

**INTERNATIONAL SERVICE FELLOWSHIP (USA)
AUDIT REPORT
FOR THE YEARS ENDED MARCH 31, 2015 AND 2014**

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



INTERNATIONAL SERVICE FELLOWSHIP (USA)
MARCH 31, 2015 AND 2014

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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, 2015 and 2014, 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, 2015 and 2014, 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 21, 2015

INTERNATIONAL SERVICE FELLOWSHIP (USA)
STATEMENTS OF FINANCIAL POSITION
AS OF MARCH 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Assets:		
Cash and cash equivalents	\$ 475,303	\$ 428,700
Due from other funds	65,980	56,009
IAM Grant receivable	6,004	23,212
Prepaid expenses	39,348	23,423
Advances to field personnel	59,138	66,247
Inventory	27,047	15,180
Investments	14,245,084	13,661,417
Land, buildings and equipment	<u>300,925</u>	<u>276,477</u>
 Total assets	 <u>\$ 15,218,829</u>	 <u>\$ 14,550,665</u>
Liabilities and net assets:		
Accounts payable	\$ 53,987	\$ 63,922
Accrued payroll and taxes	84,438	96,958
Due to International Council	53,503	37,076
Line of credit	6,667	9,167
Accrued retirement	308,343	292,904
Accrued education benefits	359,846	415,993
Accrued defined contribution benefits	3,922,225	3,729,690
Annuity obligations	<u>135,000</u>	<u>143,000</u>
 Total liabilities	 <u>4,924,009</u>	 <u>4,788,710</u>
Net assets:		
Unrestricted	995,711	889,429
Temporarily restricted	1,077,277	1,005,973
Permanently restricted	<u>8,221,832</u>	<u>7,866,553</u>
 Total net assets	 <u>10,294,820</u>	 <u>9,761,955</u>
 Total liabilities and net assets	 <u>\$ 15,218,829</u>	 <u>\$ 14,550,665</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, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Revenues and other support:				
Partner and home staff support	\$ 4,204,328	\$ 709,830	\$ -	\$ 4,914,158
Contributions to special fields	-	533,324	-	533,324
General ministries and board gifts	377,438	-	-	377,438
Outfitting	32,017	36,943	-	68,960
Foundations and legacies	67,311	-	-	67,311
Service charge	49,415	-	-	49,415
Interest and dividend income	22,521	15,698	157,459	195,678
Commentary and book income	3,659	1,095	-	4,754
Other income	104,900	-	-	104,900
Principal additions	-	-	56,180	56,180
Net assets released from Restrictions	<u>1,602,415</u>	<u>(1,233,261)</u>	<u>(369,154)</u>	<u>-</u>
	<u>6,464,004</u>	<u>63,629</u>	<u>(155,515)</u>	<u>6,372,118</u>
Gains (losses):				
Gain (loss) from sale of investments	10,722	(873)	179	10,028
Unrealized gain (loss) on investments	<u>85,085</u>	<u>8,548</u>	<u>510,615</u>	<u>604,248</u>
	<u>95,807</u>	<u>7,675</u>	<u>510,794</u>	<u>614,276</u>
Total revenues, other support and gains (losses)	<u>6,559,811</u>	<u>71,304</u>	<u>355,279</u>	<u>6,986,394</u>
Expenses:				
Field operations	5,456,072	-	-	5,456,072
U S operations	755,218	-	-	755,218
Fund raising	<u>242,239</u>	<u>-</u>	<u>-</u>	<u>242,239</u>
Total expenses	<u>6,453,529</u>	<u>-</u>	<u>-</u>	<u>6,453,529</u>
Change in net assets	106,282	71,304	355,279	532,865
Net assets at beginning of year	<u>889,429</u>	<u>1,005,973</u>	<u>7,866,553</u>	<u>9,761,955</u>
Net assets at end of year	<u>\$ 995,711</u>	<u>\$ 1,077,277</u>	<u>\$ 8,221,832</u>	<u>\$ 10,294,820</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)	734,961	825,573
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 FUNCTIONAL EXPENSES
FOR THE YEAR ENDED MARCH 31, 2015

