

**PHILADELPHIA YEARLY MEETING
OF THE RELIGIOUS SOCIETY OF
FRIENDS AND AFFILIATES**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2011

**PHILADELPHIA YEARLY MEETING OF
THE RELIGIOUS SOCIETY OF FRIENDS AND AFFILIATES**

CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
<i>Consolidated Statement of Financial Position</i>	2
<i>Consolidated Statement of Activities</i>	3
<i>Consolidated Statement of Functional Expenses</i>	4
<i>Consolidated Statement of Cash Flows</i>	5
<i>Notes to Consolidated Financial Statements</i>	6



INDEPENDENT AUDITOR'S REPORT

**To the Financial Oversight Working Group
Philadelphia Yearly Meeting of the
Religious Society of Friends and Affiliates
Philadelphia, Pennsylvania**

We have audited the accompanying consolidated statement of financial position of Philadelphia Yearly Meeting of the Religious Society of Friends and Affiliates as of June 30, 2011, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior-year summarized comparative information has been derived from the Organization's 2010 consolidated financial statements and, in our report dated November 12, 2010, we expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Philadelphia Yearly Meeting of the Religious Society of Friends and Affiliates as of June 30, 2011, and the changes in their net assets and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

BBD, LLP.

**Philadelphia, Pennsylvania
October 19, 2011**

**PHILADELPHIA YEARLY MEETING OF
THE RELIGIOUS SOCIETY OF FRIENDS AND AFFILIATES**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2011 with comparative totals for 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>	
				<u>2011</u>	<u>2010</u>
ASSETS					
Cash	\$ (1,046,758)	\$ 1,556,703	\$ -	\$ 509,945	\$ 1,275,610
Accounts receivable					
Meetings	100,537	-	-	100,537	121,143
Mary Jeanes Loans	-	322,021	-	322,021	276,262
Annual fund	64,657	-	-	64,657	26,736
Other	125,825	-	-	125,825	163,693
Prepaid expenses	52,864	-	-	52,864	21,581
Inventory	42,541	-	-	42,541	55,448
Investments	2,844,237	10,947,097	9,774,597	23,565,931	21,775,508
Property and equipment, net	3,450,588	-	-	3,450,588	3,393,184
Investment in Friends Center Corporation	3,648,000	-	-	3,648,000	3,770,000
Interest in net assets of Friends Fiduciary Corporation	6,598,179	2,838,044	5,509,623	14,945,846	13,021,620
Beneficial interest in trust agreements					
Charitable remainder unitrust	-	359,000	1,867,000	2,226,000	1,857,000
Expendable trust	-	3,932,739	-	3,932,739	3,351,039
Perpetual trusts	-	-	4,614,940	4,614,940	3,997,133
Total assets	\$ 15,880,670	\$ 19,955,604	\$ 21,766,160	\$ 57,602,434	\$ 53,105,957
LIABILITIES					
Accounts payable	\$ 564,900	\$ -	\$ -	\$ 564,900	\$ 540,984
Contribution payable to Friends Center Corporation	189,150	-	-	189,150	197,270
Deferred revenue	29,282	-	-	29,282	17,124
Pooled life income fund liability	-	31,700	13,000	44,700	68,700
Funds held for others	301,505	-	-	301,505	274,194
Postretirement health benefit obligation	639,270	-	-	639,270	647,737
Total liabilities	1,724,107	31,700	13,000	1,768,807	1,746,009
NET ASSETS					
Unrestricted	14,156,563	-	-	14,156,563	14,784,743
Temporarily restricted	-	19,923,904	-	19,923,904	16,237,820
Permanently restricted	-	-	21,753,160	21,753,160	20,337,385
Total net assets	14,156,563	19,923,904	21,753,160	55,833,627	51,359,948
Total liabilities and net assets	\$ 15,880,670	\$ 19,955,604	\$ 21,766,160	\$ 57,602,434	\$ 53,105,957

