

**INTERNATIONAL SERVICE FELLOWSHIP (USA)  
AUDIT REPORT  
FOR THE YEARS ENDED MARCH 31, 2014 AND 2013**

Morey Nee Buck & Oswald, LLC  
Certified Public Accountants & Advisors



INTERNATIONAL SERVICE FELLOWSHIP (USA)  
MARCH 31, 2014 AND 2013

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# Morey, Nee, Buck & Oswald, LLC

Certified Public Accountants and Advisors

## INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

Board of Trustees  
INTERNATIONAL SERVICE FELLOWSHIP  
Upper Darby, Pennsylvania

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the International Service Fellowship (a nonprofit organization), which comprise the statements of financial position as of March 31, 2014 and 2013, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the International Service Fellowship as of March 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Morey, Nee, Buck & Oswald, LLC*

Morey Nee Buck & Oswald  
Spring House, Pennsylvania  
August 25, 2014

INTERNATIONAL SERVICE FELLOWSHIP (USA)  
STATEMENTS OF FINANCIAL POSITION  
AS OF MARCH 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Assets:		
Cash and cash equivalents	\$ 428,700	\$ 305,795
Due from other funds	56,009	199,565
Due from Interserve International	-	19,355
IAM Grant receivable	23,212	-
Prepaid expenses	23,423	55,526
Advances to field personnel	66,247	64,506
Inventory	15,180	18,214
Investments	13,661,417	12,412,986
Land, buildings and equipment	<u>276,477</u>	<u>293,956</u>
Total assets	<u>\$ 14,550,665</u>	<u>\$ 13,369,903</u>
Liabilities and net assets:		
Accounts payable	\$ 63,922	\$ 54,703
Accrued payroll taxes	762	395
Accrued payroll and vacation	96,196	79,687
Due to International Council	37,076	9,615
Line of credit	9,167	-
Loan payable	-	2,005
Accrued retirement	292,904	285,814
Accrued education benefits	415,993	455,415
Accrued defined contribution benefits	3,729,690	3,393,887
Annuity obligations	<u>143,000</u>	<u>152,000</u>
Total liabilities	<u>4,788,710</u>	<u>4,433,521</u>
Net assets:		
Unrestricted	889,429	788,946
Temporarily restricted	1,005,973	1,015,844
Permanently restricted	<u>7,866,553</u>	<u>7,131,592</u>
Total net assets	<u>9,761,955</u>	<u>8,936,382</u>
Total liabilities and net assets	<u>\$ 14,550,665</u>	<u>\$ 13,369,903</u>

The accompanying footnotes are an integral part of the audited financial statements.

INTERNATIONAL SERVICE FELLOWSHIP (USA)  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED MARCH 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Revenues and other support:				
Partner and home staff support	\$4,453,352	\$ 553,039	\$ -	\$5,006,391
Contributions to special fields	-	635,051	-	635,051
General ministries and board gifts	376,752	-	-	376,752
Outfitting	57,577	17,055	-	74,632
Foundations and legacies	64,434	-	-	64,434
Interest and dividend income	21,209	16,744	150,129	188,082
Commentary and book income	-	1,941	-	1,941
Other income	146,933	-	1,755	148,688
Principal additions	-	-	16,000	16,000
Net assets released from Restrictions	<u>1,442,631</u>	<u>(1,157,919)</u>	<u>(284,712)</u>	<u>-</u>
	<u>6,562,888</u>	<u>65,911</u>	<u>(116,828)</u>	<u>6,511,971</u>
Gains (losses):				
Gain (loss) from sale of investments	38,148	3,535	155,792	197,475
Unrealized gain (loss) on investments	<u>124,217</u>	<u>9,614</u>	<u>695,997</u>	<u>829,828</u>
	<u>162,365</u>	<u>13,149</u>	<u>851,789</u>	<u>1,027,303</u>
Total revenues, other support and gains (losses)	<u>6,725,253</u>	<u>79,060</u>	<u>734,961</u>	<u>7,539,274</u>
Expenses:				
Field operations	5,736,207	-	-	5,736,207
U S operations	732,035	-	-	732,035
Fund raising	<u>245,459</u>	<u>-</u>	<u>-</u>	<u>245,459</u>
Total expenses	<u>6,713,701</u>	<u>-</u>	<u>-</u>	<u>6,713,701</u>
Change in net assets from operating	11,552	79,060	734,961	825,573
Transfers	<u>88,931</u>	<u>(88,931)</u>	<u>-</u>	<u>-</u>
Change in net assets	100,483	(9,871)		
Net assets at beginning of year	<u>788,946</u>	<u>1,015,844</u>	<u>7,131,592</u>	<u>8,936,382</u>
Net assets at end of year	<u>\$ 889,429</u>	<u>\$ 1,005,973</u>	<u>\$ 7,866,553</u>	<u>\$ 9,761,955</u>

The accompanying footnotes are an integral part of the audited financial statements.

