

CHURCH WORLD SERVICE, INC.

FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Crosslin + Associates, P.C.

October 19, 2015
Nashville, Tennessee

CHURCH WORLD SERVICE, INC.
STATEMENTS OF FINANCIAL POSITION

| | June 30, | |
|--|---------------|---------------|
| | 2015 | 2014 |
| Assets | | |
| Cash and cash equivalents | \$ 1,560,528 | \$ 1,349,374 |
| Contributions receivable, less allowances for uncollectible contributions (\$5,000 in 2015 and 2014) | 500,998 | 612,148 |
| Government grants receivable | 8,909,641 | 8,473,531 |
| Due from government agency | – | 7,702 |
| Prepaid expenses and other assets | 3,239,212 | 2,501,242 |
| Inventories | 5,363,217 | 4,229,247 |
| Investments | 3,718,661 | 3,512,024 |
| Investments held by others | 6,654,316 | 6,748,344 |
| Split-interest agreement receivables | 3,270,266 | 3,372,233 |
| Land, building, and equipment, net | 105,809 | 118,673 |
| | | |
| Total assets | \$ 33,322,648 | \$ 30,924,518 |
| Liabilities and net assets | | |
| Liabilities: | | |
| Accounts payable | \$ 7,514,332 | \$ 7,319,106 |
| Grants payable | 4,374,216 | 4,807,557 |
| Accrued liabilities: | | |
| Due to other U.S. voluntary agencies | 1,992,469 | 2,078,091 |
| Other | 621,593 | 935,592 |
| Due to government agency | 7,937 | – |
| Debt obligations | 3,836,266 | 471,537 |
| Postretirement benefit liability | 5,245,589 | 5,113,124 |
| Total liabilities | 23,592,402 | 20,725,007 |
| Net assets: | | |
| Unrestricted | 556,492 | 640,276 |
| Temporarily restricted | 6,228,541 | 6,647,552 |
| Permanently restricted | 2,945,213 | 2,911,683 |
| Total net assets | 9,730,246 | 10,199,511 |
| | | |
| Total liabilities and net assets | \$ 33,322,648 | \$ 30,924,518 |

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 ACTIVITIES
YEAR ENDED JUNE 30, 2014

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|-------------------|---------------------------|---------------------------|-------------------|
| Support, revenues, gains and other income | | | | |
| Support: | | | | |
| Contributions – member communions and related organizations | \$ 5,731,881 | \$ 1,521,381 | \$ – | \$ 7,253,262 |
| Contributions – public and community appeals | 20,788,462 | 740,596 | – | 21,529,058 |
| Government programs | 45,385,667 | – | – | 45,385,667 |
| Donated materials | 3,124,612 | – | – | 3,124,612 |
| Revenues and gains: | | | | |
| Service fees | 1,591,349 | – | – | 1,591,349 |
| Interest and dividend income | 133,437 | – | – | 133,437 |
| Other income | 593,565 | – | – | 593,565 |
| Net assets released from restrictions | 1,917,485 | (1,917,485) | – | – |
| Total support, revenues, gains and other income | 79,266,458 | 344,492 | – | 79,610,950 |
| Expenses | | | | |
| Program services: | | | | |
| Global relief and development | 10,303,376 | – | – | 10,303,376 |
| Emergency response | 11,375,157 | – | – | 11,375,157 |
| Services to Displaced People | 45,042,475 | – | – | 45,042,475 |
| Advocacy and relationships | 2,069,583 | – | – | 2,069,583 |
| Total program services | 68,790,591 | – | – | 68,790,591 |
| Supporting services: | | | | |
| Management and general | 3,300,413 | – | – | 3,300,413 |
| Fund-raising | 7,728,260 | – | – | 7,728,260 |
| Total supporting services | 11,028,673 | – | – | 11,028,673 |
| Total expenses | 79,819,264 | – | – | 79,819,264 |
| Change in net assets from operations | (552,806) | 344,492 | – | (208,314) |
| Nonoperating activities | | | | |
| Net realized and unrealized gain on investments | 902,917 | – | – | 902,917 |
| Endowment contributions | – | – | 214,333 | 214,333 |
| Change in net assets | 350,111 | 344,492 | 214,333 | 908,936 |
| Net assets at beginning of year | 290,165 | 6,303,060 | 2,697,350 | 9,290,575 |
| Net assets at end of year | \$ 640,276 | \$ 6,647,552 | \$ 2,911,683 | \$ 10,199,511 |

See accompanying notes to the financial statements.

