

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

**Consolidated Financial Statements**

**September 30, 2014**

**Kreischer  
Miller**

PEOPLE | IDEAS | SOLUTIONS

**PHILADELPHIA YEARLY MEETING OF  
THE RELIGIOUS SOCIETY OF FRIENDS AND AFFILIATES**  
September 30, 2014

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INDEPENDENT AUDITORS' REPORT

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## Independent Auditors' Report

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

We have audited accompanying consolidated financial statements of Philadelphia Yearly Meeting of the Religious Society of Friends and Affiliates (the Organization), which comprise the consolidated statement of financial position as of September 30, 2014, and the related consolidated statements of activities and cash flows for the period July 1, 2013 through September 30, 2014, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of September 30, 2014, and the changes in its net assets and its cash flows for the period July 1, 2013 through September 30, 2014 in accordance with accounting principles generally accepted in the United States of America.

*Other Matter*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Kreischer Miller*

Horsham, Pennsylvania  
December 15, 2014

PHILADELPHIA YEARLY MEETING OF  
THE RELIGIOUS SOCIETY OF FRIENDS AND AFFILIATES

Consolidated Statement of Financial Position  
September 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 498,180	\$ 685,615	\$ -	\$ 1,183,795
Cash held for Friends Pension Plan	93,241	-	-	93,241
Accounts receivable:				
Meetings	23,150	-	-	23,150
Annual fund	800	-	-	800
Other	23,272	-	-	23,272
Mary Jeanes loan receivables	-	40,000	-	40,000
Prepaid expenses	14,560	-	-	14,560
Inventory	6,823	-	-	6,823
<b>Total current assets</b>	<b>660,026</b>	<b>725,615</b>	<b>-</b>	<b>1,385,641</b>
Deposits	23,433	-	-	23,433
Mary Jeanes loan receivables, net	-	154,297	-	154,297
Investments-PYM is the trustee	3,266,875	14,721,112	9,778,076	27,766,063
Investments-Friends Fiduciary Corporation is the trustee	6,803,882	3,158,365	6,329,189	16,291,436
Investment in Friend Center Corporation	3,262,000	-	-	3,262,000
Beneficial interests in trust agreements:				
Charitable remainder unitrust	-	311,385	2,401,088	2,712,473
Other various trusts	-	4,112,978	4,861,276	8,974,254
Property and equipment, net	2,984,445	-	-	2,984,445
	<b>\$ 17,000,661</b>	<b>\$ 23,183,752</b>	<b>\$ 23,369,629</b>	<b>\$ 63,554,042</b>
<b>LIABILITIES AND NET ASSETS</b>				
Current liabilities:				
Accounts payable	\$ 381,202	\$ -	\$ -	\$ 381,202
Current portion of contribution payable to Friends Center Corporation	18,120	-	-	18,120
Deferred revenue	4,405	-	-	4,405
Funds held for Friends Pension Plan	93,241	-	-	93,241
Funds held for others	297,961	-	-	297,961
<b>Total current liabilities</b>	<b>794,929</b>	<b>-</b>	<b>-</b>	<b>794,929</b>
Contribution payable to Friends Center Corporation, long-term	161,848	-	-	161,848
Postretirement health benefit obligation	318,834	-	-	318,834
<b>Total liabilities</b>	<b>1,275,611</b>	<b>-</b>	<b>-</b>	<b>1,275,611</b>
Net assets:				
Unrestricted				
Operating	7,990,518	-	-	7,990,518
Designated:				
Operating reserves	799,208	-	-	799,208
Capital reserves	688,879	-	-	688,879
Net investment in property and equipment	6,246,445	-	-	6,246,445
Temporarily restricted	-	23,183,752	-	23,183,752
Permanently restricted	-	-	23,369,629	23,369,629
<b>Total net assets</b>	<b>15,725,050</b>	<b>23,183,752</b>	<b>23,369,629</b>	<b>62,278,431</b>
<b>Total liabilities and net assets</b>	<b>\$ 17,000,661</b>	<b>\$ 23,183,752</b>	<b>\$ 23,369,629</b>	<b>\$ 63,554,042</b>

See accompanying notes to consolidated financial statements.

