

American Jewish World Service, Inc.

Financial Report

December 31, 2012

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Independent Auditor's Report

To the Board of Trustees
American Jewish World Service, Inc.
New York, New York

Report on the Financial Statements

We have audited the accompanying financial statements of American Jewish World Service, Inc., which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Jewish World Service, Inc. as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited American Jewish World Service, Inc.'s 2011 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 3, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011 is consistent, in all material respects, with the audited financial statements from which it has been derived.

McGladrey LLP

New York, New York
May 6, 2013

American Jewish World Service, Inc.

Statement of Financial Position

(with summarized comparative financial information as of December 31, 2011)

December 31, 2012

	2012	2011
ASSETS		
Cash and cash equivalents	\$ 14,655,990	\$ 18,024,230
Contributions receivable, net	5,557,988	5,963,722
Investments	7,235,243	7,112,265
Prepaid expenses and other assets	424,250	407,010
Notes receivable	-	50,000
Property and equipment, net of accumulated depreciation and amortization of \$2,725,274 and \$2,232,542, respectively	<u>1,455,477</u>	<u>1,767,143</u>
Total assets	<u>\$ 29,328,948</u>	<u>\$ 33,324,370</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,151,585	\$ 735,549
Grants payable	10,615,260	12,285,122
Deferred rent	275,531	265,800
Unearned revenue	56,069	225,030
Charitable gift annuity obligation	<u>255,312</u>	<u>249,609</u>
Total liabilities	<u>12,353,757</u>	<u>13,761,110</u>
Commitments and contingencies		
Net assets:		
Unrestricted:		
Undesignated	403,069	2,465,593
Unrestricted designated for donor-advised funds	2,208,477	514,522
Unrestricted designated for long-term investment	2,037,438	2,000,000
Board-designated for reserve funds	<u>3,858,331</u>	<u>4,498,331</u>
Total unrestricted	8,507,315	9,478,446
Restricted	<u>8,467,876</u>	<u>10,084,814</u>
Total net assets	<u>16,975,191</u>	<u>19,563,260</u>
Total liabilities and net assets	<u>\$ 29,328,948</u>	<u>\$ 33,324,370</u>

See Notes to Financial Statements.

American Jewish World Service, Inc.

Statement of Activities

(with summarized comparative financial information for the year ended December 31, 2011)

Year Ended December 31, 2012

	2012			2011
	Unrestricted	Restricted	Total	Total
Contributions and revenue:				
Individual	\$ 10,574,643	\$ 16,696,606	\$ 27,271,249	\$ 25,381,947
Donor-advised fund	20,599,959	-	20,599,959	17,600,000
Bequest	125,561	-	125,561	221,349
Foundations and corporations	713,977	1,704,957	2,418,934	5,535,449
Special event revenue, net of expenses of \$108,784 in 2012 and \$38,954 in 2011	71,184	-	71,184	11,629
Donated services	119,735	324,858	444,593	815,225
Investment income, net of expenses of \$8,396 in 2012 and \$7,330 in 2011	188,611	1,991	190,602	138,628
Study tours and miscellaneous revenue	558,744	-	558,744	415,803
Net assets released from restrictions	20,345,350	(20,345,350)	-	-
Total contributions and revenue	53,297,764	(1,616,938)	51,680,826	50,120,030
Program services expenses:				
Grants	36,163,213	-	36,163,213	35,950,193
Service	3,673,052	-	3,673,052	3,854,291
Education and community engagement	5,273,103	-	5,273,103	5,041,266
Advocacy	1,858,874	-	1,858,874	1,564,807
Total program services expenses	46,968,242	-	46,968,242	46,410,557
Supporting services:				
Finance and administration	3,842,370	-	3,842,370	3,403,690
Development	3,458,283	-	3,458,283	3,403,174
Total supporting services expenses	7,300,653	-	7,300,653	6,806,864
Total expenses	54,268,895	-	54,268,895	53,217,421
Change in net assets	(971,131)	(1,616,938)	(2,588,069)	(3,097,391)
Net assets:				
Beginning	9,478,446	10,084,814	19,563,260	22,660,651
Ending	\$ 8,507,315	\$ 8,467,876	\$ 16,975,191	\$ 19,563,260

See Notes to Financial Statements.