CHURCH WORLD SERVICE, INC.
STATEMENTS OF CASH FLOWS

| | Year Ended June 30, | |
|--|---------------------|--------------|
| | 2015 | 2014 |
| Operating activities | | |
| Change in net assets | \$ (469,265) | \$ 908,936 |
| Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities: | | |
| Depreciation | 15,555 | 19,655 |
| Contributions restricted for long-term investment | (33,530) | (214,333) |
| Net realized and unrealized (loss) gain on investments | 13,380 | (902,917) |
| Changes in operating assets and liabilities: | | |
| Contributions receivable | 111,150 | 569,458 |
| Split-interest agreement receivables | 101,967 | (53,260) |
| Government grants receivable | (436,110) | (805,133) |
| Prepaid expenses and other assets | (737,970) | (800,562) |
| Inventories | (1,133,970) | (655,177) |
| Accounts payable | 195,226 | 1,325,826 |
| Grants payable | (433,341) | 1,021,125 |
| Accrued liabilities | (399,621) | 12,834 |
| Postretirement benefit liability | 132,465 | 344,156 |
| Due to government agency | 15,639 | (16,177) |
| | (3,058,425) | 754,431 |
| Investing activities | | |
| Purchase of land, building, and equipment | (2,691) | - |
| Purchases of investments, net | (125,989) | (307,059) |
| | (128,680) | (307,059) |
| Financing activities | | |
| Contributions restricted for long-term investment | 33,530 | 214,333 |
| Proceeds from debt obligations | 4,000,000 | - |
| Repayment of debt obligations | (635,271) | (629,196) |
| | 3,398,259 | (414,863) |
| Net increase in cash and cash equivalents | 211,154 | 32,509 |
| Cash and cash equivalents at beginning of year | 1,349,374 | 1,316,865 |
| Cash and cash equivalents at end of year | \$ 1,560,528 | \$ 1,349,374 |
| Supplemental information | | |
| Interest paid | \$ 159,177 | \$ 61,687 |

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 |
| | <u>5,302,015</u> | <u>5,069,314</u> | <u>34,429,085</u> | <u>39,212</u> | <u>44,839,626</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>44,839,626</u> |
| 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 | <u>\$ 7,233,989</u> | <u>\$ 7,139,118</u> | <u>\$ 51,635,909</u> | <u>\$ 2,081,309</u> | <u>\$ 68,090,325</u> | <u>\$ 3,569,781</u> | <u>\$ 6,552,086</u> | <u>\$ 10,121,867</u> | <u>\$ 78,212,192</u> |

See accompanying notes to the financial statements.

CHURCH WORLD SERVICE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2014

| 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 2014 Expenses |
|-----------------------------------|-------------------------------------|-----------------------|------------------------------------|--------------|------------------------------|------------------------------|------------------|---------------------------------|---------------------------|
| Direct program expenses | \$ 7,370,324 | \$ 6,880,647 | \$ 28,651,607 | \$ 11,600 | \$ 42,914,178 | \$ - | \$ - | \$ - | \$ 42,914,178 |
| Designated expenditures for other | | | | | | | | | |
| U.S. voluntary agencies | 733,245 | 2,509,329 | - | 16,294 | 3,258,868 | - | - | - | 3,258,868 |
| | 8,103,569 | 9,389,976 | 28,651,607 | 27,894 | 46,173,046 | - | - | - | 46,173,046 |
| Salaries and related costs | 1,745,480 | 1,312,470 | 13,987,784 | 1,217,836 | 18,263,570 | 1,213,033 | 5,327,895 | 6,540,928 | 24,804,498 |
| Professional fees | 167,418 | 291,794 | 477,878 | 126,836 | 1,063,926 | 1,326,602 | 537,702 | 1,864,304 | 2,928,230 |
| Rent and occupancy | 117,398 | 110,032 | 705,805 | 122,498 | 1,055,733 | 141,337 | 258,282 | 399,619 | 1,455,352 |
| Office supplies and equipment | 3,367 | 5,111 | 279,668 | 43,869 | 332,015 | 153,640 | 126,158 | 279,798 | 611,813 |
| Communications | 10,925 | 78,936 | 266,810 | 116,002 | 472,673 | 207,168 | 773,707 | 980,875 | 1,453,548 |
| Travel and meetings | 137,671 | 180,976 | 605,272 | 290,600 | 1,214,519 | 128,362 | 597,827 | 726,189 | 1,940,708 |
| Depreciation | - | - | - | - | - | 19,655 | - | 19,655 | 19,655 |
| Interest | - | - | - | - | - | 61,687 | - | 61,687 | 61,687 |
| Miscellaneous | 17,548 | 5,862 | 67,651 | 124,048 | 215,109 | 48,929 | 106,689 | 155,618 | 370,727 |
| Total expenses | \$ 10,303,376 | \$ 11,375,157 | \$ 45,042,475 | \$ 2,069,583 | \$ 68,790,591 | \$ 3,300,413 | \$ 7,728,260 | \$ 11,028,673 | \$ 79,819,264 |