PHILADELPHIA YEARLY MEETING OF  
THE RELIGIOUS SOCIETY OF FRIENDS AND AFFILIATES

Consolidated Statement of Activities  
Period July 1, 2013 through September 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Changes in unrestricted net assets:				
Support and revenue:				
Support from meetings and members:				
Support from meetings	\$ 1,299,058	\$ -	\$ -	\$ 1,299,058
Gifts of support	85,276	210,326	-	295,602
Annual fund	447,587	-	-	447,587
Event and service fees	616,643	172,503	-	789,146
Interest and income from investments	868,894	1,087,423	-	1,956,317
Net assets released from restrictions	1,625,208	(1,625,208)	-	-
Total support and revenue	4,942,666	(154,956)	-	4,787,710
Expenses:				
Staff expenses	1,768,678	-	-	1,768,678
Severance expense	1,260	-	-	1,260
Volunteer expenses	15,172	-	-	15,172
Contributions to others	60,394	-	-	60,394
Events and program expense	333,143	-	-	333,143
Professional and service fees	83,947	-	-	83,947
Copying, printing and posting	71,205	-	-	71,205
Rent and utilities	360,829	-	-	360,829
Computer and office support	132,482	-	-	132,482
Insurance and maintenance	164,275	-	-	164,275
Temporary fund expenses	1,625,208	-	-	1,625,208
Depreciation	227,898	-	-	227,898
Total expenses	4,844,491	-	-	4,844,491
Change in net assets before other changes	98,175	(154,956)	-	(56,781)
Other changes:				
Realized and unrealized income on investments-PYM is the trustee	228,478	1,985,899	11,524	2,225,901
Realized and unrealized income on investments-Friends Fiduciary Corporation is the trustee	560,964	271,926	552,107	1,384,997
Change in investment in Friends Center Corporation	(152,000)	-	-	(152,000)
Change in value of beneficial interests in trusts held by external trustees	-	487,129	611,294	1,098,423
Change in value of pooled life income fund discount	-	(7,100)	2,725	(4,375)
	637,442	2,737,854	1,177,650	4,552,946
Change in net assets	735,617	2,582,898	1,177,650	4,496,165
Net assets, beginning of period	14,989,433	20,600,854	22,191,979	57,782,266
Net assets, end of period	\$ 15,725,050	\$ 23,183,752	\$ 23,369,629	\$ 62,278,431

See accompanying notes to consolidated financial statements.

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

**Consolidated Statement of Cash Flows  
Period July 1, 2013 through September 30, 2014**

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Cash flows from operating activities:	
Change in net assets	\$ 4,496,165
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Realized and unrealized gain on investments	(2,225,901)
Realized and unrealized gain on investments-Friends Fiduciary Corporation is the trustee	(1,384,997)
Change in investment in Friends Center Corporation	152,000
Change in value of beneficial interests in trust agreements	(1,098,423)
Change in pooled life income fund discount	4,375
Depreciation	227,898
Decrease in:	
Cash held for Friends Pension Plan	136,295
Accounts receivable	309,175
Loans receivable	45,116
Prepaid expenses	81,046
Inventory	9,819
Increase (decrease) in:	
Accounts payable	145,219
Contribution payable to Friends Center Corporation	984
Deferred revenue	(54,482)
Funds held for others (including Friends Pension Plan)	(130,479)
Postretirement health benefit obligation	(13,751)
Pension benefit obligation	(169,146)
Net cash provided by operating activities	<u>530,913</u>
Cash flows from investing activities:	
Decrease in deposits	11,717
Proceeds from sale of investments	370,900
Purchases of investments	(1,424,834)
Purchase of property and equipment	<u>(60,432)</u>
Net cash used in investing activities	<u>(1,102,649)</u>
Net decrease in cash and cash equivalents	(571,736)
Cash and cash equivalents, beginning of period	<u>1,755,531</u>
Cash and cash equivalents, end of period	<u>\$ 1,183,795</u>

See accompanying notes to consolidated financial statements.

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

Notes to Consolidated Financial Statements  
September 30, 2014

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## (1) Organization and Operations

Philadelphia Yearly Meeting of the Religious Society of Friends (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.