American Jewish World Service, Inc.

Statement of Functional Expenses
(with summarized comparative financial information for the year ended December 31, 2011)
Year Ended December 31, 2012

	Grants	Service	Education and Community Engagement	Advocacy	Program Services Total	Finance and Administration	Development	Supporting Services Total	2012 Total	2011 Total
Salaries and benefits	\$ 2,652,552	\$ 1,747,165	\$ 3,302,973	\$ 709,826	\$ 8,412,516	\$ 2,622,397	\$ 1,922,148	\$ 4,544,545	\$ 12,957,061	\$ 11,799,813
Program grants (nondonor-advised)	13,537,298	-	-	500,000	14,037,298	-	-	-	14,037,298	14,138,526
Program grants (donor-advised)	18,266,671	-	-	-	18,266,671	-	-	-	18,266,671	18,050,904
Partner support	1,075	325,809	118,348	8,175	453,407	350	15,895	16,245	469,652	647,127
Professional services	847,767	305,516	231,517	264,852	1,649,652	235,790	289,634	525,424	2,175,076	1,902,575
Donated services	25,658	340,353	32,097	5,031	403,139	19,922	21,532	41,454	444,593	812,720
Office supplies and expenses	56,478	37,191	81,419	18,777	193,865	61,931	45,785	107,716	301,581	291,387
Postage	410	2,611	11,904	1,323	16,248	7,983	198,694	206,677	222,925	294,131
Occupancy	278,722	167,187	387,817	140,710	974,436	281,437	198,735	480,172	1,454,608	1,405,903
Telecommunications	41,886	37,883	153,899	45,733	279,401	76,867	61,942	138,809	418,210	362,611
Travel and conference	321,617	606,729	654,227	79,701	1,662,274	66,792	182,227	249,019	1,911,293	1,912,895
Printing and publications	8,859	8,293	55,998	17,346	90,496	21,786	336,692	358,478	448,974	588,062
Advertising expense	22	18,601	52,001	9,926	80,550	64,565	8,053	72,618	153,168	93,325
Miscellaneous	20,845	14,716	53,643	34,792	123,996	150,127	107,932	258,059	382,055	357,639
Bad debt	-	-	-	-	-	132,998	-	132,998	132,998	46,939
Depreciation and amortization	103,353	60,998	137,260	22,682	324,293	99,425	69,014	168,439	492,732	512,864
Subtotal	36,163,213	3,673,052	5,273,103	1,858,874	46,968,242	3,842,370	3,458,283	7,300,653	54,268,895	53,217,421
Special event expenses	-	-	5,935	-	5,935	-	102,849	102,849	108,784	38,954
Investment management fee	-	-	-	-	-	8,396	-	8,396	8,396	7,330
Total	\$ 36,163,213	\$ 3,673,052	\$ 5,279,038	\$ 1,858,874	\$ 46,974,177	\$ 3,850,766	\$ 3,561,132	\$ 7,411,898	\$ 54,386,075	\$ 53,263,705

See Notes to Financial Statements.

American Jewish World Service, Inc.

Statement of Cash Flows

(with summarized comparative financial information for the year ended December 31, 2011)

