

Catholic Relief Services – United States Conference Of Catholic Bishops

Financial Statements
September 30, 2014

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Independent Auditor's Report

To the Board of Directors
Catholic Relief Services –
United States Conference of Catholic Bishops
Baltimore, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of Catholic Relief Services – United States Conference of Catholic Bishops which comprise the statements of financial position as of September 30, 2014 and 2013, and the related statements of activities, cash flows and functional expenses 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

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 Catholic Relief Services – United States Conference of Catholic Bishops as of September 30, 2014 and 2013, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2015, on our consideration of Catholic Relief Services – United States Conference of Catholic Bishops' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Catholic Relief Services – United States Conference of Catholic Bishops' internal control over financial reporting and compliance.

The image shows a handwritten signature in cursive script that reads "McGladrey LLP". The signature is written in black ink and is positioned above the typed address and date.

Gaithersburg, Maryland
March 6, 2015

Catholic Relief Services – United States Conference Of Catholic Bishops

**Statements Of Financial Position
September 30, 2014 And 2013
(In Thousands)**

Assets	2014	2013
Cash and cash equivalents	\$ 72,386	\$ 92,786
Accounts receivable and other assets	83,866	67,749
Investments	193,371	163,557
Segregated investments	54,547	48,919
Undistributed commodities and program materials	31,863	36,533
Land, building and equipment, net	50,426	50,268
Total Assets	\$ 486,459	\$ 459,812
Liabilities And Net Assets		
Liabilities		
Accounts payable, accrued expenses and other liabilities	\$ 67,636	\$ 64,149
Retirement plan liabilities	24,081	26,640
Advances received for programs	74,094	84,453
Deferred revenue – commodities	28,231	34,869
Annuities payable	38,689	36,902
Long-term debt	27,795	28,551
Total Liabilities	260,526	275,564
Net Assets		
Unrestricted	105,376	87,763
Temporarily restricted	113,807	90,027
Permanently restricted	6,750	6,458
Total Net Assets	225,933	184,248
Total Liabilities and Net Assets	\$ 486,459	\$ 459,812

See Notes To Financial Statements

Catholic Relief Services – United States Conference Of Catholic Bishops

Statement Of Activities Year Ended September 30, 2014 (With Comparative Totals For 2013) (In Thousands)

	2014			Total	2013
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Operating revenue:					
Private revenue:					
Catholic Relief Services Collection	\$ 14,621	\$ -	\$ -	\$ 14,621	\$ 12,436
Catholic Relief Services Rice Bowl	-	7,922	-	7,922	7,549
Private contributions	84,838	84,295	254	169,387	100,528
Foundation and other private grants	40,196	-	-	40,196	29,383
Bequests	21,449	150	-	21,599	23,309
Private in-kind gifts	2,820	-	-	2,820	2,752
Total private revenue	163,924	92,367	254	256,545	175,957
Public revenue:					
Donated agricultural, other commodities and ocean freight	102,027	-	-	102,027	125,850
United States government grants and agreements	226,179	-	-	226,179	229,335
Other public grants and contributions	83,642	64	-	83,706	70,277
Public in-kind gifts	11,974	-	-	11,974	2,507
Total public revenue	423,822	64	-	423,886	427,969
Investment and other income	2,115	1,249	-	3,364	2,080
Net assets released from restrictions	70,249	(70,249)	-	-	-
Total operating revenue	660,110	23,431	254	683,795	606,006
Operating expenses:					
Program services	599,279	-	-	599,279	584,773
Supporting services:					
Management and general	22,334	-	-	22,334	20,078
Public awareness	8,024	-	-	8,024	6,980
Fundraising	21,659	-	-	21,659	20,695
Total supporting services	52,017	-	-	52,017	47,753
Total operating expenses	651,296	-	-	651,296	632,526
Change in net assets from operations	8,814	23,431	254	32,499	(26,520)
Non-operating revenue and expenses:					
Net change in annuities, trusts and pooled income fund	3,124	529	38	3,691	1,498
Realized and unrealized gain (loss) on investments and financial instruments	11,258	(180)	-	11,078	13,672
Defined benefit plan adjustments	(1,384)	-	-	(1,384)	31,926
Asset impairment	(4,199)	-	-	(4,199)	-
Total non-operating revenue and expenses, net	8,799	349	38	9,186	47,096
Change in net assets	17,613	23,780	292	41,685	20,576
Net assets, beginning of year	87,763	90,027	6,458	184,248	163,672
Net assets, end of year	\$ 105,376	\$ 113,807	\$ 6,750	\$ 225,933	\$ 184,248

See Notes To Financial Statements

Catholic Relief Services – United States Conference Of Catholic Bishops

Statement Of Activities Year Ended September 30, 2013 (In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenue:				
Private revenue:				
Catholic Relief Services Collection	\$ 12,436	\$ -	\$ -	\$ 12,436
Catholic Relief Services Rice Bowl	-	7,549	-	7,549
Private contributions	78,073	22,451	4	100,528
Foundation and other private grants	29,383	-	-	29,383
Bequests	23,309	-	-	23,309
Private in-kind gifts	2,752	-	-	2,752
Total private revenue	145,953	30,000	4	175,957
Public revenue:				
Donated agricultural, other commodities and ocean freight	125,850	-	-	125,850
United States government grants and agreements	229,335	-	-	229,335
Other public grants and contributions	69,934	343	-	70,277
Public in-kind gifts	2,507	-	-	2,507
Total public revenue	427,626	343	-	427,969
Investment and other income	761	1,319	-	2,080
Net assets released from restrictions	56,779	(56,779)	-	-
Total operating revenue	631,119	(25,117)	4	606,006
Operating expenses:				
Program services	584,773	-	-	584,773
Supporting services:				
Management and general	20,078	-	-	20,078
Public awareness	6,980	-	-	6,980
Fundraising	20,695	-	-	20,695
Total supporting services	47,753	-	-	47,753
Total operating expenses	632,526	-	-	632,526
Change in net assets from operations	(1,407)	(25,117)	4	(26,520)
Non-operating revenue and expenses:				
Net change in annuities, trusts and pooled income fund	1,033	419	46	1,498
Realized and unrealized gain (loss) on investments and financial instruments	13,867	(195)	-	13,672
Defined benefit plan adjustments	31,926	-	-	31,926
Total non-operating revenue and expenses, net	46,826	224	46	47,096
Change in net assets	45,419	(24,893)	50	20,576
Net assets, beginning of year	42,344	114,920	6,408	163,672
Net assets, end of year	\$ 87,763	\$ 90,027	\$ 6,458	\$ 184,248

See Notes To Financial Statements

Catholic Relief Services – United States Conference Of Catholic Bishops

Statements Of Cash Flows
Years Ended September 30, 2014 And 2013
(In Thousands)

	2014	2013
Cash Flows From Operating Activities		
Change in net assets	\$ 41,685	\$ 20,576
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	6,833	8,518
Loss on disposal and impairment of building and equipment	3,555	786
Realized gain on sales of investments	(5,270)	(1,893)
Unrealized gain on investments and financial instruments	(5,808)	(11,779)
Contributions restricted for long-term investment	(254)	(4)
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable and other assets	(16,117)	(12,139)
Undistributed commodities and program materials	4,670	16,235
Increase (decrease) in liabilities:		
Accounts payable, accrued expenses and other liabilities	2,965	(3,141)
Retirement plan liabilities	(2,559)	(36,331)
Advances received for programs	(10,359)	40,047
Deferred revenue – commodities	(6,638)	(17,899)
Net cash provided by operating activities	12,703	2,976
Cash Flows From Investing Activities		
Proceeds from sale of land, building and equipment	541	495
Purchase of land, building and equipment	(11,087)	(7,640)
Proceeds from sales and maturities of investments	267,339	205,639
Purchase of investments	(291,181)	(185,608)
Net cash (used in) provided by investing activities	(34,388)	12,886
Cash Flows From Financing Activities		
Principal payments and liquidations of long-term debt	(756)	(721)
Increase in annuities payable, net	1,787	454
Receipts restricted for long-term investment	254	4
Net cash provided by (used in) financing activities	1,285	(263)
Net (decrease) increase in cash and cash equivalents	(20,400)	15,599
Cash And Cash Equivalents:		
Beginning of year	92,786	77,187
End of year	\$ 72,386	\$ 92,786
Supplemental Disclosure Of Cash Flow Information		
Cash payments for interest	\$ 827	\$ 828