See accompanying notes to the financial statements.

CHURCH WORLD SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

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, 2015 AND 2014

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, 2015, 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, 2015 AND 2014

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, 2015 AND 2014

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, 2015 AND 2014

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, 2015</u> | | <u>June 30, 2014</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 | \$2,502,720 | \$2,422,889 | \$2,884,131 | \$2,626,122 |
| Charitable remainder unitrusts | 1,892,975 | 763,436 | 1,199,479 | 666,936 |
| Pooled income funds | 30,892 | 35,060 | 38,192 | 28,160 |
| Interest-free loan fund | <u>2,294</u> | <u>2,000</u> | <u>2,421</u> | <u>2,000</u> |
| | <u>4,428,881</u> | <u>3,223,385</u> | <u>4,124,223</u> | <u>3,323,218</u> |
| Presbyterian Foundation: | | | | |
| Charitable gift annuities | 90,164 | 7,993 | 111,889 | 9,645 |
| Pooled income funds | <u>3,920</u> | <u>2,515</u> | <u>4,053</u> | <u>2,545</u> |
| | <u>94,084</u> | <u>10,508</u> | <u>115,942</u> | <u>12,190</u> |
| Mennonite Foundation, Inc.: | | | | |
| Unitrust | <u>88,625</u> | <u>36,373</u> | <u>93,119</u> | <u>36,825</u> |
| Total | <u>\$4,611,590</u> | <u>\$3,270,266</u> | <u>\$4,333,284</u> | <u>\$3,372,233</u> |

The discount rate used in determining the present value of the charitable gift annuities shown above were 2.3% and 2.5%, respectively for 2015 and 2014, respectively.

CHURCH WORLD SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

4. INVESTMENTS AND INVESTMENTS HELD BY OTHERS

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

| | <u>June 30,</u> | |
|-----------------------------|--------------------|--------------------|
| | <u>2015</u> | <u>2014</u> |
| Cash and cash equivalents | \$ 96,978 | \$ 80,486 |
| Corporate bonds | 579,254 | 560,242 |
| U.S. government obligations | 155,134 | 102,936 |
| Equity securities | 2,821,535 | 2,572,802 |
| Other equities | <u>65,760</u> | <u>195,558</u> |
| | <u>\$3,718,661</u> | <u>\$3,512,024</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:

| | <u>June 30,</u> | |
|---|--------------------|--------------------|
| | <u>2015</u> | <u>2014</u> |
| UMF - Moderate Funds | \$2,118,561 | \$2,207,712 |
| UMF - Aggressive Funds | 1,402,501 | 1,464,919 |
| UMF - Other | 106,452 | 115,196 |
| Elkhart Co. Community Foundation Funds | 107,175 | 131,700 |
| Ecumenical Trust - New Covenant Growth Fund | 80,953 | 105,623 |
| Presbyterian Foundation Funds | 131,403 | 81,955 |
| BCE - Certificate of deposit | <u>2,707,271</u> | <u>2,641,239</u> |
| | <u>\$6,654,316</u> | <u>\$6,748,344</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 72% equities and 28% 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, 2015 AND 2014

