Catholic Relief Services – United States Conference of Catholic Bishops

Financial Statement Report
September 30, 2008

McGladrey & Pullen
Certified Public Accountants

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McGladrey & Pullen
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, 2008, 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' 2007 financial statements and, in our report dated March 12, 2008, 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* 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 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 2008 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, 2008, 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 March 26, 2009 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

Timonium, Maryland
March 26, 2009

Catholic Relief Services –
United States Conference Of Catholic Bishops

Statements Of Financial Position
September 30, 2008 and 2007

(In Thousands)

Assets	2008	2007
Cash and cash equivalents	$ 97,079	$ 66,120
Accounts receivable and other assets	48,594	44,240
Investments	91,782	136,113
Segregated investments	42,508	45,494
Undistributed commodity contributions	49,947	21,691
Land, building and equipment, net	49,948	51,366
Total assets	$ 379,858	$ 365,024

Liabilities And Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 72,701	$ 72,453
Advances received for programs	50,051	29,431
Deferred revenue	49,947	21,691
Annuities payable	38,250	36,379
Long-term debt	50,661	40,091
Total liabilities	261,610	200,045
Net Assets		
Unrestricted	47,004	61,137
Temporarily restricted	66,479	98,658
Permanently restricted	4,765	5,184
Total net assets	118,248	164,979
Total liabilities and net assets	$ 379,858	$ 365,024

See Notes To Financial Statements.

Catholic Relief Services –
United States Conference Of Catholic Bishops

Statement Of Activities
Year Ended September 30, 2008
(With Comparative Totals For The Year Ended September 30, 2007)
(In Thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total 2008	Total 2007
Operating revenue					
Private support and revenue:					
Catholic Relief Services collection	$ 12,514	$ -	$ -	$ 12,514	$ 12,332
Operation Rice Bowl appeal	-	7,346	-	7,346	7,044
Private contributions	80,087	37,468	-	117,555	111,852
Foundation and corporate grant revenue	13,821	-	-	13,821	5,626
Bequests	17,707	-	-	17,707	14,905
Private in-kind gifts	1,969	-	-	1,969	1,867
Total private support and revenue	126,098	44,814	-	170,912	153,626
Public support and revenue:					
Donated agricultural, other commodities and ocean freight	121,932	-	-	121,932	112,818
United States government grants and agreements	257,981	-	-	257,981	211,755
Other public grants and contributions	44,032	1,229	-	45,261	34,169
Public in-kind gifts	2,921	-	-	2,921	3,143
Total public support and revenue	426,866	1,229	-	428,095	361,885
Investment and other income	10,313	1,929	-	12,242	10,370
Net assets released from restrictions	74,237	(74,237)	-	-	-
Total operating revenue	637,514	(26,265)	-	611,249	525,881
Operating expenses					
Program services	596,540	-	-	596,540	560,060
Supporting services:					
Management and general	17,666	-	-	17,666	14,179
Public awareness	5,123	-	-	5,123	4,389
Fundraising	19,760	-	-	19,760	18,637
Total supporting services	42,549	-	-	42,549	37,205
Total operating expenses	639,089	-	-	639,089	597,265
Change in net assets from operations	(1,575)	(26,265)	-	(27,840)	(71,384)
Non-operating revenue and expense					
Endowments	-	-	251	251	248
Net change in annuities, trusts and pooled income fund	1,881	(145)	(375)	1,361	2,470
Realized and unrealized gain (loss) on investments and financial instruments	(20,040)	(5,769)	(295)	(26,104)	7,630
Gain on sale of building	3,852	-	-	3,852	-
SFAS 158, defined benefit plan adjustment	1,749	-	-	1,749	(6,622)
Total non-operating revenue and expenses, net	(12,558)	(5,914)	(419)	(18,891)	3,726
Change in net assets	(14,133)	(32,179)	(419)	(46,731)	(67,658)
Net assets, beginning of year	61,137	98,658	5,184	164,979	232,637
Net assets, end of year	$ 47,004	$ 66,479	$ 4,765	$ 118,248	$ 164,979

See Notes To Financial Statements.

