

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### (4) INVESTMENT IN FRIENDS CENTER

Summarized audited financial information for the Friends Center Corporation (“FCC”) for the years ended June 30, 2021 and 2020 are as follows:

	<b>Balance Sheet (Accrual Basis)</b>	
	<b>2021</b>	<b>2020</b>
Total Assets	<u>\$12,278,759</u>	<u>\$12,875,049</u>
Total Liabilities	\$ 5,463,534	\$ 5,853,294
Net Assets	<u>6,815,225*</u>	<u>7,021,755*</u>
Total Liabilities and Net Assets	<u>\$12,278,759</u>	<u>\$12,875,049</u>

\* AFSC’s 37.0% equity interest of \$2,521,633 and \$2,598,049 as of June 30, 2021 and 2020, 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 \$(76,416) and \$(122,077) for the years ended June 30, 2021 and 2020, 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, 2021 and 2020, is as follows:

	<b>2021</b>	<b>2020</b>
<b>Non-depreciable assets</b>		
Land	\$ 4,500	\$ 42,455
<b>Depreciable assets</b>		
Buildings	1,621,315	1,456,976
Vehicles	53,943	39,469
Furniture and equipment	<u>1,233,082</u>	<u>1,233,082</u>
Subtotal – depreciable assets	2,908,340	2,729,527
Accumulated depreciation	<u>(2,108,301)</u>	<u>(1,974,118)</u>
Subtotal – depreciable assets, net	<u>800,039</u>	<u>755,409</u>
Total land, buildings and equipment, net	<u>\$ 804,539</u>	<u>\$ 797,864</u>

Depreciation expense was \$134,183 and \$113,428 for the years ended September 30, 2021 and 2020, respectively.

During the year ended September 30, 2021, AFSC sold a building for net proceeds of \$2,676,808, which resulted in a gain of \$2,638,743 which was recognized on the statement of activities as gain on sale of assets.

# AMERICAN FRIENDS SERVICE COMMITTEE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2021 And 2020

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### (6) COVID-19 AND PAYCHECK PROTECTION PROGRAM

In December 2019, a novel strain of the coronavirus (“COVID-19”) was reported in China. The World Health Organization has declared COVID-19 to constitute a “Public Health Emergency of International Concern”. This outbreak has affected virtually every industry and has created volatility in the stock markets throughout the world. Many federal and state governments have implemented numerous restrictions, mandated various closures and quarantine requirements in connection with the COVID-19 outbreak. The extent of the impact of COVID-19 on the Organization’s operational and financial performance will depend on future developments, including the duration and spread of the outbreak and the impact on the School’s funders, donors, employees and investments, all of which are uncertain and cannot be predicted.

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. As of September 30, 2020, AFSC had recorded \$3,805,700 as a refundable advance. 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 \$21,516,771 and \$18,046,894 at September 30, 2021 and 2020, 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.

# AMERICAN FRIENDS SERVICE COMMITTEE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

### For The Years Ended September 30, 2021 And 2020

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>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
	<b>(Dollars In Thousands)</b>			
Fair value of plan assets	\$ 60,181	\$ 52,328	\$ -	\$ -
Projected benefit obligation	<u>67,643</u>	<u>66,035</u>	<u>15,052</u>	<u>16,780</u>
Unfunded status	<u>\$ (7,462)</u>	<u>\$ (13,707)</u>	<u>\$ (15,052)</u>	<u>\$ (16,780)</u>

The discount rate of 2.80% and 2.90% 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, 2021, and is used for GAAP reporting. Alternatively, a discount rate of 5.5% would be used to measure the Defined Benefit Plan's liabilities if AFSC were to consider increasing the funding of the Plan. For comparison purposes, a 5.5% discount rate would lower the Plan's Projected Benefit Obligation to \$48.2 million and \$46.7 million, respectively, \$12.0 million and \$5.6 million, respectively, lower than the Plan's Market Value, as of September 30, 2021 and 2020.

