

CHURCH WORLD SERVICE, INC.

FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

CHURCH WORLD SERVICE, INC.

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Independent Auditors' Report

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

We have audited the accompanying statements of financial position of Church World Service, Inc. ("CWS") as of June 30, 2012 and 2011, and the related statements of activities, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of CWS's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Crosslin + Associates, P.C.

October 11, 2012
Nashville, Tennessee

CHURCH WORLD SERVICE, INC.
STATEMENTS OF FINANCIAL POSITION

	June 30,	
	2012	2011
Assets		
Cash and cash equivalents	\$ 987,540	\$ 1,596,041
Contributions receivable, less allowances for uncollectible contributions (\$5,000 in 2012 and 2011)	633,706	794,544
Government grants receivable	7,058,675	7,070,617
Prepaid expenses and other assets	1,553,356	1,812,130
Inventories	4,324,733	4,977,861
Investments	2,670,806	2,663,414
Investments held by others	6,801,220	6,803,297
Split-interest agreement receivables	3,926,210	3,864,484
Land, building, and equipment, net	163,316	265,959
Total assets	\$ 28,119,562	\$ 29,848,347
Liabilities and net assets		
Liabilities:		
Accounts payable	\$ 6,265,228	\$ 5,875,864
Grants payable	3,574,204	2,999,283
Accrued liabilities:		
Due to other U.S. voluntary agencies	1,216,072	1,115,212
Other	1,036,132	2,113,016
Due to government agency	8,475	94,343
Debt obligations	1,027,592	468,502
Postretirement benefit liability	5,637,472	5,816,910
Total liabilities	18,765,175	18,483,130
Net assets:		
Unrestricted	614,419	2,253,001
Temporarily restricted	6,981,548	7,418,842
Permanently restricted	1,758,420	1,693,374
Total net assets	9,354,387	11,365,217
Total liabilities and net assets	\$ 28,119,562	\$ 29,848,347

See accompanying notes to the financial statements.

CHURCH WORLD SERVICE, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support, revenues, gains and other income				
Support:				
Contributions – member communions and related organizations	\$ 8,216,791	\$ 1,012,717	\$ –	\$ 9,229,508
Contributions – public and community appeals	21,118,854	1,425,162	–	22,544,016
U.S. government programs	37,450,489	–	–	37,450,489
Donated materials	3,062,136	–	–	3,062,136
Revenues and gains:				
Service fees	1,378,052	–	–	1,378,052
Interest and dividend income	178,276	–	–	178,276
Other income	3,603,805	–	–	3,603,805
Net assets released from restrictions	2,875,173	(2,875,173)	–	–
Total support, revenues, gains and other income	77,883,576	(437,294)	–	77,446,282
Expenses				
Program services:				
Global hunger and development	10,860,621	–	–	10,860,621
Disaster and emergency response	14,508,965	–	–	14,508,965
Refugee services	40,457,334	–	–	40,457,334
Advocacy and relationships	2,495,174	–	–	2,495,174
Total program services	68,322,094	–	–	68,322,094
Supporting services:				
Management and general	3,255,710	–	–	3,255,710
Fund-raising	7,808,763	–	–	7,808,763
Total supporting services	11,064,473	–	–	11,064,473
Total expenses	79,386,567	–	–	79,386,567
Change in net assets from operations	(1,502,991)	(437,294)	–	(1,940,285)
Nonoperating activities				
Net realized and unrealized loss on investments	(135,591)	–	–	(135,591)
Endowment contributions	–	–	65,046	65,046
Change in net assets	(1,638,582)	(437,294)	65,046	(2,010,830)
Net assets at beginning of year	2,253,001	7,418,842	1,693,374	11,365,217
Net assets at end of year	\$ 614,419	\$ 6,981,548	\$ 1,758,420	\$ 9,354,387

See accompanying notes to the financial statements.

