Catholic Relief Services –
United States Conference of Catholic Bishops

Financial Statement as of and for the year ended September 30, 2006
And Comparative Totals for 2005 and Independent Auditor's Report

McGladrey & Pullen
Certified Public Accountants

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Certified Public Accountants

Independent Auditor's Report

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

We have audited the accompanying statement of financial position of Catholic Relief Services – United States Conference of Catholic Bishops (CRS) as of September 30, 2006, and the related statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of CRS' management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from CRS' 2005 financial statements and, in our report dated February 17, 2006, we expressed an unqualified opinion on those statements.

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*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2006 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, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2007 on our consideration of CRS' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting, or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

McGladrey & Pullen, LLP

Baltimore, Maryland
February 16, 2007

Catholic Relief Services -
United States Conference Of Catholic Bishops

Statement Of Financial Position
September 30, 2006
(With Comparative Totals For September 30, 2005)
(In Thousands)

Assets		**2006**		2005
Cash and cash equivalents	**$**	**80,573**	$	83,782
Accounts receivable and other assets		**36,071**		35,822
Construction trust assets		**18,872**		-
Investments		**166,080**		187,501
Segregated investments		**42,953**		43,033
Undistributed commodity contributions		**23,220**		25,739
Land, building and equipment, net		**33,748**		30,696
Total assets	**$**	**401,517**	$	406,573
Liabilities And Net Assets				
Liabilities				
Accounts payable and accrued expenses	**$**	**48,931**	$	42,909
Advances received for programs		**26,495**		32,559
Deferred revenue		**23,220**		25,839
Annuities payable		**35,683**		34,488
Long term debt		**34,551**		14,458
Total liabilities		**168,880**		150,253
Net assets				
Unrestricted		**69,882**		75,137
Temporarily restricted		**158,203**		177,363
Permanently restricted		**4,552**		3,820
Total net assets		**232,637**		256,320
Total liabilities and net assets	**$**	**401,517**	$	406,573

See Notes to Financial Statements.

Catholic Relief Services -
United States Conference Of Catholic Bishops

Statement Of Activities
Year Ended September 30, 2006
(With Comparative Totals For The Year Ended September 30, 2005)
(In Thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total 2006	Total 2005
Operating Revenues					
Private donor, foundation and corporate contributions:					
Catholic Relief Services collection	$ 11,266	$ -	$ -	**$ 11,266**	$ 11,661
Operation Rice Bowl appeal	-	6,625	-	**6,625**	6,003
Contributions	65,422	79,076		**144,498**	272,330
In-kind contributions	5,796	3,281	-	**9,077**	6,631
Total contributions	82,484	88,982	-	**171,466**	296,625
Government, international organizations and other exchange transactions:					
Donated agricultural, other commodities and ocean freight	148,946	-	-	**148,946**	184,645
Grants and agreements:					
United States government	204,022	-	-	**204,022**	188,607
Other	23,363	-	-	**23,363**	15,450
Total	376,331	-	-	**376,331**	388,702
Investment and other income	4,684	5,935	-	**10,619**	8,849
Net assets released from restrictions	114,094	(114,094)	-	**-**	-
Total operating revenues	577,593	(19,177)	-	**558,416**	694,176
Operating Expenses					
Program services	561,357	-	-	**561,357**	533,859
Supporting services:					
Management and general	12,548	-	-	**12,548**	10,504
Public awareness	5,752	-	-	**5,752**	3,082
Fund raising	17,380	-	-	**17,380**	19,100
Total supporting services	35,680	-	-	**35,680**	32,686
Total operating expenses	597,037	-	-	**597,037**	566,545
Change in net assets from operations	(19,444)	(19,177)	-	**(38,621)**	127,631
Non-Operating Revenues and (Expenses)					
Contributions	10,931	-	605	**11,536**	6,617
Net change in annuities, trusts and pooled income fund	1,440	423	79	**1,942**	959
Realized and unrealized gain (loss) on non-segregated investments	1,818	(406)	48	**1,460**	6,142
Total non-operating revenues and expenses, net	14,189	17	732	**14,938**	13,718
Change in net assets	(5,255)	(19,160)	732	**(23,683)**	141,349
Net assets, beginning of year	75,137	177,363	3,820	**256,320**	114,971
Net assets, end of year	$ 69,882	$ 158,203	$ 4,552	**$ 232,637**	$ 256,320

See Notes to Financial Statements.