See accompanying notes

**PHILADELPHIA YEARLY MEETING OF
THE RELIGIOUS SOCIETY OF FRIENDS AND AFFILIATES**

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2011 with comparative totals for 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>	
				<u>2011</u>	<u>2010</u>
REVENUE AND SUPPORT					
Support from meetings and members					
Meeting covenants	\$ 1,236,768	\$ -	\$ -	\$ 1,236,768	\$ 1,300,507
Annual fund	462,503	-	-	462,503	411,043
Other contributions	98,842	370,546	102,515	571,903	791,112
Program income	800,156	-	-	800,156	1,041,528
Interest and income from investments	826,010	1,044,366	-	1,870,376	2,199,085
Net assets released from restrictions	1,198,162	(1,198,162)	-	-	-
Total revenue and support	<u>4,622,441</u>	<u>216,750</u>	<u>102,515</u>	<u>4,941,706</u>	<u>5,743,275</u>
EXPENSES					
Program services					
Standing Committees					
Arch Street Meeting House	413,733	-	-	413,733	407,038
Education	850,503	-	-	850,503	789,899
General services	719,854	-	-	719,854	944,701
Interim meeting	360,191	-	-	360,191	335,603
Peace and concerns	254,773	-	-	254,773	263,978
Support and outreach	759,151	-	-	759,151	772,503
Worship and care	982,480	-	-	982,480	998,877
Total program services	<u>4,340,685</u>	<u>-</u>	<u>-</u>	<u>4,340,685</u>	<u>4,512,599</u>
Supporting services					
General and administrative	684,281	-	-	684,281	676,363
Development	243,546	-	-	243,546	274,535
Total expenses	<u>5,268,512</u>	<u>-</u>	<u>-</u>	<u>5,268,512</u>	<u>5,463,497</u>
CHANGE IN NET ASSETS BEFORE OTHER CHANGES					
	<u>(646,071)</u>	<u>216,750</u>	<u>102,515</u>	<u>(326,806)</u>	<u>279,778</u>
OTHER CHANGES					
Realized and unrealized gain on investments	689,885	2,450,764	-	3,140,649	1,152,893
Contribution to Friends Council on Education (FEF dissolution)	(1,389,280)	-	(345,618)	(1,734,898)	-
Change in investment in Friends Center Corporation	(122,000)	-	-	(122,000)	(224,000)
Change in interest in net assets of Friends Fiduciary Corporation	839,286	366,470	718,470	1,924,226	792,912
Change in value of beneficial interest in trust agreements	-	641,700	926,808	1,568,508	772,222
Change in value of pooled life income fund liability	-	10,400	13,600	24,000	(5,600)
Total other changes	<u>17,891</u>	<u>3,469,334</u>	<u>1,313,260</u>	<u>4,800,485</u>	<u>2,488,427</u>
CHANGE IN NET ASSETS					
	<u>(628,180)</u>	<u>3,686,084</u>	<u>1,415,775</u>	<u>4,473,679</u>	<u>2,768,205</u>
NET ASSETS					
Beginning of year, as previously reported	14,784,743	16,237,820	20,337,385	51,359,948	47,286,743
Prior period adjustments	-	-	-	-	1,305,000
Beginning of year, as restated	<u>14,784,743</u>	<u>16,237,820</u>	<u>20,337,385</u>	<u>51,359,948</u>	<u>48,591,743</u>
End of year	<u>\$ 14,156,563</u>	<u>\$ 19,923,904</u>	<u>\$ 21,753,160</u>	<u>\$ 55,833,627</u>	<u>\$ 51,359,948</u>

See accompanying notes

**PHILADELPHIA YEARLY MEETING OF
THE RELIGIOUS SOCIETY OF FRIENDS AND AFFILIATES**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2011 with comparative totals for 2010

	<u>Program Services</u>							<u>Support Services</u>		<u>Totals</u>	
	<u>Arch Street Meeting House</u>	<u>Education</u>	<u>General Services</u>	<u>Interim Meeting</u>	<u>Peace and Concerns</u>	<u>Support and Outreach</u>	<u>Worship and Care</u>	<u>General and Administrative</u>	<u>Development</u>	<u>2011</u>	<u>2010</u>
Salaries and benefits	\$ 245,602	\$ 344,286	\$ 241,847	\$ 238,629	\$ 106,868	\$ 499,353	\$ 204,494	\$ 365,373	\$ 158,657	\$ 2,405,109	\$ 2,506,302
Employee training and travel	561	5,879	1,646	9,034	2,106	20,594	3,242	8,150	3,516	54,728	55,564
Volunteer expenses	1,064	14,324	1,617	7,193	22,020	2,492	10,067	1,550	1,124	61,451	75,713
Grants and contributions	-	317,684	289,590	52,001	38,708	18,400	503,950	-	-	1,220,333	1,283,450
Event Costs	13,920	20,617	65,208	1,033	3,932	14,601	43,777	765	1,176	165,029	255,910
Contracted services	6,814	31,631	70,256	735	43,930	86,385	148,536	69,780	3,998	462,065	509,611
Communications	12,816	13,835	59,617	6,694	3,264	47,985	8,268	11,505	37,943	201,927	157,852
Rent	-	63,744	28,362	31,426	24,664	43,198	43,871	63,605	24,068	322,938	241,567
Insurance	8,640	2,633	5,982	1,159	673	3,023	1,265	2,456	939	26,770	34,697
Repairs and maintenance	88,143	21	67,876	396	-	-	22	2,350	-	158,808	167,257
Depreciation	30,000	-	5,000	-	-	-	-	124,754	-	159,754	154,285
Miscellaneous	311	13,937	1,063	76	306	105	-	10,247	3,555	29,600	21,289
Computer support allocation	5,862	10,697	(66,020)	6,267	3,498	15,624	7,193	12,307	4,572	-	-
Office support allocation	-	11,215	(52,190)	5,548	4,804	7,391	7,795	11,439	3,998	-	-
	<u>\$ 413,733</u>	<u>\$ 850,503</u>	<u>\$ 719,854</u>	<u>\$ 360,191</u>	<u>\$ 254,773</u>	<u>\$ 759,151</u>	<u>\$ 982,480</u>	<u>\$ 684,281</u>	<u>\$ 243,546</u>	<u>\$ 5,268,512</u>	<u>\$ 5,463,497</u>