See Notes To Financial Statements

Catholic Relief Services – United States Conference Of Catholic Bishops

**Statement Of Functional Expenses
Year Ended September 30, 2014
(With Comparative Totals For 2013)
(In Thousands)**

Description	2014 Program Services										2013	
	Agriculture	Water And Sanitation	Education	Emergency	Small Enterprise	Health	HIV And AIDS	Peace And Justice	Welfare	Total		
Program services:												
Salaries and related benefits	\$ 48,248	\$ 5,601	\$ 15,826	\$ 38,652	\$ 2,376	\$ 17,816	\$ 11,852	\$ 10,050	\$ 1,422	\$ 151,843	\$ 145,374	
Contracting and professional fees	7,047	316	1,569	13,420	183	2,601	532	1,403	95	27,166	19,162	
Telecommunications and postage	2,396	122	616	1,207	21	571	406	322	59	5,720	5,942	
Printing, supplies, office and miscellaneous expenses	1,718	171	679	1,727	42	660	401	409	29	5,836	5,773	
Occupancy	2,178	598	1,458	2,578	207	1,533	894	958	101	10,505	11,288	
Vehicle and equipment	3,397	1,086	1,170	5,178	242	1,905	689	872	117	14,656	13,627	
Travel, training and representation	9,636	1,155	3,843	7,081	620	5,509	3,084	2,369	340	33,637	28,671	
Warehousing and freight	11,604	509	5,377	18,371	-	1,300	-	9	810	37,980	47,834	
Publicity	6	-	2	37	-	1	-	-	-	46	87	
Subgrants to implementing partners	42,208	1,783	12,157	61,900	1,601	16,082	19,480	11,255	1,422	167,888	155,857	
Project labor and materials	7,363	1,883	8,612	29,168	78	3,008	695	3,094	15	53,916	54,393	
Food, other commodities and in-kind contributions	8,470	1,335	5,450	50,609	-	17,547	754	56	1,900	86,121	90,789	
Depreciation	2,175	-	353	184	155	349	731	-	18	3,965	5,976	
Total expenses	\$ 146,446	\$ 14,559	\$ 57,112	\$ 230,112	\$ 5,525	\$ 68,882	\$ 39,518	\$ 30,797	\$ 6,328	\$ 599,279	\$ 584,773	

(Continued)

Catholic Relief Services – United States Conference Of Catholic Bishops

Statement Of Functional Expenses (Continued)

Year Ended September 30, 2014

(With Comparative Totals For 2013)

(In Thousands)

Description	2014 Supporting Services				2013	Total Operating Expenses	
	Management And General	Public Awareness	Fundraising	Total		2014	2013
Supporting services:							
Salaries and related benefits	\$ 13,262	\$ 3,405	\$ 7,099	\$ 23,766	\$ 21,719	\$ 175,609	\$ 167,093
Contracting and professional fees	3,207	956	3,517	7,680	7,347	34,846	26,509
Telecommunications and postage	386	33	4,221	4,640	4,495	10,360	10,437
Printing, supplies, office and miscellaneous expenses	688	169	5,652	6,509	5,588	12,345	11,361
Occupancy	194	282	425	901	1,020	11,406	12,308
Vehicle and equipment	137	49	71	257	168	14,913	13,795
Travel, training and representation	1,369	190	503	2,062	1,827	35,699	30,498
Warehousing and freight	-	-	6	6	8	37,986	47,842
Publicity	-	773	165	938	936	984	1,023
Subgrants to implementing partners	59	-	-	59	13	167,947	155,870
Project labor and materials	-	1	-	1	1	53,917	54,394
Food, other commodities and in-kind contributions	184	2,146	-	2,330	2,089	88,451	92,878
Depreciation	2,848	20	-	2,868	2,542	6,833	8,518
Total expenses	\$ 22,334	\$ 8,024	\$ 21,659	\$ 52,017	\$ 47,753	\$ 651,296	\$ 632,526

See Notes To Financial Statements

Catholic Relief Services – United States Conference Of Catholic Bishops

**Statement Of Functional Expenses
Year Ended September 30, 2013
(In Thousands)**

Description	Program Services									Total
	Agriculture	Water	Education	Emergency	Small Enterprise	Health	HIV And AIDS	Peace And Justice	Welfare	
Program services:										
Salaries and related benefits	\$ 43,369	\$ 4,535	\$ 11,821	\$ 39,034	\$ 1,904	\$ 18,035	\$ 15,065	\$ 9,698	\$ 1,913	\$ 145,374
Contracting and professional fees	4,454	657	1,197	6,916	131	3,168	665	1,423	551	19,162
Telecommunications and postage	2,426	119	522	1,321	35	722	506	222	69	5,942
Printing, supplies, office and miscellaneous expenses	1,540	131	551	1,377	39	876	737	430	92	5,773
Occupancy	2,071	541	1,282	3,036	276	1,698	1,150	1,161	73	11,288
Vehicle and equipment	4,234	658	1,350	3,040	134	2,264	1,051	819	77	13,627
Travel, training and representation	8,738	675	2,473	5,425	551	4,414	3,632	2,446	317	28,671
Warehousing and freight	16,060	287	6,505	15,557	748	7,467	46	372	792	47,834
Publicity	40	-	4	30	-	12	-	-	1	87
Subgrants to implementing partners	37,882	3,218	8,163	47,798	1,472	18,315	25,985	10,955	2,069	155,857
Project labor and materials	5,190	3,696	4,671	21,876	14	17,687	314	576	369	54,393
Food, other commodities and in-kind contributions	15,857	628	7,314	49,469	1,046	13,033	1,049	665	1,728	90,789
Depreciation	2,472	-	573	547	197	1,143	1,021	-	23	5,976
Total expenses	\$ 144,333	\$ 15,145	\$ 46,426	\$ 195,426	\$ 6,547	\$ 88,834	\$ 51,221	\$ 28,767	\$ 8,074	\$ 584,773

(Continued)

Catholic Relief Services – United States Conference Of Catholic Bishops

**Statement Of Functional Expenses (Continued)
Year Ended September 30, 2013
(In Thousands)**

Description	Supporting Services			Total Supporting Services	Total Operating Expenses
	Management And General	Public Awareness	Fundraising		
Supporting services:					
Salaries and related benefits	\$ 12,143	\$ 3,003	\$ 6,573	\$ 21,719	\$ 167,093
Contracting and professional fees	2,844	517	3,986	7,347	26,509
Telecommunications and postage	310	35	4,150	4,495	10,437
Printing, supplies, office and miscellaneous expenses	496	138	4,954	5,588	11,361
Occupancy	310	271	439	1,020	12,308
Vehicle and equipment	93	45	30	168	13,795
Travel, training and representation	1,223	131	473	1,827	30,498
Warehousing and freight	-	-	8	8	47,842
Publicity	3	851	82	936	1,023
Subgrants to implementing partners	13	-	-	13	155,870
Project labor and materials	-	1	-	1	54,394
Food, other commodities and in-kind contributions	104	1,985	-	2,089	92,878
Depreciation	2,539	3	-	2,542	8,518
Total expenses	\$ 20,078	\$ 6,980	\$ 20,695	\$ 47,753	\$ 632,526

See Notes To Financial Statements

Catholic Relief Services – United States Conference Of Catholic Bishops

Notes To Financial Statements

Note 1. Organization And Operations

Nature of activities: Catholic Relief Services – United States Conference of Catholic Bishops (CRS) was founded in 1943 and is the international humanitarian aid and development agency of the United States Conference of Catholic Bishops (USCCB). CRS is governed by a board composed of a Cardinal and ten U.S. Bishops elected from the USCCB, the General Secretary of the Conference, and seven lay members. Headquartered in Baltimore, Maryland, CRS provides services in 93 countries through 69 offices around the world.