Year Ended December 31, 2012

	2012	2011
Cash flows from operating activities:		
Change in net assets	\$ (2,588,069)	\$ (3,097,391)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Bad debt	132,998	46,939
Donated securities	(1,054,849)	(446,681)
Depreciation and amortization	492,732	512,864
Net realized and unrealized gains on investments	(172,978)	(95,558)
Actuarial loss on charitable gift annuity obligation	15,558	16,846
Increase (decrease) in deferred rent	9,731	(5,791)
Changes in operating assets and liabilities:		
Decrease (increase) in contributions receivable	272,736	(1,161,333)
(Increase) decrease in prepaid expenses and other assets	(17,240)	49,067
Increase in accounts payable and accrued expenses	416,036	32,840
(Decrease) increase in grants payable	(1,669,862)	5,329,901
(Decrease) increase in unearned revenue	(168,961)	46,230
Net cash (used in) provided by operating activities	(4,332,168)	1,227,933
Cash flows from investing activities:		
Purchases of equipment	(181,066)	(344,961)
Proceeds from sale of marketable securities and equities	2,208,502	1,915,315
Purchases of marketable securities and equities	(1,103,653)	(1,331,647)
Net cash provided by investing activities	923,783	238,707
Cash flows from financing activities:		
Proceeds from notes receivable	50,000	-
Contributions subject to charitable gift annuity obligation	4,750	11,230
Payments on obligations under charitable gift annuity obligation	(14,605)	(12,938)
Net cash provided by (used in) financing activities	40,145	(1,708)
Net (decrease) increase in cash and cash equivalents	(3,368,240)	1,464,932
Cash and cash equivalents:		
Beginning	18,024,230	16,559,298
Ending	<u>\$ 14,655,990</u>	<u>\$ 18,024,230</u>

See Notes to Financial Statements.

American Jewish World Service, Inc.

Notes to Financial Statements

(with summarized comparative information as of and for the year ended December 31, 2011)

Note 1. Organization

American Jewish World Service, Inc. ("AJWS"), a not-for-profit organization incorporated under the laws of the State of New York, is the leading Jewish organization working to promote human rights and end poverty in the developing world. AJWS supports more than 400 grassroots organizations in Africa, Asia and the Americas that advance the rights of women, girls and sexual minorities; promote recovery from conflict, oppression and disasters; and defend access to food, land and livelihoods. In the United States, AJWS mobilizes its supporters to advocate for U.S. policies that help create a just and equitable world. AJWS is inspired by Judaism's commitment to pursue justice and repair the world, and is motivated by Jewish history to respect and fight for the rights of others.

Note 2. Significant Accounting Policies

Basis of Accounting: The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents: AJWS maintains cash in bank accounts which, at times, may exceed federally insured limits. AJWS has not experienced any losses in such accounts.

For the purpose of the statement of cash flows, AJWS considers highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Investments: Investments are stated at fair value, which is the prevailing market value, in the accompanying statement of financial position. Realized and unrealized gains and losses are recognized in change in net assets in the statement of activities.

Property and Equipment: AJWS's policy for capitalization of property and equipment is limited to purchases of \$1,000 and more. Property and equipment (consisting of leasehold improvements, furniture and office equipment) is recorded at cost or, if donated, at fair value at the date of donation. Depreciation and amortization are recorded using the straight-line method over the lesser of the estimated useful life of the assets or lease term.

Revenue Recognition and Classification of Net Assets: AJWS reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Unconditional promises due in less than one year are recorded at their net realizable value. Unconditional promises to give due in one year or more are recorded at the present value of their net realizable value, using a borrowing rate, which also considers the credit risk factors of the donor at the time the promise is received. Amortization of the discount is offset against contributions revenue. Allowance for doubtful contributions received is provided by management based on AJWS's experience with the donors and their ability to pay.

Study tour revenue is recognized in the period the trip takes place. Study tour revenue received in advance is recognized as unearned revenue.

AJWS receives certain contributed services that meet the criteria established by Statement of Financial Accounting Standards No. 116, now referred to as Accounting Standards Codification ("ASC") 958, for recognition as contributions. Such specialized service volunteers are recorded in the accompanying financial statements at fair value of approximately \$325,000 and \$637,000 for the years ended December 31, 2012 and 2011, respectively. AJWS received approximately \$120,000 and \$176,000 in donated legal services for the years ended December 31, 2012 and 2011, respectively.

American Jewish World Service, Inc.

Notes to Financial Statements

(with summarized comparative information as of and for the year ended December 31, 2011)

Note 2. Significant Accounting Policies (Continued)

In 2011 and 2012, AJWS sent several hundred unpaid volunteers to work with AJWS's grassroot partners overseas. They have made a significant contribution of time and services that have helped develop AJWS's programs at these organizations; however, the value of this contributed time is not reflected in the financial statements since it does not meet the criteria for recognition under ASC 958.