Catholic Relief Services –
United States Conference Of Catholic Bishops

Statements Of Cash Flows
Years Ended September 30, 2008 and 2007

(In Thousands)

	2008	2007
Cash Flows From Operating Activities		
Change in net assets	$ (46,731)	$ (67,658)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	7,210	6,470
(Gain) loss on disposal of land, building and equipment	(3,432)	426
Realized loss (gain) on sales of investments	7,954	(8,253)
Unrealized loss on investments and financial instruments	18,150	624
Contributions restricted for long-term investment	(251)	(248)
Changes in assets and liabilities		
(Increase) decrease in:		
Accounts receivable and other assets	(7,436)	(5,268)
Undistributed commodity contributions	(28,256)	1,529
Increase (decrease) in:		
Accounts payable and accrued expenses	(890)	23,522
Advances received for programs	20,620	2,936
Deferred revenue	28,256	(1,529)
Net cash used in operating activities	(4,806)	(47,449)
Cash Flows From Investing Activities		
Proceeds from sale of land, building and equipment	7,169	426
Purchase of land, building and equipment	(9,529)	(24,940)
Proceeds from sales and maturities of investments	232,559	345,793
Purchase of investments	(209,866)	(310,899)
Change in construction trust assets	2,740	16,132
Net cash provided by investing activities	23,073	26,512
Cash Flows From Financing Activities		
Proceeds from long-term debt	11,731	6,300
Principal payments on long-term debt	(1,161)	(760)
Increase in annuities payable, net	1,871	696
Receipts restricted for long-term investment	251	248
Net cash provided by financing activities	12,692	6,484
Net increase (decrease) in cash and cash equivalents	30,959	(14,453)
Cash and cash equivalents, beginning of year	66,120	80,573
Cash and cash equivalents, end of year	$ 97,079	$ 66,120
Supplemental Disclosure Of Cash Flow Information		
Cash payments for interest	$ 2,873	$ 835

See Notes To Financial Statements.

Catholic Relief Services –
United States Conference Of Catholic Bishops

Statement Of Functional Expenses
Year Ended September 30, 2008
(With Comparative Totals For The Year Ended September 30, 2007)
(In Thousands)

Description	Agriculture	Education	Emergency	Small Enterprise	Health	HIV And AIDS	Peace And Justice	Welfare	Program Services 2008	Program Services 2007
Program services										
Salaries and related benefits	$ 22,850	$ 11,521	$ 31,316	$ 2,614	$ 9,589	$ 30,104	$ 8,364	$ 6,045	$ 122,403	$ 107,883
Contracting and professional fees	2,396	522	15,130	558	1,019	1,136	1,102	351	22,214	40,267
Telecommunications and postage	873	343	1,281	66	380	1,042	340	201	4,526	4,042
Supplies, office expenses and other	1,718	890	1,238	163	765	3,776	545	1,035	10,130	22,051
Occupancy	2,383	1,329	2,016	302	809	2,494	887	667	10,887	8,854
Vehicle and equipment	3,197	1,228	2,235	174	1,998	3,476	814	609	13,731	12,659
Travel, training and representation	5,110	2,373	4,715	873	2,394	8,697	2,780	811	27,753	23,852
Warehousing and freight	6,616	5,760	14,328	309	7,348	231	91	3,780	38,463	45,397
Publicity	3	14	6	-	-	1	-	-	24	25
Advances to implementing partners	34,980	14,013	38,631	4,626	17,293	96,975	12,737	6,873	226,128	194,912
Food, other commodities and in-kind contributions	14,172	7,153	48,727	235	12,252	25,444	-	6,680	114,663	94,133
Depreciation	427	190	130	27	195	2,734	-	1,915	5,618	5,985
Total expenses	$ 94,725	$ 45,336	$ 159,753	$ 9,947	$ 54,042	$ 176,110	$ 27,660	$ 28,967	$ 596,540	$ 560,060

(Continued)

Catholic Relief Services –
United States Conference Of Catholic Bishops

Statement Of Functional Expenses (Continued)
Year Ended September 30, 2008
(With Comparative Totals For The Year Ended September 30, 2007)
(In Thousands)