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>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Discount Rate	2.80%	2.75%	2.90%	2.75%
Expected return on Plan Assets	7.50%	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>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
	<b>(Dollars In Thousands)</b>			
Pension expense (credit)	\$(6,245)	\$ 3,732	\$(1,354)	\$ 1,474
Contributions	\$ -	\$ -	\$ 374	\$ 440
Benefits Paid	\$(3,068)	\$(3,051)	\$ (610)	\$ (708)
Components of Net Periodic Benefit Cost				
Service cost	\$ 1,572	\$ 1,291	\$ 598	\$ 517
Interest cost	1,768	1,952	410	488
Return on plan assets	(3,796)	(3,709)	-	-
Recognized net actuarial (gain) loss	851	607	-	-
Amortization of prior service cost	<u>-</u>	<u>-</u>	<u>(676)</u>	<u>(676)</u>
Net periodic pension/postretirement cost	<u>\$ 395</u>	<u>\$ 141</u>	<u>\$ 332</u>	<u>\$ 329</u>

# AMERICAN FRIENDS SERVICE COMMITTEE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2021 And 2020

The summary of inputs used to value AFSC's Formal plan assets carried at fair value as of September 30, 2021 and 2020 were as follows:

	<b>2021</b>				
	<b>Total</b>	<b>Level 1 Quoted Prices</b>	<b>Level 2 Other Significant Inputs</b>	<b>Level 3 Significant Unobservable Inputs</b>	<b>Net Asset Value</b>
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>

	<b>2020</b>				
	<b>Total</b>	<b>Level 1 Quoted Prices</b>	<b>Level 2 Other Significant Inputs</b>	<b>Level 3 Significant Unobservable Inputs</b>	<b>Net Asset Value</b>
Common Stock	\$ 6,567,632	\$ 6,567,632	\$ -	\$ -	\$ -
Mutual Funds	6,552,914	6,552,914	-	-	-
Bonds	11,823,405	-	11,823,405	-	-
Commingled Funds	25,052,442	-	-	-	25,052,442
Cash and Cash Equivalents	<u>2,331,694</u>	<u>2,331,694</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 52,328,087</u>	<u>\$ 15,452,240</u>	<u>\$ 11,823,405</u>	<u>\$ -</u>	<u>\$ 25,052,442</u>

The long-term investment strategy for the pension plan's assets is to: meet present and future benefit obligations to all participants and beneficiaries; cover reasonable expenses incurred to provide such benefits; and provide total return that maximized the ratio of assets to liabilities by maximizing investment return at the appropriate level of risk. The expected return on plan assets equals a weighted average of the individual expected returns for each asset category in the plans' portfolio.

The pension plan asset allocations by asset category are as follows:

<b><u>Asset Category</u></b>	<b><u>2021</u></b>
Equities	13.42%
Mutual Funds	12.42
Fixed Income	20.89
Commingled Funds	47.71
Cash and Cash Equivalents	<u>5.56</u>
Total	<u>100.00%</u>

# AMERICAN FRIENDS SERVICE COMMITTEE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

### For The Years Ended September 30, 2021 And 2020

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

	<u>Fair Value</u>
Local Markets Debt Fund (a)	\$ 3,383,018
Global and Emerging Markets Bond Funds(b)	4,991,343
Global Environmental Opportunities Fund(c)	2,677,325
Socially Responsible Developed Markets(d)	10,956,625
Friends Fiduciary Quaker Index Fund (e)	<u>6,707,057</u>
Total Commingled Funds	<u>\$28,715,368</u>

There were no unfunded commitments on the commingled funds at September 30, 2021.

- (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>
2022	\$ 3,354,900	\$ 447,100
2023	3,431,500	474,400
2024	3,431,400	447,100
2025	3,456,800	502,800
2026	3,460,500	532,200
202 – 2032	<u>16,622,800</u>	<u>3,048,700</u>
Total	<u>\$ 33,757,900</u>	<u>\$ 5,452,300</u>

# AMERICAN FRIENDS SERVICE COMMITTEE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2021 And 2020

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### (8) NET ASSETS

Net assets with donor restrictions for 2021 and 2020 are available for the following purposes:

	<u>2021</u>	<u>2020</u>
<b><u>Purpose-restricted:</u></b>		
International programs	\$ 622,125	\$ 92,999
U.S. programs	1,507,920	709,726
Courageous Acts campaign	-	559,438
Program support	<u>93,703</u>	<u>99,132</u>
	<u>2,223,748</u>	<u>1,461,295</u>
<b><u>Subject to the passage of time:</u></b>		
Time-restricted (planned gifts)*	27,125,476	23,984,803
Accumulated earnings on endowment	<u>16,210,870</u>	<u>9,061,615</u>
	<u>45,560,094</u>	<u>33,046,418</u>
<b><u>Perpetual in nature:</u></b>		
Endowment Funds	<u>31,343,590</u>	<u>29,896,600</u>
Total donor restricted net assets	<u>\$76,903,684</u>	<u>\$ 64,404,313</u>

