

CHURCH WORLD SERVICE, INC.

FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

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, 2011 and 2010, 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, 2011 and 2010, 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 14, 2011
Nashville, Tennessee

CHURCH WORLD SERVICE, INC.
STATEMENTS OF FINANCIAL POSITION

	June 30,	
	2011	2010
Assets		
Cash and cash equivalents	\$ 1,596,041	\$ 1,369,824
Contributions receivable, less allowances for uncollectible contributions (\$5,000 in 2011 and 2010)	794,544	1,314,874
Government grants receivable	7,070,617	7,146,774
Prepaid expenses and other assets	1,812,130	2,556,363
Inventories	4,977,861	4,001,634
Investments	2,663,414	2,180,725
Investments held by others	6,803,297	5,844,353
Split-interest agreement receivables	3,864,484	3,485,870
Land, building, and equipment, net	265,959	462,120
Total assets	\$ 29,848,347	\$ 28,362,537
Liabilities and net assets		
Liabilities:		
Accounts payable	\$ 5,875,864	\$ 5,148,042
Grants payable	2,999,283	3,262,513
Accrued liabilities:		
Due to other U.S. voluntary agencies	1,115,212	1,509,275
Other	2,113,016	1,809,179
Due to government agency	94,343	54,858
Debt obligations	468,502	716,416
Postretirement benefit liability	5,816,910	5,804,952
Total liabilities	18,483,130	18,305,235
Net assets:		
Unrestricted	2,253,001	1,387,636
Temporarily restricted	7,418,842	7,114,585
Permanently restricted	1,693,374	1,555,081
Total net assets	11,365,217	10,057,302
Total liabilities and net assets	\$ 29,848,347	\$ 28,362,537

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:				
Self-help 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
Education and advocacy	1,776,347	–	–	1,776,347
Mission relationships and witness	686,204	–	–	686,204
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, before postretirement related changes	865,365	304,257	138,293	1,307,915
Postretirement related changes other than net periodic pension cost	–	–	–	–
Change in net assets, after postretirement related changes	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	<u>\$ 2,253,001</u>	<u>\$ 7,418,842</u>	<u>\$ 1,693,374</u>	<u>\$ 11,365,217</u>

See accompanying notes to the financial statements.

CHURCH WORLD SERVICE, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support, revenues, gains and other income				
Support:				
Contributions – member communions and related organizations	\$ 5,662,324	\$ 1,540,250	\$ –	\$ 7,202,574
Contributions – public and community appeals	23,100,348	3,778,542	–	26,878,890
U.S. government programs	35,567,657	–	–	35,567,657
Donated materials	8,940,412	–	–	8,940,412
Revenues and gains:				
Service fees	928,644	–	–	928,644
Interest and dividend income	132,987	–	–	132,987
Other income	2,727,823	–	–	2,727,823
Net assets released from restrictions	2,851,848	(2,851,848)	–	–
Total support, revenues, gains and other income	79,912,043	2,466,944	–	82,378,987
Expenses				
Program services:				
Self-help development	10,065,113	–	–	10,065,113
Disaster and emergency response	17,397,690	–	–	17,397,690
Refugee services	37,715,993	–	–	37,715,993
Education and advocacy	2,008,441	–	–	2,008,441
Mission relationships and witness	783,997	–	–	783,997
Total program services	67,971,234	–	–	67,971,234
Supporting services:				
Management and general	2,766,016	–	–	2,766,016
Fund-raising	8,610,990	–	–	8,610,990
Total supporting services	11,377,006	–	–	11,377,006
Total expenses	79,348,240	–	–	79,348,240
Change in net assets from operations	563,803	2,466,944	–	3,030,747
Nonoperating activities				
Net realized and unrealized gain on investments	589,208	–	–	589,208
Endowment contributions	–	–	33,820	33,820
Change in net assets, before postretirement related changes	1,153,011	2,466,944	33,820	3,653,775
Postretirement related changes other than net periodic pension cost	(287,362)	–	–	(287,362)
Change in net assets, after postretirement related changes	865,649	2,466,944	33,820	3,366,413
Net assets at beginning of year	521,987	4,647,641	1,521,261	6,690,889
Net assets at end of year	\$ 1,387,636	\$ 7,114,585	\$ 1,555,081	\$ 10,057,302

See accompanying notes to the financial statements.