The restricted net assets line includes both permanently and temporarily restricted net assets. Permanently restricted net assets totaled \$9,300 at December 31, 2012 and 2011.

Temporarily restricted net assets contain donor-imposed restrictions that permit AJWS to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by actions of AJWS.

Permanently restricted net assets contain donor-imposed restrictions that stipulate that resources be maintained permanently, but permit AJWS to use or expend part or all of the income derived from the donated assets for either specified or unspecified purposes.

Expenses: The costs of providing program services and supporting services have been allocated in the financial statements among functional categories depending upon the ultimate purpose of the expense. Functional expenses that are not exclusively attributable to program services or supporting services have been allocated by management in accordance with various criteria.

Grants are recorded as an expense and a payable when grants are approved and communicated to the grantees. All grants payable are expected to be paid within the following year except \$607,000, which is expected to be paid in 2014.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Comparative Information: The financial statements include certain prior-year summarized comparative information in total but not by net asset class or functional classification. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with AJWS's financial statements for the year ended December 31, 2011, from which the summarized information was derived.

Fair Value: AJWS applies Financial Accounting Standards Board ("FASB") ASC 820, *Fair Value Measurements and Disclosures*, which provides a framework for measuring fair value under generally accepted accounting principles. ASC 820 applies to all financial instruments that are being measured and reported on a fair value basis.

As defined in ASC 820, fair value is the price that would be received to sell an asset or would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, AJWS uses various methods including market price, income and cost approaches. Based on these approaches, AJWS often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. AJWS utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, AJWS is required to provide the following information according to the fair value hierarchy, which ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted prices for identical assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.

American Jewish World Service, Inc.

Notes to Financial Statements

(with summarized comparative information as of and for the year ended December 31, 2011)

Note 2. Significant Accounting Policies (Continued)

Level 2: Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data. Level 2 also includes derivative contracts whose value is determined using a pricing model with observable market inputs or that can be derived principally from or corroborated by observable market data.

Level 3: Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs for nonbinding single dealer quotes not corroborated by observable market data.

For the years ended December 31, 2012 and 2011, the application of valuation techniques applied to similar assets and liabilities has been consistent. The fair value of investment securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker-dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market price activity of the instrument.

Income Taxes: AJWS is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code") and from state income taxes. In addition, AJWS is not classified as a private foundation.

AJWS has adopted the standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, AJWS may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses derecognition, classification, interest and penalties on income taxes, and accounting in interim periods.

Management evaluated AJWS's tax positions and concluded that AJWS had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. Generally, AJWS is no longer subject to income tax examinations by U.S. federal, state or local tax authorities for years before 2009, which is the standard statute of limitations look-back period.

Reclassification: For comparison, certain 2011 amounts have been reclassified, where appropriate, to conform with the financial statement presentation used in 2012. Such reclassifications had no effect on previously reported results.

Subsequent Events: AJWS evaluates events occurring after the date of the financial statements to consider whether or not the impact of such events needs to be reflected and/or disclosed in the financial statements. Such evaluation is performed through the date the financial statements are available for issuance, which was May 6, 2013 for these financial statements.

American Jewish World Service, Inc.

Notes to Financial Statements

(with summarized comparative information as of and for the year ended December 31, 2011)

Note 3. Contributions and Contributions Receivable

Contributions receivable were expected to be collected, as follows, as of December 31:

	<u>2012</u>	<u>2011</u>
Within one year	\$ 3,706,091	\$ 4,398,524
One to five years	1,975,000	1,678,625
	5,681,091	6,077,149
Less discount to present value at rates ranging from .28% to 3.22%	(9,730)	(21,543)
Allowance for uncollectibles	(113,373)	(91,884)
	<u>\$ 5,557,988</u>	<u>\$ 5,963,722</u>

In addition to the contributions receivable noted above, certain donors have confirmed their intentions to recommend annual contributions aggregating approximately \$1,259,000 at December 31, 2012 over a period of one to five years from donor-advised funds. These anticipated contributions have not been recognized in the accompanying financial statements as they do not meet the criteria for recognition of contributions revenue under FASB ASC 958-605.