	<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	\$ 201,350	\$ -	\$ -	\$ 201,350
Furlough fund	129,932	-	-	129,932
Interserve administration	453,054	(453,054)	-	-
Retiree pension fund	40,679	-	-	40,679
Field expense	1,900,246	-	-	1,900,246
Home allowance and medical	1,305,984	-	-	1,305,984
Deputation	-	-	47,247	47,247
Short term expense	65,507	-	-	65,507
Candidate school expense	-	2,652	-	2,652
Outfitting	97,327	-	-	97,327
Mission house	-	14,162	-	14,162
Ethnoserve	2,989	-	-	2,989
U.S. director	117,520	-	-	117,520
Annuity	-	15,193	-	15,193
Communication	-	19,278	-	19,278
Fundraising	-	-	176,681	176,681
Personnel	-	211,630	-	211,630
U.S. office	-	793,419	18,311	811,730
Payments of special funds	539,268	-	-	539,268
Payment to other councils	445,885	-	-	445,885
Pension fund expense	15,439	-	-	15,439
College reserve expense	24,500	-	-	24,500
J A Coles/ Hoyt expense	116,392	-	-	116,392
Area Director	<u>-</u>	<u>151,938</u>	<u>-</u>	<u>151,938</u>
Total Expenses	<u>\$ 5,456,072</u>	<u>\$ 755,218</u>	<u>\$ 242,239</u>	<u>\$ 6,453,529</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	-	159,224	-	159,224
	<u> </u>	<u> </u>	<u> </u>	<u> </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)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ 532,865	\$ 825,573
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	28,187	24,711
Net unrealized (gain) loss on investments held	(604,248)	(829,828)
Net realized (gain) loss on sales of investments	(10,028)	(197,475)
(Increase) decrease in due from other funds	(9,971)	143,556
(Increase) decrease in IAM grant receivable	17,208	(23,212)
(Increase) decrease in prepaid expenses	(15,925)	32,103
(Increase) decrease in advances to field personnel	7,109	(1,741)
(Increase) decrease in inventory	(11,867)	3,034
Increase (decrease) in accounts payable	(9,935)	9,230
Increase (decrease) in accrued payroll and taxes	(12,520)	16,876
Increase (decrease) in due to international council	16,427	46,816
Increase (decrease) in other accruals	(40,708)	(32,332)
Increase (decrease) in annuity obligations	(8,000)	(9,000)
Contributions restricted for long-term purposes:		
Contributions to permanently restricted	<u>(56,180)</u>	<u>(16,000)</u>
Net cash provided (used) by operating activities	<u>(177,586)</u>	<u>(7,689)</u>
Cash flows from investing activities:		
Purchase of equipment	(52,636)	(7,232)
Net money market activity in investment account	204,648	176,820
Purchase of investments	(4,949,187)	(4,420,051)
Proceeds from sale of investments	<u>4,967,684</u>	<u>4,357,895</u>
Net cash provided (used) by investing activities	<u>170,509</u>	<u>107,432</u>
Cash flows from financing activities:		
Collections of contributions restricted for long-term purposes:		
Permanently restricted	56,180	16,000
Payments made on commercial loan	-	(2,005)
Proceeds from line of credit	-	10,000
Payments on line of credit	<u>(2,500)</u>	<u>(833)</u>
Net cash provided (used) by financing activities	<u>53,680</u>	<u>23,162</u>
Net increase (decrease) in cash and cash equivalents	46,603	122,905
Cash and cash equivalents, beginning of year	<u>428,700</u>	<u>305,795</u>
Cash and cash equivalents, end of year	<u>\$475,303</u>	<u>\$428,700</u>
Supplemental information:		
Interest paid	<u>\$ 262</u>	<u>\$ 140</u>

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

INTERNATIONAL SERVICE FELLOWSHIP (USA)
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2015 AND 2014

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, 2015 AND 2014

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, 2015 AND 2014

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>2015</u>	<u>2014</u>
Cash in bank	\$ 475,178	\$ 428,375
Petty cash	<u>325</u>	<u>325</u>
	<u>\$ 475,503</u>	<u>\$ 428,700</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, 2015 AND 2014

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>2015</u>	<u>2014</u>
<u>Unrestricted:</u>		
General Fund	\$ 211,773	\$ 201,804
UFCS International Council	126,930	122,174
Furlough	531,000	544,565
College Fund	<u>693,843</u>	<u>683,448</u>
	<u>1,563,546</u>	<u>1,551,991</u>
<u>Temporarily Restricted:</u>		
Annuity Fund	381,293	383,938
Commentary Fund	<u>15,986</u>	<u>15,139</u>
	<u>397,279</u>	<u>399,077</u>
<u>Permanently Restricted:</u>		
Dilworth Fund	954,786	909,344
Girardeau Fund	284,514	276,879
General Ministries	20,076	20,075
Hoyt (Jhansi)	579,674	542,319
J. Ackerman Coles	2,379,033	2,298,347
Partnerseed Fund	<u>4,143,951</u>	<u>3,933,695</u>
	<u>8,362,034</u>	<u>7,980,659</u>
	10,322,859	9,931,727
Defined Contribution Plan	<u>3,922,225</u>	<u>3,729,690</u>
Totals	<u>\$ 14,245,084</u>	<u>\$ 13,661,417</u>