CHURCH WORLD SERVICE, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support, revenues, gains and other income				
Support:				
Contributions – member communions and related organizations	\$ 7,838,902	\$ 210,476	\$ –	\$ 8,049,378
Contributions – public and community appeals	20,838,393	4,150,372	–	24,988,765
U.S. government programs	39,190,629	–	–	39,190,629
Donated materials	6,365,832	–	–	6,365,832
Revenues and gains:				
Service fees	679,193	–	–	679,193
Interest and dividend income	153,333	–	–	153,333
Other income	2,592,003	–	–	2,592,003
Net assets released from restrictions	4,056,591	(4,056,591)	–	–
Total support, revenues, gains and other income	81,714,876	304,257	–	82,019,133
Expenses				
Program services:				
Global hunger and development	11,357,358	–	–	11,357,358
Disaster and emergency response	18,984,964	–	–	18,984,964
Refugee services	38,308,172	–	–	38,308,172
Advocacy and relationships	2,462,551	–	–	2,462,551
Total program services	71,113,045	–	–	71,113,045
Supporting services:				
Management and general	3,072,188	–	–	3,072,188
Fund-raising	7,844,211	–	–	7,844,211
Total supporting services	10,916,399	–	–	10,916,399
Total expenses	82,029,444	–	–	82,029,444
Change in net assets from operations	(314,568)	304,257	–	(10,311)
Nonoperating activities				
Net realized and unrealized gain on investments	1,179,933	–	–	1,179,933
Endowment contributions	–	–	138,293	138,293
Change in net assets	865,365	304,257	138,293	1,307,915
Net assets at beginning of year	1,387,636	7,114,585	1,555,081	10,057,302
Net assets at end of year	\$ 2,253,001	\$ 7,418,842	\$ 1,693,374	\$ 11,365,217

See accompanying notes to the financial statements.

CHURCH WORLD SERVICE, INC.
STATEMENTS OF CASH FLOWS

	Year Ended June 30,	
	2012	2011
Operating activities		
Change in net assets	\$ (2,010,830)	\$ 1,307,915
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	111,266	203,576
Net realized and unrealized loss (gain) on investments	135,591	(1,179,933)
Changes in operating assets and liabilities:		
Contributions receivable	160,838	520,330
Split-interest agreement receivables	(61,726)	(378,614)
Government grants receivable	11,942	76,157
Prepaid expenses and other assets	258,774	744,233
Inventories	653,128	(976,227)
Accounts payable	389,364	727,822
Grants payable	574,921	(263,230)
Accrued liabilities	(976,024)	(90,226)
Postretirement benefit liability	(179,438)	11,958
Due to government agency	(85,868)	39,485
	(1,018,062)	743,246
Investing activities		
Purchases of equipment	(8,623)	(7,415)
Purchases of investments, net	(140,906)	(261,700)
	(149,529)	(269,115)
Financing activities		
Proceeds from debt obligations	750,000	-
Repayment of debt obligations	(190,910)	(247,914)
	559,090	(247,914)
Net (decrease) increase in cash and cash equivalents	(608,501)	226,217
Cash and cash equivalents at beginning of year	1,596,041	1,369,824
Cash and cash equivalents at end of year	\$ 987,540	\$ 1,596,041
Supplemental information		
Interest paid	\$ 28,901	\$ 57,330

See accompanying notes to the financial statements.

