

CHURCH WORLD SERVICE, INC.

FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

CHURCH WORLD SERVICE, INC.

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Independent Auditor's Report

The Board of Directors
Church World Service, Inc.
New York City, New York

We have audited the accompanying financial statements of Church World Service, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, 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 from 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.



Church World Service, Inc.

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 Church World Service, Inc. as of June 30, 2016 and 2015, 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.

Crosslin, PLLC

October 13, 2016
Nashville, Tennessee

CHURCH WORLD SERVICE, INC.
STATEMENTS OF FINANCIAL POSITION

	June 30,	
	2016	2015
Assets		
Cash and cash equivalents	\$ 770,822	\$ 1,560,528
Contributions receivable, less allowances for uncollectible contributions (\$5,000 in 2016 and 2015)	894,176	500,998
Government grants receivable	10,192,217	8,909,641
Prepaid expenses and other assets	4,136,756	3,239,212
Inventories	5,802,305	5,363,217
Investments	3,720,719	3,718,661
Investments held by others	7,054,736	6,654,316
Split-interest agreement receivables	3,170,966	3,270,266
Land, building, and equipment, net	93,125	105,809
	\$ 35,835,822	\$ 33,322,648
Liabilities and net assets		
Liabilities:		
Accounts payable	\$ 8,132,065	\$ 7,514,332
Grants payable	3,724,166	4,374,216
Accrued liabilities:		
Due to other U.S. voluntary agencies	765,999	1,992,469
Other	702,357	621,593
Due to government agency	7,937	7,937
Debt obligations	3,070,127	3,836,266
Postretirement benefit liability	5,422,823	5,245,589
Total liabilities	21,825,474	23,592,402
Net assets:		
Unrestricted	741,320	556,492
Temporarily restricted	9,846,095	6,228,541
Permanently restricted	3,422,933	2,945,213
Total net assets	14,010,348	9,730,246
	\$ 35,835,822	\$ 33,322,648

See accompanying notes to the financial statements.

CHURCH WORLD SERVICE, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support, revenues, gains and other income				
Support:				
Contributions – member communions and related organizations	\$ 3,231,486	\$ 1,062,988	\$ –	\$ 4,294,474
Contributions – public and community appeals	13,405,699	4,206,395	–	17,612,094
Government programs	61,277,526	–	–	61,277,526
Donated materials	2,283,973	–	–	2,283,973
Revenues and gains:				
Service fees	1,553,134	–	–	1,553,134
Interest and dividend income	144,029	–	–	144,029
Other income	812,577	–	–	812,577
Net assets released from restrictions	1,651,829	(1,651,829)	–	–
Total support, revenues, gains and other income	84,360,253	3,617,554	–	87,977,807
Expenses				
Program services:				
Global relief and development	8,140,856	–	–	8,140,856
Emergency response	5,758,395	–	–	5,758,395
Services to displaced people	60,944,308	–	–	60,944,308
Advocacy and relationships	1,389,347	–	–	1,389,347
Total program services	76,232,906	–	–	76,232,906
Supporting services:				
Management and general	3,316,701	–	–	3,316,701
Fund-raising	4,462,255	–	–	4,462,255
Total supporting services	7,778,956	–	–	7,778,956
Total expenses	84,011,862	–	–	84,011,862
Change in net assets from operations	348,391	3,617,554	–	3,965,945
Nonoperating activities				
Net realized and unrealized loss on investments	(163,563)	–	–	(163,563)
Endowment contributions	–	–	477,720	477,720
Change in net assets	184,828	3,617,554	477,720	4,280,102
Net assets at beginning of year	556,492	6,228,541	2,945,213	9,730,246
Net assets at end of year	\$ 741,320	\$ 9,846,095	\$ 3,422,933	\$ 14,010,348

See accompanying notes to the financial statements.

CHURCH WORLD SERVICE, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support, revenues, gains and other income				
Support:				
Contributions – member communions and related organizations	\$ 3,185,577	\$ 1,372,201	\$ –	\$ 4,557,778
Contributions – public and community appeals	17,767,189	604,517	–	18,371,706
Government programs	50,116,190	–	–	50,116,190
Donated materials	2,161,898	–	–	2,161,898
Revenues and gains:				
Service fees	1,730,678	–	–	1,730,678
Interest and dividend income	161,521	–	–	161,521
Other income	623,006	–	–	623,006
Net assets released from restrictions	2,395,729	(2,395,729)	–	–
Total support, revenues, gains and other income	78,141,788	(419,011)	–	77,722,777
Expenses				
Program services:				
Global relief and development	7,233,989	–	–	7,233,989
Emergency response	7,139,118	–	–	7,139,118
Services to displaced people	51,635,909	–	–	51,635,909
Advocacy	2,081,309	–	–	2,081,309
Total program services	68,090,325	–	–	68,090,325
Supporting services:				
Management and general	3,569,781	–	–	3,569,781
Fund-raising	6,552,086	–	–	6,552,086
Total supporting services	10,121,867	–	–	10,121,867
Total expenses	78,212,192	–	–	78,212,192
Change in net assets from operations	(70,404)	(419,011)	–	(489,415)
Nonoperating activities				
Net realized and unrealized loss on investments	(13,380)	–	–	(13,380)
Endowment contributions	–	–	33,530	33,530
Change in net assets	(83,784)	(419,011)	33,530	(469,265)
Net assets at beginning of year	640,276	6,647,552	2,911,683	10,199,511
Net assets at end of year	\$ 556,492	\$ 6,228,541	\$ 2,945,213	\$ 9,730,246

See accompanying notes to the financial statements.