INTERNATIONAL SERVICE FELLOWSHIP (USA)  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED MARCH 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Revenues and other support:				
Partner and home staff support	\$4,492,215	\$ 497,119	\$ -	\$4,989,334
Contributions to special fields	-	598,628	-	598,628
General ministries and board gifts	237,977	-	-	237,977
Outfitting	103,459	11,642	-	115,101
Foundations and other support	30,000	-	-	30,000
Interest and dividend income	21,569	6,272	144,153	171,994
Commentary and book income	-	2,056	-	2,056
Other income	132,132	42,734	5,255	180,121
Principal additions	-	-	14,000	14,000
Net assets released from Restrictions	<u>1,242,371</u>	<u>(991,083)</u>	<u>(251,288)</u>	<u>-</u>
	<u>6,259,723</u>	<u>167,368</u>	<u>(87,880)</u>	<u>6,339,211</u>
Gains (losses):				
Gain (loss) from sale of investments	(19,317)	(2,728)	(122,180)	(144,225)
Unrealized gain (loss) on investments	<u>91,095</u>	<u>11,898</u>	<u>429,143</u>	<u>532,136</u>
	<u>71,778</u>	<u>9,170</u>	<u>306,963</u>	<u>387,911</u>
Total revenues, other support and gains (losses)	<u>6,331,501</u>	<u>176,538</u>	<u>219,083</u>	<u>6,727,122</u>
Expenses:				
Field operations	5,590,611	-	-	5,590,611
U S operations	624,850	-	-	624,850
Fund raising	<u>213,452</u>	<u>-</u>	<u>-</u>	<u>213,452</u>
Total expenses	<u>6,428,913</u>	<u>-</u>	<u>-</u>	<u>6,428,913</u>
Change in net assets from operating activities	(97,412)	176,538	219,083	298,209
Non-operating:				
Change in annuity value	<u>-</u>	<u>8,000</u>	<u>-</u>	<u>8,000</u>
Change in net assets	(97,412)	184,538	219,083	306,209
Transfers	75,707	(75,707)	-	-
Net assets at beginning of year	<u>810,651</u>	<u>907,013</u>	<u>6,912,509</u>	<u>8,630,173</u>
Net assets at end of year	<u>\$ 788,946</u>	<u>\$1,015,844</u>	<u>\$7,131,592</u>	<u>\$8,936,382</u>

The accompanying footnotes are an integral part of the audited financial statements.

INTERNATIONAL SERVICE FELLOWSHIP (USA)  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED MARCH 31, 2014

	<u>Field</u> <u>Operations</u>	<u>US</u> <u>Operations</u>	<u>Fund</u> <u>Raising</u>	<u>Totals</u>
Pension and supplemental payments	\$ 217,975	\$ -	\$ -	\$ 217,975
Furlough fund	181,127	-	-	181,127
Interserve administration	499,506	(499,506)	-	-
Retiree pension fund	53,398	-	-	53,398
Field expense	1,929,109	-	-	1,929,109
Home allowance and medical	1,425,000	-	-	1,425,000
Deputation	-	-	71,817	71,817
Short term expense	36,217	-	-	36,217
Candidate school expense	-	6,775	-	6,775
Outfitting	99,254	-	-	99,254
Mission house	-	19,489	-	19,489
Ethnoserve	36,272	-	-	36,272
U.S. director	119,202	-	-	119,202
Communication	-	8,167	-	8,167
Fundraising	-	-	150,645	150,645
Personnel	-	211,342	-	211,342
U.S. office	-	811,220	22,997	834,217
Payments of special funds	717,521	-	-	717,521
Payment to other councils	315,719	-	-	315,719
Pension fund expense	7,090	-	-	7,090
College reserve expense	43,500	-	-	43,500
J A Coles/ Hoyt expense	55,317	-	-	55,317
Annuity	-	15,324	-	15,324
Area Director	<u>-</u>	<u>159,224</u>	<u>-</u>	<u>159,224</u>
Total Expenses	<u>\$ 5,736,207</u>	<u>\$ 732,035</u>	<u>\$ 245,459</u>	<u>\$ 6,713,701</u>

The accompanying footnotes are an integral part of the audited financial statements.