CHURCH WORLD SERVICE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2012

Type of Expense	Global Hunger and Development	Disaster and Emergency Response	Refugee Services	Advocacy and Relationships	Total Program Services	Management and General	Fund-Raising	Total Supporting Services	Total 2012 Expenses
Direct program expenses	\$ 7,953,954	\$ 9,740,059	\$ 26,491,780	\$ 70,600	\$ 44,256,393	\$ -	\$ -	\$ -	\$ 44,256,393
Designated expenditures for other U.S. voluntary agencies	748,985	2,717,245	-	17,418	3,483,648	-	-	-	3,483,648
	8,702,939	12,457,304	26,491,780	88,018	47,740,041	-	-	-	47,740,041
Salaries and related costs	1,572,041	1,298,092	11,523,048	1,435,909	15,829,090	1,346,521	5,413,914	6,760,435	22,589,525
Professional fees	239,358	288,443	358,356	276,253	1,162,410	1,093,184	475,845	1,569,029	2,731,439
Rent and occupancy	110,013	87,612	565,413	113,019	876,057	149,083	300,861	449,944	1,326,001
Office supplies and equipment	1,394	9,454	253,288	36,525	300,661	249,200	78,887	328,087	628,748
Communications	10,217	149,601	290,064	42,437	492,319	179,924	787,588	967,512	1,459,831
Travel and meetings	187,445	211,549	859,613	284,129	1,542,736	59,102	589,858	648,960	2,191,696
Depreciation	-	171	2,130	15,242	17,543	85,950	7,773	93,723	111,266
Interest	-	-	-	-	-	28,901	-	28,901	28,901
Miscellaneous	37,214	6,739	113,642	203,642	361,237	63,845	154,037	217,882	579,119
Total expenses	\$ 10,860,621	\$ 14,508,965	\$ 40,457,534	\$ 2,495,174	\$ 68,322,094	\$ 3,255,710	\$ 7,808,763	\$ 11,064,473	\$ 79,386,567

See accompanying notes to the financial statements.

CHURCH WORLD SERVICE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2011

Type of Expense	Global Hunger and Development	Disaster and Emergency Response	Refugee Services	Advocacy and Relationship	Total Program Services	Management and General	Fund- Raising	Total Supporting Services	Total 2011 Expenses
Direct program expenses	\$ 8,718,996	\$ 13,969,501	\$ 25,195,535	\$ 205,000	\$ 48,089,032	\$ -	\$ -	\$ -	\$ 48,089,032
Designated expenditures for other	939,752	3,064,408	-	81,717	4,085,877	-	-	-	4,085,877
U.S. voluntary agencies	9,658,748	17,033,909	25,195,535	286,717	52,174,909	-	-	-	52,174,909
Salaries and related costs	1,109,234	1,050,615	10,925,434	1,558,501	14,643,784	1,096,004	5,494,835	6,590,839	21,234,623
Professional fees	225,244	301,680	436,476	190,666	1,154,066	1,094,168	316,762	1,410,930	2,564,996
Rent and occupancy	107,845	84,908	532,263	57,435	782,451	226,003	309,043	535,046	1,317,497
Office supplies and equipment	17,166	45,633	308,795	36,626	408,220	159,054	75,912	234,966	643,186
Communications	13,571	179,626	262,638	20,369	476,204	147,651	909,442	1,057,093	1,533,297
Travel and meetings	187,866	227,580	515,467	190,851	1,121,764	58,958	565,125	624,083	1,745,847
Depreciation	16,382	28,950	3,101	27,497	75,930	113,922	13,724	127,646	203,576
Interest	-	-	-	-	-	57,330	-	57,330	57,330
Miscellaneous	21,302	32,063	128,463	93,889	275,717	119,098	159,368	278,466	554,183
Total expenses	\$ 11,357,358	\$ 18,984,964	\$ 38,308,172	\$ 2,462,551	\$ 71,113,045	\$ 3,072,188	\$ 7,844,211	\$ 10,916,399	\$ 82,029,444

See accompanying notes to the financial statements.

CHURCH WORLD SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

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. Church World Service supports sustainable grassroots development, disaster relief, and refugee assistance; works to educate and advocate on hunger-related issues; provides resources; and facilitates action and communication at the grassroots level.

In May 2000, the Executive Board of the National Council of the Churches of Christ in the U.S.A. (the “Council”) authorized the separation of financial and operating management of the Council and CWS effective July 1, 2000. The Executive Board of the Council acted to delegate CWS’s legal and fiduciary responsibility to the Board of Directors of CWS and the Executive Committee of CWS. The membership of both bodies remains with the General Assembly of the Council and CWS with governance for each respectively provided by the Governing Board of the Council and the Board of Directors of CWS.

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, 2012 AND 2011

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, 2012, 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, 2012 AND 2011

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. At June 30, 2012 and 2011, CWS held government advanced funds of \$526,579 and \$500,479, respectively.

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, 2012 AND 2011

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, 2012 AND 2011

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.

Reclassifications

Certain reclassifications of the 2011 amounts in the financial statements have been made to conform to the presentation adopted for 2012.