Catholic Relief Services -
United States Conference Of Catholic Bishops

Statement Of Cash Flows
Year Ended September 30, 2006
(With Comparative Totals For The Year Ended September 30, 2005)
(In Thousands)

	2006	2005
Cash Flows From Operating Activities		
Change in net assets	$ **(23,683)**	$ 141,349
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	**6,404**	5,662
Loss on disposal of land, building and equipment	**333**	205
Realized gain on sales of investments	**(706)**	(3,298)
Unrealized gain on investments	**(754)**	(2,844)
Contributions restricted for long-term investment	**(605)**	(637)
Changes in assets and liabilities		
(Increase) decrease in:		
Accounts receivable and other assets	**(249)**	1,131
Undistributed commodity contributions	**2,519**	17,660
Construction trust assets	**(18,872)**	-
Increase (decrease) in:		
Accounts payable and accrued expenses	**6,022**	7,613
Advances received for programs	**(6,064)**	7,682
Deferred revenue	**(2,619)**	(17,750)
Net cash (used in) provided by operating activities	**(38,274)**	156,773
Cash Flows From Investing Activities		
Proceeds from sale of land, building and equipment	**527**	442
Purchase of land, building and equipment	**(10,316)**	(7,888)
Proceeds from sales and maturities of investments	**352,173**	133,597
Purchase of investments	**(329,212)**	(241,745)
Net cash provided by (used in) investing activities	**13,172**	(115,594)
Cash Flows From Financing Activities		
Proceeds from long term debt	**21,613**	494
Principal payments on long-term debt	**(1,520)**	(1,095)
Increase in annuities payable, net	**1,195**	1,857
Receipts restricted for long-term investment	**605**	637
Net cash provided by financing activities	**21,893**	1,893
Net (decrease) increase in cash and cash equivalents	**(3,209)**	43,072
Cash and cash equivalents, beginning of year	**83,782**	40,710
Cash and cash equivalents, end of year	$ **80,573**	$ 83,782
Supplemental Disclosure Of Cash Flow Information		
Cash payments for interest	$ **226**	$ 162

Supplemental Schedule Of Noncash Investing And Financing Activities
A capital lease obligation of $13,465,000 was incurred for the purchase of a building during 2005.

See Notes to Financial Statements.

Catholic Relief Services -
United States Conference Of Catholic Bishops

Statement Of Functional Expenses
Year Ended September 30, 2006
(With Comparative Totals For The Year Ended September 30, 2005)
(In Thousands)

Description	Agriculture	Education	Emergency	Small Enterprise	Health	HIV / AIDS	Peace and Justice	Welfare	Program Services **2006**	Program Services 2005
Program Services										
Salaries and related benefits	$ 14,344	$ 10,657	$ 29,667	$ 3,075	$ 10,015	$ 19,379	$ 5,767	$ 5,206	**$ 98,110**	$ 87,380
Professional fees	1,920	760	11,212	706	898	1,315	652	134	**17,597**	10,815
Telecommunications and postage	683	430	1,167	84	420	688	304	122	**3,898**	3,704
Supplies, office expenses and other	3,217	1,159	3,859	252	1,302	3,601	1,160	1,247	**15,797**	19,878
Occupancy	1,096	872	2,282	235	993	1,160	667	460	**7,765**	6,870
Vehicle and equipment	2,145	1,226	3,496	256	2,616	2,407	687	664	**13,497**	12,907
Travel, training and representation	3,213	1,948	4,638	619	2,076	5,061	2,025	481	**20,061**	18,863
Warehousing and freight	21,593	9,133	31,230	394	6,237	3,454	74	4,768	**76,883**	80,557
Publicity	6	26	10	-	2	1	-	-	**45**	30
Advances to implementing partners	23,597	10,032	72,595	5,959	13,039	50,368	10,531	4,802	**190,923**	144,770
Food, other commodities and in-kind contributions	21,951	8,939	44,802	269	7,495	22,455	-	4,837	**110,748**	142,741
Depreciation	258	231	52	588	141	3,796	398	569	**6,033**	5,344
Total expenses	$ 94,023	$ 45,413	$ 205,010	$ 12,437	$ 45,234	$ 113,685	$ 22,265	$ 23,290	**$ 561,357**	$ 533,859

See Notes to Financial Statements.