See accompanying notes

**PHILADELPHIA YEARLY MEETING OF
THE RELIGIOUS SOCIETY OF FRIENDS AND AFFILIATES**

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended June 30, 2011 with comparative totals for 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
<i>Change in net assets</i>	\$ 4,473,679	\$ 2,515,205
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities		
Realized and unrealized gain on investments	(3,140,649)	(1,152,893)
Depreciation	159,754	154,285
Change in investment in Friends Center Corporation	122,000	224,000
Change in interest in net assets of Friends Fiduciary Corporation	(1,924,226)	(792,912)
Change in value of beneficial interest in trust agreements	(1,568,507)	(519,222)
Change in value of pooled life income fund liability	(24,000)	5,600
Contributions restricted for long-term purposes	(102,515)	(299,161)
(Increase) decrease in		
Accounts receivable	(25,206)	28,512
Prepaid expenses	(31,283)	7,600
Inventory	12,907	8,383
Increase (decrease) in		
Accounts payable	23,916	174,557
Contribution payable to Friends Center Corporation	(8,120)	45,240
Deferred revenue	12,158	4,387
Funds held for others	27,311	22,587
Postretirement health benefit obligation	(8,467)	(6,814)
Net cash provided by (used for) operating activities	<u>(2,001,248)</u>	<u>419,354</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds from sale (purchase) of investments	1,350,226	(825,979)
Purchase of property and equipment	<u>(217,158)</u>	<u>(114,313)</u>
Net cash provided by (used for) investing activities	<u>1,133,068</u>	<u>(940,292)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Collections of contributions restricted for investment in endowment	<u>102,515</u>	<u>799,161</u>
Increase (decrease) in cash	(765,665)	278,223
CASH		
Beginning of year	<u>1,275,610</u>	<u>997,387</u>
End of year	<u>\$ 509,945</u>	<u>\$ 1,275,610</u>

See accompanying notes

PHILADELPHIA YEARLY MEETING OF THE RELIGIOUS SOCIETY OF FRIENDS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

(1) NATURE OF OPERATIONS

The accompanying consolidated financial statements include the accounts of Philadelphia Yearly Meeting of the Religious Society of Friends ("**PYM**") and its Affiliates, Burlington Meeting House, Inc. ("**BMH**") and Friends Education Fund, Inc. ("**FEF**") (collectively, the "**Yearly Meeting**"). All significant inter-organization balances and transactions have been eliminated.

PYM, a Pennsylvania nonprofit corporation, founded in 1681, and incorporated July 1, 2002, is the overarching organizational structure and faith community for Quakers in the area of Southeastern Pennsylvania, Delaware and Central and Southern New Jersey. PYM as an institution exists to offer opportunities for shared worship, growth and learning, and collective action for the members of these congregations. It also provides services to those Monthly Meetings and their members, and provides avenues for the collective expression—in service and witness—of their common faith.

BMH is a New Jersey nonprofit corporation. BMH holds title to the land and property known as the Burlington Meeting House. All officers of BMH are nominated by PYM. The Yearly Meeting operates the facility for the benefit of Quaker youth and families.

FEF is a Delaware nonprofit corporation. FEF receives, administers and solicits gifts and bequests from donors for purposes related to Friends' schools in the Yearly Meeting area. All officers of FEF are nominated by PYM. On May 20, 2011, the Board of Directors of FEF approved the dissolution of the Corporation and that FEF's assets would be distributed to the Friends Council on Education. All of FEF's assets were transferred before June 30, 2011.

(2) SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The consolidated financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

Basis of Presentation

The Yearly Meeting reports information regarding financial position and activities according to the three classes of net assets:

Unrestricted net assets

Net assets that are not subject to donor imposed restrictions. Unrestricted net assets include designated funds that could be re-designated.

Temporarily restricted net assets

Net assets that are subject to donor imposed restrictions or legal restrictions that will be satisfied by actions of the Yearly Meeting and/or the passage of time. When a restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as "**net assets released from restrictions.**"

Permanently restricted net assets

Permanently restricted net assets are subject to donor imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by the nonprofit organization receiving the contribution. Generally, the donor intends for the original contribution to be held in perpetuity. The related income and/or gains are available for the Yearly Meeting's use as specified by the donor.