5. INVENTORIES

Inventories consist of:

| | June 30, | |
|------------------------------|-------------|-------------|
| | 2015 | 2014 |
| Donated materials | \$5,325,255 | \$4,163,610 |
| Other materials and supplies | 37,962 | 65,637 |
| | \$5,363,217 | \$4,229,247 |

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, | |
|-------------------------------------|--------------|--------------|
| | 2015 | 2014 |
| Furniture and equipment | \$ 4,723,694 | \$ 4,721,003 |
| Building and leasehold improvements | 1,789,838 | 1,789,838 |
| Land | 7,137 | 7,137 |
| | 6,520,669 | 6,517,978 |
| Less accumulated depreciation | (6,414,860) | (6,399,305) |
| Land, building, and equipment, net | \$ 105,809 | \$ 118,673 |

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
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8. DEBT OBLIGATIONS

At June 30, 2015 and 2014, the total unpaid balance of the notes payable to the Board of Church Extension of Disciples of Christ, Inc. (“BCE”) was \$2,080,431 and \$471,537, respectively. As of June 30, 2014, this balance consisted of one note from the BCE, which retained a balance of \$471,537 and an adjustable interest rate of 4.99%. As of June 30, 2015, this note has a balance of \$217,634, and a second note was added during the year, which had a year-end balance of \$1,862,797 at an adjustable interest rate of 4.25%. The notes remaining as of June 30, 2015 are collateralized by certain investment balances maintained at the BCE totaling approximately \$2,710,000.

On November 1, 2014, CWS entered into a note payable with United Methodist Committee on Relief (“UMCOR”). At June 30, 2015, the total unpaid balance of the note payable to UMCOR is \$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, 2015. 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, 2015, and 2014). 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 \$1,500,000 during fiscal years 2015 and 2014. There were no amounts outstanding on the line-of-credit at June 30, 2015 or 2014.

Principal maturities due on CWS’s debt obligations as of June 30, 2015, are as follows:

| | |
|------------|---------------------|
| 2016 | \$ 766,286 |
| 2017 | 571,446 |
| 2018 | 595,189 |
| 2019 | 619,918 |
| 2020 | 347,551 |
| Thereafter | <u>935,876</u> |
| | <u>\$ 3,836,266</u> |

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.

CHURCH WORLD SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

9. POSTRETIREMENT BENEFIT LIABILITY AND PENSION BENEFITS - Continued

The status of the postretirement healthcare plan at June 30, 2015 and 2014, was as follows:

| | <u>2015</u> | <u>2014</u> |
|---|---------------------|---------------------|
| Change in benefit obligation: | | |
| Benefit obligation at beginning of year | \$ 5,113,124 | \$ 4,768,968 |
| Service cost | 10,157 | 8,311 |
| Interest cost | 166,429 | 174,346 |
| Actuarial losses (gains) | 380,874 | 571,819 |
| Actual benefit disbursements | <u>(424,995)</u> | <u>(410,320)</u> |
| Benefit obligation at the end of year | <u>\$ 5,245,589</u> | <u>\$ 5,113,124</u> |
| Change in plan assets: | | |
| Fair value of plan asset at beginning of year | \$ - | \$ - |
| Contributions | 424,995 | 410,320 |
| Actual benefit disbursements | <u>(424,995)</u> | <u>(410,320)</u> |
| Fair value of plan assets at end of year | <u>\$ -</u> | <u>\$ -</u> |
| Funded status: | | |
| Benefit obligation | <u>\$5,245,589</u> | <u>\$5,113,124</u> |
| Net postretirement benefit liability recognized in statement of financial position | <u>\$5,245,589</u> | <u>\$5,113,124</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, 2015 and 2014, respectively

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

| | <u>Year Ended June 30,</u> | |
|---------------------------------------|----------------------------|---------------------|
| | <u>2015</u> | <u>2014</u> |
| Service cost | \$ 10,157 | \$ 8,311 |
| Interest cost | 166,429 | 174,346 |
| Amortization of transition obligation | 95,000 | 170,000 |
| Amortization of net gain | - | (8,043) |
| Amortization of prior service cost | <u>(437,398)</u> | <u>(441,815)</u> |
| | <u>\$ (165,812)</u> | <u>\$ (97,201)</u> |