Catholic Relief Services -
United States Conference Of Catholic Bishops

Statement Of Functional Expenses (Continued)
Year Ended September 30, 2006
(With Comparative Totals For The Year Ended September 30, 2005)
(In Thousands)

	Management and General	Public Awareness	Fund Raising	Total Supporting Services 2006	Total Supporting Services 2005	Total Operating Expenses 2006	Total Operating Expenses 2005
Supporting Services							
Salaries and related benefits	$ 7,634	$ 1,854	$ 5,618	**$ 15,106**	$ 13,011	**$ 113,216**	$ 100,391
Professional fees	1,527	673	3,006	**5,206**	5,155	**22,803**	15,970
Telecommunications and postage	346	23	4,039	**4,408**	4,625	**8,306**	8,329
Supplies, office expenses and other	495	105	4,072	**4,672**	6,207	**20,469**	26,085
Occupancy	707	56	108	**871**	610	**8,636**	7,480
Vehicle and equipment	175	37	53	**265**	294	**13,762**	13,201
Travel, training and representation	1,208	158	394	**1,760**	1,435	**21,821**	20,298
Warehousing and freight	41	-	19	**60**	51	**76,943**	80,608
Publicity	-	2,829	66	**2,895**	963	**2,940**	993
Advances to implementing partners	53	9	4	**66**	16	**190,989**	144,786
Food, other commodities and in-kind contributions	-	-	-	**-**	-	**110,748**	142,741
Depreciation	362	8	1	**371**	319	**6,404**	5,663
Total expenses	$ 12,548	$ 5,752	$ 17,380	**$ 35,680**	$ 32,686	**$ 597,037**	$ 566,545

See 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 13 U.S. Bishops elected from the USCCB, the General Secretary of the Conference, and one religious and 7 lay members. Headquartered in Baltimore, Maryland, CRS provides services in approximately 100 countries through approximately 70 offices around the world.

CRS is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is an organization listed in the 2006 edition of the Official Catholic Directory.

Mission statement: Catholic Relief Services was founded in 1943 by the Catholic Bishops of the United States to assist the poor and disadvantaged outside the country. It is administered by a Board of Bishops selected by the Episcopal Conference of the United States, and is staffed by men and women committed to the Catholic Church's apostolate of helping those in need. It maintains strict standards of efficiency and accountability. The fundamental motivating force in all activities of CRS is the Gospel of Jesus Christ as it pertains to the alleviation of human suffering, the development of people and the fostering of charity and justice in the world. The policies and programs of the agency reflect and express the teaching of the Catholic Church. At the same time, Catholic Relief Services assists persons on the basis of need, not creed, race or nationality. Catholic Relief Services gives active witness to the mandate of Jesus Christ to respond to human needs in the following ways:

- by responding to victims of natural and man-made disasters;
- by providing assistance to the poor and to alleviate their immediate needs;
- by supporting self-help programs which involve people and communities in their own development;
- by helping those it serves to restore and preserve their dignity and to realize their potential;
- by collaborating with religious and non-sectarian persons and groups of good will in programs and projects which contribute to a more equitable society;
- by helping to educate the people of the United States to fulfill their moral responsibilities in alleviating human suffering, removing its causes, and promoting social justice.

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 marketing, etc.

Education – programs intended to improve access to and delivery of basic literacy, numerary and other life skills through both formal and non-formal education systems, and to enhance educational achievement.

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.

Small Enterprise – programs to develop lending and savings services for the self-employed poor who have no access to capital in the formal financial markets.

Health – programs targeted toward problem recognition, evaluation, and intervention in the prevention of somatic illness, disease and death among populations living in poverty.

Note 1. Organization And Operations (Continued)

HIV/AIDS – programs that assist the poor and vulnerable through care and support, awareness and prevention, treatment of opportunistic infections, and provision of anti-retroviral drugs, prolonging the lives of many, and enabling all participants to live in dignity.

Peace and Justice – programs to prevent, mitigate, or resolve conflict and promote responsibility and right relationships between parties at the individual, community, regional or national levels, including focus upon the strengthening of the institutions of civil society.