CHURCH WORLD SERVICE, INC.
STATEMENTS OF CASH FLOWS

	Year Ended June 30,	
	2011	2010
Operating activities		
Change in net assets	\$ 1,307,915	\$ 3,366,413
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	203,576	231,555
Net realized and unrealized gain on investments	(1,179,933)	(589,208)
Changes in operating assets and liabilities:		
Contributions receivable	520,330	(840,052)
Split-interest agreement receivables	(378,614)	(482,979)
Government grants receivable	76,157	(716,760)
Prepaid expenses and other assets	744,233	933
Inventories	(976,227)	(2,345,368)
Accounts payable	727,822	2,035,945
Grants payable	(263,230)	(161,662)
Accrued liabilities	(90,226)	(1,140,510)
Postretirement benefit liability	11,958	386,826
Due to government agency	39,485	-
Net cash provided by (used in) operating activities	743,246	(254,867)
Investing activities		
Purchases of equipment	(7,415)	-
Purchases of investments, net	(261,700)	(101,772)
Net cash used in investing activities	(269,115)	(101,772)
Financing activities		
Proceeds from debt obligations	-	500,000
Repayment of debt obligations	(247,914)	(144,049)
Net cash (used in) provided by financing activities	(247,914)	355,951
Net increase (decrease) in cash and cash equivalents	226,217	(688)
Cash and cash equivalents at beginning of year	1,369,824	1,370,512
Cash and cash equivalents at end of year	\$ 1,596,041	\$ 1,369,824
Supplemental information		
Interest paid	\$ 57,330	\$ 40,877

See accompanying notes to the financial statements.

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

Type of Expense	Self-Help Development	Disaster and Emergency Response	Refugee Services	Education and Advocacy	Mission Relationships and Witness	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	\$ 121,500	\$ 83,500	\$ 48,089,032	\$ -	\$ -	\$ -	\$ 48,089,032
Designated expenditures for other										
U.S. voluntary agencies	939,752	3,064,408	-	81,717	-	4,085,877	-	-	-	4,085,877
	<u>9,658,748</u>	<u>17,033,909</u>	<u>25,195,535</u>	<u>203,217</u>	<u>83,500</u>	<u>52,174,909</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>52,174,909</u>
Salaries and related costs	1,109,234	1,050,615	10,925,434	1,119,949	438,552	14,643,784	1,096,004	5,494,835	6,590,839	21,234,623
Professional fees	225,244	301,680	436,476	163,181	27,485	1,154,066	1,094,168	316,762	1,410,930	2,564,996
Rent and occupancy	107,845	84,908	532,263	31,777	25,658	782,451	226,003	309,043	535,046	1,317,497
Office supplies and equipment	17,166	45,633	308,795	21,360	15,266	408,220	159,054	75,912	234,966	643,186
Communications	13,571	179,626	262,638	16,939	3,430	476,204	147,651	909,442	1,057,093	1,533,297
Travel and meetings	187,866	227,580	515,467	171,256	19,595	1,121,764	58,958	565,125	624,083	1,745,847
Depreciation	16,382	28,950	3,101	18,265	9,232	75,930	113,922	13,724	127,646	203,576
Interest	-	-	-	-	-	-	57,330	-	57,330	57,330
Miscellaneous	21,302	32,063	128,463	30,403	63,486	275,717	119,098	159,368	278,466	554,183
Total expenses	<u>\$ 11,357,358</u>	<u>\$ 18,984,964</u>	<u>\$ 38,308,172</u>	<u>\$ 1,776,347</u>	<u>\$ 686,204</u>	<u>\$ 71,113,045</u>	<u>\$ 3,072,188</u>	<u>\$ 7,844,211</u>	<u>\$ 10,916,399</u>	<u>\$ 82,029,444</u>

See accompanying notes to the financial statements.