INTERNATIONAL SERVICE FELLOWSHIP (USA)
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2015 AND 2014

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>2015 Totals</u>	<u>2014 Totals</u>
Investment income	\$ 22,521	\$ 15,698	\$ 157,459	\$ 195,678	\$ 188,082
Realized gains (losses)	10,722	(873)	179	10,028	197,475
Unrealized gains (losses)	<u>85,085</u>	<u>8,548</u>	<u>510,615</u>	<u>604,248</u>	<u>829,828</u>
Total investment return	<u>\$ 118,328</u>	<u>\$ 23,373</u>	<u>\$ 668,253</u>	<u>\$ 809,954</u>	<u>\$ 1,215,385</u>

Investments are composed of the following:

	<u>2015</u>	<u>2014</u>
Money market, invested cash	\$ 438,496	\$ 304,928
Government Agency and bonds	315,894	331,342
Corporate bonds	2,940,691	2,829,881
Fixed income	303,773	420,934
Equities	9,005,776	8,521,713
Foreign assets	937,190	803,607
Mutual funds	287,978	306,152
Other	<u>15,286</u>	<u>142,860</u>
	<u>\$ 14,245,084</u>	<u>\$ 13,661,417</u>

5. PREPAID EXPENSES

Prepaid expenses consisted of the following:

	<u>2015</u>	<u>2014</u>
Insurance	\$ 3,180	\$ 3,105
Real estate taxes and sewer	5,897	3,174
Maintenance contracts	-	6,396
Deposit on carpeting	21,789	-
Other	<u>8,482</u>	<u>10,748</u>
Total prepaid expenses	<u>\$ 39,348</u>	<u>\$ 23,423</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.

INTERNATIONAL SERVICE FELLOWSHIP (USA)
 NOTES TO THE FINANCIAL STATEMENTS
 MARCH 31, 2015 AND 2014

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 2015 and 2014 were \$ 453,054 and \$ 499,506, respectively.

8. LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment consisted of the following:

	<u>2015</u>	<u>2014</u>
Land	\$ 12,000	\$ 12,000
Office - 7000 Ludlow Street, Upper Darby, PA	472,030	420,118
House - 326 Wayne Avenue, Upper Darby, PA	126,132	126,132
Computers	166,257	166,257
Furniture and equipment	<u>50,566</u>	<u>50,566</u>
Sub-total	826,985	775,073
Less: accumulated depreciation	<u>526,060</u>	<u>498,596</u>
Land, buildings and equipment, net	<u>\$ 300,925</u>	<u>\$ 276,477</u>

Depreciation expense for the years ended 2015 and 2014 was \$27,463 and \$24,711, 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, 2015. 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, 2015, the Organization met this requirement.

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10. OTHER INCOME

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

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'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>2015</u>	<u>2014</u>
Temporarily restricted net assets released:		
Retiree supplemental	\$ 40,679	\$ 53,008
Short term	65,507	36,217
Appointee	144,277	33,333
Outfitting	20,416	43,667
Payments of Other Councils	445,885	315,719
Other Ministries	23,682	32,654
Payments of special funds	<u>492,814</u>	<u>643,321</u>
 Total temporary restrictions released	 <u>1,233,260</u>	 <u>1,157,919</u>
 Permanently restricted net assets released:		
Dilworth fund	36,348	36,007
Girardeau fund	6,840	6,834
General Ministries	2	4
Hoyt	18,457	2,887
J.A. Coles distribution	131,459	71,877
Partnerseed fund	<u>176,048</u>	<u>167,103</u>
 Total income released	 <u>369,154</u>	 <u>284,712</u>
 Total net assets released from restrictions	 <u>\$ 1,602,414</u>	 <u>\$ 1,442,631</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.