INTERNATIONAL SERVICE FELLOWSHIP (USA)  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED MARCH 31, 2013

	<u>Field</u> <u>Operations</u>	<u>US</u> <u>Operations</u>	<u>Fund</u> <u>Raising</u>	<u>Totals</u>
Pension and supplemental payments	\$ 230,125	\$ -	\$ -	\$ 230,125
Furlough fund	140,336	-	-	140,336
Interserve administration	519,427	(519,427)	-	-
Retiree pension fund	61,925	-	-	61,925
Field expense	2,032,309	-	-	2,032,309
Home allowance and medical	1,373,171	-	-	1,373,171
Deputation	-	-	84,539	84,539
Short term expense	54,527	-	-	54,527
Candidate school expense	-	7,408	-	7,408
Outfitting	42,525	-	-	42,525
Mission house	-	21,439	-	21,439
Ethnoserve	56,889	-	-	56,889
U.S. director	89,134	-	-	89,134
Communication	-	4,505	-	4,505
Fundraising	-	-	104,356	104,356
Personnel	-	143,587	-	143,587
U.S. office	-	791,883	24,557	816,440
Payments of special funds	586,483	-	-	586,483
Payment to other councils	297,511	-	-	297,511
Pension fund expense	12,294	-	-	12,294
College reserve expense	67,818	-	-	67,818
J A Coles/ Hoyt expense	26,137	-	-	26,137
Annuity	-	14,879	-	14,879
Area Director	<u>-</u>	<u>160,576</u>	<u>-</u>	<u>160,576</u>
 Total Expenses	 <u>\$ 5,590,611</u>	 <u>\$ 624,850</u>	 <u>\$ 213,452</u>	 <u>\$ 6,428,913</u>

The accompanying footnotes are an integral part of the audited financial statements.

INTERNATIONAL SERVICE FELLOWSHIP (USA)  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED MARCH 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ 825,573	\$ 306,209
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	24,711	23,002
Net unrealized (gain) loss on investments held	(829,828)	(532,136)
Net realized (gain) loss on sales of investments	(197,475)	144,225
(Increase) decrease in due from Interserve International	19,355	(23,562)
(Increase) decrease in prepaid expenses	32,103	(43,320)
(Increase) decrease in due from other funds	143,556	(65,758)
(Increase) decrease in grants receivable	(23,212)	21,814
(Increase) decrease in inventory	3,034	(958)
(Increase) decrease in advances to field personnel	(1,741)	2,161
Increase (decrease) in accounts payable	9,230	2,541
Increase (decrease) in accrued payroll and taxes	16,876	4,589
Increase (decrease) in annuity obligations	(9,000)	(8,000)
Increase (decrease) in other accruals	(32,332)	25,241
Increase (decrease) in due to international council	27,461	(1,065)
Contributions restricted for long-term purposes:		
Contributions to permanently restricted	<u>(16,000)</u>	<u>(14,000)</u>
<b>Net cash provided (used) by operating activities</b>	<b><u>(7,689)</u></b>	<b><u>(159,017)</u></b>
Cash flows from investing activities:		
Purchase of equipment	(7,232)	(10,298)
Net money market activity in investment account	176,820	593,458
Purchase of investments	(4,420,051)	(4,333,279)
Proceeds from sale of investments	<u>4,357,895</u>	<u>3,807,421</u>
<b>Net cash provided (used) by investing activities</b>	<b><u>107,432</u></b>	<b><u>57,302</u></b>
Cash flows from financing activities:		
Collections of contributions restricted for long-term purposes:		
Permanently restricted	16,000	14,000
Payments made on commercial loan	(2,005)	(1,775)
Proceeds from line of credit	10,000	-
Payments on line of credit	<u>(833)</u>	<u>-</u>
<b>Net cash provided (used) by financing activities</b>	<b><u>23,162</u></b>	<b><u>12,225</u></b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>122,905</b>	<b>(89,490)</b>
Cash and cash equivalents, beginning of year	<u>305,795</u>	<u>395,285</u>
Cash and cash equivalents, end of year	<u>\$ 428,700</u>	<u>\$ 305,795</u>
Supplemental information:		
Interest paid	<u>\$ 140</u>	<u>\$ 327</u>

The accompanying footnotes are an integral part of the audited financial statements.