CRS is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and is an organization listed in the 2014 edition of the Official Catholic Directory.

Catholic Relief Services Foundation, Inc. (the Foundation) is a controlled affiliate which conducts certain fundraising activities on behalf of CRS. The Chairman and President of CRS serve, along with other elected individuals, as members of the board of the Foundation. There was no material financial activity within the Foundation for the years ended September 30, 2014 and 2013.

Mission statement: “Catholic Relief Services carries out the commitment of the Bishops of the United States to assist the poor and vulnerable overseas. We are motivated by the Gospel of Jesus Christ to cherish, preserve and uphold the sacredness and dignity of all human life, foster charity and justice, and embody Catholic social and moral teaching as we act to:

- Promote human development by responding to major emergencies, fighting disease and poverty, and nurturing peaceful and just societies; and,
- Serve Catholics in the United States as they live their faith in solidarity with their brothers and sisters around the world.

As part of the universal mission of the Catholic Church, we work with local, national and international Catholic institutions and structures, as well as other organizations, to assist people on the basis of need, not creed, race or nationality.”

Program services: The program categories that CRS uses to classify its program service operating expenses include:

Agriculture – programs covering a wide range of agricultural and natural resource activities, including crop, tree and livestock production, soil and water conservation, irrigation, weed, disease and pest control, crop processing and storage, crop and livestock business planning, value chain development and marketing and integration with micro-finance and nutrition.

Water and Sanitation – programs primarily focusing on water, sanitation and hygiene services for health and well-being; improved management of water for agricultural productivity; and water and environmental activities that contribute to sustainability of natural resources.

Education – programs intended to improve access to and delivery of basic literacy, numeracy and other life skills through both formal and non-formal education systems, and to enhance educational achievement, especially for the most marginalized children and youth.

Emergency – programs seeking to prevent loss of life, minimize suffering, reduce property damage, speed recovery, reduce vulnerability, and otherwise better cope with natural or man-made disasters, while fostering a culture of peace, dignity and respect.

Catholic Relief Services – United States Conference Of Catholic Bishops

Notes To Financial Statements

Note 1. Organization And Operations (Continued)

Small enterprise – programs to develop community-led and managed savings and lending services; linkages to additional financial (micro insurance) and non-financial (financial education and agricultural extension) services for the poor who have limited or no access to capital in the formal financial markets.

Health – programs targeted toward problem recognition, evaluation, and intervention to reduce morbidity and mortality among populations living in poverty.

HIV and AIDS – programs that assist the poor and vulnerable living with or affected by HIV through care and support, access to basic services, awareness and prevention, treatment of opportunistic infections, and provision of anti-retroviral therapy, prolonging the lives of many, and enabling all participants to live in dignity.

Peace and justice – programs seek to prevent, mitigate, or resolve conflict and promote right relationships by strengthening state and civil society institutions, including the Church, to address gender inequality and gender-based violence, extractives, trafficking, youth, civic engagement and inter-faith cooperation.

Welfare – programs which provide a safety net to respond to the urgent and unmet needs of the poorest of society, including the provision of food and complementary assistance, enabling participants to reach their full human potential.

Note 2. Summary Of Significant Accounting Policies

Basis of accounting: The financial statements include the results of CRS's worldwide operations. Revenue and expenses related to gift annuities and other planned giving contributions, realized and unrealized gains and losses on investments, and defined benefit plan adjustments are classified as non-operating activities.

Use of estimates: The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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. Actual results could differ from these estimates.

Designation of revenue: Support from the U.S. or foreign governments and from international organizations such as the United Nations, The Global Fund and The World Bank, is classified under public revenue. Revenue from individuals, parishes and dioceses, as well as non-governmental organizations, foundations and corporations is classified under private revenue.

Classification of net assets: Net assets, revenue and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of CRS and changes therein are classified and recorded as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets whose use has been limited by donors to a specific time period and/or purpose. When the donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets – The principal amounts of gifts which are required by donors to be permanently retained.

Catholic Relief Services – United States Conference Of Catholic Bishops

Notes To Financial Statements

Note 2. Summary Of Significant Accounting Policies (Continued)

Cash and cash equivalents: Cash includes demand and time deposits. Cash equivalents include highly liquid investments having a maturity date of three months or less at the date of purchase.

Accounts receivable and other assets: Accounts receivable and other assets consist of trade receivables, program receivables, micro-finance loans and charitable trusts. Interest is charged for micro-finance loans at various rates determined by management, based on prevailing local country economic conditions. Trade receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts, considering the debtor's financial condition and current economic conditions, and by using historical experience applied to an aging of the trade receivables. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received.

Trade and micro-finance receivables are considered to be past due if any portion of the receivable balance is outstanding for more than 90 days. Interest is accrued on micro-finance receivables until the receivables are deemed uncollectible.

Program receivables represent funds expended and recognized as revenue, but not yet received, on donor agreements for exchange transactions (grants).

Charitable trusts represent the fair value, using present value calculations, of CRS's interest in the donor's trust accounts. These trusts are created by donors independently of CRS and are neither in the possession nor under the control of CRS. The trusts are administered by outside fiscal agents as designated by the donor. CRS records the fair value, using present value of future benefits of the trust assets, discounted at a rate of 6.5% for 2014 and 2013.

CRS is also the owner and beneficiary of donated life insurance policies. These life insurance policies are recorded at current cash surrender value. The charitable trusts and life insurance policies are recognized as revenue when CRS is notified that it has been named as an irrevocable beneficiary.

Investments: Investments and segregated investments are carried at fair value. Investments received as contributions are recorded at fair value on the date of receipt. Investment income is recognized when earned.

CRS's non-segregated investments include investment pools which are valued at fair value based on the applicable percentage ownership of the underlying pools' net assets as of the measurement date.

In determining fair value, CRS utilizes valuations provided by the investments' fund managers. The managers value securities and other financial instruments on a fair value basis of accounting. The fair value of CRS's investments generally represents the amount CRS would expect to receive if it were to liquidate its investment. However, the estimated fair values of the assets underlying this investment may include securities for which prices are not readily available and are determined by the fund managers and, therefore, may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ from the values that would have been used had a ready market existed for these investments. CRS may adjust the managers' valuations when circumstances support such an adjustment.

Land, building and equipment: Land, building and equipment are capitalized and depreciated on a straight-line basis over the estimated useful lives of the assets, which are 10 to 40 years for building and improvements, and 3 to 10 years for furniture, vehicles and equipment.

Catholic Relief Services – United States Conference Of Catholic Bishops

Notes To Financial Statements

Note 2. Summary Of Significant Accounting Policies (Continued)

Advances received for programs: Funds received on exchange transactions (grants) are recorded as advance obligations to the funding entity until they are spent per the program agreement, at which time they are recognized as revenue.

Annuities payable: Annuities payable represent the actuarial present value of amounts due under annuity agreements paid over various periods, generally the life of the donor. Present value is calculated using the Annuity 2000 Mortality table with no adjustments, assuming interest rates of 3.5% to 6% compounded annually, and no provision for a surplus or contingency reserve. The interest rate is determined by the year of contribution and the guaranteed duration period, if any.

Interest rate swap agreements: CRS uses interest rate swap contracts principally to manage the risk that changes in interest rates have on its floating rate long-term debt. The following is a summary of CRS's risk management strategy and the effect of this strategy on the financial statements.

Interest rate swap contracts are used to adjust a portion of total debt that is subject to variable interest rates. Under the interest rate swap contract, CRS agrees to pay an amount equal to a specified fixed rate of interest times a notional principal amount, and to receive in return an amount equal to a specified variable rate of interest times the same notional principal amount. No other cash payments are made unless the contract is terminated prior to maturity, in which case the amount paid or received in settlement is established by agreement at the time of termination, and usually represents the net present value, at current rates of interest, of the remaining obligations to exchange payments under the terms of the contract.