	Management And General	Public Awareness	Fundraising	Total Supporting Services 2008	Total Supporting Services 2007	Total Operating Expenses 2008	Total Operating Expenses 2007
Supporting services							
Salaries and related benefits	$ 11,421	$ 2,734	$ 7,607	$ 21,762	$ 18,609	$ 144,165	$ 126,492
Contracting and professional fees	1,958	394	3,341	5,693	5,038	27,907	45,305
Telecommunications and postage	400	39	3,570	4,009	4,239	8,535	8,281
Supplies, office expenses and other	607	146	3,909	4,662	4,739	14,792	26,790
Occupancy	262	268	604	1,134	664	12,021	9,518
Vehicle and equipment	106	51	34	191	135	13,922	12,794
Travel, training and representation	1,327	178	551	2,056	1,863	29,809	25,715
Warehousing and freight	-	-	16	16	61	38,479	45,458
Publicity	2	1,305	120	1,427	1,364	1,451	1,389
Advances to implementing partners	1	2	4	7	8	226,135	194,920
Food, other commodities and in-kind contributions	-	-	-	-	-	114,663	94,133
Depreciation	1,582	6	4	1,592	485	7,210	6,470
Total expenses	$ 17,666	$ 5,123	$ 19,760	$ 42,549	$ 37,205	$ 639,089	$ 597,265

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 12 U.S. Bishops elected from the USCCB, the General Secretary of the Conference, and two religious and six lay members. Headquartered in Baltimore, Maryland, CRS provides services in approximately 105 countries through approximately 76 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 2008 edition of the Official Catholic Directory.

CRS has a wholly owned subsidiary, Catholic Relief Services Foundation, Inc. (Foundation) 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. CRS has an 87.8% interest in Thaneakea Phum (Cambodia) Ltd., (TPC), a microfinance operation in Cambodia. The minority interest is held by employees in a stock ownership plan. The Chief Financial Officer of CRS is a member of the board of directors of TPC.

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 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.

Note 1. Organization And Operations (Continued)

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.

HIV and 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.

Revenue and expenses related to annuities and other planned giving contributions, realized and unrealized gains and losses on investments and permanently restricted contributions are classified as nonoperating activities.

The financial statements include certain prior year summarized comparative totals as of and for the year ended September 30, 2007. 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, 2007, from which the summarized information was derived.

Designation of support and revenue: Revenue 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 support and revenue. Revenue from individuals, parishes and dioceses, as well as non-governmental organizations, foundations and corporations is classified under private support and revenue.

Note 2. Summary Of Significant Accounting Policies (Continued)

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.

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, 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 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 2008 and 2007. 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.

Subsequent to year end, the credit and liquidity crisis in the United States and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. These and other economic events have had a significant adverse impact on investment portfolios. As a result, CRS' investments have likely incurred a significant decline in fair value since September 30, 2008.

Note 2. Summary Of Significant Accounting Policies (Continued)

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 3 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 is 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 are 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.

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.

Interest rate swap agreements: CRS accounts for its interest rate swap contracts in accordance with Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*. 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' 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' interest rate swap contracts are considered to be a hedge against changes in the amount of future cash flows associated with CRS' interest payments under variable rate debt obligations. Accordingly, the interest rate swap contracts are reflected at fair value in CRS' statement of financial position and the related gain or loss on these contracts is recognized in the statement of activities.

Note 2. Summary Of Significant Accounting Policies (Continued)

The effect of this accounting on CRS' 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 accounts for the valuation of long-lived assets under 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 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.

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, 2008 and 2007, 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 or based on bills of lading. 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 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 total $1,295,000 for the year ended September 30, 2008, and $1,254,000 for the year ended September 30, 2007. Expenses are allocated 20% to fundraising and 80% to program services for fiscal year 2008 and 25% to fundraising and 75% to program services for fiscal year 2007.

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' estimates of the aggregate liability for claims incurred.

Note 2. Summary Of Significant Accounting Policies (Continued)

Income taxes: CRS is generally exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, CRS qualifies for charitable contribution deductions under Section 170(b)(1)(A)(vi) and 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, 2008 and 2007, CRS has concluded it has no unrelated business income.

In July 2006, FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, an interpretation of FASB Statement No. 109, *Accounting for Income Taxes*, was issued. Under the requirements of FIN 48, which clarified the accounting for income taxes, tax-exempt organizations could now be required to record an obligation as the result of a tax position they have historically taken on various tax exposure items. There has been no impact on the financial statements of CRS as a result of adoption of FIN 48. However, the years ended September 30, 2006, 2007, and 2008 are subject to examination by the Internal Revenue Service. Any interest and/or penalties that would result from such an examination would be charged to expense in the year identified.