INTERNATIONAL SERVICE FELLOWSHIP (USA)
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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>2015</u>	<u>2014</u>
Service cost - benefits earned during the period	\$ -	\$ -
Interest cost on projected benefit obligation	18,562	23,344
Actual return on plan assets	(2,850)	(12,475)
Net amortization and deferral	<u>(273)</u>	<u>(3,778)</u>
Net periodic pension cost	<u>\$ 15,439</u>	<u>\$ 7,091</u>
Actuarial present value of benefit obligations:		
Accumulated benefit obligation	<u>\$ 299,566</u>	<u>\$ 329,883</u>
Reconciliation of funded status of plan with balance sheet accounts:	<u>2015</u>	<u>2014</u>
Projected benefit obligation for service rendered to date	\$ (299,566)	\$ (329,883)
Plan assets at fair value	<u>20,198</u>	<u>73,603</u>
Plan assets in deficit of projected benefit obligation	(279,368)	(256,280)
Unrecognized net (gain) or loss due to actuarial experience	(28,975)	(36,624)
Unrecognized net transition obligation or (asset)	-	-
Adjustments required to recognize minimum liability	<u>-</u>	<u>-</u>
(Accrued) or Prepaid pension cost	<u>\$ (308,343)</u>	<u>\$ (292,904)</u>

The weighted-average discount rate used in determining the actuarial present value of the projected benefit obligation was 6.25 percent in 2015 and 6.25 percent in 2014. 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>	Pension <u>Benefits</u>
2016	\$ 36,104
2017	32,534
2018	30,709
2019	29,789
2020	28,581
2021 thru 2024	113,258

The measurement date used to determine the periodic pension cost was March 31, 2014, while the measurement date used to determine the accumulated benefit obligation was March 31, 2015. Total benefits paid to participants during 2015 and 2014 were \$53,410 and \$55,944.

Prior to the defined benefit plan being frozen in 1995, funding to the plan was provided by the Organization. There hasn't been any employer contributions made since the plan was frozen; earnings from investments inside the plan paid the benefits annually. As of March 31, 2015, there was approximately \$ 20,000 left in a money market account. As of the date of this report, the funds in the money market account have all been expended.

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, 2015 and March 31, 2014, reported investment assets of \$3,922,225 and \$3,729,690, 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 \$216,000 and \$255,400 for the years ended March 31, 2015 and 2014, respectively.

INTERNATIONAL SERVICE FELLOWSHIP (USA)
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19. NET ASSETS END OF YEAR

Unrestricted net assets consisted of the following:	<u>2015</u>	<u>2014</u>
Building and equipment	\$ 300,925	\$ 276,477
Board designated funds:		
Furlough	278,609	
U.F.C.S. International	<u>82,606</u>	
Total Board designated	361,215	346,579
Unrestricted	<u>333,571</u>	<u>266,373</u>
Total unrestricted net assets	<u>995,711</u>	<u>889,429</u>

Temporarily restricted net assets are available for the following purposes:

Legacies	65,762	28,451
Commentary fund	16,296	14,835
Other Councils	(22,922)	49,445
Special Projects	635,635	595,125
Other	357,705	298,804
Other Ministries	<u>24,801</u>	<u>19,313</u>
Total temporarily restricted net assets available	<u>1,077,277</u>	<u>1,005,973</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	917,418	874,329
Hoyt fund	556,574	526,316
Girardeau fund	288,941	281,238
General Ministries fund	22,162	22,160
J. Ackerman Coles fund	2,337,308	2,280,650
Partnerseed fund	<u>4,099,429</u>	<u>3,881,860</u>
Total permanently restricted net assets	<u>8,221,832</u>	<u>7,866,553</u>
Total net assets	<u>\$ 10,294,820</u>	<u>\$ 9,761,955</u>

INTERNATIONAL SERVICE FELLOWSHIP (USA)
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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.

As of March 31, 2015 and 2014, the endowment fund was composed of the following:

	<u>Permanently Restricted</u>
Investments	<u>\$ 8,221,832</u>

Changes in endowment assets were as follows for the years ended March 31, 2015 and 2014, respectively:

	<u>2015</u>	<u>2014</u>
Beginning balance	\$ 7,866,553	\$ 7,131,592
Contributions	56,180	17,755
Investment income	157,638	150,129
Net appreciation (depreciation)	510,615	851,789
Amounts appropriated for expenditure	<u>(369,154)</u>	<u>(284,712)</u>
Ending balance	<u>\$ 8,221,832</u>	<u>\$ 7,866,553</u>

INTERNATIONAL SERVICE FELLOWSHIP (USA)
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21. 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 \$193,333. At March 31, 2015 the balance owed on the line of credit was \$6,667. 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.

22. SUBSEQUENT EVENTS

Management has evaluated subsequent events and transactions through August 21, 2015, which is the date on which the financial statements were available to be issued. No events or transactions that require disclosure or recognition were identified.