PHILADELPHIA YEARLY MEETING OF THE RELIGIOUS SOCIETY OF FRIENDS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

For permanently restricted net assets not held by a third party trustee, the original contribution is recorded as permanently restricted. The undistributed portion of income and gains (total return) is recorded as temporarily restricted. Each year, the Yearly Meeting receives a cash distribution which is determined using a spending rate as allowed by Pennsylvania law. Donor restrictions as to the use of income must also be met before funds are distributed.

Consistent with the treatment for support and contributions described below, income earned in the current year is recorded as unrestricted to the extent that it is distributed in the current year.

As described further below, Beneficial Interest in Trust Agreements and Interest in Net Assets of Friends Fiduciary Corporation are net assets held by third party trustees. All gains and interest on Beneficial Interest in Trust Agreements and gains and interest on the permanently restricted portion of Interest in Net Assets of Friends Fiduciary Corporation are recorded each year as changes to permanently restricted net assets on the consolidated statement of activities.

Summarized Prior-Year Information

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the consolidated financial statements for the year ended June 30, 2010, from which the summarized information was derived.

Estimates

Management uses estimates and assumptions in preparing the consolidated financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Inventory

Inventory consists primarily of books and other publications and is stated at the lower of cost or market value, using the first-in, first-out method.

Investments

Investments in equity securities with readily determinable fair value and all investments in debt securities are reported at their fair value as determined by quoted market prices, with gains and losses included in the statement of activities. Investment income is recorded as earned.

The Yearly Meeting invests in a professionally-managed portfolio that contains various types of securities (**See Note 5**). Such investments are exposed to market and credit risk. Due to the level of risk associated with such investments, and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in the near term would materially affect investment balances and the amounts reported in the consolidated financial statements.

Fair Value Measurements of Assets and Liabilities

Generally accepted accounting principles ("**GAAP**") define fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. GAAP establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Yearly Meeting. Unobservable inputs reflect the Yearly Meeting's assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

PHILADELPHIA YEARLY MEETING OF THE RELIGIOUS SOCIETY OF FRIENDS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

Level 1 – Financial assets whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that PYM has the ability to access (examples include active exchange-traded equity securities, listed derivatives and most U.S. Government and agency securities). These valuations do not entail a significant degree of judgment.

Level 2 – Financial assets whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:

- Quoted prices for similar assets or liabilities in active markets (examples include money market funds and certificates of deposit);
- Quoted prices for identical or similar assets or liabilities in non-active markets (examples include corporate and municipal bonds, which trade infrequently);
- Pricing models whose inputs are observable for substantially the full term of the asset or liability (examples include most over-the-counter derivatives, including interest rate and currency swaps); and
- Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability (examples include certain residential and commercial mortgage related assets, including loans, securities and derivatives).

Level 3 – Financial assets whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset (examples include certain private equity investments, long-term promises to give and split-interest agreements).

Property and Equipment

The Yearly Meeting capitalizes all expenditures for property and equipment in excess of \$5,000. Property and equipment are recorded at cost. Donated property and equipment are recorded at fair value at the time of donation. Depreciation is computed over the estimated useful lives of the assets on a straight-line basis.

Interest in Net Assets of Friends Fiduciary Corporation

Friends Fiduciary Corporation ("**Fiduciary**") is a Quaker nonprofit corporation that provides investment and trusteeship services for Friends meetings, schools and other nonprofit, tax-exempt organizations. Fiduciary serves as the trustee and custodian for many trusts that name the Yearly Meeting as the beneficiary. The amount of the asset is equal to the fair value of the assets in the trusts. These assets are invested in Fiduciary's Consolidated Fund (**See Note 5**).

PYM nominates candidates for 24 of the current 27 positions on Fiduciary's Board of Directors. The final choice of persons for that Board, however, is by Fiduciary, which alone has the ultimate right of selection. Therefore, PYM does not have a controlling interest in Fiduciary. Accordingly, Fiduciary's assets and activity are not included in these financial statements.

Beneficial Interest in Trust Agreements

Beneficial interest in trust agreements is reported at fair value and is equal to Yearly Meeting's share of assets held in trust by third parties other than Fiduciary. Distributions from trusts to Yearly Meeting are recorded as interest and income from investments on the consolidated statement of activities.

PHILADELPHIA YEARLY MEETING OF THE RELIGIOUS SOCIETY OF FRIENDS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

Support and Contributions

Support and contributions received are recorded as unrestricted, temporarily restricted or permanently restricted net assets depending on the existence and/or nature of any donor restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire within the fiscal year in which the contributions are received. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending upon the nature of the restrictions. When a restriction expires (that is when a stipulated time restriction ends or the purpose of the restriction is accomplished), temporarily restricted net assets are transferred to unrestricted net assets.