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, 2012</u>		<u>June 30, 2011</u>	
	<u>Market</u> <u>Value</u>	<u>Present</u> <u>Value</u>	<u>Market</u> <u>Value</u>	<u>Present</u> <u>Value</u>
United Methodist Foundation:				
Charitable gift annuities	\$3,818,565	\$3,290,605	\$4,054,985	\$3,250,301
Charitable remainder unitrusts	1,081,675	556,485	1,157,371	521,582
Pooled income funds	57,912	40,514	59,375	52,745
Interest-free loan fund	<u>1,954</u>	<u>2,000</u>	<u>2,028</u>	<u>2,000</u>
	<u>4,960,106</u>	<u>3,889,604</u>	<u>5,273,759</u>	<u>3,826,628</u>
Presbyterian Foundation:				
Charitable gift annuities	165,774	1,833	180,209	3,004
Pooled income funds	<u>4,180</u>	<u>2,485</u>	<u>4,170</u>	<u>2,413</u>
	<u>169,954</u>	<u>4,318</u>	<u>184,379</u>	<u>5,417</u>
Mennonite Foundation, Inc.:				
Unitrust	<u>88,904</u>	<u>32,288</u>	<u>91,943</u>	<u>32,439</u>
Total	<u>\$5,218,964</u>	<u>\$3,926,210</u>	<u>\$5,550,081</u>	<u>\$3,864,484</u>

The discount rate and expected return on investment assumptions used in determining the present value of the charitable gift annuities shown above were 2.5% and 5.6%, respectively for 2012 and 2.4% and 5.7%, respectively for 2011.

CHURCH WORLD SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

4. INVESTMENTS AND INVESTMENTS HELD BY OTHERS

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

	<u>June 30,</u>	
	<u>2012</u>	<u>2011</u>
Corporate bonds	\$ 331,418	\$ 293,744
U.S. government obligations	210,007	211,983
Equity securities	1,843,408	2,046,212
Other	<u>285,973</u>	<u>111,475</u>
	<u>\$2,670,806</u>	<u>\$2,663,414</u>

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

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

	<u>June 30,</u>	
	<u>2012</u>	<u>2011</u>
UMF - Moderate Funds	\$2,442,134	\$2,540,827
UMF - Aggressive Funds	1,628,089	1,547,828
UMF - Other	119,011	196,035
Ecumenical Trust - New Covenant Growth Fund	82,221	85,550
Presbyterian Foundation Funds	38,671	32,816
BCE - Certificate of deposit	<u>2,491,094</u>	<u>2,400,241</u>
	<u>\$6,801,220</u>	<u>\$6,803,297</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 50% equities and 50% fixed income and other. The UMF - Aggressive Fund consists of approximately 70% equities and 30% 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, 2012 AND 2011

5. INVENTORIES

Inventories consist of:

	June 30,	
	2012	2011
Donated materials	\$4,278,537	\$4,935,700
Other materials and supplies	46,196	42,161
	<u>\$4,324,733</u>	<u>\$4,977,861</u>

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,	
	2012	2011
Furniture and equipment	\$ 4,721,003	\$ 4,712,380
Building and leasehold improvements	1,789,838	1,789,838
Land	7,137	7,137
	6,517,978	6,509,355
Less accumulated depreciation	(6,354,662)	(6,243,396)
Land, building, and equipment, net	<u>\$ 163,316</u>	<u>\$ 265,959</u>

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, 2012 AND 2011

8. DEBT OBLIGATIONS

CWS borrowed \$500,000 from the Board of Church Extension of Disciples of Christ, Inc. (“BCE”) during fiscal year 2010 and an additional \$750,000 from the BCE in fiscal year 2012. The notes bear interest at an adjustable rate (5.50% at June 30, 2012 and 2011, respectively) and are collateralized by certain investment balances maintained by CWS at the BCE (See Note 4). At June 30, 2012 and 2011, the total unpaid balance of the notes payable was \$1,027,592 and \$468,502, respectively. The expected future maturities of the notes is \$524,928 in fiscal year 2013 and \$502,664 in fiscal year 2014.