CHURCH WORLD SERVICE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2010

Type of Expense	Self-Help Development	Disaster and Emergency Response	Refugee Services	Education and Advocacy	Mission Relationships and Witness	Total Program Services	Management and General	Fund- Raising	Total Supporting Services	Total 2010 Expenses
Direct program expenses	\$ 7,447,020	\$ 11,962,163	\$ 25,109,993	\$ 174,700	\$ 172,010	\$ 44,865,886	\$ -	\$ -	\$ -	\$ 44,865,886
Designated expenditures for other										
U.S. voluntary agencies	881,583	2,874,728	-	76,659	-	3,832,970	-	-	-	3,832,970
	8,328,603	14,836,891	25,109,993	251,359	172,010	48,698,856	-	-	-	48,698,856
Salaries and related costs	1,151,492	1,526,492	10,616,275	1,442,880	483,317	15,220,456	785,182	6,106,952	6,892,134	22,112,590
Professional fees	268,403	364,225	250,867	42,672	27,120	953,287	1,137,243	258,364	1,395,607	2,348,894
Rent and occupancy	109,920	84,252	546,520	31,927	25,659	798,278	193,531	369,942	563,473	1,361,751
Office supplies and equipment	2,329	22,722	184,422	2,385	981	212,839	198,175	76,319	274,494	487,333
Communications	10,175	262,240	259,631	29,546	5,671	567,263	122,321	1,037,275	1,159,596	1,726,859
Travel and meetings	173,461	242,164	699,183	159,762	5,881	1,280,451	62,244	560,470	622,714	1,903,165
Depreciation	18,730	30,980	4,743	20,529	10,463	85,445	121,082	25,028	146,110	231,555
Interest	-	-	-	-	-	-	40,877	-	40,877	40,877
Miscellaneous	2,000	27,724	44,359	27,381	52,895	154,359	105,361	176,640	282,001	436,360
Total expenses	\$ 10,065,113	\$ 17,397,690	\$ 37,715,993	\$ 2,008,441	\$ 783,997	\$ 67,971,234	\$ 2,766,016	\$ 8,610,990	\$ 11,377,006	\$ 79,348,240

See accompanying notes to the financial statements.

CHURCH WORLD SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

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 NCC 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, 2011 AND 2010

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, 2011, 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, 2011 AND 2010

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, 2011 and 2010, CWS held government advanced funds of \$500,479 and \$1,644,100, 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, 2011 AND 2010

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, 2011 AND 2010

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, 2011</u>		<u>June 30, 2010</u>	
	<u>Market Value</u>	<u>Present Value</u>	<u>Market Value</u>	<u>Present Value</u>
United Methodist Foundation:				
Charitable gift annuities	\$4,054,985	\$3,250,301	\$3,458,891	\$2,873,014
Charitable remainder unitrusts	1,157,371	521,582	1,025,179	504,654
Pooled income	59,375	52,745	53,240	51,842
Interest-free loan fund	<u>2,028</u>	<u>2,000</u>	<u>1,703</u>	<u>2,000</u>
	<u>5,273,759</u>	<u>3,826,628</u>	<u>4,539,013</u>	<u>3,431,510</u>
Presbyterian Foundation:				
Charitable gift annuities	180,209	3,004	200,965	22,855
Pooled income funds	<u>4,170</u>	<u>2,413</u>	<u>4,185</u>	<u>1,816</u>
	<u>184,379</u>	<u>5,417</u>	<u>205,150</u>	<u>24,671</u>
Mennonite Foundation, Inc.:				
Unitrust	<u>91,943</u>	<u>32,439</u>	<u>87,253</u>	<u>29,689</u>
Total	<u>\$5,550,081</u>	<u>\$3,864,484</u>	<u>\$4,831,416</u>	<u>\$3,485,870</u>

The discount rate and expected return on investment assumptions used in determining the present value of the charitable gift annuities shown above were 2.4% and 5.7% respectively for 2011 and 2.6% and 5.7% respectively for 2010.

CHURCH WORLD SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

4. INVESTMENTS AND INVESTMENT HELD BY OTHERS

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

	<u>June 30,</u>	
	<u>2011</u>	<u>2010</u>
Corporate bonds	\$ 293,744	\$ 184,900
U.S. government obligations	211,983	244,785
Equity securities	2,046,212	1,453,501
Other	<u>111,475</u>	<u>297,539</u>
	<u>\$2,663,414</u>	<u>\$2,180,725</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>2011</u>	<u>2010</u>
UMF - Moderate Funds	\$2,540,827	\$2,159,863
UMF - Aggressive Funds	1,547,828	1,256,385
UMF - Other	196,035	21,154
Ecumenical Trust - New Covenant Growth Fund	85,550	69,663
Presbyterian Foundation Funds	32,816	29,118
BCE - Certificate of deposit	<u>2,400,241</u>	<u>2,308,170</u>
	<u>\$6,803,297</u>	<u>\$5,844,353</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, 2011 AND 2010

5. INVENTORIES

Inventories consist of:

	June 30,	
	2011	2010
Donated materials	\$4,935,700	\$3,958,574
Other materials and supplies	42,161	43,060
	<u>\$4,977,861</u>	<u>\$4,001,634</u>

Donated materials consist of various items, many of which are generated through the CWS Kit Program, including hygiene, school, cleanup, baby and kid's 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,	
	2011	2010
Furniture and equipment	\$ 4,712,380	\$ 4,704,965
Building and leasehold improvements	1,789,838	1,789,838
Land	7,137	7,137
	6,509,355	6,501,940
Less accumulated depreciation	(6,243,396)	(6,039,820)
Land, building, and equipment, net	<u>\$ 265,959</u>	<u>\$ 462,120</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, 2011 AND 2010

8. DEBT OBLIGATIONS

CWS has a note payable agreement, in the original amount of \$1,500,000, with the Board of Church Extension of Disciples of Christ, Inc. (“BCE”). During fiscal year 2010, CWS borrowed an additional \$500,000 from the BCE, increasing the total commitment of the agreement to \$2,000,000. The note bears interest at an adjustable rate (5.50% and 7.375% at June 30, 2011 and 2010) and is collateralized by certain investment balances maintained by CWS at the BCE. At June 30, 2011 and 2010, the unpaid balance of the note payable was \$468,502 and \$716,416, respectively. The unpaid balance is due on January 1, 2012.

CWS also has a line-of-credit with a financial institution for \$1,500,000, which is renewed annually. Interest is payable on 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, 2011 or 2010.

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, 2011 AND 2010

9. POSTRETIREMENT BENEFIT LIABILITY AND PENSION BENEFITS - Continued

The status of the postretirement healthcare plan at June 30, 2011 and 2010, was as follows:

	<u>2011</u>	<u>2010</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 5,804,952	\$ 5,418,126
Service cost	33,200	41,643
Interest cost	266,513	341,024
Actuarial loss	689,126	907,525
Actual benefit disbursements	<u>(976,881)</u>	<u>(903,366)</u>
Benefit obligation at the end of year	<u>\$ 5,816,910</u>	<u>\$ 5,804,952</u>
Change in plan assets:		
Fair value of plan asset at beginning of year	\$ -	\$ -
Employer contributions	874,204	821,510
Participant contributions	102,677	81,856
Actual benefit disbursements	<u>(976,881)</u>	<u>(903,366)</u>
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
Funded status:		
Benefit obligation	<u>\$5,816,910</u>	<u>\$ 5,804,952</u>
Net post retirement benefit liability recognized in statement of financial position	<u>\$5,816,910</u>	<u>\$ 5,804,952</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, 2011 and 2010, respectively

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

	<u>Year Ended June 30,</u>	
	<u>2011</u>	<u>2010</u>
Service cost	\$ 33,200	\$ 41,643
Interest cost	266,513	341,024
Amortization of transition obligation	170,000	170,000
Amortization of unrecognized net gain	-	(11,388)
Amortization of prior service cost	<u>(441,815)</u>	<u>(441,815)</u>
	<u>\$ 27,898</u>	<u>\$ 99,464</u>

CHURCH WORLD SERVICE, INC.
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011 AND 2010

9. POSTRETIREMENT BENEFIT LIABILITY AND PENSION BENEFITS - Continued

Expected benefit payments for the five fiscal years after fiscal 2011 and the subsequent five fiscal years in aggregate are as follows:

<u>Year Ended</u>	<u>Amounts</u>
2012	\$484,783
2013	497,265
2014	481,667
2015	464,695
2016	444,380
2017 - 2021	1,997,284

No contributions to fund future benefits payable under the retiree healthcare plan are expected in fiscal 2012. 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, 2011 actuarial valuation, the most recent valuation date:

Actuarial valuation method	Projected unit credit method
Discount rate	5%
Healthcare cost trend rate	8% graded down uniformly to 5% over 6 years
Mortality	RP-2000 Healthy Annuitants 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 \$6,341,136 as of June 30, 2011.

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, 2011 and 2010, were \$1,447,650 and \$1,593,837, respectively.

CHURCH WORLD SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

10. LEASES

CWS rents office space under various operating leases. The related lease terms range from one to five 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, 2011:

<u>Year Ending June 30,</u>	
2012	\$ 944,975
2013	531,961
2014	480,995
2015	433,025
2016	<u>433,025</u>
	<u>\$2,823,981</u>

Rent expense was approximately \$1,300,000 for each of the years ended June 30, 2011 and 2010.

11. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>June 30,</u>	
	<u>2011</u>	<u>2010</u>
Split-interest agreement and other receivables	\$3,890,516	\$3,723,601
Emergency response	3,471,997	3,372,134
Social and economic development	37,529	18,850
Mission relationships and witness	<u>18,800</u>	<u>-</u>
	<u>\$7,418,842</u>	<u>\$7,114,585</u>

Net assets of \$4,056,591 and \$2,851,848 were released from donor restrictions as expenses were incurred satisfying purposes specified by the donors for the years ended June 30, 2011 and 2010, 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, 2011 AND 2010

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.

2011

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

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>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, 2011 AND 2010

13. ENDOWMENT - Continued

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

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>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>

2010

Endowment Net Asset Composition by Type of Fund as of June 30, 2010 is as follows:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$(307,331)	\$ -	\$1,555,081	\$1,247,750
Board-designated endowment funds	<u>2,500,814</u>	<u>-</u>	<u>-</u>	<u>2,500,814</u>
Total funds	<u>\$ 2,193,483</u>	<u>\$ -</u>	<u>\$1,555,081</u>	<u>\$3,748,564</u>

CHURCH WORLD SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

13. ENDOWMENT - Continued

Changes in Endowment Net Assets for the Year Ended June 30, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,916,060	\$ -	\$1,521,261	\$ 3,437,321
Investment return:				
Investment income	85,709	-	-	85,709
Net appreciation (realized and unrealized)	<u>277,423</u>	<u>-</u>	<u>-</u>	<u>277,423</u>
Total investment return	<u>363,132</u>	<u>-</u>	<u>-</u>	<u>363,132</u>
Transfer to Board-designated and contributions	<u>-</u>	<u>-</u>	<u>33,820</u>	<u>33,820</u>
Appropriation of endowment assets for expenditure	<u>(85,709)</u>	<u>-</u>	<u>-</u>	<u>(85,709)</u>
Endowment net assets, end of year	<u>\$ 2,193,483</u>	<u>\$ -</u>	<u>\$1,555,081</u>	<u>\$ 3,748,564</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, 2011 and 2010, the market value of the donor restricted endowment funds was less than the permanently restricted amounts by \$112,117 and \$307,331, respectively. Such amounts are reported within unrestricted net assets.

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.

CHURCH WORLD SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

13. ENDOWMENT - Continued

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

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, 2011 and 2010 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>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
JUNE 30, 2011 AND 2010

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>2010:</u>				
Split-interest agreement receivables	\$3,485,870	\$ -	\$ -	\$3,485,870
Investments:				
Common stock	\$ 794,590	\$ 794,590	\$ -	\$ -
Mid cap equity funds	96,708	96,708	-	-
International equity funds	448,824	448,824	-	-
Other equity funds	113,379	113,379	-	-
US government obligations	244,785	244,785	-	-
Corporate bonds	184,900	-	184,900	-
Other	<u>297,539</u>	<u>297,539</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$2,180,725</u>	<u>\$1,995,825</u>	<u>\$184,900</u>	<u>\$ -</u>
Investments held by others:				
Pooled funds:				
Equities	\$2,259,387	\$2,259,387	\$ -	\$ -
Real estate	347,178	-	347,178	-
Corporate bonds	572,129	-	572,129	-
US government obligations	284,617	284,617	-	-
Other	<u>72,872</u>	<u>72,872</u>	<u>-</u>	<u>-</u>
Total pooled funds	3,536,183	2,616,876	919,307	-
Certificate of deposit	<u>2,308,170</u>	<u>2,308,170</u>	<u>-</u>	<u>-</u>
Total investments held by others	<u>\$5,844,353</u>	<u>\$4,925,046</u>	<u>\$919,307</u>	<u>\$ -</u>

CHURCH WORLD SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

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, 2011 are as follows:

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

Beginning balance	\$ 3,485,870
Contributions included in activities	539,186
Change in value included in activities	<u>(160,572)</u>
Ending balance	<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, 2011 and 2010. 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 \$411,590 and \$244,602 at June 30, 2011 and 2010, 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.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

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, 2011, approximately 12% of the employees are under the collective bargaining agreement represented by the union with existing labor agreements. The current collective bargaining agreement expired on March 31, 2011 and renegotiations are currently taking place.

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 14, 2011, the date the financial statements were available for issuance, and has determined that there are no subsequent events that require disclosure.