Recent accounting pronouncements: In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurement. SFAS 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under SFAS 157, fair value measurements are disclosed by level within that hierarchy. SFAS 157 is effective for fiscal years beginning after November 15, 2007, except for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis for which delayed application is permitted until fiscal years beginning after November 15, 2008. CRS does not expect that the adoption of SFAS 157 will have a material impact on its statements of activities and financial position.

Reclassification: Certain of the 2007 comparative amounts were reclassified to conform to the 2008 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, 2008 and 2007, $96,732,000 and $65,583,000, respectively, of deposits were in excess of FDIC insurance including $54,802,000 and $37,185,000, respectively, held in numerous financial institutions outside of the United States. Short-term operating investments of $7,501,000 and $7,231,000, respectively, were also held in numerous financial institutions outside of the United States at September 30, 2008 and 2007.

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 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 provide credit to the working poor, and encompass 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, 2008 and 2007, microfinance loans receivable totaled $27,850,000 and $22,405,000, respectively. As of September 30, 2008 and 2007, the allowances for doubtful accounts on all accounts receivable and microfinance loans were $4,382,000 and $5,101,000, respectively. Other assets include charitable trusts of $9,344,000 and $9,801,000 at September 30, 2008 and 2007, respectively. The remaining portion of accounts receivable and other assets at September 30, 2008 and 2007, consists of trade receivables and prepaid expenses.

Note 5. Investments

The fair value by type of investment at September 30, 2008 and 2007, is as follows (in thousands):

	2008	2007
Certificates of deposit and other	$ 18,501	$ 7,408
U.S. Treasury securities	18,974	28,974
Corporate debt securities	15,873	43,705
Equity securities	37,976	55,293
Accrued interest and dividends	458	733
	$ 91,782	$ 136,113

The components of investment return on the investments described above, cash equivalents and segregated investments for the years ended September 30, 2008 and 2007, are as follows (in thousands):

	2008	2007
Dividends and interest	$ 10,750	$ 12,529
Realized (loss) gain on investments	(7,954)	8,254
Unrealized loss on investments	(16,670)	(785)
Investment management fees	(803)	(860)
	$ (14,677)	$ 19,138

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 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, 2008 and 2007, consist of the following (in thousands):

	2008			2007		
	Gift Annuities	Pooled Income	Total	Gift Annuities	Pooled Income	Total
Cash and cash equivalents	$ 5,649	$ 35	$ 5,684	$ 1,976	$ 64	$ 2,040
U.S. treasury securities	27,888	1,523	29,411	32,156	1,696	33,852
Corporate debt securities	497	-	497	823	-	823
Equity securities	6,451	134	6,585	8,206	161	8,367
Accrued interest	331	-	331	412	-	412
Total	$ 40,816	$ 1,692	$ 42,508	$ 43,573	$ 1,921	$ 45,494

During the years ended September 30, 2008 and 2007, CRS received $5,671,000 and $4,300,000, respectively, of new charitable gift annuities and pooled income fund contributions, earned net investment income of $1,578,000 and $1,900,000, respectively, and made contractual annuity payments of $3,866,000 and $4,200,000, respectively.

During the years ended September 30, 2008 and 2007, the pooled income fund made earnings distributions of $249,000 and $78,000, respectively, to participants.

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

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. Transaction and translation gains and losses are included in current results. The resulting foreign currency translation losses of $351,000 for the year ended September 30, 2008, and gains of $756,000 for the year ended September 30, 2007, are included in supplies, office expenses, other expenses and investment income.

At September 30, 2008 and 2007, assets of approximately $155,017,000 and $110,278,000, respectively, which consist primarily of cash, short-term investments, receivables and equipment, and $132,261,000 and $79,650,000, respectively, of liabilities are associated with activities in countries outside the United States.

Note 8. Land, Building And Equipment

Land, building and equipment, at cost, at September 30, 2008 and 2007, are summarized as follows (in thousands):

	2008	2007
Land	$ 703	$ 1,834
Building and improvements	35,683	33,546
Furniture and equipment	61,052	58,320
	97,438	93,700
Less accumulated depreciation	(47,490)	(45,132)
	49,948	48,568
Building held for sale	-	2,798
	$ 49,948	$ 51,366

Land, building and equipment includes restricted and grant assets of $3,770,000 and $3,816,000 at September 30, 2008 and 2007, respectively. Of these assets, $2,780,000 and $2,707,000 at September 30, 2008 and 2007, respectively, 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.