Unconditional support and contributions are recognized as revenue when the related promise to give is received. Conditional support and contributions are recognized as revenue when the conditions are satisfied.

Donated Services

The Yearly Meeting administers its programs with support from donated services from a substantial number of unpaid volunteers. The value of these donated services is not reflected in these consolidated financial statements since they do not meet the criteria for recognition. Committee members and other volunteers recorded approximately 31,094 hours of donated services in 2011.

Functional Allocation of Expenses

The costs of providing the programs and supporting services have been summarized on a functional basis in the consolidated statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Tax Status

PYM, BMH and FEF are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision or liability for income taxes is recorded in the accompanying consolidated financial statements.

Effective July 1, 2009, PYM adopted a new accounting standard regarding uncertain tax positions. The new standard prescribes a minimum threshold that a tax position is required to meet in order to be recognized in the financial statements. PYM believes that it had no uncertain tax positions as defined in the standard and, as a result, the adoption of the new standard had no impact on PYM's financial statements.

Concentration of Credit Risk

Financial instruments which potentially subject the Yearly Meeting to concentrations of credit risk are cash and accounts receivable. The Yearly Meeting maintains its cash at various high-quality financial institutions. At times, such deposits may exceed federally-insured limits. Accounts receivable consist primarily of amounts expected to be collected from Meetings in 2011 and loans receivable, the composition of which is more fully described in Note 4.

Program Services

Program services consist of the following Standing Committees:

Arch Street Meeting House

The Arch Street Standing Committee is responsible for ensuring that the programs operating out of the Arch Street Meeting House provide the best support possible for the Ministry of the Yearly Meeting in outreach to visitors and as a home for the activities of the Yearly Meeting community and Monthly Meeting of Friends of Philadelphia.

PHILADELPHIA YEARLY MEETING OF THE RELIGIOUS SOCIETY OF FRIENDS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

Education

The Education Standing Committee provides guidance and support to the PYM and monthly meeting services, projects and institutions which directly concern the religious education, spiritual nurture and academic education of young people and the adults entrusted with their care.

General Services

The General Services Standing Committee has oversight of those administrative functions which enable the ministry of PYM and endeavors to support similar administrative functions in its constituent meetings. These functions include services to Meetings and members as well as accounting and audit, fund development and stewardship of funds, grant coordination and financial assistance, computer services, records and archives, personnel services and staff benefits, conference management (including planning for and managing Yearly Meeting in session), and property management. The functions of General Services which are purely administrative have been separated out on the functional expenditure report as "General and Administrative". The functions of General Services which are purely development have been separated out on the functional expenditure report as "Development".

Interim Meeting

Interim Meeting is responsible for conducting the business of Philadelphia Yearly Meeting between Annual Sessions.

Peace and Concerns

The Peace and Concerns Standing Committee seeks to help Friends work for peace, justice and an earth restored. It does this primarily by supporting projects and services conducted by the working groups under its care.

Support and Outreach

The Support and Outreach Standing Committee oversees the good works that will produce a healthy, vibrant Religious Society of Friends in the Philadelphia Yearly Meeting area, which naturally attract new and existing members, creating a stronger faith community.

Worship and Care

The Worship and Care Standing Committee supports and encourages our members and their Meetings in their spiritual and temporal lives.

Reclassifications

Certain reclassifications to the 2010 summarized information have been made to conform to the 2011 presentation. One significant reclassification was that \$65,930 was moved from permanently restricted net assets to unrestricted net assets at June 30, 2010. This reclassification was the result of management determining that the Louisa and Corson Poley fund has no donor restrictions.

(3) PRIOR PERIOD ADJUSTMENT

During 2011, The Yearly Meeting determined that it was an unconditional remainderman to a charitable remainder unitrust. Since the trust was established years ago, management made a prior period adjustment to increase permanently restricted net assets at July 1, 2009 by \$1,305,000. Management also increased the change in net assets for the year ended June 30, 2010 by \$253,000. The Trust has a fair value on the statement of financial position of \$1,867,000 and \$1,558,000 at June 30, 2011 and 2010, respectively.

PHILADELPHIA YEARLY MEETING OF THE RELIGIOUS SOCIETY OF FRIENDS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

(4) MARY JEANES LOANS RECEIVABLE

The Yearly Meeting makes loans to individuals for educational purposes from a fund established by a contribution from Anna T. Jeanes. The loans are non-interest bearing and are expected to be collected within five years after graduation. The loans receivable balance at June 30, 2011 and 2010, of \$322,021 and \$276,262, is net of an allowance for doubtful accounts of \$72,778 and \$66,707 and a discount, calculated at 5%, of \$53,655 and \$49,426.