CHURCH WORLD SERVICE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2016

Type of Expense	Global Relief and Development	Emergency Response	Services to Displaced People	Advocacy	Total Program Services	Management and General	Fund- Raising	Total Supporting Services	Total 2016 Expenses
Direct program expenses	\$ 5,925,174	\$ 2,816,658	\$ 42,644,268	\$ 47,243	\$ 51,433,343	\$ -	\$ -	\$ -	\$ 51,433,343
Designated expenditures for other									
U.S. voluntary agencies	832,634	1,876,170	-	-	2,708,804	-	-	-	2,708,804
	<u>6,757,808</u>	<u>4,692,828</u>	<u>42,644,268</u>	<u>47,243</u>	<u>54,142,147</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>54,142,147</u>
Salaries and related costs	1,201,778	567,874	14,738,159	1,004,462	17,512,273	1,744,540	3,054,758	4,799,298	22,311,571
Professional fees	152,881	287,230	599,567	40,863	1,080,541	955,751	659,226	1,614,977	2,695,518
Rent and occupancy	6,591	53,655	1,083,981	57,716	1,201,943	167,010	23,412	190,422	1,392,365
Office supplies and equipment	2,021	8,599	674,565	13,915	699,100	92,951	36,517	129,468	828,568
Communications	4,165	83,499	324,130	26,488	438,282	93,288	433,012	526,300	964,582
Travel and meetings	15,354	60,620	766,805	196,691	1,039,470	80,769	246,025	326,794	1,366,264
Depreciation	-	-	-	-	-	12,684	-	12,684	12,684
Interest	-	-	-	-	-	166,725	-	166,725	166,725
Miscellaneous	258	4,090	112,833	1,969	119,150	2,983	9,305	12,288	131,438
Total expenses	<u>\$ 8,140,856</u>	<u>\$ 5,758,395</u>	<u>\$ 60,944,308</u>	<u>\$ 1,389,347</u>	<u>\$ 76,232,906</u>	<u>\$ 3,316,701</u>	<u>\$ 4,462,255</u>	<u>\$ 7,778,956</u>	<u>\$ 84,011,862</u>

See accompanying notes to the financial statements.

CHURCH WORLD SERVICE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2015

Type of Expense	Global Relief and Development	Emergency Response	Services to Displaced People	Advocacy	Total Program Services	Management and General	Fund- Raising	Total Supporting Services	Total 2015 Expenses
Direct program expenses	\$ 4,619,737	\$ 2,734,408	\$ 34,429,085	\$ 24,050	\$ 41,807,280	\$ -	\$ -	\$ -	\$ 41,807,280
Designated expenditures for other									
U.S. voluntary agencies	682,278	2,334,906	-	15,162	3,032,346	-	-	-	3,032,346
	5,302,015	5,069,314	34,429,085	39,212	44,839,626	-	-	-	44,839,626
Salaries and related costs	1,523,690	1,385,865	14,148,581	1,468,050	18,526,186	1,185,756	4,748,607	5,934,363	24,460,549
Professional fees	122,443	292,164	729,588	126,846	1,271,041	1,741,284	510,658	2,251,942	3,522,983
Rent and occupancy	119,873	119,954	964,744	103,257	1,307,828	55,490	172,481	227,971	1,535,799
Office supplies and equipment	3,134	4,610	486,435	6,652	500,831	188,219	100,456	288,675	789,506
Communications	9,913	58,737	261,502	35,446	365,598	166,787	505,137	671,924	1,037,522
Travel and meetings	137,448	204,958	512,015	298,028	1,152,449	53,370	450,306	503,676	1,656,125
Depreciation	-	-	-	-	-	15,555	-	15,555	15,555
Interest	-	-	-	-	-	159,177	-	159,177	159,177
Miscellaneous	15,473	3,516	103,959	3,818	126,766	4,143	64,441	68,584	195,350
Total expenses	\$ 7,233,989	\$ 7,139,118	\$ 51,635,909	\$ 2,081,309	\$ 68,090,325	\$ 3,569,781	\$ 6,552,086	\$ 10,121,867	\$ 78,212,192

See accompanying notes to the financial statements.