In 2012 and 2011, approximately 62% and 58%, respectively, of AJWS's total contributions and revenue, excluding investment income, were provided by one contributor. The 2012 and 2011 percentages include donor-advised fund contributions from this contributor. If these donor-advised contributions are excluded from 2012 and 2011, the percentages would be approximately 36% and 35%, respectively.

American Jewish World Service, Inc.

Notes to Financial Statements

(with summarized comparative information as of and for the year ended December 31, 2011)

Note 4. Investments and Fair Value of Financial Instruments

Investments consist of the following as of December 31, 2012:

Description	Fair value	Fair value measurements using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial Assets:				
Cash and cash equivalents:				
Money market funds	\$ 8,884,338	\$ 8,884,338	\$ -	\$ -
Investments:				
Money market funds	181,741	181,741	-	-
Exchange-traded fund	680,895	680,895	-	-
Bonds:				
Government securities	832,765	-	832,765	-
Fixed income	336,262	-	336,262	-
Municipal bond	179,567	-	179,567	-
Corporate notes	5,024,013	5,024,013	-	-
Subtotal of investments	7,235,243	5,886,649	1,348,594	-
Total	\$ 16,119,581	\$ 14,770,987	\$ 1,348,594	\$ -
Financial Liability:				
Charitable gift annuity obligation	\$ 255,312	\$ -	\$ -	\$ 255,312

American Jewish World Service, Inc.

Notes to Financial Statements

(with summarized comparative information as of and for the year ended December 31, 2011)

Note 4. Investments and Fair Value of Financial Instruments (Continued)

Investments consist of the following as of December 31, 2011:

Description	Fair value	Fair value measurements using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial Assets:				
Cash and cash equivalents:				
Money market funds	\$ 9,875,073	\$ 9,875,073	\$ -	\$ -
Investments:				
Money market funds	67,343	67,343	-	-
Exchange-traded fund	612,110	612,110	-	-
Bonds:				
Government securities	1,119,990	-	1,119,990	-
Fixed income	102,722	-	102,722	-
Municipal bond	172,235	-	172,235	-
Corporate notes	5,037,865	5,037,865	-	-
Subtotal of investments	7,112,265	5,717,318	1,394,947	-
Total	\$ 16,987,338	\$ 15,592,391	\$ 1,394,947	\$ -
Financial Liability:				
Charitable gift annuity obligation	\$ 249,609	\$ -	\$ -	\$ 249,609

Investments held in money market funds are held at two financial institutions and corporate notes are held at one financial institution.

The following table presents a reconciliation for Level 3 liabilities measured at fair value during the years ended December 31, 2012 and 2011:

	2012	2011
Balance, January 1	\$ 249,609	\$ 234,471
Payments to annuitants	(14,605)	(12,938)
Market value change	15,558	16,846
New agreement	4,750	11,230
Balance, December 31	\$ 255,312	\$ 249,609

American Jewish World Service, Inc.

Notes to Financial Statements

(with summarized comparative information as of and for the year ended December 31, 2011)

Note 4. Investments and Fair Value of Financial Instruments (Continued)

The activities of AJWS's investments are as follows for the years ended December 31:

	<u>2012</u>	<u>2011</u>
Beginning balance as of January 1	\$ 7,112,265	\$ 7,153,694
Donated securities	1,054,849	446,681
Proceeds from sales	(2,208,502)	(1,915,315)
Investment return	172,978	95,558
Purchases	1,103,653	1,331,647
	<u>1,103,653</u>	<u>1,331,647</u>
Ending balance as of December 31	<u>\$ 7,235,243</u>	<u>\$ 7,112,265</u>

The components of investment income are as follows for the years ended December 31:

	<u>2012</u>	<u>2011</u>
Interest and dividend income	\$ 132,219	\$ 153,028
Realized losses	(8,267)	(12,159)
Unrealized gains	75,046	5,089
Management fees	(8,396)	(7,330)
	<u>(8,396)</u>	<u>(7,330)</u>
	<u>\$ 190,602</u>	<u>\$ 138,628</u>

Note 5. Property and Equipment

Property and equipment, at cost, are as follows as of December 31:

	<u>2012</u>	<u>2011</u>	<u>Depreciation/ amortization period</u>
Computer equipment	\$ 731,553	\$ 649,330	3 years
Computer software	604,617	580,204	4 years
Office equipment	386,682	380,790	5 years
Office furniture	709,269	686,632	10 years
Leasehold improvement	1,748,630	1,702,729	Lease Term
	<u>1,748,630</u>	<u>1,702,729</u>	
	4,180,751	3,999,685	
Less accumulated depreciation and amortization	<u>(2,725,274)</u>	<u>(2,232,542)</u>	
	<u>\$ 1,455,477</u>	<u>\$ 1,767,143</u>	

Depreciation and amortization expense for the years ended December 31, 2012 and 2011 was \$492,732 and \$512,864, respectively.

American Jewish World Service, Inc.

Notes to Financial Statements

(with summarized comparative information as of and for the year ended December 31, 2011)

Note 6. Charitable Gift Annuity Obligations

AJWS has established a gift annuity program, whereby donors may contribute assets to AJWS in exchange for the right to receive a fixed-dollar annual return during their lifetimes. A portion of the transfer is considered to be a charitable contribution for income tax purposes. The difference between the amount provided for the gift annuities and the present value of the liabilities for future payments, determined on an actuarial basis, is recognized as an unrestricted contribution on the date of the gift.

Actuarial losses and amortization of the present value discount on annuity obligations are recorded as miscellaneous unrestricted revenue and amounted to approximately \$15,600 and \$17,000 for the years ended December 31, 2012 and 2011, respectively.

Note 7. Restricted Net Assets

Restricted net assets are restricted for the following purposes as of December 31:

	<u>2012</u>	<u>2011</u>
Grants - project and disaster relief	\$ 4,631,315	\$ 6,521,990
Service	401,240	736,299
Education and advocacy	438,912	1,025,645
Administration and infrastructure	378,376	498,968
Development	425,000	-
Time-restricted	1,821,220	853,453
Philanthropy	362,513	439,159
Permanently restricted endowment	9,300	9,300
	<u>\$ 8,467,876</u>	<u>\$ 10,084,814</u>

Net assets released from restrictions for the years ended December 31 consist of the following:

	<u>2012</u>	<u>2011</u>
Grants - project and disaster relief	\$ 10,868,326	\$ 11,803,049
Service	2,223,335	2,471,910
Education and advocacy	3,405,328	2,415,190
Administration and infrastructure	2,820,592	3,208,510
Development	500,000	500,000
Philanthropy	141,795	20,600
Time-restricted	385,974	322,500
	<u>\$ 20,345,350</u>	<u>\$ 20,741,759</u>

American Jewish World Service, Inc.

Notes to Financial Statements

(with summarized comparative information as of and for the year ended December 31, 2011)

Note 8. Board-Designated Net Assets

Unrestricted net assets represent the portion of expendable funds that are available for support of AJWS's operations. This line item also includes the net assets of a reserve fund, which are designated by the board of trustees. The objective of the reserve fund is to meet expenses occurring during times of financial shortfall. As of December 31, 2012 and 2011, the amount designated by the board of trustees for reserve funds was \$3,858,331 and \$4,498,331, respectively.

Note 9. Donor-Advised Fund

AJWS has a donor-advised fund (the "Fund") within the meaning of Section 4966(d)(2) of the Internal Revenue Code of 1986, for the purpose of facilitating grants to non-U.S. grantee organizations. The Fund is owned and controlled by AJWS, which serves as the "sponsoring organization" of the Fund within the meaning of Code Section 4966(d)(1). The assets of the Fund include the initial gift made upon its creation and any subsequent gifts. The Fund's assets are held as cash or cash equivalents, with any earnings from the investment of the assets of the Fund transferred to AJWS for its own charitable purposes and operations. AJWS makes grants from the Fund based on donor recommendations with all donor-imposed restrictions being honored by AJWS; however, AJWS has full discretion to accept or reject a grant recommendation. In 2012 and 2011, AJWS recognized approximately \$20,000,000 and \$17,000,000, respectively, of revenue for granting purposes and granted out approximately \$18,300,000 and \$18,000,000, respectively, from the Fund.