Welfare – programs 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

Presentation: The financial statements include the results of CRS' worldwide operations. The preparation of the financial statements 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.

Revenues and expenses related to unrestricted bequests, annuities and other planned giving contributions, realized and unrealized gains and losses on investments and permanently restricted contributions are considered non-operating activities.

The financial statements include certain prior-year summarized comparative totals as of and for the year ended September 30, 2005. 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 the financial statements for the year ended September 30, 2005 from which the summarized information was derived.

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 historical dollar amounts of gifts which are required by donors to be permanently retained.

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.

Note 2. Summary Of Significant Accounting Policies (Continued)

Accounts receivable and other assets: Accounts receivable and other assets consist of trade receivables, micro-finance loans and charitable trusts. Interest is charged for micro-finance loans at variable 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 microfinance receivables until the receivables are deemed uncollectible.

Charitable trusts represent the fair value, using present value calculations, of CRS' interest in the donor's trust accounts and life insurance policies. 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 calculations of the trusts discounted at a rate of 6% for 2006 and 2005. The trusts 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.

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

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 was calculated using the Annuity 2000 Mortality table with no adjustments, assuming a 6% interest rate, compounded annually, and no provision for a surplus or contingency reserve.

Fair value of financial instruments: The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash, cash equivalents, short-term investments, trade receivables, accounts payable, advances received for programs and deferred revenue – These assets and liabilities have carrying amounts that approximate fair value because of the short maturity of these instruments.

Investments and charitable trusts – The fair value of investments and charitable trusts is estimated based on quoted market prices and dealer quotes, and present value calculations for those or similar investments.

Note 2. Summary Of Significant Accounting Policies (Continued)

Undistributed commodity contributions – The fair value of undistributed commodity contributions is based on quoted market prices.

Annuities payable – Annuities payable are estimated using the actuarial present value of amounts due under annuity agreements paid over various periods, generally the life of the donor. These estimates approximate fair value.

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

Valuation of long-lived assets: CRS accounts for the valuation of long-lived assets under Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 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 exceed 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.

Donated agricultural commodities and supplies: 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) and others for distribution under contracts related to specific relief programs. Commodities that have not been distributed at September 30, 2006 and 2005 are carried as undistributed commodity contributions and deferred revenue.

Commodity contributions are valued using guidelines published by the Commodity Credit Corporation (an agency of the United States government). European Union commodity donations are recorded at their insurable value, which approximates market value. In-kind contributions of medical supplies are recorded at the Pharmacies Fundamental Reference book (Red-Book) value. Other in-kind contributions are recorded at fair value.

Other government funding and exchange transactions: Revenues related to government grants and other exchange transactions are 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 statement of financial position as advances received for programs.

Functional allocation of expenses: The costs of providing CRS' 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 Operation Rice Bowl program jointly support fundraising and educational and other programming. These expenses, totaling $1,282,000 for the year ended September 30, 2006 and $1,131,000 for the year ended September 30, 2005, are allocated 25% to fundraising and 75% to program services.

Note 2. Summary Of Significant Accounting Policies (Continued)

Self insured medical plan: Under the CRS plan, 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' estimates of the aggregate liability for claims incurred.

Reclassification: Certain of the 2005 comparative amounts were reclassified to conform with the 2006 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 at times exceed FDIC insurance limits. Deposits held at institutions outside of the United States are not subject to insurance. At September 30, 2006 and 2005, $80,266,000 and $82,641,000, respectively, of deposits were in excess of FDIC insurance including $29,541,000 and $28,325,000, respectively, held in numerous financial institutions outside of the United States. Short-term operating investments of $8,605,000 and $9,701,000, respectively, were also held in numerous financial institutions outside of the United States at September 30, 2006 and 2005.

CRS invests in a professionally managed portfolio that contains shares of U.S. Treasury securities, equity securities and corporate 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 at least reasonably 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

Accounts receivable include loans made by CRS for microfinance programming, which provides credit to the working poor, and encompasses both loans direct to the final borrower as well as loans to local partners who operate these programs. In some instances, CRS may contribute loan balances to local partners. At September 30, 2006 and 2005 microfinance loans receivable totaled $19,844,000 and $17,173,000, respectively. As of September 30, 2006 and 2005, the allowances for doubtful accounts on all accounts receivable and microfinance loans were $5,864,000 and $3,155,000, respectively. Other assets include charitable trusts of $8,775,000 and $8,158,000 at September 30, 2006 and 2005. The remaining portion of accounts receivable and other assets at September 30, 2006 and 2005 consists of trade receivables and prepaid expenses. Included in accounts receivables and other assets is an interest rate swap instrument described in Note 10. This instrument is carried at its current market value of $181,000. The change in value of this asset is included in investment and other income.