CHURCH WORLD SERVICE, INC.
STATEMENTS OF CASH FLOWS

	Year Ended June 30,	
	2016	2015
Operating activities		
Change in net assets	\$ 4,280,102	\$ (469,265)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	12,684	15,555
Contributions restricted for long-term investment	(477,719)	(33,530)
Net realized and unrealized loss on investments	163,563	13,380
Changes in operating assets and liabilities:		
Contributions receivable	(393,178)	111,150
Split-interest agreement receivables	99,300	101,967
Government grants receivable	(1,282,576)	(436,110)
Prepaid expenses and other assets	(897,544)	(737,970)
Inventories	(439,088)	(1,133,970)
Accounts payable	617,733	195,226
Grants payable	(650,050)	(433,341)
Accrued liabilities	(1,145,706)	(399,621)
Postretirement benefit liability	177,234	132,465
Due to government agency	-	15,639
	64,755	(3,058,425)
Net cash provided by (used in) operating activities		
Investing activities		
Purchase of land, building, and equipment	-	(2,691)
Purchases of investments, net	(566,041)	(125,989)
	(566,041)	(128,680)
Net cash used in investing activities		
Financing activities		
Contributions restricted for long-term investment	477,719	33,530
Proceeds from debt obligations	-	4,000,000
Repayment of debt obligations	(766,139)	(635,271)
	(288,420)	3,398,259
Net cash (used in) provided by financing activities		
Net (decrease) increase in cash and cash equivalents	(789,706)	211,154
Cash and cash equivalents at beginning of year	1,560,528	1,349,374
Cash and cash equivalents at end of year	\$ 770,822	\$ 1,560,528
Supplemental information		
Interest paid	\$ 166,725	\$ 159,177

See accompanying notes to the financial statements.

CHURCH WORLD SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

1. ORGANIZATION

Church World Service, Inc. (“CWS”) is a not-for-profit, private voluntary organization. CWS works with partners to eradicate hunger and poverty and to promote peace and justice around the world. CWS supports global relief and development, emergency response, services to displaced people, and advocacy around relief, development, and displaced people.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Net Asset Classifications

CWS classifies its support, revenues, expenses, gains and losses into three classes of net assets based on the existence or absence of donor-imposed restrictions. Net assets of CWS and changes therein are classified as follows:

Unrestricted Net Assets - Reflect unrestricted board-designated, trustee, and other resources available to CWS for its operating activities.

Temporarily Restricted Net Assets - Reflect contributed assets whose use by CWS has been limited by donors for a specified time or purpose.

Permanently Restricted Net Assets - Reflect contributions with donor-imposed restrictions that do not expire and that typically allow for the income earned thereon to be expended consistent with donor intent.

Cash and Cash Equivalents

For the purpose of these financial statements, CWS considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

CHURCH WORLD SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Investments and Investment Income

CWS records all investments at fair value based on the fair value measurements described in Note 14.

The fair values of equity and debt securities are based on quoted market prices on the last business day of the fiscal year. The fair values of mutual funds are based on published unit values on the last business day of the fiscal year. Investment income, including realized and unrealized gains and losses, is recorded in the appropriate net asset classification based on donor restrictions or the absence thereof.

Concentrations

CWS maintains cash deposits and investments in accounts which, at times, may exceed federally insured limits. Credit risk is managed by maintaining all deposits in financial institutions which management believes are high quality financial institutions and by maintaining diversification of investments, including those held in various securities. Such funds are subject to inherent market fluctuations, which at times, may be significant.

Land, Building, and Equipment

Land, building and equipment are recorded at acquisition cost. Donated property is recorded at estimated fair value at date of donation. Expenditures for normal maintenance and repairs are expensed as incurred. Depreciation of the building is on the straight-line basis over its estimated useful life of 30 years. Depreciation of furniture, equipment, and vehicles is provided on the straight-line basis over their estimated useful lives of five to ten years. Amortization of leasehold improvements is provided over the lives of the respective leases, or the estimated useful lives of the improvements, whichever is shorter.

Contributions

Contributions are considered to be unrestricted unless they are received with donor stipulations that limit their use either through purpose or time restrictions. Contributions with donor stipulations that limit their use are considered to be temporarily restricted until the donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled. Upon the expiration of donor stipulations, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporarily restricted contributions received and expended in the same accounting period are classified as unrestricted support. Unconditional contributions receivable at June 30, 2016, are expected to be collected within one year. An allowance for uncollectible contributions is recorded to reduce contributions receivable to their net realizable value and is determined based on a review of specific risk factors and historical experience.

CHURCH WORLD SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Split-Interest Agreements

CWS is the beneficiary of various split-interest agreements from donors. The related assets are controlled and invested by independent third parties. CWS records a receivable and the related contribution income for its share of the assets when formal written or other verifiable documentation is received. CWS's share of the assets is based on the present value of the estimated future distributions to be received by CWS over the term of the agreement.

Contributed Goods and Services

Contributed goods, consisting primarily of kits, food and medical supplies are valued at their estimated fair value at the date of receipt, and are recognized as donated materials in the accompanying statements of activities. Donated materials are expensed from inventory when distributed.