Burlington Meeting House, Inc. (BMH) is a New Jersey nonprofit corporation. The Trustees of BMH hold title to the land and property known as the Burlington Meeting House. All Trustees and officers of BMH are appointed by PYM. At September 30, 2014, this facility was managed by the Trustees for the benefit of Quaker youth and families and the local community.

Arch Street Meeting House Preservation Trust (ASMHT) is a Pennsylvania nonprofit corporation organized in 2011, as a supporting organization to PYM in the maintenance, operation, renovation, improvement and preservation of the historic building, site and artifacts of the Arch Street Meeting House and grounds. ASMHT's activities include: publishing and dissemination of materials, provision of programs and education about the history and use of the historic property, the raising of funds for, and the financing of, any or all of the foregoing, and doing anything necessary or desirable to carry out the foregoing purposes. All Trustees and officers of ASMHT are appointed by PYM.

Collectively, PYM, BMH and ASMHT are referred to as the Yearly Meeting.

The financial year end of Yearly Meeting was changed from June 30 to September 30. Accordingly, the consolidated statements of activities, cash flows and related notes encompass fifteen months from July 1, 2013 to September 30, 2014.

### *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.

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

Notes to Consolidated Financial Statements  
September 30, 2014

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## (1) Organization and Operations, Continued

### *Education*

The Education Standing Committee provides guidance and support to 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 the Yearly Meeting in session), and property management.

### *Interim Meeting*

The Interim Meeting Standing Committee is responsible for conducting the business of PYM 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 PYM area, which naturally attracts new and existing members, creating a stronger faith community.

### *Worship and Care*

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

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

**Notes to Consolidated Financial Statements  
September 30, 2014**

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**(2) Summary of Significant Accounting Policies**

*Basis of Accounting*

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting and include the accounts of PYM and its affiliates, BMH and ASMHP. All significant inter-organization transactions have been eliminated in consolidation.

*Basis of Presentation*

The Yearly Meeting presents its consolidated financial statements in accordance with Financial Accounting Standards Board (FASB) *Accounting Standards Codification (ASC) 958, Financial Statements of Not-for-Profit Organizations*. Accordingly, the Yearly Meeting reports information regarding its financial position and activities according to the following three classes of net assets:

*Unrestricted Net Assets*

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

*Temporarily Restricted Net Assets*

Temporarily restricted net assets are 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 statements 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.

*Continued...*

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

Notes to Consolidated Financial Statements  
September 30, 2014

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**(2) Summary of Significant Accounting Policies, Continued**

*Permanently Restricted Net Assets, Continued*

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.

Investment income earned in the current year, which is subject to donor restriction, is recorded as unrestricted to the extent the restrictions are met in the current year.

As described further below, beneficial interest in trust agreements and investments-Friends Fiduciary Corporation is the trustee, 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 investments-Friends Fiduciary Corporation is the trustee, are recorded each year as changes to permanently restricted net assets on the consolidated statements of activities.

*Use of Estimates*

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Cash and Cash Equivalents*

For purposes of the statement of cash flows, the Yearly Meeting considers temporary cash investments and all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

*Continued...*

PHILADELPHIA YEARLY MEETING OF  
THE RELIGIOUS SOCIETY OF FRIENDS AND AFFILIATES

Notes to Consolidated Financial Statements  
September 30, 2014

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(2) Summary of Significant Accounting Policies, Continued

*Cash Held for Friends Pension Plan*

Cash held for Friends Pension Plan consists of amounts held separately for Friends Pension Plan short term obligations (see Note 11). Prior to January 1, 2013, PYM staff had day to day administrative responsibility for the plan with cash outlays being reimbursed from plan investments held at Friends Fiduciary Corporation. As of January 1, 2013, routine administrative functions were outsourced to the plan's actuarial firm. The Friends Pension Plan Committee authorized the establishment of a separate bank account under the normal rules of PYM to fund distributions and expenses as incurred by the actuarial firm and its subcontractors. The bank account balance as of September 30, 2014 appears as both an asset and liability on the consolidated statement of financial position.

*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 consolidated statements of activities. Investment income is recorded as earned.