INTERNATIONAL SERVICE FELLOWSHIP (USA)  
NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2014 AND 2013

International Service Fellowship (USA) is the successor to BMMF International (USA) by change of name effective December 1986. The latter was incorporated as Bible and Medical Missionary Fellowship on September 25, 1964 under the Pennsylvania Nonprofit Law of May 5, 1933 pursuant to a decree of the Delaware County Court of Common Pleas. The Organization is supported primarily through donor contributions. The Articles of Incorporation, as amended, describe the purpose of the corporation in two parts which may be described generally as follows:

1. To make known the Gospel of Christ among the people of such countries as may be determined by (a) contributing to the deepening of the spiritual life of the churches in those countries, (b) training national Christians for spiritual leadership through the medium of seminaries, schools, hospitals, etc., and (c) engaging in related activities to support these ministries.
2. To minister to the needs of people in Asia with due respect to the dignity of individuals without respect to race, caste or creed, by (a) undertaking care and treatment of the sick, (b) providing care, relief and rehabilitation to orphans, aged, sick, blind, disabled and helpless persons, and (c) assisting in the development of corporations self-supporting at a low income level through improved agricultural methods, handicrafts and cottage industries.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***BASIS OF ACCOUNTING***

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

***BASIS OF PRESENTATION***

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its statement, *Financial Statements of Not-for-Profit Organizations*. Under the standard, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

***CASH AND CASH EQUIVALENTS***

Cash and cash equivalents consist of cash held in checking and money market accounts and certificates of deposit with original maturities of 90 days or less.

***DONATED MATERIALS AND SERVICES***

Materials and other assets received as donations are recorded and reflected in the accompanying financial statements at their fair values at the date of receipt.

INTERNATIONAL SERVICE FELLOWSHIP (USA)  
NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2014 AND 2013

***USE OF ESTIMATES***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

***EXPENSE ALLOCATION***

Expenses are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

***INCOME TAX STATUS***

The Organization is exempt from federal income tax under Section 501(c) (3) of the Internal Revenue Code. Accordingly, no provision for federal or state income taxes is reflected in the accompanying financial statements.

In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b) (1) (A) and has been classified as an organization that is not a private foundation under Section 509(a) (2).

***INVENTORY***

Inventories are stated at the lower of cost or market determined by the first-in, first-out method.

***INVESTMENTS***

The Organization carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

***PROPERTY AND EQUIPMENT***

Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using primarily the straight-line method. The Organization's capitalization policy is to capitalize items over \$ 1,000.

***RESTRICTED AND UNRESTRICTED REVENUE AND SUPPORT***

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are classified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

INTERNATIONAL SERVICE FELLOWSHIP (USA)  
NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2014 AND 2013

***FAIR VALUE OF FINANCIAL INSTRUMENTS***

Fair Value Measurements defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States of America, and enhances disclosures about fair value measurements. Fair value is defined as the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The framework measuring fair value includes a hierarchy that prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

Level 1- Fair value is based on unadjusted quoted prices in active markets that are accessible to the Organization for identical assets. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2- Fair Value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets, and other observable inputs.

Level 3- Fair value is based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows, and other similar techniques.

**2. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of the following at March 31:

	<u>2014</u>	<u>2013</u>
Cash in bank	\$ 428,375	\$ 305,470
Petty cash	<u>325</u>	<u>325</u>
	<u>\$ 428,700</u>	<u>\$ 305,795</u>

Throughout the year, the Organization has varying amounts of restricted cash in its bank account. Restricted cash is for special projects and other council partners as designated by the donor.

INTERNATIONAL SERVICE FELLOWSHIP (USA)  
NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2014 AND 2013

**3. ACCRUED EDUCATION BENEFIT**

Currently, International Service Fellowship partners reserve either \$50 or \$75 per month per child, depending on the child's age, for post high school education. International Service Fellowship acts as custodian for this fund. From this fund, the Organization will pay \$ 2,500 per year per student up to a maximum of \$ 10,000. Reserves begin accumulating when the family leaves for the field, or at birth for families who are already members.

**4. INVESTMENTS**

The basis of the reported assets is current market value.