Note 10. Joint Costs

During the years ended December 31, 2012 and 2011, AJWS produced several publications to educate the public that included appeals for contributions. Joint costs of \$112,405 and \$143,357, respectively, were incurred and allocated as follows:

	<u>2012</u>	<u>2011</u>
Communications	\$ 69,687	\$ 87,118
Development	18,273	30,644
Finance and administration	2,143	7,150
Advocacy	14,031	13,259
Service	8,271	5,186
	<u>\$ 112,405</u>	<u>\$ 143,357</u>

Note 11. 403(b) Plan

AJWS established a 403(b) plan, available to all eligible employees who qualify, under Section 401(a) of the Code. AJWS also makes a safe-harbor matching contribution to each participant who makes salary deferrals to the plan. Employer contributions under the plan were approximately \$349,000 and \$314,000 for the years ended December 31, 2012 and 2011, respectively.

Note 12. Contingencies

In 2012, the donor-advised fund awarded certain conditional grants to various grantee organizations. The remaining portions of these grants are conditional to AJWS's determination of the grantees' proper use of the previously distributed funds as well as sufficient funds being on deposit with AJWS. Conditional grants as of December 31, 2012 amounted to approximately \$11,757,000.

American Jewish World Service, Inc.

Notes to Financial Statements

(with summarized comparative information as of and for the year ended December 31, 2011)

Note 12. Contingencies (Continued)

Various claims and regulatory reviews arise in the ordinary course of AJWS's activities. Based upon information currently available, management believes that any liability arising from them will not materially affect the financial position or operations of AJWS.

Note 13. Commitments

AJWS leases its office space under noncancelable operating leases expiring in June 2017. Rents under these leases are subject to escalations for their share of increases in real estate taxes. AJWS subleased part of its office space under noncancelable operating leases. Sublease income under the leases amounted to approximately \$79,000 and \$86,000 for the years ended December 31, 2012 and 2011, respectively. Minimum future obligations under the leases, net of sublease income and exclusive of required payments for increases in real estate taxes, are as follows:

<u>Year ending December 31,</u>	<u>Gross Rent</u>	<u>Sublease</u>	<u>Net Total</u>
2013	\$ 1,087,551	\$ (67,220)	\$ 1,020,331
2014	1,110,251	-	1,110,251
2015	1,043,088	-	1,043,088
2016	1,018,590	-	1,018,590
2017	528,110	-	528,110
	<u>\$ 4,787,590</u>	<u>\$ (67,220)</u>	<u>\$ 4,720,370</u>

Rent expense under these leases (inclusive of escalations) charged to operations amounted to approximately \$1,060,000 and \$1,067,000 for the years ended December 31, 2012 and 2011, respectively.

For financial statement purposes, rent expense is recognized on a straight-line basis over the term of the lease. The difference between rental payments made under these leases and rent expense calculated on a straight-line basis is reflected in the accompanying statements of financial position as deferred rent.

Note 14. Endowments

On September 17, 2010, the State of New York adopted a version of the Uniform Prudent Management of Institutional Funds Act ("NYPMIFA"). AJWS has interpreted NYPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. AJWS 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. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by AJWS in a manner consistent with the standard of prudence prescribed by NYPMIFA. No change was required in the financial statements as a result of the enactment of NYPMIFA.

AJWS's endowment includes both donor-restricted endowment funds and funds designated by the board of trustees to function as endowments. In conjunction with a contribution received by AJWS in 2009, AJWS has established a fund designated for long-term ("LT") investments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The board of trustees has determined that when AJWS receives a contribution and the donor restricts AJWS from spending the principal, New York law requires AJWS to maintain the original historical dollar value of the contribution received as an endowment. This amount is recorded as permanently restricted and income from interest and dividends is recorded as unrestricted or temporarily restricted, depending on the donor's specification.