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*

FASB ASC 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value in accordance with accounting principles generally accepted in the United States of America. FASB ASC 820 requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories based on the inputs to their valuation techniques:

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

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

Notes to Consolidated Financial Statements  
September 30, 2014

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## (2) Summary of Significant Accounting Policies, Continued

### *Fair Value Measurements of Assets and Liabilities, Continued*

Level 3: Unobservable inputs that are not corroborated by market data.

For the period July 1, 2013 through September 30, 2014, the application of valuation techniques applied to similar assets and liabilities has been consistent.

### *Investments-Friends Fiduciary Corporation*

Friends Fiduciary Corporation (FFC) is a Quaker nonprofit corporation that provides investment and trusteeship services for Friends meetings, schools and other nonprofit, tax-exempt organizations. FFC serves as the trustee and custodian for many trusts that name the Yearly Meeting as the beneficiary. The value of the assets are equal to the fair value of the assets in the trusts. These assets are invested in units of FFC's Consolidated Fund (the Fund). The Fund is a co-mingled socially responsible investment fund sponsored by FFC. The Fund's investment objective is to provide long-term total return by investing its assets in a balanced portfolio of common stock, real estate investment trusts and fixed income investments.

PYM approves nominees for the FFC's Board of Directors. The final choice of members elected to that Board, however, is by FFC, which alone has the ultimate right of selection. Therefore, PYM does not have a controlling interest in FFC. Accordingly, FFC's assets and activity are not included in these consolidated financial statements.

### *Beneficial Interests in Trust Agreements*

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

### *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.

*Continued...*

PHILADELPHIA YEARLY MEETING OF  
THE RELIGIOUS SOCIETY OF FRIENDS AND AFFILIATES

Notes to Consolidated Financial Statements  
September 30, 2014

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(2) Summary of Significant Accounting Policies, Continued

*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 38,156 hours of donated services in the period July 1, 2013 through September 30, 2014.

*Functional Allocation of Expenses*

The costs of providing the programs and supporting services have been summarized on a functional basis in the following schedule. Accordingly, certain costs have been allocated among the programs and supporting services benefited as follows for the period July 1, 2013 through September 30, 2014:

Program expenses	\$ 3,844,531
Administrative expenses	774,568
Development expenses	225,392
	<u>\$ 4,844,491</u>

*Continued...*

**PHILADELPHIA YEARLY MEETING OF  
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**Notes to Consolidated Financial Statements  
September 30, 2014**

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**(2) Summary of Significant Accounting Policies, Continued**

*Income Taxes*

PYM and BMH 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. As religious organizations, PYM and BMH are not required to file a Federal Form 990 related to its tax exempt status.

ASMHPT is a nonprofit corporation under Section 501(c)(3) of the Internal Revenue Code. As such, ASMHPT will not incur any liability for federal income taxes on exempt activities; unrelated business activities were not conducted during the year ended September 30, 2014.

ASMHPT files Federal Form 990. With few exceptions, ASMHPT is no longer subject to U.S. federal or state and local income tax examinations by tax authorities for years before fiscal year 2012. It is difficult to predict the final timing and resolution of any particular uncertain tax position. Management is unaware of any uncertain tax positions.

*Concentrations of Credit Risk*

Financial instruments which potentially subject the Yearly Meeting to concentrations of credit risk are cash and cash equivalents 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 and loans receivable, the composition of which is more fully described in Note 3.

*Subsequent Events*

The Yearly Meeting has performed an evaluation of subsequent events through December 15, 2014, which is the date the consolidated financial statements were available to be issued.

**(3) Mary Jeanes Loan Receivables**

The Yearly Meeting made loans to individuals for educational purposes from a fund established by a contribution from Anna T. Jeanes. This loan program was discontinued in fiscal year 2013. The loans are non-interest bearing and are expected to be collected within five years after graduation. The loan receivables balance at September 30, 2014 of \$194,297 is net of an allowance for doubtful accounts of \$69,394 and a discount, calculated at 4%, of \$34,762.