Note 5. Construction Trust Assets

Proceeds from the bond issue described in Note 10, were deposited to a trust fund maintained by Wells Fargo Bank. This fund is used to pay interest on the bonds, construction draws and other expenses, while earnings on the trust assets are credited to the fund. At September 30, 2006 interest credited to the fund of $318,000 is used to reduce the capitalized cost of the renovation.

Note 6. Investments

The fair value by type of investment at September 30, 2006 and 2005 is as follows (in thousands):

	2006	2005
Certificates of deposit and other	$ 8,936	$ 9,944
U.S. treasury securities	20,678	42,744
Corporate debt securities	75,833	74,338
Equity securities	59,482	59,328
Accrued Interest and dividends	1,151	1,147
	$ 166,080	$ 187,501

The components of investment return on the investments described above, cash equivalents and segregated investments for the years ended September 30, 2006 and 2005 are as follows (in thousands):

	2006	2005
Dividends and interest	$ 10,863	$ 8,146
Realized gain on investments	706	3,298
Unrealized gain on investments	754	2,844
Investment management fees	(880)	(589)
	$ 11,443	$ 13,699

Note 7. Segregated Investments

CRS is required under various statutory regulations to segregate a certain level of acceptable investments to support its charitable gift annuity giving 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. Such investments, at fair value, at September 30, 2006 and 2005 consist of the following (in thousands):

	2006			2005		
	Gift annuities	Pooled income	Total	Gift annuities	Pooled income	Total
Cash and cash equivalents	$ 2,109	$ 46	$ 2,155	$ 1,719	$ 23	$ 1,742
U.S. Treasury securities	35,188	1,697	36,885	35,324	1,990	37,314
Equity securities	3,373	164	3,537	3,375	220	3,595
Accrued interest	376	-	376	382	-	382
Totals	$ 41,046	$ 1,907	$ 42,953	$ 40,800	$ 2,233	$ 43,033

During the years ended September 30, 2006 and 2005, CRS received $4,600,000 and $5,100,000, respectively, of new charitable gift annuities and pooled income fund contributions, earned net investment income of 1,900,000 and $1,800,000, respectively, and made contractual annuity payments of $4,000,000 and $3,900,000, respectively.

During the years ended September 30, 2006 and 2005, the pooled income fund made earnings distributions of $157,000 and $99,000, respectively, to participants.

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

Note 8. 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 revenues and expenses are translated at rates in effect on transaction dates. Transaction and translation gains and losses are included in current results. The resulting foreign currency translation gains of $2,543,000 for the year ended September 30, 2006 and losses of $1,052,000 for the year ended September 30, 2005, are included in supplies, office expenses, other expenses and investment income.

At September 30, 2006 and 2005, assets of approximately $100,022,000 and $104,149,000, respectively, which consist primarily of cash, short-term investments, receivables and equipment, and $41,557,000 and $38,144,000, respectively, of liabilities are associated with activities in countries outside the United States.

Note 9. Land, Building And Equipment

Land, building and equipment, at cost, at September 30, 2006 and 2005 are summarized as follows (in thousands):

	2006	2005
Land	**$ 1,834**	$ 1,834
Building and improvements	**21,667**	20,338
Furniture and equipment	**53,648**	47,081
	77,149	69,253
Less accumulated depreciation	**(43,401)**	(38,557)
	$ 33,748	$ 30,696

Land, building and equipment includes restricted and grant assets of $5,094,000 and $6,389,000 at September 30, 2006 and 2005, respectively. These assets are restricted in compliance with federal program grant agreements as to use, resale and maintenance.

On July 25, 2005 CRS entered into a capital lease for the acquisition of a new world headquarters building in Baltimore, Maryland. The lease is for an initial term of thirty years, with three five-year renewal options. The minimum lease payment under this agreement of $13,465,000, was paid in full on the Rent Commencement Date, January 21, 2006. 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, 2006 include $15,196,000 for the capital lease expenditure and other costs expended, including capitalized interest of $338,000, for the renovations of the new headquarters office space. CRS has entered into several contracts associated with these leasehold improvements. As of September 30, 2006 the total construction commitments are $12,407,000.