CRS occupied its new headquarters building, at 228 West Lexington St., Baltimore, Maryland at the end of July 2007 with the building substantially complete. Land, building and equipment at September 30, 2008, include $33,818,000 for leasehold improvements, capitalized lease and other costs expended, including capitalized interest of $885,000, for the new headquarters.

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, 2008 and 2007, were $4,440,000 and $3,764,000, respectively.

Minimum annual lease payments on operating leases are as follows:

Years Ending September 30,	
2009	$ 214,857
2010	210,483
2011	137,929
2012	29,920
	$ 593,189

Note 9. Long-Term Debt

Long-term debt includes various notes payable by CRS' 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. None of the obligations of TPC have recourse to the other assets of CRS.

TPC has entered into a number of loans with both financial institutions and other private organizations to fund its microfinance lending capital. These loans range in amount from $125,000 to $1,500,000, denominated in U.S. dollars, Cambodian riel and Thai baht. Most include origination fees of between 1% to 1.5% and carry interest rates from 6% to 13% per annum. These have maturities of between one and four years through 2012.

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 various maturity dates in 2009, and total $45,000.

To finance the capital lease obligation for its new headquarters building, CRS has an outstanding term loan with Bank of America in the amount of $12,255,000. 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 London Interbank Offered Rate (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.

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 2023 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.

The bond agreement contains certain financial and non-financial covenants.

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. As of September 30, 2008, CRS would be obligated in the amount of $1,138,000 should it elect to opt out of these swap agreements. This obligation is included in accounts payable and accrued expenses. The annual change in the value of these instruments, a loss of $1,480,000 and gain of $161,000 for the years ended September 30, 2008 and 2007, respectively, is included in the realized and unrealized gain (loss) on investments and other financial instruments.

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.

Note 9. Long Term Debt (Continued)

Future annual maturities on long term debt as of September 30, 2008, are as follows (in thousands):

Years Ending September 30,		
2009	$	10,663
2010		8,692
2011		851
2012		1,191
2013		721
2014 – 2036		28,543
	$	50,661

Note 10. Commodities Received And Other In-Kind Contributions

Commodities received and other in-kind contributions for the years ended September 30, 2008 and 2007, consist of the following (in thousands):

		2008		2007
Agricultural commodities donated by USAID and USDA	$	75,798	$	51,308
Commodities and other contributions provided by the European Union, UN and other donors		18,727		25,277
Ocean freight		27,407		36,233
Total agricultural commodities and ocean freight	$	121,932	$	112,818
Medical supplies and other tangible assets	$	4,036	$	4,410
Donated services		854		600
Total in-kind contributions	$	4,890	$	5,010

Note 11. Retirement Plans

CRS has a non-contributory defined benefit pension 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 ten 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, 2008 and 2007, paid $116,000 and $140,000, respectively, for retirees' healthcare coverage.

Note 11. 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, 2008 and 2007, ($ in thousands):