Contributed services are recognized as revenue at their fair value if the services create or enhance nonfinancial assets or require specialized skills and are provided by individuals possessing those skills and typically would have been purchased if not provided by contribution. Contributed services and promises to contribute that do not meet these criteria are not recognized as revenues and are not reported in the accompanying financial statements.

U.S. Government Support

Support from U.S. government programs is generally recognized in the period in which expenses are incurred, except for the U.S. Reception and Placement program, which are recognized based on the number of authorized refugees resettled. Government grants receivable reflected in the accompanying statements of financial position represent amounts receivable from various government agencies under resettlement and other programmatic contracts.

Functional Allocation of Expenses

The majority of expenses can generally be directly identified with the program or supporting service to which they relate and are charged accordingly. Other expenses by function are allocated to components of these services based on time allocation factors determined by management.

CHURCH WORLD SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Direct Program Expenses

Direct expenses of CWS programs include grants in support of globally affiliated agencies' programs and projects, shipments of donated materials, purchase and land transportation of relief commodities and materials, and costs of refugee resettlement. Resettlement costs include housing, food, transportation, and social services for resettled refugees.

Federal Income Taxes

The Internal Revenue Service has ruled that CWS is a tax-exempt organization as defined under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for federal income taxes has been made in the accompanying financial statements.

CWS accounts for the effect of any uncertain tax positions based on a more likely than not threshold to the recognition of the tax positions being sustained based on the technical merits of the position under examination by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a cumulative probability assessment that aggregates the estimated tax liability for all uncertain tax positions. Tax positions for CWS include, but are not limited to, the tax-exempt status and determination of whether certain income is subject to unrelated business income tax; however, CWS has determined that such tax positions do not result in an uncertainty requiring recognition.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, 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. Management believes that such estimates have been made based on reasonable assumptions and that such estimates are adequate. Actual results could differ from those estimates.

Fair Value Measurements

Assets and liabilities recorded at fair value on a recurring basis in the accompanying statements of financial position are categorized based on the level of judgment associated with the inputs used to measure their fair value. Level inputs, as defined by Financial Accounting Standards Board Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosures*, are as follows:

Level 1 - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

CHURCH WORLD SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Level 2 - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3 - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect CWS's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

3. SPLIT-INTEREST AGREEMENTS

CWS is the beneficiary of various split-interest agreements, which are administered by the United Methodist Foundation of the Northern Illinois Conference, Inc., the Presbyterian Foundation and the Mennonite Foundation, Inc. Included in the accompanying statements of financial position as split-interest agreement receivables is the fair value of the receivables based on the present value of CWS's interests in these agreements as follows:

	<u>June 30, 2016</u>		<u>June 30, 2015</u>	
	<u>Market</u>	<u>Present</u>	<u>Market</u>	<u>Present</u>
	<u>Value</u>	<u>Value</u>	<u>Value</u>	<u>Value</u>
United Methodist Foundation:				
Charitable gift annuities	\$2,276,315	\$2,232,881	\$2,502,720	\$2,422,889
Charitable remainder unitrusts	1,025,116	899,483	1,892,975	763,436
Pooled income funds	30,163	34,031	30,892	35,060
Interest-free loan fund	<u>2,203</u>	<u>2,000</u>	<u>2,294</u>	<u>2,000</u>
	<u>3,333,797</u>	<u>3,168,395</u>	<u>4,428,881</u>	<u>3,223,385</u>
Presbyterian Foundation:				
Charitable gift annuities	69,979	-	90,164	7,993
Pooled income funds	<u>3,912</u>	<u>2,571</u>	<u>3,920</u>	<u>2,515</u>
	<u>73,891</u>	<u>2,571</u>	<u>94,084</u>	<u>10,508</u>
Mennonite Foundation, Inc.:				
Unitrust	<u>-</u>	<u>-</u>	<u>88,625</u>	<u>36,373</u>
Total	<u>\$3,407,688</u>	<u>\$3,170,966</u>	<u>\$4,611,590</u>	<u>\$3,270,266</u>

The discount rate used in determining the present value of the charitable gift annuities shown above were 2.0% and 2.3%, respectively for 2016 and 2015, respectively.

CHURCH WORLD SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

4. INVESTMENTS AND INVESTMENTS HELD BY OTHERS

CWS's investment portfolio, at fair value, consists of:

	June 30,	
	2016	2015
Cash and cash equivalents	\$ 110,909	\$ 96,978
Corporate bonds	623,988	579,254
U.S. government obligations	218,873	155,134
Equity securities	2,694,831	2,821,535
Other equities	72,118	65,760
	<u>\$3,720,719</u>	<u>\$3,718,661</u>

Investments held by others are held by the United Methodist Foundation of the Northern Illinois Conference, Inc. (UMF), Presbyterian Foundation, Ecumenical Trust, Elkhart Co. Community Foundation and the Board of Church Extension of Disciples of Christ, Inc. (BCE).