**PHILADELPHIA YEARLY MEETING OF  
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**Notes to Consolidated Financial Statements  
September 30, 2014**

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**(4) Assets Measured at Fair Value on a Recurring Basis**

The following is a summary of assets measured at fair value on a recurring basis and the valuation inputs used to value them at September 30, 2014:

	Total	Level 1	Level 2	Level 3
Assets:				
Investments in the Fund - PYM trustee	\$ 27,766,063	\$ -	\$ 27,766,063	\$ -
Investments in the Fund - FFC trustee	16,291,436	-	16,291,436	-
Beneficial interest in trust agreements	11,686,727	-	-	11,686,727
	<u>\$ 55,744,226</u>	<u>\$ -</u>	<u>\$ 44,057,499</u>	<u>\$ 11,686,727</u>

The fair value of the investments in the Fund – PYM trustee and investments in the Fund – FFC trustee are valued at the net asset value (NAV) of units held by the Yearly Meeting at September 30, 2014 based on the market value of its underlying investments. Although the investments in the Fund – PYM trustee and investments in the Fund – FFC trustee are not available in an active market, the NAV of the units are approximately based on the quoted prices of the underlying investments that are traded in an active market.

The fair value of the beneficial interest in perpetual trusts is based on the fair value of the assets held by the trust as reported by the trustees.

There were no significant transfers among investment levels during the period July 1, 2013 through September 30, 2014.

The changes in level 3 assets measured at fair value are summarized below:

	<u>Beneficial Interest in Trust Agreements</u>
Balance, June 30, 2013	\$ 10,588,304
Unrealized gain on investments included in changes in net assets	1,098,423
Balance, September 30, 2014	<u>\$ 11,686,727</u>



**PHILADELPHIA YEARLY MEETING OF  
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**Notes to Consolidated Financial Statements  
September 30, 2014**

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**(5) 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 using the equity method as defined in the aforementioned agreement and is equal to a percentage of the Center's net assets. If PYM elected to withdraw from the Center, PYM would forfeit 10% of its equity investment. Management does not anticipate withdrawal over the next 12 months.

The agreement requires PYM to pay rent to the Center for the portion of the real estate complex that it occupies. Rent expense for the period July 1, 2013 through September 30, 2014 was \$279,222.

Effective July 1, 2014, PYM is required to pay a fixed portion of the Center's debt based on occupancy ratios. The future minimum payments related to this obligation amount to \$96,323 for each of the next five years and \$1,806,049 thereafter.

**(6) Property and Equipment**

Property and equipment at September 30, 2014 consist of the following:

Land	\$ 289,100
Buildings	354,000
Property improvements	5,214,634
Equipment	437,788
	<u>6,295,522</u>
Accumulated depreciation	<u>(3,311,077)</u>
	<u>\$ 2,984,445</u>

Depreciation expense for the period July 1, 2013 through September 30, 2014 was \$227,898.

**PHILADELPHIA YEARLY MEETING OF  
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**Notes to Consolidated Financial Statements  
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**(7) Line of Credit**

The Yearly Meeting maintains a line of credit with Citizens Bank under which the maximum outstanding balance is \$500,000. Principal is due on demand and interest is payable monthly at the LIBOR Advantage Rate plus 2.0% or prime rate plus 0.5%, chosen by Yearly Meeting at time of advance. The bank has a security interest in all personal property of the Yearly Meeting whether such property exists now or is hereafter created, and all cash or noncash proceeds from the disposition of such property. The line of credit expires January 2015.

**(8) Contribution Payable to Friends Center Corporation**

The contribution payable to the Center represents the amount that PYM has promised to pay to the Center to finance a renovation project to the real estate complex in which PYM is located (See Note 5). The contribution payable is expected to be paid as follows:

Due within one year	\$ 18,120
Due within two to five years	72,480
Due after five years	158,658
	<u>249,258</u>
Discount at 5%	(69,290)
	<u>\$ 179,968</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. Changes in the fair value of the pooled life income fund, using a discount rate of 5%, are recognized as change in value of pooled life income fund in the accompanying consolidated statement of activities. At September 30, 2014 the Yearly Meeting has also recorded a liability of \$297,961 for the assets specified by donors to be transferred to other Quaker organizations.