	Pension Benefits		Post-Retirement Health	
	2008	2007	2008	2007
Change in projected benefit obligation				
Benefit obligation at beginning of period	$ 39,231	$ 33,748	$ 4,833	$ 4,239
Service cost	4,112	3,533	438	268
Interest cost	2,537	2,190	438	283
Actuarial (gain) loss	(3,872)	77	(1,806)	183
Benefits paid	(594)	(317)	(116)	(140)
Special termination benefits	801	-	1,800	-
Benefit obligation at end of period	$ 42,215	$ 39,231	$ 5,587	$ 4,833
Change in plan assets				
Fair value of plan assets at beginning of period	$ 21,784	$ 16,848	$ -	$ -
Actual return on plan assets	(2,894)	2,248	-	-
Employer contributions	4,307	3,005	116	140
Benefits paid	(594)	(317)	(116)	(140)
Fair value of plan assets at end of period	22,603	21,784	-	-
Funded status at end of year	$ (19,612)	$ (17,447)	$ (5,587)	$ (4,833)
Amounts recognized in statement of financial position:	$ (19,612)	$ (17,447)	$ (5,587)	$ (4,833)
Amounts recognized in non-operating revenue and expenses				
Unrecognized transition obligation	$ -	$ -	$ 900	$ 1,044
Unrecognized prior service cost	101	118	-	-
Net loss (gain)	6,221	5,958	(2,348)	(498)
Accrued benefit cost, effect of SFAS No. 158	$ 6,322	$ 6,076	$ (1,448)	$ 546
Components of net periodic benefit cost				
Service cost	$ 4,112	$ 3,533	$ 438	$ 268
Interest cost	2,537	2,190	438	283
Expected return on plan assets	(1,991)	(1,570)	-	-
Net amortization and deferral	188	309	188	141
Special termination benefits	1,427	-	1,800	-
Total net periodic benefit cost	$ 6,273	$ 4,462	$ 2,864	$ 692
Weighted-average assumptions				
Discount rate	7.00%	6.50%	7.00%	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 11. 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 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 is considered in the estimate of the expected long-term rate of return on plan assets.

Allocation of plan assets at September 30, 2008 and 2007 ($ in thousands):

	2008		2007	
	Amount	Percent	Amount	Percent
Equity and equivalents	$ 13,550	59.9%	$ 14,340	65.9%
Fixed income	6,009	26.6%	5,999	27.5%
Cash equivalents	3,044	13.5%	1,445	6.6%
	$ 22,603	100.0%	$ 21,784	100.0%

The pension plan contribution for the year ending September 30, 2009 is expected to be $3,671,000. The plan's expected payouts for the next five years and in the aggregate for the following five years are:

Fiscal Year	Payout
2009	$ 451,774
2010	532,417
2011	686,646
2012	902,399
2013	1,261,244
2014 – 2018	11,382,507

Note 11. Retirement Plans (Continued)

The healthcare inflation rates for 2008 and 2007 are assumed to be 5% and 4.5%, respectively. The 5% ultimate rate was projected to be reached by 2015. A 1% point increase in the healthcare inflation rate from the assumed rate could increase the accumulated post-retirement health benefit obligation by approximately $1,176,000 as of September 30, 2008, and would increase the aggregate of the service cost and interest cost components of net periodic post-retirement health benefit cost for 2008 by approximately $231,000. A 1% point decrease in the healthcare inflation rate from the assumed rate could decrease the accumulated post-retirement health benefit obligation by approximately $918,000 as of September 30, 2008, and would decrease the aggregate of the service cost and interest components of net periodic post-retirement health benefit cost for 2008 by approximately $175,000.

CRS also provides eligible 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. The contributions are invested in various mutual funds chosen by the participant. CRS contributed $794,000 and $733,000, for the years ended September 30, 2008 and 2007, respectively.

Accrued benefit cost for pension benefits and post retirement health benefits are included in accounts payable and accrued expenses in the accompanying financial statements.

Note 12. 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 2008, this rate was $676 per employee per month, or approximately $6,600,000. 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 $4,900,000 and $4,700,000 for the years ended September 30, 2008 and 2007, respectively.

Note 13. Temporarily Restricted Net Assets

Temporarily restricted net assets at September 30, 2008 and 2007, are composed of the following (in thousands):

	2008	2007
Time restricted:		
Charitable trusts	$ 7,416	$ 7,497
Pooled income fund	683	747
Other time restricted	-	342
Total	8,099	8,586
Program restricted:	58,380	90,072
Total temporarily restricted net assets	$ 66,479	$ 98,658

Note 13. Temporarily Restricted Net Assets (Continued)

Net assets were released for the following purposes during 2008 and 2007 (in thousands):

	2008	2007
Program restricted purposes met	$ 74,095	$ 111,695
Time restricted purposes met	142	47
	$ 74,237	$ 111,742

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 14. 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, 2008 and 2007, 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 15. 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 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, 2008 (in thousands):

	Private Contributions	Other Donors, Including U.S. Government	Total
Revenue, cumulative through September 30, 2008	$ 162,917	$ 31,476	$ 194,393
Investment income	6,796	-	6,796
Total revenue	169,713	31,476	201,189
Total expenses	148,765	31,476	180,241
Net assets at September 30, 2008	$ 20,948	$ -	$ 20,948