	<u>2014</u>	<u>2013</u>
<u>Unrestricted:</u>		
General Fund	\$ 201,804	\$ 192,847
UFCS International Council	122,174	120,810
Furlough	<u>544,565</u>	<u>486,051</u>
	<u>868,543</u>	<u>799,708</u>
<u>Temporarily Restricted:</u>		
Annuity Fund	383,938	391,269
Legacy Fund	-	-
Commentary Fund	<u>15,139</u>	<u>4,840</u>
	<u>399,077</u>	<u>396,109</u>
<u>Permanently Restricted:</u>		
Dilworth Fund	909,344	854,653
Girardeau Fund	276,879	259,283
General Ministries	20,075	20,071
Hoyt (Jhansi)	542,319	491,571
J. Ackerman Coles	2,298,347	2,047,977
Partnerseed Fund	<u>3,933,695</u>	<u>3,546,938</u>
	<u>7,980,659</u>	<u>7,220,493</u>
College Fund	683,448	602,789
Defined Contribution Plan	<u>3,729,690</u>	<u>3,393,887</u>
Totals	<u>\$ 13,661,417</u>	<u>\$ 12,412,986</u>

INTERNATIONAL SERVICE FELLOWSHIP (USA)  
NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2014 AND 2013

**4. INVESTMENTS (continued)**

The following schedule summarizes the investment return and its classification in the statement of activities:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2014 Totals</u>	<u>2013 Totals</u>
Investment income	\$ 21,209	\$ 16,744	\$ 150,129	\$ 188,082	\$ 171,994
Realized gains (losses)	38,148	3,535	155,792	197,475	(144,225)
Unrealized gains (losses)	<u>124,217</u>	<u>9,614</u>	<u>695,997</u>	<u>829,828</u>	<u>532,136</u>
Total investment return	<u>\$ 183,574</u>	<u>\$ 29,893</u>	<u>\$1,001,918</u>	<u>\$ 1,215,385</u>	<u>\$ 559,905</u>

Investments are composed of the following:

	<u>2014</u>	<u>2013</u>
Money market, invested cash	\$ 611,080	\$ 638,769
Stocks	9,889,114	8,829,143
Bonds	<u>3,161,223</u>	<u>2,945,074</u>
	<u>\$ 13,661,417</u>	<u>\$ 12,412,986</u>

**5. PREPAID EXPENSES**

Prepaid expenses consisted of the following:

	<u>2014</u>	<u>2013</u>
Insurance	\$ 3,105	\$ 2,913
Real estate taxes and sewer	3,174	6,125
Maintenance contracts	6,396	2,160
Other	<u>10,748</u>	<u>44,328</u>
Total prepaid expenses	<u>\$ 23,423</u>	<u>\$ 55,526</u>

**6. INVENTORY**

Inventories consist of finished goods for resale. These goods are mostly books, videos and audio tapes. Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out method, and market represents the lower of cost or estimated net realizable value.

**7. US OPERATION ADMINISTRATIVE COSTS**

Field personnel who are part of the field operations are charged a fee to help cover a portion of the home office administrative expenses. The amount charged for the years ended 2014 and 2013 were \$ 499,506 and \$ 519,427, respectively.

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**8. LAND, BUILDINGS, AND EQUIPMENT**

Land, buildings, and equipment consisted of the following:

	<u>2014</u>	<u>2013</u>
Land	\$ 12,000	\$ 12,000
Office - 7000 Ludlow Street, Upper Darby, PA	420,118	420,118
House - 326 Wayne Avenue, Upper Darby, PA	126,132	126,132
Computers	166,257	173,287
Furniture and equipment	<u>50,566</u>	<u>50,566</u>
Sub-total	775,073	782,103
Less: accumulated depreciation	<u>498,596</u>	<u>488,147</u>
Land, buildings and equipment, net	<u>\$ 276,477</u>	<u>\$ 293,956</u>

Depreciation expense for the years ended 2014 and 2013 was \$24,711 and \$23,022, respectively.

**9. ANNUITIES**

International Service Fellowship has a gift annuity plan whereby donors may contribute assets to the Organization in exchange for the right to receive a fixed dollar annual return during their lifetimes. The difference between the amount provided for the gift annuity and the liability for future payments, determined on an actuarial basis, is recognized as unrestricted contribution income at the date of the gift unless the gift portion is restricted. Income earned on annuity investments and distributions paid are credited and charged respectively against the annual liability.