Investments held by others, at fair value, consist of:

	June 30,	
	2016	2015
UMF - Moderate Funds	\$2,124,783	\$2,118,561
UMF - Aggressive Funds	1,392,583	1,402,501
UMF - Other	465,044	106,452
Elkhart Co. Community Foundation Funds	128,999	131,403
Ecumenical Trust - New Covenant Growth Fund	98,864	107,175
Presbyterian Foundation Funds	75,936	80,953
BCE - Certificate of deposit	2,768,527	2,707,271
	<u>\$7,054,736</u>	<u>\$6,654,316</u>

The investments held by others are invested by those organizations in mutual funds, U.S. and international equity securities, corporate and international bonds, U.S. government obligations and real assets. The UMF - Moderate Fund consist of approximately 61% equities and 39% fixed income and other. The UMF - Aggressive Fund consists of approximately 86% equities and 14% fixed income and other.

CWS's investments are exposed to various risks including market, interest and credit risk. Due to volatility in the markets for investments, there is a reasonable possibility of changes in fair value and additional gains or losses in the near term and that such changes could materially affect the amounts reported in the financial statements.

CHURCH WORLD SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

5. INVENTORIES

Inventories consist of:

	June 30,	
	2016	2015
Donated materials	\$5,799,083	\$5,325,255
Other materials and supplies	3,222	37,962
	\$5,802,305	\$5,363,217

Donated materials consist of various items, many of which are generated through the CWS Kit Program, including hygiene, school, cleanup, and baby kits. CWS distributes these donated materials to disaster relief sites or other areas in need. The donated material inventory is valued based upon an average cost of the donated item.

Other inventory consists of purchased items, including blankets and toothpaste, which are recorded at the lower of cost or market using the first-in, first-out method.

6. LAND, BUILDING, AND EQUIPMENT

Land, building, and equipment, net, consist of:

	June 30,	
	2016	2015
Furniture and equipment	\$ 4,723,694	\$ 4,723,694
Building and leasehold improvements	1,789,838	1,789,838
Land	7,137	7,137
	6,520,669	6,520,669
Less accumulated depreciation	(6,427,544)	(6,414,860)
Land, building, and equipment, net	\$ 93,125	\$ 105,809

7. DUE TO OTHER U.S. VOLUNTARY AGENCIES

CWS, through CROP Hunger events, can elect to allocate a percentage of the funds raised to support agencies and activities directly involved in local hunger programs. CROP Hunger event donors can also designate funds for other U.S. agencies involved in international development work. CWS recognizes grant expenses for these programs when the related grants or designations are approved.

CHURCH WORLD SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

8. DEBT OBLIGATIONS

At June 30, 2016 and 2015, the total unpaid balance of the notes payable to the Board of Church Extension of Disciples of Christ, Inc. (“BCE”) was \$1,692,947 and \$2,080,431, respectively. As of June 30, 2016, this balance consisted of one note from the BCE, which retained a balance of \$1,692,947 and an adjustable interest rate of 4.25%. As of June 30, 2015, this note had a balance of \$1,862,798, and a second note, which was paid in full during 2016, which had a year-end balance of \$217,633 at an adjustable interest rate of 4.99%. The note remaining as of June 30, 2016 is collateralized by certain investment balances maintained at the BCE totaling approximately \$2,770,000.

On November 1, 2014, CWS entered into a note payable with United Methodist Committee on Relief (“UMCOR”). At June 30, 2016 and 2015 respectively, the total unpaid balance of the notes payable to UMCOR is \$1,377,180 and \$1,755,835. The interest rate of the note is fixed at 4% annually, and CWS has pledged no collateral to UMCOR under this agreement.

CWS also has a line-of-credit with a financial institution, which is renewed annually and terminates on December 31, 2016. Interest is payable on the amount outstanding at a variable rate equal to market interest rate plus 1% (4.25% for years ending June 30, 2016 and 2015). The line-of-credit is secured by substantially all assets, excluding real estate and restricted net assets. The availability under the line-of-credit was \$2,000,000 and \$1,500,000 during fiscal years 2016 and 2015. There were no amounts outstanding on the line-of-credit at June 30, 2016 or 2015.

CWS entered into a line-of-credit agreement with the Board of Church Extension of Disciples of Christ in May 2016. Availability under the line-of-credit is \$1,000,000. Interest is payable on the amount outstanding at a variable rate equal to the Wall Street Journal prime lending rate (3.5% at June 30, 2016) on a monthly basis. Funds were not available for CWS to draw on until fiscal 2017. The line expires January 1, 2017, and is secured by investments held by BCE.

Principal maturities due on CWS’s debt obligations as of June 30, 2016, are as follows:

2017	\$ 571,440
2018	595,182
2019	619,911
2020	347,543
2021	210,160
Thereafter	<u>725,891</u>
	<u>\$3,070,127</u>

CHURCH WORLD SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

9. POSTRETIREMENT BENEFIT LIABILITY AND PENSION BENEFITS

CWS provides certain healthcare benefits for retired employees. Employees hired prior to January 1, 2000, with at least five years of participation in CWS's health retirement plan are eligible for postretirement benefits upon reaching a normal retirement age of 62. Employees between the ages of 55 and 62 who were granted early retirement, have completed 15 consecutive years of service, and have at least 5 years of participation in CWS's health insurance program are also eligible for postretirement benefits. Employees hired on January 1, 2000, and thereafter are not eligible for postretirement healthcare benefits.