Note 9. 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 for office space for periods ranging from 3-5 years for its US Operations. Rental expenses for the years ended September 30, 2006 and 2005 were $3,284,000 and $2,746,000, respectively. Minimum annual lease payments on operating leases are:

Years Ending September 30,		
2007	$	258,123
2008		193,906
2009		168,106
2010		167,133
2011		96,999
Thereafter		26,501
	$	910,768

Note 10. Long-Term Debt

Long term debt includes notes payable by CRS' wholly owned subsidiary in Cambodia, Thaneakea Phum (Cambodia) Ltd, (TPC), in addition to a term loan and tax exempt bonds payable in connection with the renovations of CRS' new headquarters building leased in 2005. None of the obligations of TPC have recourse to the other assets of CRS.

TPC has a local currency line of credit with the Rural Development Bank, with the maximum of $481,000 outstanding, maturing in May 2007. The agreement includes a 1% origination fee on each draw and accrues interest at a floating rate. The rate at September 30, 2006 was 10.6%.

TPC has two local currency loans from Hivos-Triodos Fonds (a Netherlands organization). One of the loans is for approximately $481,000 maturing January 2007, but renewable annually for two additional years, at 11.5% interest and the other is for approximately $522,000 maturing October 2007, but renewable annually for two additional years, at 12% interest. Each includes a 1% origination fee.

TPC has borrowed $250,000 from Acleda Bank PLC as a revolving loan. Denominated in Cambodian riel, it matures in July 2007 and accrues interest at 18%.

TPC borrowed $750,000 from FMO, a Netherlands limited liability company delineated as $250,000 in US dollars at 5.75% interest and $250,000 each in two different local currencies at 6.5% interest. An origination and commitment fee totaling 1.5% is included. The US dollars equivalent outstanding balance at September 30, 2006 is $755,000. Repayment is to be in equal semi-annual installments beginning on April 1, 2008.

TPC also has several small loans with one year terms at 12% which automatically renew unless called by the borrower 30 days prior to maturity. These have maturity dates in March, April and October, and total $60,000.

To finance the capital lease obligation for its new headquarters building, CRS has an outstanding term loan with Bank of America in the amended amount of $12,445,000. The loan matures on May 1, 2009 but automatically extends until May 1, 2012 and then, again, until May 1, 2016 if the loan is not in default. Interest accrues, and is payable monthly, at a rate based on the one-month LIBOR plus either .14% or .30% depending on the liability coverage ratio as defined in the agreement. Monthly principal payments begin on June 1, 2008 and adjust each year on the basis of full amortization through May 1, 2023.

Note 10. Long-Term Debt (Continued)

In June 2006, CRS 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 2024 and continue until final maturity in May 2036. A credit enhancement provided by Bank of America was used to obtain a credit rating of Aa1.

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 was executed with notional principal amount of $4,855,000 of the taxable term loan, at a fixed rate of 4.96% to be effective March 1, 2006 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% effective May 1, 2006 through May 1, 2036.

Interest due on the term loan and the bonds in connection with the headquarters building are being capitalized while the space is under renovation and unoccupied.

Future annual maturities on long term debt as of September 30, 2006 are as follows:

Years Ending September 30,		
2007	$	1,796,000
2008		568,000
2009		962,000
2010		620,000
2011		651,000
2012-2036		29,954,000
	$	34,551,000

Note 11. Commodities Received And Other In-Kind Contributions

Commodities received and other in-kind contributions for the years ended September 30, 2006 and 2005 consist of the following (in thousands):

		2006		2005
Agricultural commodities donated by USAID and USDA	**$**	**60,895**	$	93,239
Commodities and other contributions provided by the European Union, UN and other donors		**25,681**		24,450
Ocean freight		**62,370**		66,956
Total agricultural commodities and ocean freight	**$**	**148,946**	$	184,645
Medical supplies and other tangible assets	**$**	**5,458**	$	5,246
Donated services		**3,619**		1,385
Total in-kind contributions	**$**	**9,077**	$	6,631

Note 12. Retirement Plans

CRS has a non-contributory defined benefit retirement plan covering all lay employees who have completed three months 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 10 years of service.