CRS's interest rate swap contracts are considered to be a hedge against changes in the amount of future cash flows associated with CRS's interest payments under variable rate debt obligations. Accordingly, the interest rate swap contracts are reflected at fair value, as described in Note 9, in CRS's statements of financial position and the related gain or loss on these contracts is recognized in the statement of activities.

The effect of this accounting on CRS's operating results is that interest expense on the portion of variable rate debt being hedged is generally recorded based on fixed interest rates.

The fair value of interest rate swaps is the estimated amount that the bank or financial institution would receive or pay to terminate the swap agreements at the reporting date, taking into account current interest rates and the current credit worthiness of the swap counter parties.

Valuation of long-lived assets: CRS requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. Recoverability of long-lived assets is measured by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying value of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

Fair value of financial instruments: Cash, cash equivalents, short-term investments, accounts receivable, accounts payable, advances received for programs and deferred revenue have carrying amounts that approximate fair value because of the short maturity of these instruments.

Contributions: Contributions, including the CRS Collection, CRS Rice Bowl and bequests, are recorded at net realizable value as revenue on receipt or when unconditional promises to give are received. Contribution revenue is recorded as increases in unrestricted net assets unless their use is limited by time or donor imposed restrictions.

Catholic Relief Services – United States Conference Of Catholic Bishops

Notes To Financial Statements

Note 2. Summary Of Significant Accounting Policies (Continued)

Donated agricultural commodities and other in-kind gifts: CRS receives agricultural and other commodities at no cost from the United States Agency for International Development (USAID), the United States Department of Agriculture (USDA), the United Nations World Food Programme, and others for distribution under agreements related to specific relief programs. Commodities that have not been distributed at September 30, 2014 and 2013, are carried as undistributed commodities and deferred revenue.

Commodities received from the United States government are valued using guidelines published by the Commodity Credit Corporation (an agency of the United States government). Commodity donations from other donors are recorded at their insurable value, which approximates market value. CRS also receives contributions of pharmaceuticals for distribution overseas. Some of these pharmaceuticals are from United States producers and are approved by the United States Food and Drug Administration (FDA) for use in the United States. Some are from manufacturers in other countries for HIV/AIDS anti-retroviral therapies approved by the FDA, but are not approved for use in the United States.

In determining the fair value for these pharmaceuticals, management has concluded that the geographical areas where these are distributed do not represent their principal market and therefore considers the most advantageous market to be the United States for those approved for use in the United States, and for those from foreign manufacturers the most advantageous market is the foreign country in which they were produced. Therefore, those approved for use in the United States are recorded at the wholesale value as indicated in recognized industry publications. Those produced by foreign manufacturers are valued at the wholesale value negotiated with those producers in the country of origin. Other in-kind contributions are recorded at fair value.

Other government funding and exchange transactions: Revenue related to government grants and other exchange transactions is recognized when funds are utilized by CRS to carry out the activity stipulated by the grant or contract, since such contracts can be terminated by the grantor, or refunding can be required under certain circumstances. Accordingly, amounts received, but not recognized as revenue, are classified in the statements of financial position as advances received for programs.

Functional allocation of expenses: The costs of providing CRS's various programs and support services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and support services primarily based upon direct costs.

Joint costs: Expenses related to the Catholic Relief Services Rice Bowl program jointly support fundraising and educational and other programming. These expenses totaled \$1,418,000 and \$1,405,000 for the years ended September 30, 2014 and 2013, respectively. Expenses were allocated 24% to fundraising and 76% to program services for fiscal year 2014, and 21% to fundraising and 79% to program services for fiscal year 2013.

Self-insured medical plan: Under the CRS plan, medical insurance coverage is obtained for each employee so that exposure to excessive medical expenses is capped in conjunction with certain stop loss provisions. Provisions for expenses expected under this program are recorded based upon CRS's estimates of the aggregate liability for claims incurred.

Income taxes: CRS is generally exempt from federal income taxes under IRC §501(c)(3). In addition, contributions to CRS qualify for charitable deductions under Section 170(b)(1)(A)(vi). CRS has been classified as an organization that is not a private foundation under Section 509(a)(1). Income which is not related to exempt purposes, less applicable deductions, may be subject to federal and state corporate income taxes. For the years ended September 30, 2014 and 2013, CRS has concluded it has no such unrelated business income.

Catholic Relief Services – United States Conference Of Catholic Bishops

Notes To Financial Statements

Note 2. Summary Of Significant Accounting Policies (Continued)

CRS 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 policy, CRS may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position would be sustained on examination by taxing authorities, based on the technical merits of the position.

Management evaluated CRS's tax positions and concluded that CRS had taken no uncertain tax positions that require adjustments to the financial statements to comply with the provision of this guidance. CRS would be liable for income taxes in the U.S. federal jurisdiction.

Subsequent events: CRS has established a general standard of accounting for the disclosure of events that occur after the statement of financial position date through the date the financial statements are issued. CRS evaluated subsequent events through March 6, 2015, which is the date the financial statements were issued.

Reclassification: Certain of the 2013 comparative amounts were reclassified to conform to the 2014 presentation. These reclassifications had no effect on the previously reported change in net assets.

Note 3. Concentration Of Credit Risk

Cash and cash equivalents include demand deposits which are maintained at various financial institutions in the United States and foreign countries. The total deposits at institutions in the United States exceed the Federal Deposit Insurance Corporation (FDIC) insurance limits. Deposits held at institutions outside of the United States are not subject to insurance. At September 30, 2014 and 2013, \$70,660,000 and \$92,306,000, respectively, of deposits were in excess of FDIC insurance including \$32,246,000 and \$31,409,000, respectively, held in numerous financial institutions outside of the United States. Short-term operating investments of \$1,720,000 and \$4,941,000, respectively, were also held in numerous financial institutions outside of the United States at September 30, 2014 and 2013.

CRS invests in a professionally managed portfolio that contains shares of U.S. Treasury securities, equity securities and corporate and other private debt securities. These investments are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

Note 4. Accounts Receivable And Other Assets

At September 30, 2014 and 2013, accounts receivable and other assets consist of the following (in thousands):

	2014	2013
Program receivables	\$ 48,580	\$ 35,329
Trade receivables	7,138	13,490
Charitable trust and life insurance policy receivables	9,542	6,337
CRS Collection receivable	3,983	4,312
Micro-finance loans receivable	1,200	2,166
Total accounts receivable	70,443	61,634
Less: Allowance for doubtful accounts	(1,754)	(2,673)
Total accounts receivable, net	68,689	58,961
Prepaid expenses	12,487	8,121
Other assets	2,690	667
Total accounts receivable and other assets	\$ 83,866	\$ 67,749

Catholic Relief Services – United States Conference Of Catholic Bishops

Notes To Financial Statements

Note 5. Investments And Fair Value Measurements

CRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and within a fair value hierarchy. The fair value hierarchy gives the highest rank to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest rank to unobservable inputs (Level 3). Inputs are broadly defined as data that market participants would use in pricing an asset or liability. The three levels of the hierarchy are used to determine fair value for financial statement purposes, as described below:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Listed equities and holdings in mutual funds are types of investments included in Level 1.

Level 2 – Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly; Level 2 includes the use of models or other valuation methodologies. Investments which are generally included in this category include corporate loans, less liquid, restricted equity securities and certain corporate bonds, U.S. government bonds and notes, and over-the-counter derivatives.

Level 3 – Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. CRS's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment. The following section describes the valuation techniques used by CRS:

Level 1 – Investments in U.S. equities and money market funds traded on a national securities exchange, or reported on the NASDAQ national market, are stated at the last reported sales price on the day of valuation. These financial instruments are classified as Level 1 in the fair value hierarchy.