(5) INVESTMENTS

Investments at June 30, 2011 and 2010 consist of units in The Consolidated Fund of Friends Fiduciary Corporation. The Consolidated Fund (the "**Fund**") is a co-mingled investment fund sponsored by Friends Fiduciary Corporation. The Fund's investment objective is to provide long-term total return by investing its assets in a balanced portfolio of common stocks, real estate investment trusts and fixed income investments.

(6) PROPERTY AND EQUIPMENT

Property and equipment at June 30 consisted of the following:

	<u>2011</u>	<u>2010</u>
Land	\$ 289,100	\$ 289,100
Buildings	354,000	354,000
Property improvements	5,141,906	4,948,754
Equipment	<u>396,151</u>	<u>372,145</u>
	6,181,157	5,963,999
Less accumulated depreciation	<u>(2,730,569)</u>	<u>(2,570,815)</u>
	<u>\$ 3,450,588</u>	<u>\$ 3,393,184</u>

Depreciation expense for the years ended June 30, 2011 and 2010 was \$159,754 and \$154,285, respectively.

(7) INVESTMENT IN FRIENDS CENTER CORPORATION

Friends Center Corporation (the "**Center**") is a nonprofit organization that was formed by an agreement among PYM and two other Quaker nonprofit organizations – American Friends Services Committee ("**AFSC**") and Central Philadelphia Monthly Meeting ("**CPMM**") – to manage the real estate complex in Center City Philadelphia in which PYM, AFSC and CPMM are located.

PYM's investment in the Center is reported at equity as defined in the aforementioned agreement and is equal to a percentage of the Center's net assets.

The agreement requires PYM to pay rent to the Center for the portion of the real estate complex that it occupies. Rent expense was \$315,758 for 2011 and \$239,844 for 2010.

**PHILADELPHIA YEARLY MEETING OF
THE RELIGIOUS SOCIETY OF FRIENDS AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

(8) CONTRIBUTION PAYABLE TO FRIENDS CENTER CORPORATION

The contribution payable to Friends Center Corporation represents the amount that PYM has promised to pay to Friends Center Corporation to finance a renovation project to the real estate complex in which PYM is located (**See Note 7**). The contribution payable is expected to be paid as follows:

Due within one year	\$ 18,120
Due within one to five years	72,480
Due after five years	<u>217,550</u>
	308,150
Less discount at 5%	<u>(119,000)</u>
	<u>\$ 189,150</u>

(9) POOLED LIFE INCOME FUND AND FUNDS HELD FOR OTHERS

The Yearly Meeting manages a pooled life income fund to which donors transfer assets and name a noncharitable beneficiary to receive the income for life. Upon the death of the beneficiary the assets are transferred to the Yearly Meeting or to other Quaker organizations as specified by the donor. The Yearly Meeting has recorded a liability of \$44,700 and \$68,700, respectively, at June 30, 2011 and 2010 representing a discount on the assets it will receive upon the beneficiary's death.

The Yearly Meeting has also recorded a liability of \$301,505 and \$274,194, respectively, at June 30, 2011 and 2010 for the assets specified by donors to be transferred to other Quaker organizations.

(10) POSTRETIREMENT HEALTH BENEFIT OBLIGATION

The Yearly Meeting sponsors a defined benefit postretirement health insurance plan, subject to annual review by the Personnel and Finance Committees, which covers all full-time employees. To receive benefits, the participants must reach 65, have at least ten years of service by June 30, 2005, and have no intervening employment after leaving the Yearly Meeting. The plan is noncontributory except for spousal coverage, if it is elected. Funding for the plan is provided on a monthly basis by paying a predetermined premium per person, as established by the insurance provider. Contributions to the plan were \$21,372 and \$24,884, respectively, for the years ended June 30, 2011 and 2010.

The postretirement benefit obligation was determined by using a discount rate of 6.0% in 2011 and 2010 and a medical trend rate of 6.0%.

The following table sets forth the plan's status reconciled with the amount shown on the consolidated statement of financial position as of June 30:

	<u>2011</u>	<u>2010</u>
Accumulated postretirement benefit obligation		
Retirees	\$225,003	\$252,207
Fully eligible active participants	-	55,742
Other plan participants	<u>205,533</u>	<u>153,610</u>
Total	<u>\$430,536</u>	<u>\$461,559</u>
Plan assets at fair value	<u>\$ -</u>	<u>\$ -</u>

**PHILADELPHIA YEARLY MEETING OF
THE RELIGIOUS SOCIETY OF FRIENDS AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

	<u>2011</u>	<u>2010</u>
Accumulated postretirement benefit obligation in excess of plan assets	\$430,536	\$461,559
Unrecognized net gain (loss) from experience different from that assumed and changes in assumptions	208,734	186,178
Unrecognized prior service cost	<u>-</u>	<u>-</u>
Accrued postretirement benefit cost in the consolidated statement of financial position	<u>\$639,270</u>	<u>\$647,737</u>

Postretirement expense for 2011 included the following components:

Service cost	\$ 6,992	\$ 13,622
Interest cost on accumulated postretirement benefit obligation	23,416	28,905
Amortization of prior year service cost	-	(13,826)
Amortization of gain	<u>(17,503)</u>	<u>(10,631)</u>
Postretirement expense	<u>\$ 12,905</u>	<u>\$ 18,070</u>

(11) PENSION PLAN

The Yearly Meeting is a participant in Friends Pension Plan, a multiemployer, noncontributory, defined benefit pension plan covering substantially all of the Yearly Meeting's employees. Yearly Meeting's pension expense was \$206,385 for the year ended June 30, 2011. The Yearly Meeting's relative position in this plan is not readily determinable.