American Jewish World Service, Inc.

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(with summarized comparative information as of and for the year ended December 31, 2011)

Note 14. Endowments (Continued)

AJWS 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 AJWS must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the board of trustees, the endowment assets are invested in a manner that is intended to produce results that provide a high total return (income and capital gains) over the long term, consistent with the preservation of principal. AJWS expects that earnings growth will match or exceed inflation and that the real (i.e., inflation-adjusted) value of the endowment will be maintained. Actual returns in any given year may vary.

To satisfy its long-term rate-of-return objectives, AJWS 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).

AJWS's board of trustees determines the amount of appropriation each year. In establishing this policy, AJWS considered the long-term expected return on its endowment. Accordingly, over the long term, AJWS expects the current spending policy to support the objective of maintaining 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.

Endowment net asset composition by type of fund as of December 31, 2012 is as follows:

	<u>Unrestricted</u>		<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
	<u>Undesignated</u>	<u>LT Investment</u>			
Donor-restricted endowment funds	\$ -	\$ -	\$ 3,399	\$ 9,300	\$ 12,699
Board-designated endowment funds	-	<u>2,037,438</u>	-	-	<u>2,037,438</u>
Total funds	<u>\$ -</u>	<u>\$ 2,037,438</u>	<u>\$ 3,399</u>	<u>\$ 9,300</u>	<u>\$ 2,050,137</u>

Endowment net asset composition by type of fund as of December 31, 2011 is as follows:

	<u>Unrestricted</u>		<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
	<u>Undesignated</u>	<u>LT Investment</u>			
Donor-restricted endowment funds	\$ -	\$ -	\$ 3,399	\$ 9,300	\$ 12,699
Board-designated endowment funds	<u>90,311</u>	<u>2,000,000</u>	-	-	<u>2,090,311</u>
Total funds	<u>\$ 90,311</u>	<u>\$ 2,000,000</u>	<u>\$ 3,399</u>	<u>\$ 9,300</u>	<u>\$ 2,103,010</u>

American Jewish World Service, Inc.

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(with summarized comparative information as of and for the year ended December 31, 2011)

Note 14. Endowments (Continued)

Changes in endowment net assets for the years ended December 31, 2012 and 2011 are as follows:

	Unrestricted		Temporarily Restricted	Permanently Restricted	Total
	Undesignated	LT Investment			
Endowment net assets, December 31, 2010	\$ 100,000	\$ 2,023,298	\$ 3,399	\$ 9,300	\$ 2,135,997
Investment return:					
Investment income	-	82,156	-	-	82,156
Unrealized and realized losses	-	(7,813)	-	-	(7,813)
Total investment return	-	74,343	-	-	74,343
Investment expenses:					
Management fee	-	(7,330)	-	-	(7,330)
Appropriation of endowment assets for expenditure:					
Assets for expenditure	90,311	(90,311)	-	-	-
Release of funds	(100,000)	-	-	-	(100,000)
Total appropriation of endowment assets for expenditures	(9,689)	(90,311)	-	-	(100,000)
Endowment net assets, December 31, 2011	90,311	2,000,000	3,399	9,300	2,103,010
Investment return:					
Investment income	-	70,630	-	-	70,630
Unrealized and realized gains	-	75,204	-	-	75,204
Total investment return	-	145,834	-	-	145,834
Investment expenses:					
Management fee	-	(8,396)	-	-	(8,396)
Appropriation of endowment assets for expenditure:					
Assets for expenditure	100,000	(100,000)	-	-	-
Release of funds	(190,311)	-	-	-	(190,311)
Total appropriation of endowment assets for expenditures	(90,311)	(100,000)	-	-	(190,311)
Endowment net assets, December 31, 2012	\$ -	\$ 2,037,438	\$ 3,399	\$ 9,300	\$ 2,050,137