The monies contributed to International Service Fellowship are held as general assets of the Organization, and the related annuity liability is recorded as a general obligation of the Organization.

The Organization has established an investment account from which distributions to be paid to the annuitant will be made. The basis of the assets in the annuity fund is fair market value.

The liability is computed using life expectancy tables and a reserve factor based on the annuitants age as of March 31, 2014. There was no change during the current year in the discount rates used or assumptions made.

State law requires the Organization to have available \$100,000 plus one-half of the annuity liability in unencumbered assets. As of March 31, 2014, the Organization met this requirement.

**10. OTHER INCOME**

Other income consists primarily of the following: Income from conferences; fees charged for processing donations for other councils and special projects.



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**11. PRINCIPAL ADDITIONS**

Partnerseed is a permanently restricted fund that has been established to cover International Service Fellowship partner administrative costs. The principal of Partnerseed is invested when received. Each quarter, 1% of the investment account balance is transferred to the unrestricted net asset fund to cover the cost of administrative services both in the U.S. and overseas.

**12. ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires the Organization to report information regarding its exposure to various tax positions taken. Management has performed their evaluation and believes there are no unrecognized tax positions that are required to be disclosed.

The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any open tax periods. The Organization believes it is no longer subject to income tax examinations for years prior to 2010.

The Organization's policy is to classify income tax related interest and penalties, if any, in interest expense and other expenses, respectively.

**13. INTERSERVE INTERNATIONAL**

Interserve International is a non-profit organization legally organized in the United Kingdom. Interserve International's purpose is to facilitate the work of Independent National Councils in 18 countries that minister in partnership with the global church amongst the neediest peoples of Asia and the Arab World. International Service Fellowship supports and transacts business with Interserve International routinely; however, there are no common officers. One International Service Fellowship Board Member also serves on the Interserve International Council.

The Finance Director of International Service Fellowship has check signing authority on Interserve International's US bank account in order to assist them and the bank if needed.

All bank account activity is recorded on Interserve International's books and reported by them. All interest earned from the bank account is credited to International Service Fellowship to help defray administrative costs incurred by International Service Fellowship. The interest earned which is immaterial is reported in the statement of activities as other income.

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**14. CONCENTRATIONS OF CREDIT RISK ARISING FROM CASH DEPOSITS IN EXCESS OF INSURED LIMITS**

Cash balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Organization has not experienced any losses from maintaining balances in excess of the federally insured limits and considers the risk of total loss of balances exceeding the federally insured amount as remote.

**15. NET ASSETS RELEASED FROM RESTRICTIONS**

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by the occurrence of other events specified by donors. Income from permanently restricted net assets that are not restricted by the donor was released and available for general use by the Organization.

	<u>2014</u>	<u>2013</u>
Temporarily restricted net assets released:		
Retiree supplemental	\$ 53,008	\$ 62,315
Short term	36,217	-
Computer upgrade	-	181
Appointee	33,333	
Outfitting	43,667	
Other Councils	315,719	299,086
Other Ministries	32,654	142,785
Payments of special funds	<u>643,321</u>	<u>486,716</u>
 Total temporary restrictions released	 <u>1,157,919</u>	 <u>991,083</u>
 Permanently restricted net assets released:		
Dilworth fund	36,007	29,759
Girardeau fund	6,834	6,723
General Ministries	4	-
Hoyt	2,887	12,667
J.A. Coles distribution	71,877	46,614
Partnerseed fund	<u>167,103</u>	<u>155,525</u>
 Total income released	 <u>284,712</u>	 <u>251,288</u>
 Total net assets released from restrictions	 <u>\$ 1,442,631</u>	 <u>\$ 1,242,371</u>

Funds released were used according to the terms and guidelines established by the donor. Dilworth Funds were used to cover the shortfall of a number of overseas Partners who ended the fiscal year with a deficit. Girardeau Funds were used to help cover the shortfall of any US based Partners who ended the fiscal year with a deficit. J. A. Coles Funds were used to support health care projects and workers involved in health care in historic India (this includes India, Bangladesh and Pakistan). Partnerseed Funds were used to cover all of the International Office Administrative Expenses and a small portion of the US Administration.

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**16. ACCRUED RETIREMENT**

International Service Fellowship has frozen its non-qualified defined benefit pension plan for present retirees and those past employees who were vested effective June 1, 1995. The organization now maintains a defined contribution plan for active employees.