Level 2 – Investments in international equities, U.S. treasury obligations, U.S. government agency, bonds, mortgage backed securities, asset backed securities, corporate, foreign and other obligations, and overseas investments are stated at the last reported sales price on the day of valuation. These financial instruments are classified as Level 2 in the fair value hierarchy. Investments in international equities represent an investment pool, for which the fair value has been estimated by the investment managers using the net asset value per share. The pool has monthly liquidity and is open on the first business day of the month; five days advance notice is required before any distributions. CRS has classified these investments as Level 2. CRS's interest rate swap is observable at commonly quoted intervals for the full term of the swap and, therefore, is considered a Level 2 item. For the interest rate swaps in an asset position, the credit standing of the counter party is analyzed and factored into the fair value measurement of the asset. Fair value measurement of a liability must reflect the nonperformance risk of the entity. Therefore, the impact of CRS's credit worthiness has also been factored into the fair value measurement for the interest rate swap in a liability position.

Level 3 – Charitable trusts are stated at fair value, using present value calculations of the trusts discounted at a rate of 6.5% for 2014. There is no active market for selling beneficial interests in charitable trusts; therefore, these financial instruments are classified as Level 3 in the fair value hierarchy.

Catholic Relief Services – United States Conference Of Catholic Bishops

Notes To Financial Statements

Note 5. Investments And Fair Value Measurements (Continued)

The overall total of investments held at September 30, 2014, including securities detailed in the fair value disclosure, is as follows (in thousands):

2014

Non-segregated investments		\$	193,371
Segregated gift annuities	\$	52,857	
Segregated pooled income fund		<u>1,690</u>	
Total segregated investments			<u>54,547</u>
Total investments			<u>247,918</u>
Accrued interest			(542)
Cash equivalents from segregated investments			<u>(2,853)</u>
Investments included in fair value disclosure			<u><u>\$ 244,523</u></u>

The following table presents CRS's fair value hierarchy for those assets reflected in the statements of financial position, measured at fair value on a recurring basis as of September 30, 2014 (in thousands):

Description	Total	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:				
U.S. equities:				
Materials	\$ 2,654	\$ 2,654	\$ -	\$ -
Industrials	7,740	7,740	-	-
Telecommunications	1,908	1,908	-	-
Consumer discretionary	10,369	10,369	-	-
Consumer staples	7,995	7,995	-	-
Energy	8,112	8,112	-	-
Financials	15,601	15,601	-	-
Health care	9,865	9,865	-	-
Information technology	14,822	14,822	-	-
Utilities	2,992	2,992	-	-
Other equities	166	166	-	-
International equities	15,549	-	15,549	-
Fixed income securities:				
U.S. treasury obligations	47,713	-	47,713	-
U.S. government agency bonds	29,015	-	29,015	-
Mortgage backed securities	12,919	-	12,919	-
Asset backed securities	13,279	-	13,279	-
Corporate, foreign and other obligations	42,104	-	42,104	-
Other types of securities:				
Overseas investments	1,720	-	1,720	-
Total investments	<u>\$ 244,523</u>	<u>\$ 82,224</u>	<u>\$ 162,299</u>	<u>\$ -</u>
Charitable trusts	<u>\$ 8,762</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,762</u>
Money Market Funds	<u>\$ 33,191</u>	<u>\$ 33,191</u>	<u>\$ -</u>	<u>\$ -</u>
Financial liabilities:				
Interest rate swap contracts	<u>\$ (3,827)</u>	<u>\$ -</u>	<u>\$ (3,827)</u>	<u>\$ -</u>

Catholic Relief Services – United States Conference Of Catholic Bishops

Notes To Financial Statements

Note 5. Investments And Fair Value Measurements (Continued)

The overall total of investments held at September 30, 2013, including securities detailed in the fair value disclosure, is as follows (in thousands):

2013

Non-segregated investments		\$	163,557
Segregated gift annuities	\$	47,210	
Segregated pooled income fund		1,709	
Total segregated investments			<u>48,919</u>
Total investments			<u>212,476</u>
Accrued interest			(164)
Cash equivalents from segregated investments			(805)
Investments included in fair value disclosure			<u><u>\$ 211,507</u></u>

The following table presents CRS's fair value hierarchy for those assets reflected in the statements of financial position, measured at fair value on a recurring basis as of September 30, 2013 (in thousands):

Description	Total	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:				
U.S. equities:				
Materials	\$ 2,067	\$ 2,067	\$ -	\$ -
Industrials	7,278	7,278	-	-
Telecommunications	1,510	1,510	-	-
Consumer discretionary	9,474	9,474	-	-
Consumer staples	7,285	7,285	-	-
Energy	7,748	7,748	-	-
Financials	13,686	13,686	-	-
Health care	7,994	7,994	-	-
Information technology	11,370	11,370	-	-
Utilities	2,363	2,363	-	-
Other equities	129	129	-	-
International equities	15,322	-	15,322	-
Fixed income securities:				
U.S. treasury obligations	37,197	-	37,197	-
U.S. government agency bonds	27,845	-	27,845	-
Mortgage backed securities	12,875	-	12,875	-
Asset backed securities	12,104	-	12,104	-
Corporate, foreign and other obligations	30,319	-	30,319	-
Other types of securities:				
Overseas investments	4,941	-	4,941	-
Total investments	<u>\$ 211,507</u>	<u>\$ 70,904</u>	<u>\$ 140,603</u>	<u>\$ -</u>
Charitable trusts	<u>\$ 5,597</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,597</u>
Money Market Funds	<u>\$ 28,528</u>	<u>\$ 28,528</u>	<u>\$ -</u>	<u>\$ -</u>
Financial liabilities:				
Interest rate swap contracts	<u>\$ (3,305)</u>	<u>\$ -</u>	<u>\$ (3,305)</u>	<u>\$ -</u>

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Notes To Financial Statements

Note 5. Investments And Fair Value Measurements (Continued)

For the years ended September 30, 2014 and 2013, the fair value hierarchy above includes money market funds of \$33,191,000 and \$28,528,000, respectively, which are included as cash equivalents on the balance sheet. Cash and accrued interest are excluded from the fair value hierarchy as cash is generally measured at cost. As such, \$2,483,000 and \$2,427,000 at September 30, 2014 and 2013, respectively, have been excluded from these tables.

For the period from October 1, 2012, through September 30, 2014, the application of the valuation techniques has been consistent for CRS' held investments. The valuation technique for charitable trust assets held by others has been revised to conform to the modifications of Accounting Standards Update Number 2011-04 *Fair Value Measurement* (Topic 820). Changes in Level 3 assets for the years ended September 30, 2014 and 2013, were as follows (in thousands):

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Charitable Trusts	
	2014	2013
Beginning balance, October 1,	\$ 5,597	\$ 11,744
Contributions	3,143	126
Distributions	(688)	(7,032)
Change in valuation	710	759
Ending balance, September 30,	\$ 8,762	\$ 5,597

CRS invests in investment pools. Information pertaining to this investment is as follows (in thousands):

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
International equities (Long-term value and growth fund)	\$ 15,549	\$ -	Monthly	5 days

The above fund includes investment pools that seek long term capital appreciation through two investment portfolios. The Value Fund invests in non-U.S. stocks of low valuation which the manager believes have the capacity to rebound in value, while the Growth Fund invests in non-U.S. stocks at a higher price-to-earnings ratio which the manager believes have strong prospects for continued growth.

Note 6. Segregated Investments

CRS is required under various statutory regulations to segregate a certain level of appropriate investments to support its charitable gift annuity program. In addition, CRS sponsors a pooled income fund wherein the fund's earnings are distributed to participants until their death at which time the assets become available to CRS.

During the years ended September 30, 2014 and 2013, CRS received \$7,383,000 and \$3,515,000, respectively, of new charitable gift annuities and pooled income fund contributions, earned net investment income of \$1,141,000 and \$1,263,000, respectively, and made contractual annuity payments of \$4,549,000 and \$4,231,000, respectively.