CRS also sponsors a non-contributory post-retirement health plan for employees who retire after the age of 65 with at least 20 years of service. CRS funds retiree healthcare premiums on a cash basis, and for the years ended September 30, 2006 and 2005, paid $128,000 and $168,000, respectively, for retirees' healthcare coverage.

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, 2006 and 2005 ($ in thousands):

	Pension Benefits		Post Retirement	
	2006	2005	**2006**	2005
Change in projected benefit obligation:				
Benefit obligation at beginning of period	**$ 28,038**	$ 27,080	**$ 4,058**	$ 3,298
Service cost	**3,110**	2,628	**226**	212
Interest cost	**1,877**	1,562	**248**	238
Actuarial loss (gain)	**980**	(2,945)	**(165)**	478
Benefits paid	**(259)**	(287)	**(128)**	(168)
Actuarial loss - discount rate change	**-**	-	**-**	-
Projected benefit obligation at end of period	**$ 33,746**	$ 28,038	**$ 4,239**	$ 4,058
Accumulated benefit obligation at end of period	**$ 22,365**	$ 18,538	**$ 4,239**	$ 4,058
Change in plan assets:				
Fair value of plan assets at beginning of period	**$ 13,060**	$ 10,649	**$ -**	$ -
Actual return on plan assets	**931**	963	**-**	-
Employer contributions	**3,116**	1,735	**128**	168
Benefits paid	**(259)**	(287)	**(128)**	(168)
Fair value of plan assets at end of period	**16,848**	13,060	**-**	-
Funded status	**(16,899)**	(14,978)	**(4,239)**	(4,058)
Unrecognized transition obligation	**-**	-	**1,188**	1,332
Unrecognized prior service cost	**135**	152	**-**	-
Unrecognized net loss (gain)	**6,810**	5,720	**(684)**	(538)
Accrued benefit cost	**$ (9,954)**	$ (9,106)	**$ (3,735)**	$ (3,264)
Components of net periodic benefit cost:				
Service cost	**$ 3,111**	$ 2,628	**$ 226**	$ 212
Interest cost	**1,878**	1,562	**248**	238
Expected return on plan assets	**(1,276)**	(1,018)	**-**	-
Net amortization and deferral	**331**	302	**126**	132
Early Retirement Incentive	**-**	-	**-**	-
Lump sum payments	**-**	-	**-**	-
Total net periodic benefit cost	**$ 4,044**	$ 3,474	**$ 600**	$ 582
Weighted-average assumptions:				
Discount rate	**6.50%**	6.50%	**6.50%**	6.50%
Expected return on plan assets	**8.50%**	8.50%	**N/A**	N/A
Rate of compensation increase	**5.50%**	5.50%	**N/A**	N/A

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. The investment objective also incorporates the financial condition of the plan, future growth of active and retired participants, inflation and the rate of salary increases. CRS' budget and finance committee has selected market-based benchmarks to monitor the performance of the investment strategy and perform periodic review of investment performance.

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

Asset Class	Minimum	Target	Maximum
Equity and equivalents	60%	70%	80%
Fixed income	20%	30%	40%

The investment policy requires compliance with existing and future applicable state and federal regulations, including ERISA. The expected long-term rate of return on plan assets is based primarily on expectations of future returns for the defined benefit plan's investments, based upon the target asset allocations. Additionally, the historical returns on comparable equity and fixed income investments is considered in the estimate of the expected long-term rate of return on plan assets.

Allocation of plan assets at September 30, 2006 and 2005 ($ in thousands):

	2006		2005	
	Amount	**Percent**	Amount	Percent
Equity and equivalents	**$ 11,705**	**69.5%**	$ 9,888	75.7%
Fixed income	**3,694**	**21.9%**	2,899	22.2%
Cash equivalents	**1,449**	**8.6%**	273	2.1%
	$ 16,848	**100.0%**	$ 13,060	100.0%

The pension plan contribution for the year ending September 30, 2007 is expected to be $2,208,000. The plan's expected payouts for the next five years and in the aggregate for the following five years are:

Fiscal Year	Payout
2007	$ 220,211
2008	219,057
2009	443,811
2010	531,999
2011	692,455
2012-2016	7,798,219