(12) TEMPORARILY RESTRICTED NET ASSETS

Donor-restricted contributions and investment income received and satisfied in 2011 are classified as unrestricted and not presented in the following table. Net additions include new contributions, investment income and changes in the fair value of investments. Temporarily restricted net assets are available for the following:

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Releases</u>	<u>Balance June 30, 2011</u>
Aging				
Facility based	\$ 3,762,807	\$2,164,701	\$ (426,978)	\$ 5,500,530
General	598,248	134,909	(63,875)	669,282
Individual based	352,745	97,186	(82,690)	367,241
Alcohol concerns	51,526	11,279	(1,495)	61,310
Bequests granting group funds	1,565,972	298,329	(49,852)	1,814,449
Book publications	79,890	18,626	(1,081)	97,435
Burlington Meeting House	18,925	32,450	(48,076)	3,299
Caln quarter scholarship	160	-	-	160
Counseling	272,929	67,043	(28,195)	311,777
Education				
Programs	2,405,054	475,406	(142,287)	2,738,173
Tuition aid	159,366	90,062	(110,054)	139,374
Emergency needs	11,219	-	(6,551)	4,668
Fairhill Friends Ministry	1,563	120	(821)	862
Family planning	766,764	143,712	-	910,476
Family relations	10,185	2,518	-	12,703

**PHILADELPHIA YEARLY MEETING OF
THE RELIGIOUS SOCIETY OF FRIENDS AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Releases</u>	<u>Balance June 30, 2011</u>
For future periods				
Fiduciary gift annuities	71,972	7,475	-	79,447
General funds	537,694	106,972	-	644,666
Beneficial interest in charitable remainder unitrust	299,000	60,000	-	359,000
Friends Institute	342,013	66,106	(17,878)	390,241
General bequests	4,112	616	-	4,728
Indian committee	225,578	43,344	(11,018)	257,904
International outreach	8,826	10,169	(14,856)	4,139
Library	12,602	2,454	(525)	14,531
Meeting House trust funds	634,692	151,111	(58,285)	727,518
Non-violence and children	2,857	30	-	2,887
Peace and concerns	237,649	99,906	(58,172)	279,383
Pemberton fund	78,230	12,319	(5,816)	84,733
Pooled life income fund	163,905	30,919	-	194,824
School of the spirit	102,893	160,291	(69,582)	193,602
Troemner trust	3,351,040	581,699	-	3,932,739
Willitts funds	107,329	14,494	-	121,823
Young friends	75	-	(75)	-
	<u>\$16,237,820</u>	<u>\$4,884,246</u>	<u>\$(1,198,162)</u>	<u>\$19,923,904</u>

(13) PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets, the income from which is available for general or specific use of Yearly Meeting as specified by the donor, consisted of the following funds at June 30:

	<u>2011</u>	<u>2010</u>
Aging – Facility Based		
Henrietta Stewart Smith Fund	\$ 209,058	\$ 209,058
Anna T. Jeanes #1	299,210	260,192
Anna T. Jeanes #2	613,870	533,819
Anna T. Jeanes #3	752,757	654,595
Anna T. Jeanes #5	1,919,105	1,668,848
Strohkarck Fund	327,655	284,928
Satterthwaite and Hallowell Fund	11,811	10,271
Lida W. Van Iderstine Fund	12,957	12,957
	<u>4,146,423</u>	<u>3,634,668</u>
Aging Funds – General		
Dr. Lovett Dewees Fund	6,605	6,605
George Abbott Fund	66,128	57,505
The Greenleaf Fund	6,973,081	6,901,161
Albertson Fund	1,232,317	1,071,622
	<u>8,278,131</u>	<u>8,036,893</u>