\* Includes \$4,599,892 and \$3,901,402 of term endowments as of September 30, 2021 and 2020, 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>2021</u>	<u>2020</u>
International programs	\$ 2,759,017	\$ 2,159,315
U.S. programs	4,787,014	4,376,518
Courageous Acts campaign	559,438	286,835
Program support	174,023	599,005
Time Restrictions met	<u>2,252,741</u>	<u>3,836,207</u>
	<u>\$10,532,233</u>	<u>\$ 11,257,880</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, 2021 And 2020

Endowment net asset composition by type of fund as of September 30, 2021 and 2020:

	<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>

	<u>2020</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted “true” endowment:			
Historical gift value	\$ –	\$ 29,896,600	\$ 29,896,600
Appreciation	–	9,061,615	9,061,615
Term endowments	–	3,901,402	3,901,402
Funds functioning as endowment funds	<u>27,916,811</u>	<u>–</u>	<u>27,916,811</u>
	<u>\$27,916,811</u>	<u>\$ 42,859,617</u>	<u>\$ 70,776,428</u>

Change in endowment net assets for the years ended September 30, 2021 and 2020:

	<u>2021</u>		
	<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>

# AMERICAN FRIENDS SERVICE COMMITTEE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2021 And 2020

	2020		<u>Total</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	
Net assets, beginning of year	\$ 26,934,652	\$ 38,727,102	\$ 65,661,754
Investment return:			
Investment income, net of fees	481,642	708,246	1,189,888
Net realized/unrealized gains	<u>1,300,359</u>	<u>1,860,866</u>	<u>3,161,225</u>
Total investment return	1,782,001	2,569,112	4,351,113
Contributions and other transfers	464,039	3,406,177	3,870,216
Appropriation of assets for expenditures in Accordance with the spending policy	(1,263,881)	(1,808,033)	(3,071,914)
Other Changes:			
Term endowment principal transferred to general funds	<u>-</u>	<u>(34,741)</u>	<u>(34,741)</u>
	<u>\$ 27,916,811</u>	<u>\$ 42,859,617</u>	<u>\$ 70,776,428</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, 2021 and 2020.

### **(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, 2021 and 2020, the Friends Center’s fiscal year-end, the Bonds, which mature in 2038, had outstanding balances of approximately \$5.4 million and \$5.7 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 \$26.2 million and \$22.6 million at September 30, 2021 and 2020, respectively.

# AMERICAN FRIENDS SERVICE COMMITTEE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2021 And 2020

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### (10) ALLOCATION OF JOINT COSTS

For the years ended September 30, 2021 and 2020, AFSC incurred joint costs of \$1,698,553 and \$1,744,538 for informational materials and activities that included fund-raising appeals. For the years ended September 30, 2021 and 2020, these joint costs were allocated as follows:

	<u>2021</u>	<u>2020</u>
Fundraising	\$ 826,780	\$ 814,411
International Programs	354,188	20,555
US Programs	<u>517,585</u>	<u>909,572</u>
Total	<u>\$1,698,553</u>	<u>\$1,744,538</u>

### (11) 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, 2021 and 2020 was approximately \$919,000 and \$1,052,000, respectively.

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

<u>Year Ending September 30,</u>	
2022	\$ 526,067
2023	250,170
2024	201,910
2025	113,052
2026	100,934
Thereafter	<u>217,690</u>
Future minimum lease payments	<u>\$1,409,823</u>

# AMERICAN FRIENDS SERVICE COMMITTEE

## NOTES TO FINANCIAL STATEMENTS – (Continued)

For The Years Ended September 30, 2021 And 2020

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### (12) FINANCIAL ASSETS AND LIQUIDITY RESOURCES

The following table reflects AFSC's financial assets as of September 30, 2021 and 2020, 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>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 9,560,650	\$ 10,925,323
Accounts and notes receivable – net	782,930	676,130
Investments	<u>117,202,720</u>	<u>92,591,574</u>
Total financial assets	127,546,300	104,193,027
Less:		
Endowment funds' assets	(85,581,464)	(70,776,428)
Net assets with donor restrictions	(2,223,748)	(1,461,295)
Over funded status of informal retirement benefit plan	(6,465,067)	(1,267,002)
Funds designated for segregated reserve	<u>(8,167,547)</u>	<u>-</u>
Financial assets available to meet general expenditures within one year	<u>\$ 25,108,474</u>	<u>\$ 30,688,302</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 \$33 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 \$15.1 million which is funded by assets held in the investments.

### (13) SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 29, 2022, the date which the financial statements were available to be issued.