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Notes To Financial Statements

Note 6. Segregated Investments (Continued)

During the years ended September 30, 2014 and 2013, the pooled income fund made earnings distributions to participants of \$99,000 and \$130,000, respectively.

Revenue from annuity contracts, irrevocable charitable trusts, and the pooled income fund (planned giving agreements) is recognized based on the present value of CRS's interest.

Note 7. Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into U.S. dollars at exchange rates in effect on reporting dates, and revenue and expenses are translated at rates in effect on transaction dates. Translation gains and losses are included in current results. Total foreign currency translation gains of \$1,509,000 and \$1,148,000 for the years ended September 30, 2014 and 2013, respectively, are included in miscellaneous expense and investment income.

Note 8. Land, Building And Equipment

Land, building and equipment, at cost, at September 30, 2014 and 2013, is summarized as follows (in thousands):

	2014	2013
Land	\$ 422	\$ 463
Building and improvements	38,588	38,107
Furniture and equipment	70,543	71,366
	<u>109,553</u>	109,936
Less accumulated depreciation	<u>(59,127)</u>	<u>(59,668)</u>
	<u>\$ 50,426</u>	<u>\$ 50,268</u>

Land, building and equipment includes restricted and grant assets of \$5,206,000 and \$2,787,000 at September 30, 2014 and 2013, respectively. Of these assets, \$5,078,000 and \$2,632,000 at September 30, 2014 and 2013, respectively, are restricted in compliance with federal program grant agreements as to use, resale and maintenance.

During the year ended September 30, 2014, CRS recorded a charge of \$4,199,000 related to capitalized software development that exceed their usable value to CRS and therefore were determined to be impaired. This asset impairment is included in non-operating revenue and expenses in the statement of activities.

CRS entered into a capital lease agreement for its headquarters building in Baltimore, Maryland in 2006. The lease is for an initial term of 30 years ending in 2036, with three 5-year renewal options. The minimum lease payment under this agreement of \$13,465,000 was paid in full on the rent commencement date. Minimum rent for the renewal periods will be determined on the basis of 90% of the then fair market rental for the first renewal year, with subsequent years' rent increasing based on the Consumer Price Index.

Land, building and equipment at September 30, 2014, includes \$26,938,000 for leasehold improvements, capitalized lease and other leasehold costs expended, including capitalized interest of \$1,232,000 for the headquarters.

Catholic Relief Services – United States Conference Of Catholic Bishops

Notes To Financial Statements

Note 8. Land, Building And Equipment (Continued)

CRS has operating lease commitments for its offices maintained throughout the world. These leases are generally renewable on an annual basis. CRS has also entered into operating leases in the United States for office space for periods ranging from three to five years for its U.S. Operations. Rental expenses for the years ended September 30, 2014 and 2013, were \$3,860,000 and \$4,209,000, respectively.

Minimum annual lease payments on operating leases are as follows (in thousands):

Years Ending September 30,	
2015	\$ 247
2016	159
2017	82
2018	28
	<u>\$ 516</u>

Note 9. Long-Term Debt

To finance the capital lease obligation for its headquarters building, CRS has an outstanding term loan with Bank of America with balances in the amounts of \$8,240,000 and \$8,996,000 at September 30, 2014 and 2013, respectively. The loan matures on May 1, 2016. Interest accrues, and is payable monthly, at a rate based on the one-month London Interbank Offered Rate (LIBOR) plus .30% per year (0.46% and 0.48% at September 30, 2014 and 2013, respectively).

CRS has issued tax-exempt variable rate demand bonds in the amount of \$19,555,000 in connection with renovations of the headquarters space. The bonds bear interest at a floating rate as determined by the bond remarketing agent based upon market conditions, unless converted to a fixed rate at the election of the borrower. Principal payments on the bonds begin in May 2023 and continue until final maturity in May 2036. A credit enhancement provided by Bank of America was used to obtain a credit rating on the bonds at issuance on May 18, 2006, of Aa1/VMIG 1. This rating has been revised several times, and, as of September 30, 2014, was A2/VMIG 1.

The bond agreement contains certain financial and non-financial covenants, which were met for the years ended September 30, 2014 and 2013.

The bonds are collateralized by an irrevocable letter of credit in the amount of \$19,742,514. The letter of credit was extended until June 15, 2016.

CRS entered into interest rate swap agreements to reduce the impact of interest rate changes on its floating rate term loan and tax-exempt bonds. One swap agreement has a notional principal amount at September 30, 2014, of \$842,000 of the taxable term loan, at a fixed rate of 4.96%, through October 2015. A second agreement was executed with a notional principal in the amount of \$19,145,000 for the tax-exempt variable rate demand bonds. The contract is based on an issue rate of 67% of LIBOR, and fixes the interest rate at 3.40%, through May 1, 2036.

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Notes To Financial Statements

Note 9. Long-Term Debt (Continued)

The value of the swap instruments as of September 30, 2014 and 2013, and the change in value is reflected as follows (in thousands):

	2014	2013
Beginning liability balance, October 1	\$ 3,305	\$ 5,720
Unrealized loss/(gain)	522	(2,415)
Ending liability balance, September 30	\$ 3,827	\$ 3,305

The swap instrument values are included in accounts payable and accrued expenses on the statement of financial position. The annual changes in the values of the swap instruments are included in the realized and unrealized gains and losses on investments and financial instruments on the statement of activities.

As noted in Note 8, interest due on the term loan and the bonds in connection with the headquarters building was capitalized while the space was under renovation and unoccupied.

Future annual maturities on long-term debt as of September 30, 2014, are as follows (in thousands):

Years Ending September 30,	
2015	\$ 793
2016	834
2017	878
2018	921
2019	968
2020 – 2036	23,401
	<u>\$ 27,795</u>

Note 10. Commodities And Other In-Kind Contributions

Commodities and other in-kind contributions received in the years ended September 30, 2014 and 2013, consist of the following (in thousands):

	2014	2013
Agricultural commodities donated by USAID and USDA	\$ 60,625	\$ 75,905
Commodities provided by the UN and other donors	11,251	10,288
Ocean freight provided by donors	30,151	39,657
Total commodities and ocean freight	\$ 102,027	\$ 125,850
Medical supplies and other tangible assets	\$ 12,464	\$ 3,161
Donated services	2,330	2,098
Total other in-kind contributions	\$ 14,794	\$ 5,259

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Notes To Financial Statements

Note 11. Investment Earnings

The components of return on investments described in Note 5, as well as earnings on micro-finance lending, cash equivalents and segregated investments for the years ended September 30, 2014 and 2013, are as follows (in thousands):

	2014	2013
Dividends and interest	\$ 2,952	\$ 3,190
Realized gain on investments	5,270	1,893
Unrealized gain on investments	6,329	9,365
Investment management fees	(854)	(939)
	<u>\$ 13,697</u>	<u>\$ 13,509</u>

Note 12. Retirement Plans

CRS has a non-contributory defined benefit pension plan covering all lay employees who have completed one year of service and attained the age of 21. The benefits are based on years of service and the employee's highest average compensation during five consecutive years of the last ten years of service. A minimum of five years of service is required to attain a plan benefit. Plan benefits were frozen effective December 31, 2013.

CRS also has a post-retirement health plan for employees who retire after the age of 65 with at least 20 years of service. Effective December 31, 2013, the plan was modified to exclude benefit contribution subsidies for any future qualifying participants. CRS funds retiree healthcare premiums on a cash basis, and for the years ended September 30, 2014 and 2013, paid \$171,000 and \$332,000, respectively for retirees' healthcare coverage. The expected contribution for the year ending September 30, 2015, is \$288,000.