CHURCH WORLD SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

9. POSTRETIREMENT BENEFIT LIABILITY AND PENSION BENEFITS - Continued

Expected benefit payments for the five fiscal years after fiscal 2015 and the subsequent five fiscal years in aggregate are as follows:

| <u>Year Ended</u> | <u>Amounts</u> |
|-------------------|----------------|
| 2016 | 438,719 |
| 2017 | 415,354 |
| 2018 | 415,920 |
| 2019 | 414,106 |
| 2020 | 406,029 |
| 2021 - 2025 | 1,853,988 |

No contributions to fund future benefits payable under the retiree healthcare plan are expected in fiscal 2016. 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, 2015 actuarial valuation, the most recent valuation date:

| | |
|----------------------------|--|
| Actuarial valuation method | Projected unit credit method |
| Discount rate | 3.65% |
| 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 \$5,319,231 as of June 30, 2015.

Pension Plan

CWS sponsors a defined-contribution retirement plan covering substantially all employees. In October 2013, the Board of Directors approved a resolution that was effective January 1, 2014, for the retirement plan to require the employer to deposit with the plan custodian an amount of the employee's annual compensation equivalent to:

CHURCH WORLD SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

For union employees and 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
- (d) 11% for all current union employees with 15 or more years of service and union employees over the age of 60 with less than 15 years of service

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

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

For non-union employee:

- (h) 5% regardless of years of service

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:

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, 2015 and 2014, were \$1,082,383 and \$1,009,297 respectively.

CHURCH WORLD SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
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10. LEASES

CWS rents space for 44 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, 2015:

| <u>Year Ending June 30,</u> | |
|-----------------------------|--------------------|
| 2016 | \$1,030,820 |
| 2017 | 421,021 |
| 2018 | 350,595 |
| 2019 | 128,901 |
| 2020 | <u>88,751</u> |
| | <u>\$2,020,088</u> |

Rent and occupancy expense was approximately \$1,300,000 for each of the years ended June 30, 2015 and 2014.

11. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

| | <u>June 30,</u> | |
|--|--------------------|--------------------|
| | <u>2015</u> | <u>2014</u> |
| Split-interest agreement and other receivables | \$3,270,266 | \$3,372,233 |
| Emergency response | 2,603,221 | 2,769,718 |
| Global relief and development | 139,503 | 396,850 |
| Services to displaced people | <u>215,551</u> | <u>108,751</u> |
| | <u>\$6,228,541</u> | <u>\$6,647,552</u> |

Net assets of \$2,395,729 and \$1,917,485 were released from donor restrictions as expenses were incurred satisfying purposes specified by the donors for the years ended June 30, 2015 and 2014, respectively.

CHURCH WORLD SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

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, 2015 AND 2014

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, 2015 AND 2014

13. ENDOWMENT - Continued

2014

Endowment Net Asset Composition by Type of Fund as of June 30, 2014 is as follows:

| | <u>Unrestricted</u> | Temporarily <u>Restricted</u> | Permanently <u>Restricted</u> | <u>Total</u> |
|----------------------------------|---------------------|----------------------------------|----------------------------------|--------------------|
| Donor-restricted endowment funds | \$ 163,820 | \$ - | \$2,911,683 | \$3,075,503 |
| Board-designated endowment funds | <u>1,257,851</u> | <u>-</u> | <u>-</u> | <u>1,257,851</u> |
| Total funds | <u>\$ 1,421,671</u> | <u>\$ -</u> | <u>\$2,911,683</u> | <u>\$4,333,354</u> |