The Yearly Meeting receives semi-annual distributions from FFC and annual assessments from participating employers to fund the requirements of its participation in Friends Pension Plan (see Note 11). Amounts received and not yet remitted to the Friends Pension Plan amounted to \$93,241 as of September 30, 2014.

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**(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 completed at least ten years of service by June 30, 2005, and have no intervening employment after leaving the Yearly Meeting. Funding for the plan is provided on a monthly basis by paying a predetermined premium per person, as established by the insurance provider up to a maximum of \$252 per month. Contributions to the plan were \$35,009 for the period July 1, 2013 through September 30, 2014.

The postretirement benefit obligation was determined by using a discount rate of 4.0% and a medical trend rate of 3.0%.

The following table sets forth the plan's status reconciled with the amount shown on the consolidated statement of financial position as of September 30, 2014:

Accumulated postretirement benefit obligation, fully vested:	
Retirees	\$ 226,051
Fully eligible active participants	-
Other plan participants	89,710
	<u>\$ 315,761</u>
Plan assets at fair value	<u>\$ -</u>
Accumulated postretirement obligation in excess of plan assets	\$ 315,761
Unrecognized net gain from experience different from assumed and changes in assumptions	<u>3,073</u>
Accrued postretirement benefit cost in the consolidated statement of financial position	<u>\$ 318,834</u>

*Continued...*

**PHILADELPHIA YEARLY MEETING OF  
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**Notes to Consolidated Financial Statements  
September 30, 2014**

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**(10) Postretirement Health Benefit Obligation, Continued**

The following table sets forth the components of the net postretirement benefit cost for the period July 1, 2013 through September 30, 2014:

Service cost	\$ 4,467
Interest cost on accumulated postretirement benefit obligation	17,834
Amortization of gain	<u>(1,043)</u>
Postretirement expense	<u>\$ 21,258</u>

The estimated net gain that will be amortized into net periodic postretirement benefit cost in 2015 is \$13,000.

The expected annual disbursements for the next five years individually and the following five years in aggregate are as follows:

Year Ending September 30,	Amount
2015	\$ 25,000
2016	\$ 24,000
2017	\$ 23,000
2018	\$ 22,000
2019	\$ 27,000
2020-2024	\$ 121,000

**(11) Pension Plan**

PYM is a participant in Friends Pension Plan (the Plan) a multiple-employer, noncontributory, defined benefit pension plan covering substantially all of PYM's employees. FFC serves as the Trustee for the Plan. PYM's relative position in this Plan is not readily determinable.

Under governmental regulations, in the event of plan termination or employer withdrawal, an employer may be liable for a portion of the Plan's unfunded vested benefits. PYM does not anticipate withdrawal from the Plan, nor is PYM aware of any unexpected plan terminations.

*Continued...*

**PHILADELPHIA YEARLY MEETING OF  
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**Notes to Consolidated Financial Statements  
September 30, 2014**

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**(11) Pension Plan, continued**

PYM used a measurement date of January 1, 2014 for September 30, 2014 disclosures. The following table sets forth the combined Plan's funded status as of January 1, 2014:

Benefit obligation at January 1, 2014	\$ 10,458,292
Fair value of plan assets at January 1, 2014	<u>10,487,873</u>
Funded status	<u>\$ 29,581</u>

PYM has no accrued pension liability at September 30, 2014. The benefit obligation at January 1, 2014 was determined by using a discount rate of 6.50%, an annual salary increase of 3.00% and the Internal Revenue Service 2014 Static Mortality Table.

Benefits paid by the Plan were \$692,715 for the year ended January 1, 2014. Total contributions to the Plan for the year ended January 31, 2014 were \$387,580. PYM's contributions to the Plan as determined by an actuary aggregated \$131,777 for the period July 1, 2013 through September 30, 2014.

The Plan's assets at January 1, 2014 consist of a money market fund and an investment in the Fund. The Fund's investment objective is to provide long-term total return by investing its assets in a balanced portfolio of common stock, financial trusts such as real estate investment trusts and fixed income investments. The money market account is a co-mingled account held by FFC.