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Notes To Financial Statements

Note 12. Retirement Plans (Continued)

The following schedule sets forth the funded status, components of net periodic benefit cost and weighted-average assumptions of the plans for the years ended September 30, 2014 and 2013 (dollars in thousands):

	Pension Benefits		Post-Retirement Health	
	2014	2013	2014	2013
Change in projected benefit obligation				
Benefit obligation at beginning of period	\$ 73,294	\$ 87,647	\$ 3,616	\$ 15,403
Service cost	1,491	6,185	-	808
Interest cost	3,411	3,570	156	523
Curtailment gain	-	(17,785)	-	(13,669)
Actuarial loss/(gain)	3,406	(4,590)	(68)	(156)
Plan participant contributions	-	-	49	43
Special termination benefits	-	-	326	1,039
Benefits paid and administrative expenses	(2,368)	(1,733)	(220)	(375)
Benefit obligation at end of period	\$ 79,234	\$ 73,294	\$ 3,859	\$ 3,616
Change in plan assets				
Fair value of plan assets at beginning of period	\$ 50,270	\$ 40,079	\$ -	\$ -
Actual return on plan assets	5,385	6,244	-	-
Employer contributions	5,725	5,680	171	332
Plan participant contributions	-	-	49	43
Benefits paid and administrative expenses	(2,368)	(1,733)	(220)	(375)
Fair value of plan assets at end of period	59,012	50,270	-	-
Funded status at end of year	\$ (20,222)	\$ (23,024)	\$ (3,859)	\$ (3,616)
Amounts recognized in statement of financial position	\$ (20,222)	\$ (23,024)	\$ (3,859)	\$ (3,616)
Amounts recognized in non-operating revenue and expenses				
Net loss/(gain)	1,352	1,262	(240)	(172)
Accrued benefit cost	\$ 1,352	\$ 1,262	\$ (240)	\$ (172)
Components of net periodic benefit cost				
Service cost	\$ 1,491	\$ 6,185	\$ -	\$ 808
Interest cost	3,411	3,570	156	523
Expected return on plan assets	(3,431)	(2,778)	-	-
Net amortization and deferral	-	1,392	-	216
Curtailment loss/(gain)	-	45	-	(9,393)
Special termination benefits	-	-	326	1,039
Total net periodic benefit cost	\$ 1,471	\$ 8,414	\$ 482	\$ (6,807)
Weighted-average assumptions				
Discount rate	4.25%	4.75%	4.00%	4.50%
Expected return on plan assets	6.50%	6.50%	N/A	N/A
Rate of compensation increase	N/A	3.50%	N/A	N/A

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Notes To Financial Statements

Note 12. Retirement Plans (Continued)

The investment objective of the defined benefit plan is to attain an overall return in excess of the actuarially assumed rate, while protecting the plan's principal by managing investment risk. CRS's Budget and Finance Committee has selected market-based benchmarks to monitor the performance of the investment strategy.

The investment strategy has a target asset allocation policy as follows:

Asset Class	Minimum	Target	Maximum
U.S. equities	35%	50%	65%
International equities	10%	15%	20%
Fixed income	20%	30%	40%
Real Estate	0%	5%	5%

The investment policy requires compliance with applicable state and federal regulations, including the Employee Retirement Income Security Act of 1974 (ERISA). The expected long-term rate of return on plan assets is based primarily on expectations of future returns for the pension plan's investments, based upon the target asset allocations. Additionally, the historical returns on comparable equity and fixed income investments are considered in the estimate of the expected long-term rate of return on plan assets.

Allocations of plan assets at September 30, 2014 and 2013, are as follows (in thousands):

	2014		2013	
	Amount	Percent	Amount	Percent
U.S. equities and equivalents	\$ 32,248	54%	\$ 25,649	51%
International equities and equivalents	8,133	14%	7,695	15%
Fixed income	17,580	30%	16,158	32%
Cash equivalents	1,051	2%	768	2%
	\$ 59,012	100%	\$ 50,270	100%

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Notes To Financial Statements

Note 12. Retirement Plans (Continued)

Pension plan assets as of September 30, 2014, which are not reflected in the statement of financial position, are invested as follows (in thousands):

Description	Total	Fair Value Measurements Using		
		Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Investment component				
U.S. Equities:				
Materials	\$ 916	\$ 916	\$ -	\$ -
Industrials	3,662	3,662	-	-
Telecommunications	682	682	-	-
Consumer discretionary	4,062	4,062	-	-
Consumer staples	2,846	2,846	-	-
Energy	3,104	3,104	-	-
Financials	6,983	6,983	-	-
Health care	3,392	3,392	-	-
Information technology	5,189	5,189	-	-
Utilities	1,335	1,335	-	-
Miscellaneous	77	77	-	-
International equities	8,133	-	8,133	-
Fixed income securities:				
U.S. treasury obligations	5,540	-	5,540	-
U.S. government agency bonds	4,096	-	4,096	-
Corporate and foreign bonds	7,943	-	7,943	-
Total investments	\$ 57,960	\$ 32,248	\$ 25,712	\$ -
Money Market Funds	\$ 1,051	\$ 1,051	\$ -	\$ -

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Notes To Financial Statements

Note 12. Retirement Plans (Continued)

Pension plan assets as of September 30, 2013, which are not reflected in the statement of financial position, are invested as follows (in thousands):

Description	Total	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)
Investment component				
U.S. Equities:				
Materials	\$ 806	\$ 806	\$ -	\$ -
Industrials	3,115	3,115	-	-
Telecommunications	518	518	-	-
Consumer discretionary	3,389	3,389	-	-
Consumer staples	2,434	2,434	-	-
Energy	2,638	2,638	-	-
Financials	5,606	5,606	-	-
Health care	2,501	2,501	-	-
Information technology	3,628	3,628	-	-
Utilities	970	970	-	-
Miscellaneous	44	44	-	-
International equities	7,695	-	7,695	-
Fixed income securities:				
U.S. treasury obligations	4,267	-	4,267	-
U.S. government agency bonds	4,821	-	4,821	-
Corporate and foreign bonds	7,070	-	7,070	-
Total investments	\$ 49,502	\$ 25,649	\$ 23,853	\$ -
Money Market Funds	\$ 768	\$ 768	\$ -	\$ -

CRS invests in investment pools. Information pertaining to this investment is as follows (in thousands):

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
International equities (Long-term value and growth fund)	\$ 8,133	\$ -	Monthly	5 days

The above fund includes investment pools that seek long term capital appreciation through two investment portfolios. The Value Fund invests in non-U.S. stocks of low valuation which the manager believes have capacity to rebound in value, while the Growth Fund invests in non-U.S. stocks at a higher price-to-earnings ratio which the manager believes have strong prospects for continued growth.

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Notes To Financial Statements

Note 12. Retirement Plans (Continued)

The pension plan contribution for the year ending September 30, 2015, is expected to be \$1,000,000. The plan's expected payouts for the next five years and the following five years in the aggregate, are as follows (in thousands):

Fiscal Year	Payout
2015	\$ 3,517
2016	2,926
2017	3,357
2018	3,217
2019	3,202
2020 – 2024	17,825

The healthcare inflation rate is assumed to be 8.0% for participants under 65 and 6.0% for participants 65 and older for 2014. The health care cost trend rate for the year ended September 30, 2015, is assumed to be 8.0% for individuals under 65 and 6.0% for individuals aged 65 and over. The 4.75% ultimate rate is projected to be reached by 2021 for individuals under 65 and by 2018 for individuals aged 65 and over. A one percentage point increase in the healthcare inflation rate from the assumed rate could increase the accumulated post-retirement health benefit obligation by approximately \$421,000 as of September 30, 2014, and would increase the aggregate of the service cost and interest cost components of net periodic post-retirement health benefit cost for 2014 by approximately \$18,000. A one percentage point decrease in the healthcare inflation rate from the assumed rate could decrease the accumulated post-retirement health benefit obligation by approximately \$359,000 as of September 30, 2014, and would decrease the aggregate of the service cost and interest components of net periodic post-retirement health benefit cost for 2014 by approximately \$15,000. The plans' expected payouts for the next five years and the following five years in the aggregate, are as follows (in thousands):

Fiscal Year	Payout
2015	\$ 288
2016	265
2017	262
2018	247
2019	252
2020 – 2024	1,181

CRS also provides eligible U.S. employees a defined contribution plan, which qualifies under IRC §403(b). Under the plan, CRS contributes to a participant's account an amount equal to 50% of the participant's contribution, not to exceed 3% of the participant's eligible earnings. CRS also provides an equivalent plan for non-U.S. expatriate staff. The contributions are invested in various mutual funds chosen by the participant.