CWS also has a line-of-credit with a financial institution for \$1,500,000, which is renewed annually. Interest is payable on the amount outstanding at a variable rate equal to LIBOR plus 1%. The line of credit is secured by substantially all assets, excluding real estate and restricted net assets. There were no amounts outstanding on the line of credit at June 30, 2012 or 2011. During July 2012, the line-of-credit was extended until December 31, 2012.

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.

Effective January 1, 2009, the postretirement benefit plan for non-union employees of CWS was amended to reflect increased participant cost share. The changes made to the plan were communicated to all parties in April 2008 and as a result April 1, 2008 was used as the date at which the plan amendment was valued.

CHURCH WORLD SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

9. POSTRETIREMENT BENEFIT LIABILITY AND PENSION BENEFITS - Continued

The status of the postretirement healthcare plan at June 30, 2012 and 2011, was as follows:

	<u>2012</u>	<u>2011</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 5,816,910	\$ 5,804,952
Service cost	36,416	33,200
Interest cost	267,076	266,513
Actuarial (gain) loss	(7,548)	689,126
Actual benefit disbursements	<u>(475,382)</u>	<u>(976,881)</u>
Benefit obligation at the end of year	<u>\$ 5,637,472</u>	<u>\$ 5,816,910</u>
Change in plan assets:		
Fair value of plan asset at beginning of year	\$ -	\$ -
Contributions	475,382	976,881
Actual benefit disbursements	<u>(475,382)</u>	<u>(976,881)</u>
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
Funded status:		
Benefit obligation	<u>\$5,637,472</u>	<u>\$ 5,816,910</u>
Net post retirement benefit liability recognized in statement of financial position	<u>\$5,637,472</u>	<u>\$ 5,816,910</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, 2012 and 2011, respectively

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

	<u>Year Ended June 30,</u>	
	<u>2012</u>	<u>2011</u>
Service cost	\$ 36,416	\$ 33,200
Interest cost	267,076	266,513
Amortization of transition obligation	170,000	170,000
Amortization of prior service cost	<u>(441,815)</u>	<u>(441,815)</u>
	<u>\$ 31,677</u>	<u>\$ 27,898</u>

CHURCH WORLD SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

9. POSTRETIREMENT BENEFIT LIABILITY AND PENSION BENEFITS - Continued

Expected benefit payments for the five fiscal years after fiscal 2012 and the subsequent five fiscal years in aggregate are as follows:

<u>Year Ended</u>	<u>Amounts</u>
2013	\$520,150
2014	504,856
2015	496,029
2016	496,326
2017	490,745
2018 - 2022	2,126,477

No contributions to fund future benefits payable under the retiree healthcare plan are expected in fiscal 2013. 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, 2012 actuarial valuation, the most recent valuation date:

Actuarial valuation method	Projected unit credit method
Discount rate	4%
Healthcare cost trend rate	7% graded down uniformly to 4% over 6 years
Mortality	RP-2000 Fully Generational Combined Mortality 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 \$5,897,507 as of June 30, 2012.

Pension Plan

CWS sponsors a defined-contribution retirement plan covering substantially all employees. The retirement plan requires the employer to deposit with the trustee an amount equivalent to: (a) 9% of the employee's annual compensation for certain eligible non-union employees, (b) 11% of the employee's annual compensation for certain eligible union employees and (c) 18.65% of annual compensation for ordained employees who are considered self-employed, as defined in Article IV of the Federal Social Security Act. Prior to a plan amendment effective July 1, 2009, the employer contribution to the plan for eligible non-union employees was 11% of the employee's annual compensation. Contributions to the retirement plan during the years ended June 30, 2012 and 2011, were \$1,399,393 and \$1,340,689, respectively.

CHURCH WORLD SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

10. LEASES

CWS rents space for 49 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, 2012:

<u>Year Ending June 30,</u>	
2013	\$1,108,334
2014	920,560
2015	731,364
2016	<u>470,231</u>
	<u>\$3,230,489</u>

Rent and occupancy expense was approximately \$1,300,000 for each of the years ended June 30, 2012 and 2011.

11. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>June 30,</u>	
	<u>2012</u>	<u>2011</u>
Split-interest agreement and other receivables	\$3,953,864	\$3,890,516
Emergency response	2,934,684	3,471,997
Social and economic development	93,000	37,529
Mission relationships and witness	<u>-</u>	<u>18,800</u>
	<u>\$6,981,548</u>	<u>\$7,418,842</u>

Net assets of \$2,875,173 and \$4,056,591 were released from donor restrictions as expenses were incurred satisfying purposes specified by the donors for the years ended June 30, 2012 and 2011, 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).

CHURCH WORLD SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

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.

2012

Endowment Net Asset Composition by Type of Fund as of June 30, 2012 is as follows:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$(158,388)	\$ -	\$1,758,420	\$1,600,032
Board-designated endowment funds	<u>2,932,091</u>	<u>-</u>	<u>-</u>	<u>2,932,091</u>
Total funds	<u>\$ 2,773,703</u>	<u>\$ -</u>	<u>\$1,758,420</u>	<u>\$4,532,123</u>

CHURCH WORLD SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

13. ENDOWMENT - Continued

Changes in Endowment Net Assets for the Year Ended June 30, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 2,921,738	\$ -	\$1,693,374	\$ 4,615,112
Investment return:				
Investment income	178,276	-	-	178,276
Net depreciation (realized and unrealized)	<u>(151,456)</u>	<u>-</u>	<u>-</u>	<u>(151,456)</u>
Total investment return	<u>26,820</u>	<u>-</u>	<u>-</u>	<u>26,820</u>
Transfer to Board-designated and contributions	<u>-</u>	<u>-</u>	<u>65,046</u>	<u>65,046</u>
Appropriation of endowment assets for expenditure	<u>(174,855)</u>	<u>-</u>	<u>-</u>	<u>(174,855)</u>
Endowment net assets, end of year	<u>\$ 2,773,703</u>	<u>\$ -</u>	<u>\$1,758,420</u>	<u>\$ 4,532,123</u>

2011

Endowment Net Asset Composition by Type of Fund as of June 30, 2011 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$(112,117)	\$ -	\$1,693,374	\$1,581,257
Board-designated endowment funds	<u>3,033,855</u>	<u>-</u>	<u>-</u>	<u>3,033,855</u>
Total funds	<u>\$ 2,921,738</u>	<u>\$ -</u>	<u>\$1,693,374</u>	<u>\$4,615,112</u>

CHURCH WORLD SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

13. ENDOWMENT - Continued

Changes in Endowment Net Assets for the Year Ended June 30, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 2,193,483	\$ -	\$1,555,081	\$ 3,748,564
Investment return:				
Investment income	149,066	-	-	149,066
Net appreciation (realized and unrealized)	<u>671,097</u>	<u>-</u>	<u>-</u>	<u>671,097</u>
Total investment return	<u>820,163</u>	<u>-</u>	<u>-</u>	<u>820,163</u>
Transfer to Board-designated and contributions	<u>-</u>	<u>-</u>	<u>138,293</u>	<u>138,293</u>
Appropriation of endowment assets for expenditure	<u>(91,908)</u>	<u>-</u>	<u>-</u>	<u>(91,908)</u>
Endowment net assets, end of year	<u>\$ 2,921,738</u>	<u>\$ -</u>	<u>\$1,693,374</u>	<u>\$ 4,615,112</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the applicable state law requires CWS to retain as a fund of perpetual duration. As of June 30, 2012 and 2011, the market value of the donor restricted endowment funds was less than the permanently restricted amounts by \$158,388 and \$112,117, respectively. Such amounts are reported within unrestricted net assets.