**PHILADELPHIA YEARLY MEETING OF
THE RELIGIOUS SOCIETY OF FRIENDS AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

	<u>2011</u>	<u>2010</u>
Alcohol Concerns		
Alcohol Problems General Fund	11,483	11,483
Annual Sessions		
Anna Laura Davis Fund	83,390	83,390
Bequest Granting Group		
Virginia Drysdale Keeney	163,642	163,642
Beneficial interest in perpetual trusts	4,614,940	3,997,133
Book Publications		
Friends Writings	15,765	15,765
Younger Friends	1,363	1,363
General Endowment	836	836
	<u>17,964</u>	<u>17,964</u>
Burlington Meeting House Conference Center		
George E. Deacon Fund	13,572	11,800
Burlington Meeting House Endowment Fund	669,163	669,163
General Fund	185,393	185,393
Graveyard Fund	44,498	44,498
	<u>912,626</u>	<u>910,854</u>
Education – Programs		
Tyson Grant Fund	50,577	50,577
General Fund	14,755	14,755
Mary Jeanes Fund	48,737	48,737
Samuel Jeanes-Educational Purposes	213,907	213,907
Sarah Corinne Partenheimer Bequest	20,375	20,375
	<u>348,351</u>	<u>348,351</u>
Education – Tuition Act		
Jonathon Rhoads Fund	325,175	300,175
Family Relations		
Dr. Lovett Dewees Fund	6,605	6,605
Friends Education Fund	-	345,918
General Fund		
Anna Cresson Fund	111,912	111,912
General Reserve Fund	198,180	153,234
Albert G. and Mary H. Thatcher Fund	26,093	22,690
	<u>336,185</u>	<u>287,836</u>
International Outreach		
International Outreach #1	134,778	117,203
International Outreach #3	8,470	8,470
International Outreach #4	17,004	14,787
David Scull Fund	41,883	36,421
John Way Fund	34,469	29,975
	<u>236,604</u>	<u>206,856</u>

**PHILADELPHIA YEARLY MEETING OF
THE RELIGIOUS SOCIETY OF FRIENDS AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

	<u>2011</u>	<u>2010</u>
Meeting House Trust Funds		
Samuel Jeanes Fund	<u>170,637</u>	<u>170,637</u>
Nitsche Trust	<u>1,867,000</u>	<u>1,558,000</u>
Peace and Concerns		
Cadwallader Fund for sundry purposes	10,638	9,251
Cadwallader Fund	<u>8,335</u>	<u>7,248</u>
	<u>18,973</u>	<u>16,499</u>
Pooled Life Income Fund	<u>38,197</u>	<u>63,647</u>
Prison Concerns		
Warren Endowment Fund for Criminal Justice	<u>161,490</u>	<u>161,490</u>
Willits Funds		
Willits Fund – Southern Schools	7,672	7,672
Willits Fund – Liberia	<u>7,672</u>	<u>7,672</u>
	<u>15,344</u>	<u>15,344</u>
	<u>\$21,753,160</u>	<u>\$20,337,385</u>

(14) ENDOWMENT FUNDS

In August 2008, a new accounting standard was issued which provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (“*UPMIFA*”). The Yearly Meeting is not subject to this guidance since Pennsylvania has not enacted a version of UPMIFA. The standard also requires additional disclosures about an organization’s endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

In accordance with Pennsylvania statutes, the Yearly Meeting has adopted investment and spending policies for its endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of these endowment assets over the long-term. The Yearly Meeting’s spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes.

The spending policy calculates the amount of money annually distributed from the permanently restricted endowment fund to support various programs. The current spending policy is to distribute an amount equal to 5.125% of a moving three-year average of the fair value of the endowment fund.

**PHILADELPHIA YEARLY MEETING OF
THE RELIGIOUS SOCIETY OF FRIENDS AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

Changes in the endowment assets for the year ended June 30, 2011 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Assets</u>
Endowment net assets, beginning of year	\$ 1,787,019	\$ 8,499,168	\$10,017,700	\$20,303,887
Additions	35,172	-	102,515	137,687
Withdrawals	(1,389,280)	(2,835)	(345,618)	(1,737,733)
Investment income (net of income distributions)	<u>425,764</u>	<u>2,450,764</u>	<u>-</u>	<u>2,876,528</u>
Endowment net assets, end of year	<u>\$ 858,675</u>	<u>\$10,947,097</u>	<u>\$ 9,774,597</u>	<u>\$21,580,369</u>

(15) ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS

The following is a summary of assets and liabilities measured at fair value on a recurring basis and the valuation inputs used to value them:

	<u>Balance June 30, 2011</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets				
Investments	\$23,565,931	\$ -	\$23,565,931	\$ -
Interest in assets of Friends Fiduciary Corporation	14,945,846	-	14,945,846	-
Beneficial interest in trust agreements	<u>10,773,679</u>	<u>-</u>	<u>10,773,679</u>	<u>-</u>
	<u>\$49,285,456</u>	<u>\$ -</u>	<u>\$49,285,456</u>	<u>\$ -</u>

(16) SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 19, 2011, the date on which the consolidated financial statements were available to be issued. No material subsequent events have occurred since June 30, 2011 that require recognition or disclosure in the consolidated financial statements.