Effective January 1, 2014, the defined contribution plans receive additional employer-provided contributions credited to eligible employees, as approved by the Board of Directors. In addition to the matching component noted above, CRS makes a contribution of 7% of wages for eligible employees, and a 3% contribution above that amount for certain lower-waged staff. Also, staff employed on December 31, 2013, who are age 40 or above on that date, receive an additional 1% to 3% contribution, depending upon age.

CRS contributed \$4,893,000 and \$1,361,000 to these two plans for the years ended September 30, 2014 and 2013, respectively.

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Notes To Financial Statements

Note 13. Self-Insured Medical Plan

CRS maintains a self-insured medical plan for the benefit of its employees. A stop loss policy is in effect, which limits CRS's loss per individual employee to \$225,000. The medical plan is administered through a contractual relationship with a third party plan administrator. However, CRS is solely responsible for all claims incurred up to the amount of the stop loss provisions. CRS's expense under the self-insured medical plan amounted to \$7,424,000 and \$6,227,000 for the years ended September 30, 2014 and 2013, respectively.

Note 14. Temporarily Restricted Net Assets

Temporarily restricted net assets at September 30, 2014 and 2013, are composed of the following (in thousands):

	2014	2013
Time restricted:		
Charitable trusts	\$ 7,239	\$ 4,050
Pooled income fund	783	788
Other time restricted funds	865	717
Total time restricted	8,887	5,555
Program restricted:		
Private emergency funds	86,156	56,648
Strategic funding initiatives	3,193	1,281
Caritas partners	857	5,183
Other	14,714	21,360
Total program restricted	104,920	84,472
Total temporarily restricted net assets	\$ 113,807	\$ 90,027

Net assets were released for the following purposes during 2014 and 2013 (in thousands):

	2014	2013
Program restricted purposes met	\$ 69,640	\$ 56,279
Time restricted purposes met	609	500
	\$ 70,249	\$ 56,779

Permanently restricted net assets represent contributions by donors for which the corpus must be permanently retained. The income derived from these permanently restricted amounts can be used to fund administrative costs and program services.

Catholic Relief Services – United States Conference Of Catholic Bishops

Notes To Financial Statements

Note 15. Endowments

Interpretation of relevant law: CRS has interpreted the state of Maryland's enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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. As a result of this interpretation, CRS classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets, until those amounts are appropriated for expenditure by CRS in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, CRS considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- a. The duration and preservation of the fund
- b. The purposes of the donor-restricted endowment fund
- c. General economic conditions
- d. The possible effects of inflation and deflation
- e. The expected total return from income and the appreciation of investments
- f. Other resources of CRS
- g. The investment policies of CRS

Return objective and risk parameters: The long-term goal of the Endowment Funds is to achieve appreciation of assets without exposure to undue risk. The portfolio is expected to support desired spending, provide additional growth to cover operating expenses and preserve the purchasing power of the endowment assets over time, net of all fees, over a five-year moving time period.

Spending policy: The current policy is to distribute an amount up to 5% of the average market value of the endowment based on a 12-quarter moving average, adjusted for contributions and distributions.

Endowment Net Asset Composition By Type Of Fund As Of September 30, 2014 (In Thousands)

	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 1,004	\$ 1,004
Undesignated – other endowment funds	1,009	3,510	4,519
Third-party trust assets	-	2,236	2,236
Total funds	\$ 1,009	\$ 6,750	\$ 7,759

Endowment Net Asset Composition By Type Of Fund As Of September 30, 2013 (In Thousands)

	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 1,004	\$ 1,004
Undesignated – other endowment funds	717	3,505	4,222
Third-party trust assets	-	1,949	1,949
Total funds	\$ 717	\$ 6,458	\$ 7,175

Catholic Relief Services – United States Conference Of Catholic Bishops

Notes To Financial Statements

Note 15. Endowments (Continued)

**Changes In Endowment Net Assets
For The Year Ended September 30, 2014
(In Thousands)**

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of the year	\$ 717	\$ 6,458	\$ 7,175
Net investment income	662	38	700
Contributions	-	254	254
Endowment draw to operating	(370)	-	(370)
Endowment net assets, end of the year	\$ 1,009	\$ 6,750	\$ 7,759

**Changes In Endowment Net Assets
For The Year Ended September 30, 2013
(In Thousands)**

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of the year	\$ 462	\$ 6,408	\$ 6,870
Net investment income	628	46	674
Contributions	-	4	4
Endowment draw to operating	(373)	-	(373)
Endowment net assets, end of the year	\$ 717	\$ 6,458	\$ 7,175

Note 16. Contingencies

CRS receives significant financial and non-financial assistance from the U.S. government. Entitlement to such resources is generally conditioned upon compliance with terms and conditions of the related agreements and applicable federal regulations. The use of such resources is subject to audit by governmental agencies, and CRS is contingently liable to refund amounts received in excess of allowable expenditures. As of September 30, 2014 and 2013, CRS has recorded a liability for its estimate of questioned costs that may have to be refunded to the government.

In the normal course of business, CRS is party to various claims and assessments. In the opinion of management, these matters will not have a material effect on CRS's financial position, change in net assets, or cash flow.

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Notes To Financial Statements

Note 17. Haiti Earthquake Response

On January 12, 2010, a catastrophic earthquake struck Haiti. CRS responded with emergency relief and long-term recovery and reconstruction assistance. The following is a financial summary of the activity from inception through September 30, 2014 (in thousands):

	Private Contributions	Other Donors, Including U.S. Government	Total
Contributions and grant support	\$ 128,105	\$ 77,022	\$ 205,127
Investment income	5,211	2	5,213
Total support	133,316	77,024	210,340
Total expenses	(112,633)	(77,024)	(189,657)
Net assets at September 30, 2014	\$ 20,683	\$ -	\$ 20,683

As a part of the emergency response, the United States Conference of Catholic Bishops (USCCB) initiated an appeal to U.S. dioceses for donations to be remitted to CRS. This diocesan appeal amounted to \$84,431,000 through September 30, 2014. In addition to providing emergency relief funding for CRS's response, this appeal also designated a portion specifically for rebuilding of church structures in Haiti. Overall appeal proceeds include \$50,659,000 designated for emergency relief, and \$33,772,000 designated for rebuilding of church structures, of which \$19,500,000 was disbursed to USCCB through 2014. This latter portion is managed by the USCCB Subcommittee on the Church in Latin America, and the unspent balance is reflected as another liability to USCCB on the statements of financial position which, together with cumulative investment earnings, was \$15,400,000 and \$15,299,000 at September 30, 2014 and 2013, respectively.

Note 18. Philippines Typhoon Response

On November 8, 2013, the strongest typhoon ever recorded crossed the central Philippines, making six separate landfalls. CRS responded with emergency relief including shelter, water, hygiene, sanitation and essential living supplies, and programs to support income generation. CRS expects that Haiyan related programming, from response to recovery, will last five years. The following is a financial summary of the activity from inception through September 30, 2014 (in thousands):

	Private Contributions	Other Donors, Including U.S. Government	Total
Contributions and grant support	\$ 48,488	\$ 13,651	\$ 62,139
Investment income	156	-	156
Total support	48,644	13,651	62,295
Total expenses	(10,445)	(13,636)	(24,081)
Net assets at September 30, 2014	\$ 38,199	\$ 15	\$ 38,214

Note 19. Subsequent Events

In October 2014, protests in Burkina Faso culminated in unrest which led to significant looting of warehouses located in Ouagadougou. CRS's warehouse, containing \$733,000 in food commodities as of September 30, 2014, was reportedly looted.