The following table sets forth the plan's funded status and amounts recognized in the Organization's statement of financial position:

Net pension cost included the following components:	<u>2014</u>	<u>2013</u>
Service cost - benefits earned during the period	\$ -	\$ -
Interest cost on projected benefit obligation	23,344	23,760
Actual return on plan assets	(12,475)	(13,553)
Net amortization and deferral	<u>(3,778)</u>	<u>2,087</u>
Net periodic pension cost	<u>\$ 7,091</u>	<u>\$ 12,294</u>
Actuarial present value of benefit obligations:		
Accumulated benefit obligation	<u>\$ 329,883</u>	<u>\$ 401,404</u>
Reconciliation of funded status of plan with balance sheet accounts:	<u>2014</u>	<u>2013</u>
Projected benefit obligation for service rendered to date	\$ (329,883)	\$ (401,404)
Plan assets at fair value	<u>73,603</u>	<u>206,107</u>
Plan assets in deficit of projected benefit obligation	(256,280)	(195,297)
Unrecognized net (gain) or loss due to actuarial experience	(36,624)	(96,589)
Unrecognized net transition obligation or (asset)	-	6,072
Adjustments required to recognize minimum liability	<u>-</u>	<u>-</u>
(Accrued) or Prepaid pension cost	<u>\$ (292,904)</u>	<u>\$ (285,814)</u>

The weighted-average discount rate used in determining the actuarial present value of the projected benefit obligation was 6.25 percent in 2014 and 6.25 percent in 2013. The long term rate of return on plan assets was 7.00 percent net of expenses. The following table illustrates the pension plan's weighted-average asset allocations at the end of the year:

Cash and cash equivalents	100%
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The expected return on plan assets is based on historical experience and by evaluating input from the trustee managing the plan's assets. The expected return on plan assets is also impacted by the target allocation of assets, which is based on the goal of earning the highest rate of return while maintaining risk at acceptable levels.

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**16. ACCRUED RETIREMENT (continued)**

The plan strives to have assets sufficiently diversified so that adverse or unexpected results from one security class will not have an unduly detrimental impact on the entire portfolio.

The following table shows estimated future benefit payments expected to be paid from the plan:

<u>For the year ending:</u>	<u>Pension Benefits</u>
2015	\$ 44,726
2016	41,374
2017	37,302
2018	33,608
2019	31,621
2020 thru 2024	133,677

The measurement date used to determine the periodic pension cost was March 31, 2013, while the measurement date used to determine the accumulated benefit obligation was March 31, 2014.

Total benefits paid to participants during 2014 and 2013 were \$55,944 and \$47,154.

**17. ACCRUED DEFINED CONTRIBUTION BENEFITS**

International Service Fellowship sponsors a non-qualified defined contribution pension plan covering substantially all of its employees. The plan was frozen as of December 31, 2008.

International Service Fellowship is the custodian for this fund and for the years ended March 31, 2014 and March 31, 2013, reported investment assets of \$3,729,690 and \$3,393,887, respectively, along with a liability in the same amount. Activity within the plan was recorded against the liability account, not against current operations.

**18. PENSION PLAN**

The Organization maintains a 401k retirement plan covering substantially all full-time employees. A monthly contribution of \$200 per adult is invested on their behalf. Overseas partners who are single with at least 15 years of service receive an additional \$75 per month. Overseas couples with at least 15 years of service receive an additional \$100 per month.

Total employer contributions made into the plan during the fiscal year was approximately \$255,400 and \$261,000 for the years ended March 31, 2014 and 2013, respectively.

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**19. NET ASSETS END OF YEAR**

Unrestricted net assets consisted of the following:	<u>2014</u>	<u>2013</u>
Building and equipment	\$ 276,477	\$ 293,956
Board designated funds:		
Furlough	266,135	
U.F.C.S. International	<u>80,444</u>	
Total Board designated	346,579	534,079
Unrestricted	<u>266,373</u>	<u>(39,089)</u>
Total unrestricted net assets	<u>889,429</u>	<u>788,946</u>

Temporarily restricted net assets are available for the following purposes:

Legacies	28,451	49,953
Commentary fund	14,835	7,653
Other Councils	49,445	74,643
Special Projects	595,125	539,082
Other	298,804	319,660
Other Ministries	<u>19,313</u>	<u>24,853</u>
Total temporarily restricted net assets available	<u>1,005,973</u>	<u>1,015,844</u>