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Note 12. Retirement Plans (Continued)

The healthcare inflation rates for 2006 and 2005 are assumed to be 5.5% and 6%, respectively. These rates are projected to decrease to an ultimate rate of 4.5% by the year 2007. A 1% point increase in the healthcare inflation rate from the assumed rate could increase the accumulated post-retirement benefit obligation by approximately $919,000 as of September 30, 2006 and would increase the aggregate of the service cost and interest cost components of net periodic post-retirement benefit cost for 2006 by approximately $123,000. A 1% point decrease in the healthcare inflation rate from the assumed rate could decrease the accumulated post-retirement benefit obligation by approximately $713,000 as of September 30, 2006 and would decrease the aggregate of the service cost and interest components of net periodic post-retirement benefit cost for 2006 by approximately $93,000.

CRS also provides eligible employees a defined contribution plan, which qualifies under Section 403(b) of the Internal Revenue Code. 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. The contributions are invested in various mutual funds chosen by the participant. CRS contributed $635,000 and $578,000, respectively, for the years ended September 30, 2006 and 2005.

Accrued benefit cost for pension benefits and post retirement benefits are included in accounts payable and accrued expenses in the accompanying 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' loss per individual employee to $150,000 and an aggregate stop loss based on a preset rate as of the beginning of each fiscal year. For fiscal year 2006, this rate was $580 per employee per month, or approximately $5,100,000. The medical plan is administered through a contractual relationship with an unrelated company. However, CRS is solely responsible for all claims incurred up to the amount of the stop loss provisions. CRS' expense under the self-insured medical plan amounted to $4,000,000 and $4,100,000 for the years ended September 30, 2006 and 2005.

Note 14. Temporarily Restricted Net Assets

Temporarily restricted net assets at September 30, 2006 and 2005 are comprised of the following (in thousands):

	2006	2005
Time restricted:		
Charitable trusts	**$ 6,649**	$ 6,111
Pooled income fund	**723**	839
Other time restricted	**143**	142
Total	**7,515**	7,092
Program restricted:	**150,688**	170,271
Total temporarily restricted net assets	**$ 158,203**	$ 177,363

Note 14. Temporarily Restricted Net Assets (Continued)

Net assets were released for the following purposes during 2006 and 2005 (in thousands):

	2006	2005
Program restricted purposes met	**$ 114,094**	$ 69,778
Time restricted purposes met	**-**	-
	$ 114,094	$ 69,778

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.

Note 15. 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, 2006 and 2005, 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' financial position, change in net assets, or cash flow.

Note 16. Tsunami Emergency

On December 26, 2004 a tsunami struck South and Southeast Asia, resulting in the largest donor response in CRS' history. CRS' emergency response as well as reconstruction efforts will extend over a number of years. The following is a financial summary of the activity in Indonesia, Sri Lanka, India, Thailand and other parts of this region through September 30, 2006 (in thousands):

	Private Contributions	Other Donors, including US Government	Total
Revenue, cumulative through September 30, 2006	$ 162,081	$ 20,924	$ 183,005
Investment income	7,384	-	7,384
Total revenues	169,465	20,924	190,389
Total expenses	67,867	20,924	88,791
Net assets at September 30, 2006	$ 101,598	$ -	$ 101,598

Note 17. Accounting Pronouncements Issued But Not Yet Adopted

In October 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R). Statement No. 158 applies to employers that sponsor single-employer defined benefit pension and other postretirement plans, including not-for-profit organizations. This Statement requires CRS to recognize, in its financial statements, the funded status of its defined benefit plan. Funded status is defined as the difference between the projected benefit obligation and the fair value of the plan assets. Under previous accounting standards, CRS has been required to disclose the funded status of the Plan in the notes to the financial statements and to record the current benefit cost or income. CRS must apply the recognition provisions of Statement No. 158 as of the end of fiscal year 2007. Any required adjustment for gains or losses or prior service costs not yet included in net periodic pension cost, shall be reported in the statement of activities as a separate line item. Retrospective application is not permitted.

Statement No. 158 also requires plan assets and benefit obligations be measured as of the date of the employer's statement of financial position. Previous guidance allowed the employer to measure the assets and obligations of the Plan as of a date not more than three months prior to the statement of financial position.