The fair value of the Plan's assets by asset category at January 1, 2014 are as follows:

	January 1, 2014			
	Total	Level 1	Level 2	Level 3
Money market	\$ 673,380	\$ -	\$ 673,380	\$ -
Units in the Consolidated Fund of FFC	9,814,493	-	9,814,493	-
	<u>\$ 10,487,873</u>	<u>\$ -</u>	<u>\$ 10,487,873</u>	<u>\$ -</u>

The estimated net gain of the combined Plan that will be amortized into net periodic postretirement benefit cost in the future is \$797,926. The expected contribution to the Plan for 2015 is \$250,818, PYM's portion is estimated at \$88,488.

**PHILADELPHIA YEARLY MEETING OF  
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**Notes to Consolidated Financial Statements  
September 30, 2014**

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**(12) Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes at September 30, 2014:

	Temporarily Restricted Cash	Other Temporarily Restricted Assets	Total
Aging programs	\$ (2,877)	\$ 8,946,748	\$ 8,943,871
Education programs	251,293	2,746,205	2,997,498
Purposes subject to trustee approval	-	6,183,350	6,183,350
Meeting House projects	96,712	1,226,016	1,322,728
Other programs	162,874	29,140	192,014
Outreach programs	134,603	2,407,742	2,542,345
Peace programs	43,010	266,589	309,599
For future periods	-	692,347	692,347
	<u>\$ 685,615</u>	<u>\$ 22,498,137</u>	<u>\$ 23,183,752</u>

**(13) Permanently Restricted Net Assets**

Permanently restricted net assets, the income from which is available for unrestricted or temporarily restricted use of the Yearly Meeting as specified by the donor, consists of the following funds at September 30, 2014:

Aging programs	\$ 13,038,581
Education programs	1,164,433
General programs	5,129,762
Meeting House projects	1,279,887
Outreach programs	310,885
Peace programs	21,495
For future periods	2,424,586
	<u>\$ 23,369,629</u>

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

Notes to Consolidated Financial Statements  
September 30, 2014

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## (14) Endowment Funds

The Yearly Meeting accounts for its endowment funds in accordance with FASB Staff Position 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and Enhanced Disclosures for All Endowment Funds* now incorporated in FASB ASC 958-205. The Commonwealth of Pennsylvania has not yet adopted the provisions of the UPMIFA, but the Yearly Meeting is required by FASB ASC 958-205 to disclose certain matters associated with its endowment funds. Endowment funds subject to FASB ASC 958-205 include permanently restricted and certain board designated net assets for which the Yearly Meeting is Trustee. Management of the Yearly Meeting does not consider any other fund, whether temporarily restricted or board designated (unrestricted) to be subject to FASB ASC 958-205.

### *Return Objectives and Risk Parameters*

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.

### *Spending Policy*

The Yearly Meeting currently accepts FFC's default investment spending policy that 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 4.5% of a moving three-year average of the fair value of the endowment fund.

The changes in the endowment net assets for the period July 1, 2013 through September 30, 2014 are summarized in the accompanying consolidated statement of activities.