Permanently restricted net assets consist of endowment fund assets to be held indefinitely. The income from the assets is used to support the Organization's general activities. The permanently restricted net assets are comprised of the following:

Dilworth fund	874,329	831,746
Hoyt fund	526,316	475,568
Girardeau fund	281,238	263,472
General Ministries fund	22,160	22,160
J. Ackerman Coles fund	2,280,650	2,016,414
Partnerseed fund	<u>3,881,860</u>	<u>3,522,232</u>
Total permanently restricted net assets	<u>7,866,553</u>	<u>7,131,592</u>
Total net assets	<u>\$ 8,936,382</u>	<u>\$ 8,936,382</u>

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**20. ENDOWMENT NET ASSETS**

The Organization's endowment includes donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds, including funds designated to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Current GAAP provides guidance on the net asset classification of donor-restricted endowment funds for not-for-profit organizations subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") and improves disclosure about an organization's endowment funds regardless of whether the organization is subject to UPMIFA. The Commonwealth of Pennsylvania has not adopted UPMIFA but rather has enacted Pennsylvania Act 141 ("PA Act 141"). PA Act 141 permits an organization's trustees to define income as a stipulated percentage of endowment assets (between 2% and 7% of the fair value of the assets averaged over a period of at least three preceding years) without regard to actual interest, dividend, or realized and unrealized gains.

The Organization classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the duration and preservation on the fund, the purposes of the organization and the donor-restricted endowment fund, general economic conditions, the possible effect of inflation and deflation, the expected total return from income and the appreciation of investments, other resources of the organization, and the endowment fund policies of the organization.

Changes in endowment assets were as follows for the years ended March 31, 2014 and 2013, respectively:

	<u>2014</u>	<u>2013</u>
Beginning balance	\$ 7,131,592	\$ 6,912,509
Contributions	17,755	19,255
Investment income	150,129	144,153
Net appreciation (depreciation)	851,789	306,963
Amounts appropriated for expenditure	<u>(284,712)</u>	<u>(251,288)</u>
Ending balance	<u>\$ 7,866,553</u>	<u>\$ 7,131,592</u>

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**21. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Organization measures its investments on a recurring basis at fair value. These items were measured using the following inputs as of March 31, 2014:

	Quoted Prices in Active Markets <u>(Level 1)</u>	Discounted Cash flow <u>(Level 3)</u>
Assets:		
Money market	\$ 611,080	
Marketable equity securities	9,889,114	
Marketable bonds	<u>3,161,223</u>	
Total	<u>\$ 13,661,417</u>	
Liabilities:		
Present value of annuities		<u>\$ 143,000</u>

These items were measured using the following inputs as of March 31, 2013:

	Quoted Prices in Active Markets <u>(Level 1)</u>	Discounted Cash flow <u>(Level 3)</u>
Assets:		
Money market	\$ 638,769	
Marketable equity securities	8,829,143	
Marketable bonds	<u>2,945,074</u>	
Total	<u>\$ 12,412,986</u>	
Liabilities:		
Present value of annuities		<u>\$ 152,000</u>

The following table presents information related to changes in Level 3 for each category of liabilities for the year ended March 31, 2014 and 2013, respectively:

	<u>2014</u>	<u>2013</u>
<u>Liabilities</u>		
Beginning balance	\$ 152,000	\$ 160,000
Actuarial adjustment of liability	(9,000)	(8,000)
Gifts	-	-
Payouts	<u>-</u>	<u>-</u>
Ending balance	<u>\$ 143,000</u>	<u>\$ 152,000</u>

The carrying amounts of cash and cash equivalents and accounts payable approximate fair value at March 31, 2014 and 2013 due to the short-term nature of those instruments.

Marketable bonds and equity securities are valued at the closing price reported on the active market on which the individual securities are traded which are considered Level 1 inputs.

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**22. LINE OF CREDIT**

The Organization has a working capital line of credit arrangement with Univest National Bank & Trust, with interest stated at 3.25%. The line of credit is unsecured for \$200,000 with an available balance of \$190,833. At March 31, 2014 the balance owed on the line of credit was \$9,167. Univest National Bank & Trust reserves the right to demand payment on the line of credit at any time, whether or not any default has occurred.

**23. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through August 25, 2014, the date which the financial statements were available to be issued and has determined that there are no subsequent events to be reported.