CHURCH WORLD SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

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, 2012 AND 2011

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

Required 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, 2012 and 2011 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>2012:</u>				
Split-interest agreement receivables	\$3,926,210	\$ -	\$ -	\$3,926,210
Investments:				
Common stock	\$1,150,471	\$1,150,471	\$ -	\$ -
Mid cap equity funds	176,959	176,959	-	-
International equity funds	515,979	515,979	-	-
Other equity funds	159,868	159,868	-	-
US government obligations	210,007	210,007	-	-
Corporate bonds	331,418	-	331,418	-
Other	<u>126,104</u>	<u>126,104</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$2,670,806</u>	<u>\$2,339,388</u>	<u>\$331,418</u>	<u>\$ -</u>
Investments held by others:				
Pooled funds:				
Equities	\$2,815,294	\$2,815,294	\$ -	\$ -
Real estate	424,933	-	424,933	-
Corporate bonds	595,151	-	595,151	-
US government obligations	335,386	335,386	-	-
Other	<u>139,362</u>	<u>139,362</u>	<u>-</u>	<u>-</u>
Total pooled funds	4,310,126	3,290,042	1,020,084	-
Certificate of deposit	<u>2,491,094</u>	<u>2,491,094</u>	<u>-</u>	<u>-</u>
Total investments held by others	<u>\$6,801,220</u>	<u>\$5,781,136</u>	<u>\$1,020,084</u>	<u>\$ -</u>

CHURCH WORLD SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

14. FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

	Assets	<u>Fair Value Measurements Using</u>		
	<u>Measured at</u> <u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>2011:</u>				
Split-interest agreement receivables	\$3,864,484	\$ -	\$ -	\$3,864,484
Investments:				
Common stock	\$1,130,044	\$1,130,044	\$ -	\$ -
Mid cap equity funds	187,000	187,000	-	-
International equity funds	588,041	588,041	-	-
Other equity funds	141,127	141,127	-	-
US government obligations	211,983	211,983	-	-
Corporate bonds	293,744	-	293,744	-
Other	<u>111,475</u>	<u>111,475</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$2,663,414</u>	<u>\$2,369,670</u>	<u>\$293,744</u>	<u>\$ -</u>
Investments held by others:				
Pooled funds:				
Equities	\$2,871,782	\$2,871,782	\$ -	\$ -
Real estate	438,059	-	438,059	-
Corporate bonds	634,237	-	634,237	-
US government obligations	342,103	342,103	-	-
Other	<u>116,875</u>	<u>116,875</u>	<u>-</u>	<u>-</u>
Total pooled funds	4,403,056	3,330,760	1,072,296	-
Certificate of deposit	<u>2,400,241</u>	<u>2,400,241</u>	<u>-</u>	<u>-</u>
Total investments held by others	<u>\$6,803,297</u>	<u>\$5,731,001</u>	<u>\$1,072,296</u>	<u>\$ -</u>

CHURCH WORLD SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
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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, 2012 and 2011 are as follows:

	2012	2011
Net return or investment assets:	5.6%	5.7
Life expectancy:	2000 mortality tables	2000 mortality tables
Discount rate:	2.5%	2.4%

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 2012 and 2011:

	2012	2011
Beginning balance	\$ 3,864,484	\$ 3,485,870
Contributions included in activities	62,976	539,186
Change in value included in activities	(1,250)	(160,572)
Ending balance	<u>\$ 3,926,210</u>	<u>\$ 3,864,484</u>

15. RELATED-PARTY TRANSACTIONS

The Council performs certain administrative functions for CWS for which CWS pays service fees. These fees are based on a fixed percentage of the prior year cumulative expenses of the Council and were approximately \$200,000 for each of the years ended June 30, 2012 and 2011. CWS and the Council also share certain direct expenses, which are charged to the respective entity as incurred. In addition, CWS and the Council receive funds from various entities on behalf of each other, which are subsequently transferred to the respective entity. These amounts are accounted for as due to and due from transactions in the accompanying financial statements. CWS had a net payable to the Council of \$422,592 and \$411,590 at June 30, 2012 and 2011, respectively.

16. 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.

CHURCH WORLD SERVICE, INC.
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17. 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.

At June 30, 2012, approximately 10% of the employees are under the collective bargaining agreement represented by the union with existing labor agreements. The current collective bargaining agreement expires on March 31, 2013.

18. 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.

19. SUBSEQUENT EVENTS

CWS has evaluated subsequent events through October 11, 2012, the date the financial statements were available for issuance, and has determined that there are no subsequent events that require disclosure.