Changes in Endowment Net Assets for the Year Ended June 30, 2014:

| | <u>Unrestricted</u> | Temporarily <u>Restricted</u> | Permanently <u>Restricted</u> | <u>Total</u> |
|---|---------------------|----------------------------------|----------------------------------|---------------------|
| Endowment net assets, beginning of year | <u>\$ 1,357,116</u> | <u>\$ -</u> | <u>\$2,697,350</u> | <u>\$ 4,054,466</u> |
| Investment return: | | | | |
| Investment income | 133,437 | - | - | 133,437 |
| Net depreciation (realized and unrealized) | <u>403,838</u> | <u>-</u> | <u>-</u> | <u>403,838</u> |
| Total investment return | <u>537,275</u> | <u>-</u> | <u>-</u> | <u>537,275</u> |
| Contributions | <u>-</u> | <u>-</u> | <u>214,333</u> | <u>214,333</u> |
| Appropriation of endowment assets for expenditure | <u>(472,720)</u> | <u>-</u> | <u>-</u> | <u>(472,720)</u> |
| Endowment net assets, end of year | <u>\$ 1,421,671</u> | <u>\$ -</u> | <u>\$2,911,683</u> | <u>\$ 4,333,354</u> |

CHURCH WORLD SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

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
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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, 2015 and 2014 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>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 | 2,632,462 | 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, 2015 AND 2014

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>2014:</u> | | | | |
| Split-interest agreement receivables | <u>\$3,372,233</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$3,372,233</u> |
| Investments: | | | | |
| Common stock | \$1,719,606 | \$1,719,606 | \$ - | \$ - |
| Mid cap equity funds | 243,484 | 243,484 | - | - |
| International equity funds | 609,712 | 609,712 | - | - |
| Other equity funds | 146,358 | 146,358 | - | - |
| US government obligations | 102,936 | 102,936 | - | - |
| Corporate bonds | 560,242 | - | 560,242 | - |
| Hedge funds | 49,200 | - | - | 49,200 |
| Other | <u>80,486</u> | <u>80,486</u> | <u>-</u> | <u>-</u> |
| Total investments | <u>\$3,512,024</u> | <u>\$2,902,582</u> | <u>\$560,242</u> | <u>\$ 49,200</u> |
| Investments held by others: | | | | |
| Pooled funds: | | | | |
| Equities | \$2,558,488 | \$2,558,488 | \$ - | \$ - |
| Real estate | 553,201 | - | 553,201 | - |
| Corporate bonds | 404,982 | - | 404,982 | - |
| US government obligations | 301,836 | 301,836 | - | - |
| Other | <u>282,467</u> | <u>282,467</u> | <u>-</u> | <u>-</u> |
| Total pooled funds | 4,100,974 | 3,142,791 | 958,183 | - |
| Certificate of deposit | <u>2,647,370</u> | <u>2,647,370</u> | <u>-</u> | <u>-</u> |
| Total investments held by others | <u>\$6,748,344</u> | <u>\$5,790,161</u> | <u>\$958,183</u> | <u>\$ -</u> |

CHURCH WORLD SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

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, 2015 and 2014 are as follows:

| | <u>2015</u> | <u>2014</u> |
|----------------------------------|-----------------------|-----------------------|
| Net return on investment assets: | 5.3% | 5.7% |
| Life expectancy: | 2000 mortality tables | 2000 mortality tables |
| Discount rate: | 2.3% | 2.5% |

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 2015 and 2014:

| | <u>2015</u> | <u>2014</u> |
|--|--------------------|--------------------|
| Beginning balance | \$3,372,233 | \$3,318,973 |
| Contributions included in activities | 15,200 | 27,587 |
| Change in value included in activities | <u>(117,167)</u> | <u>25,673</u> |
| Ending balance | <u>\$3,270,266</u> | <u>\$3,372,233</u> |

15. RELATED-PARTY TRANSACTIONS

For the year ended June 30, 2014, the National Council of the Churches of Christ in the U.S.A. (the "Council") performed certain administrative functions for CWS for which CWS paid service fees. These fees were based on a fixed percentage of the prior year cumulative expenses of the Council and were approximately \$200,000 for the year then ended. CWS and the Council also shared certain direct expenses, which were charged to the respective entity as incurred. In addition, CWS and the Council received funds from various entities on behalf of each other, which were 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 \$-0- at June 30, 2014.

CWS and the Council terminated their relationship on September 30, 2014. There were no expenses owed to the Council during the year ended June 30, 2015.

CHURCH WORLD SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
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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.

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, 2015, approximately 7% 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, 2016.

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 19, 2015, the date the financial statements were available for issuance, and has determined that there are no subsequent events that require disclosure.