The status of the postretirement healthcare plan at June 30, 2016 and 2015, was as follows:

	<u>2016</u>	<u>2015</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 5,245,589	\$ 5,113,124
Service cost	1,798	10,157
Interest cost	175,451	166,429
Actuarial losses (gains)	438,704	380,874
Actual benefit disbursements	<u>(438,719)</u>	<u>(424,995)</u>
Benefit obligation at the end of year	<u>\$ 5,422,823</u>	<u>\$ 5,245,589</u>
Change in plan assets:		
Fair value of plan asset at beginning of year	\$ -	\$ -
Contributions	438,719	424,995
Actual benefit disbursements	<u>(438,719)</u>	<u>(424,995)</u>
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
Funded status:		
Benefit obligation	<u>\$5,422,823</u>	<u>\$5,245,589</u>
Net postretirement benefit liability recognized in statement of financial position	<u>\$5,422,823</u>	<u>\$5,245,589</u>

The net periodic postretirement benefit costs represent the actuarial present value of projected future benefits attributable to employee service rendered during the years ended June 30, 2016 and 2015, respectively

Components of the net periodic postretirement benefit cost are as follows:

	<u>Year Ended June 30,</u>	
	<u>2016</u>	<u>2015</u>
Service cost	\$ 1,798	\$ 10,157
Interest cost	175,451	166,429
Amortization of transition obligation	-	95,000
Amortization of prior service cost	<u>-</u>	<u>(437,398)</u>
	<u>\$177,249</u>	<u>\$(165,812)</u>

CHURCH WORLD SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

9. POSTRETIREMENT BENEFIT LIABILITY AND PENSION BENEFITS - Continued

Expected benefit payments for the five fiscal years after fiscal 2016 and the subsequent five fiscal years in aggregate are as follows:

<u>Year Ended</u>	<u>Amounts</u>
2017	443,445
2018	441,588
2019	453,618
2020	428,102
2021	419,850
2022 - 2026	1,862,576

No contributions to fund future benefits payable under the retiree healthcare plan are expected in fiscal 2017. CWS expects to continue to pay postretirement benefits under the plan as they are incurred.

The following significant actuarial methods and assumptions were used in the June 30, 2016, actuarial valuation, the most recent valuation date:

Actuarial valuation method	Projected unit credit method
Discount rate	2.64%
Healthcare cost trend rate	6.5% graded down uniformly to 4% over 5 years
Mortality	RP-2014 Healthy Annuitant Mortality Fully Generational Table
Retirement rates	Varying rates beginning with 2% at age 55 to 100% retirement at age 70

The effect of a 1% increase in the healthcare cost trend rate would increase the postretirement benefit obligation to \$5,566,746 as of June 30, 2016.

Pension Plan

CWS sponsors a defined-contribution retirement plan covering substantially all employees. On January 29, 2014, the Board of Directors approved a resolution that was effective immediately for the retirement plan to require the employer to deposit with the plan custodian an amount of the employees annual compensation equivalent to:

CHURCH WORLD SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
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9. POSTRETIREMENT BENEFIT LIABILITY AND PENSION BENEFITS - Continued

For non-ordained employees (both union and non-union employees) as well as ordained employees who have opted out of Social Security:

- (a) 5% with less than 5 years of service
- (b) 7% with 5 years to less than 15 years of service
- (c) 9% with 15 or more years of service

For ordained employees who are considered self-employed as defined in Article IV of the Federal Social Security Act:

- (d) 12.65% with less than 5 years of service
- (e) 14.65% with 5 years to less than 15 years of service
- (f) 16.65% with more than 15 years of service

In January 2015, the Plan was amended to allow Roth contributions.

Contributions to the retirement plan during the years ended June 30, 2016 and 2015, were \$957,044 and \$1,082,383 respectively.

10. LEASES

CWS rents space for 24 offices under various operating leases. The related lease terms range from one to ten years. The following is a schedule of the future annual minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2016:

<u>Year Ending June 30,</u>	
2017	\$ 933,470
2018	832,970
2019	601,175
2020	515,435
2021	448,791
Thereafter	<u>54,804</u>
	<u>\$3,386,645</u>

Rent and occupancy expense was approximately \$1,200,000 and \$1,300,000 for the years ended June 30, 2016 and 2015, respectively.

CHURCH WORLD SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

11. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	June 30,	
	2016	2015
Split-interest agreement and other receivables	\$3,170,966	\$3,270,266
Emergency response	2,995,371	2,603,221
Global relief and development	2,930,328	139,503
Advocacy	68,437	-
Services to displaced people	680,993	215,551
	<u>\$9,846,095</u>	<u>\$6,228,541</u>

Net assets of \$1,651,829 and \$2,395,729 were released from donor restrictions as expenses were incurred satisfying purposes specified by the donors for the years ended June 30, 2016 and 2015, respectively.

12. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are to be held in perpetuity in accordance with donor intentions. Income from these net assets is either unrestricted or restricted by donors to be used primarily to offset the cost of operations of CWS (see Note 13).

13. ENDOWMENT

CWS's endowment consists of individual funds established generally to support the self-help development, emergency relief, refugee assistance and hunger relief programs of CWS. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors has interpreted the applicable state law as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, CWS 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.

CHURCH WORLD SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

13. ENDOWMENT - Continued

2016

Endowment Net Asset Composition by Type of Fund as of June 30, 2016, is as follows:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$(62,826)	\$ -	\$3,422,933	\$3,360,107
Board-designated endowment funds	<u>1,166,230</u>	<u>-</u>	<u>-</u>	<u>1,166,230</u>
Total funds	<u>\$ 1,103,404</u>	<u>\$ -</u>	<u>\$3,422,933</u>	<u>\$4,526,337</u>

Changes in Endowment Net Assets for the Year Ended June 30, 2016:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	<u>\$ 1,241,041</u>	<u>\$ -</u>	<u>\$2,945,213</u>	<u>\$ 4,186,254</u>
Investment return:				
Investment income	144,029	-	-	144,029
Net depreciation (realized and unrealized)	<u>145,756</u>	<u>-</u>	<u>-</u>	<u>145,756</u>
Total investment return	<u>289,785</u>	<u>-</u>	<u>-</u>	<u>289,785</u>
Contributions	<u>-</u>	<u>-</u>	<u>477,720</u>	<u>477,720</u>
Appropriation of endowment assets for expenditure	<u>(427,422)</u>	<u>-</u>	<u>-</u>	<u>(427,422)</u>
Endowment net assets, end of year	<u>\$ 1,103,404</u>	<u>\$ -</u>	<u>\$3,422,933</u>	<u>\$ 4,526,337</u>

CHURCH WORLD SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

13. ENDOWMENT - Continued

2015

Endowment Net Asset Composition by Type of Fund as of June 30, 2015 is as follows:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 34,186	\$ -	\$2,945,213	\$2,979,399
Board-designated endowment funds	<u>1,206,855</u>	<u>-</u>	<u>-</u>	<u>1,206,855</u>
Total funds	<u>\$1,241,041</u>	<u>\$ -</u>	<u>\$2,945,213</u>	<u>\$4,186,254</u>

Changes in Endowment Net Assets for the Year Ended June 30, 2015:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	<u>\$ 1,421,671</u>	<u>\$ -</u>	<u>\$2,911,683</u>	<u>\$ 4,333,354</u>
Investment return:				
Investment income	161,521	-	-	161,521
Net depreciation (realized and unrealized)	<u>(198,509)</u>	<u>-</u>	<u>-</u>	<u>(198,509)</u>
Total investment return	<u>(36,988)</u>	<u>-</u>	<u>-</u>	<u>(36,988)</u>
Contributions	<u>-</u>	<u>-</u>	<u>33,530</u>	<u>33,530</u>
Appropriation of endowment assets for expenditure	<u>(143,642)</u>	<u>-</u>	<u>-</u>	<u>(143,642)</u>
Endowment net assets, end of year	<u>\$ 1,241,041</u>	<u>\$ -</u>	<u>\$2,945,213</u>	<u>\$ 4,186,254</u>

CHURCH WORLD SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

13. ENDOWMENT - Continued

Return Objectives and Risk Parameters

CWS has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that CWS must hold in perpetuity as well as Board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are held by third parties who invest the assets in a manner that is intended to produce results that exceed the price and yield results of respective industry bench-marks while assuming a moderate level of investment risk. CWS expects its endowment funds, over time, to provide an average rate of return between 6 - 8 percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, CWS relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). CWS targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

CWS has no formal spending policy; however, CWS generally expends all investment earnings and realized gains it receives on program activities. The income earned from permanently restricted endowment funds can generally be used for the broad purposes of CWS's mission and is therefore, generally unrestricted. Distributions are made at the discretion of the Board of Directors when determining annual budget. CWS considers the long-term expected return on its endowment. Accordingly, over the long term, CWS expects the current spending policy to allow its endowment to grow at an average of between 1 - 3 percent annually. This is consistent with the CWS objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

CHURCH WORLD SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

Disclosures concerning the estimated fair value of financial instruments are presented below. The estimated fair value amounts have been determined based on CWS's assessment of available market information and appropriate valuation methodologies. The following table summarizes required fair value disclosures and measurements at June 30, 2016 and 2015 for the assets measured at fair value on a recurring basis under ASC 820, *Fair Value Measurements and Disclosures*:

	Assets Measured at <u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>2016:</u>				
Split-interest agreement receivables	<u>\$3,170,966</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$3,170,966</u>
Investments:				
Common stock	\$1,921,587	\$1,921,587	\$ -	\$ -
Mid cap equity funds	298,146	298,146	-	-
International equity funds	475,098	475,098	-	-
Other equity funds	72,118	72,118	-	-
US government obligations	218,873	218,873	-	-
Corporate bonds	623,988	-	623,988	-
Other	<u>110,909</u>	<u>110,909</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$3,720,719</u>	<u>\$3,096,731</u>	<u>\$623,988</u>	<u>\$ -</u>
Investments held by others:				
Pooled funds:				
Equities	\$2,665,424	\$2,665,424	\$ -	\$ -
Real estate	10,320	-	10,320	-
Corporate bonds	1,172,248	-	1,172,248	-
Other	<u>438,217</u>	<u>438,217</u>	<u>-</u>	<u>-</u>
Total pooled funds	4,286,209	3,103,641	1,182,568	-
Certificate of deposit	<u>2,768,527</u>	<u>2,768,527</u>	<u>-</u>	<u>-</u>
Total investments held by others	<u>\$7,054,736</u>	<u>\$5,872,168</u>	<u>\$1,182,568</u>	<u>\$ -</u>

CHURCH WORLD SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

14. FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

	Assets Measured at <u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>2015:</u>				
Split-interest agreement receivables	<u>\$3,270,266</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$3,270,266</u>
Investments:				
Common stock	\$1,921,043	\$1,921,043	\$ -	\$ -
Mid cap equity funds	258,024	258,024	-	-
International equity funds	642,468	642,468	-	-
Other equity funds	65,760	65,760	-	-
US government obligations	155,134	155,134	-	-
Corporate bonds	579,254	-	579,254	-
Other	<u>96,978</u>	<u>96,978</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$3,718,661</u>	<u>\$3,139,407</u>	<u>\$579,254</u>	<u>\$ -</u>
Investments held by others:				
Pooled funds:				
Equities	\$2,231,617	\$2,231,617	\$ -	\$ -
Real estate	215,464	-	215,464	-
Corporate bonds	1,108,119	-	1,108,119	-
US government obligations	108,340	108,340	-	-
Other	<u>283,505</u>	<u>283,505</u>	<u>-</u>	<u>-</u>
Total pooled funds	3,947,045	2,623,462	1,323,583	-
Certificate of deposit	<u>2,707,271</u>	<u>2,707,271</u>	<u>-</u>	<u>-</u>
Total investments held by others	<u>\$6,654,316</u>	<u>\$5,330,733</u>	<u>\$1,323,583</u>	<u>\$ -</u>

CHURCH WORLD SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

14. FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

The fair value of split-interest agreement receivables is measured based on present value techniques. Significant assumptions used in the calculations as of June 30, 2016 and 2015 are as follows:

	2016	2015
Net return on investment assets:	4.3%	5.3%
Life expectancy:	2000 mortality tables	2000 mortality tables
Discount rate:	2.0%	2.3%

The following is a reconciliation of the beginning and ending balances for split-interest agreement receivables measured at fair value using Level 3 inputs during fiscal year 2016 and 2015:

	2016	2015
Beginning balance	\$ 3,270,266	\$ 3,372,233
Contributions included in activities	86,344	15,200
Change in value included in activities	(185,644)	(117,167)
Ending balance	<u>\$ 3,170,966</u>	<u>\$ 3,270,266</u>

15. GOVERNMENT GRANTS

CWS receives funding under grants and contracts with governmental agencies. In accordance with the terms of certain government contracts, the records of CWS are subject to audit for varying periods after the final date of the contracts. If any expenditures are disallowed by the grantor agencies as a result of such an audit, any claim for reimbursement to the grantor agencies would become a liability of CWS. In the opinion of management, all grant expenditures are in compliance with the terms of the grant agreements and applicable federal and state laws and regulations.

16. COLLECTIVE BARGAINING AGREEMENT

CWS is party to a collective bargaining agreement and agrees to be bound by the terms of the labor union agreements with the employees to ensure a supply of labor for certain locations. If CWS and the unions representing the employees are unable to agree prior to expiration of the current contracts or does not comply with the union agreements, CWS's source of labor may be limited and not readily available, and a work stoppage may occur that could adversely affect operations.

CHURCH WORLD SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

16. COLLECTIVE BARGAINING AGREEMENT - Continued

At June 30, 2016, approximately 6% of the employees are under the collective bargaining agreement represented by the union with existing labor agreements. The current collective bargaining agreement expired on March 31, 2016. CWS has agreed to continue with the current contract until a new agreement is reached.

17. CONTINGENCIES

CWS may become involved in litigation from time to time, in the normal course of operations. It is not possible to state the ultimate liability, if any, in these matters. In the opinion of management, the resulting liability, if any, from these actions will not have a material adverse effect on the financial position of CWS.

18. SUBSEQUENT EVENTS

CWS has evaluated subsequent events through October 13, 2016, the date the financial statements were available for issuance, and has determined that there are no subsequent events that require disclosure.