## SUPPLEMENTARY INFORMATION



PHILADELPHIA YEARLY MEETING OF  
THE RELIGIOUS SOCIETY OF FRIENDS AND AFFILIATES

Cash Flows by Restrictions  
Period July 1, 2013 through September 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Cash flows from operating activities:				
Change in net assets	\$ 735,617	\$ 2,582,898	\$ 1,177,650	\$ 4,496,165
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:				
Realized and unrealized gain on investments	(228,478)	(1,985,899)	(11,524)	(2,225,901)
Realized and unrealized gain on investments-Friends Fiduciary Corporation is the trustee	(560,964)	(271,926)	(552,107)	(1,384,997)
Change in investment in Friends Center Corporation	152,000	-	-	152,000
Change in value of beneficial interests in trust agreements	-	(487,129)	(611,294)	(1,098,423)
Change in pooled life income fund discount	-	7,100	(2,725)	4,375
Depreciation	227,898	-	-	227,898
(Increase) decrease in:				
Cash held for Friends Pension Plan	136,295	-	-	136,295
Accounts receivable	309,175	-	-	309,175
Loans receivable	-	45,116	-	45,116
Prepaid expenses	81,046	-	-	81,046
Inventory	9,819	-	-	9,819
Increase (decrease) in:				
Accounts payable	145,219	-	-	145,219
Contribution payable to Friends Center Corporation	984	-	-	984
Deferred revenue	(54,482)	-	-	(54,482)
Funds held for others (including Friends Pension Plan)	(130,479)	-	-	(130,479)
Postretirement health benefit obligation	(13,751)	-	-	(13,751)
Pension benefit obligation	(169,146)	-	-	(169,146)
Net cash provided by (used in) operating activities	640,753	(109,840)	-	530,913
Cash flows from investing activities:				
Decrease in deposits	11,717	-	-	11,717
Proceeds from sale of investments	38,418	332,482	-	370,900
Purchases of investments	(1,009,296)	(415,538)	-	(1,424,834)
Purchase of property and equipment	(60,432)	-	-	(60,432)
Net cash used in investing activities	(1,019,593)	(83,056)	-	(1,102,649)
Net decrease in cash and cash equivalents	(378,840)	(192,896)	-	(571,736)
Cash and cash equivalents, beginning of year	877,020	878,511	-	1,755,531
Cash and cash equivalents, end of year	\$ 498,180	\$ 685,615	\$ -	\$ 1,183,795

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

**Temporarily Restricted Revenue and Net Assets Released from Restrictions  
Period July 1, 2013 through September 30, 2014**

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Support and revenue:	
Gifts of support	\$ 210,326
Event and service fees	172,503
Interest and income from investments	1,087,423
	<u>1,470,252</u>
Expenses:	
Staff expenses	65,205
Volunteer expenses	10,245
Contributions to others	1,168,106
Events and program expense	299,661
Professional and service fees	33,065
Copying, printing and posting	569
Rent and utilities	9,281
Computer and office support	16,060
Insurance and maintenance	23,016
	<u>1,625,208</u>
Change in net assets before other changes	<u>\$ (154,956)</u>

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Schedule III

Schedule of Financial Position - Arch Street Meeting House Preservation Trust  
September 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>ASSETS</b>				
Current assets:				
Cash	\$ -	\$ 83,685	\$ -	\$ 83,685
Investments-PYM is the trustee	-	21,659	31,179	52,838
	<u>\$ -</u>	<u>\$ 105,344</u>	<u>\$ 31,179</u>	<u>\$ 136,523</u>
<b>LIABILITIES AND NET ASSETS</b>				
Current liabilities:				
Due to affiliate	\$ -	\$ 7,799	\$ -	\$ 7,799
Net assets:				
Temporarily restricted	-	97,545	-	97,545
Permanently restricted	-	-	31,179	31,179
Total net assets	<u>-</u>	<u>97,545</u>	<u>31,179</u>	<u>128,724</u>
Total liabilities and net assets	<u>\$ -</u>	<u>\$ 105,344</u>	<u>\$ 31,179</u>	<u>\$ 136,523</u>

PHILADELPHIA YEARLY MEETING OF  
THE RELIGIOUS SOCIETY OF FRIENDS AND AFFILIATES

Schedule IV

Schedule of Activities - Arch Street Meeting House Preservation Trust  
Period July 1, 2013 through September 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Changes in unrestricted net assets:				
Support and revenue:				
Support from meetings and members:				
Gifts of support	\$ -	\$ 69,880	\$ -	\$ 69,880
Interest and income from investments	-	1,806	-	1,806
Net assets released from restrictions	37,928	(37,928)	-	-
Total support and revenue	37,928	33,758	-	71,686
Expenses:				
Events and program expense	3,669	-	-	3,669
Professional and service fees	32,539	-	-	32,539
Computer and office support	1,720	-	-	1,720
Total expenses	37,928	-	-	37,928
Change in net assets before other changes	-	33,758	-	33,758
Other changes:				
Realized and unrealized gain on investments-PYM is the trustee	-	3,247	-	3,247
	-	3,247	-	3,247
Change in net assets	-	37,005	-	37,005
Net assets, beginning of period	-	60,540	31,179	91,719
Net assets, end of period	\$ -	\$ 97,545	\$ 31,179	\$ 128,724