

# **Catholic Relief Services – United States Conference Of Catholic Bishops**

Financial Report  
September 30, 2012

## Contents

---

<b>Independent Auditor's Report</b>	1
-------------------------------------	---

---

<b>Financial Statements</b>	
Statements Of Financial Position	2
Statement Of Activities – 2012	3
Statement Of Activities – 2011	4
Statements Of Cash Flows	5
Statement Of Functional Expenses – 2012	6 – 7
Statement Of Functional Expenses – 2011	8 – 9
<b>Notes To Financial Statements</b>	10 – 32

---



## 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 statements of financial position of Catholic Relief Services – United States Conference of Catholic Bishops (CRS) as of September 30, 2012 and 2011, and the related statements of activities, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of CRS's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CRS's internal control over financial reporting. Accordingly, we express no such opinion. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Catholic Relief Services – United States Conference of Catholic Bishops as of September 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2013, on our consideration of CRS's 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 LLP*

Gaithersburg, Maryland  
March 21, 2013

**Catholic Relief Services – United States Conference Of Catholic Bishops**

**Statements Of Financial Position  
September 30, 2012 And 2011  
(In Thousands)**

<b>Assets</b>	<b>2012</b>	<b>2011</b>
Cash And Cash Equivalents	\$ 77,187	\$ 101,853
Accounts Receivable And Other Assets	55,610	61,391
Investments	172,382	196,293
Segregated Investments	48,868	48,462
Undistributed Commodities	34,043	31,702
Land, Building And Equipment, net	52,427	52,724
<b>Total assets</b>	<b>\$ 440,517</b>	<b>\$ 492,425</b>
<b>Liabilities And Net Assets</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 85,108	\$ 92,816
Pension liability	47,568	41,393
Advances received for programs	44,406	80,358
Deferred revenue – commodities	34,043	31,702
Annuities payable	36,448	36,565
Long-term debt	29,272	29,955
<b>Total liabilities</b>	<b>276,845</b>	<b>312,789</b>
Net Assets		
Unrestricted	42,344	36,114
Temporarily restricted	114,920	137,286
Permanently restricted	6,408	6,236
<b>Total net assets</b>	<b>163,672</b>	<b>179,636</b>
<b>Total liabilities and net assets</b>	<b>\$ 440,517</b>	<b>\$ 492,425</b>

See Notes To Financial Statements.

## Catholic Relief Services – United States Conference Of Catholic Bishops

### Statement Of Activities Year Ended September 30, 2012 (With Comparative Totals For 2011) (In Thousands)

	2012			Total	2011
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Operating revenue:					
Private support:					
Catholic Relief Services collection	\$ 13,292	\$ -	\$ -	\$ 13,292	\$ 10,756
Catholic Relief Services Rice Bowl	-	6,554	-	6,554	5,740
Private contributions	75,644	33,972	-	109,616	133,522
Foundation and other private grants	42,633	-	-	42,633	55,661
Bequests	22,066	-	-	22,066	16,772
Private in-kind gifts	1,934	-	-	1,934	1,595
<b>Total private support</b>	<b>155,569</b>	<b>40,526</b>	<b>-</b>	<b>196,095</b>	<b>224,046</b>
Public support and revenue:					
Donated agricultural, other commodities and ocean freight	175,858	-	-	175,858	164,039
United States government grants and agreements	270,642	-	-	270,642	351,625
Other public grants and contributions	51,653	697	-	52,350	69,160
Public in-kind gifts	2,468	-	-	2,468	7,941
<b>Total public support</b>	<b>500,621</b>	<b>697</b>	<b>-</b>	<b>501,318</b>	<b>592,765</b>
Investment and other income	1,855	1,856	-	3,711	6,133
Net assets released from restrictions	68,031	(68,031)	-	-	-
<b>Total operating support and revenue</b>	<b>726,076</b>	<b>(24,952)</b>	<b>-</b>	<b>701,124</b>	<b>822,944</b>
Operating expenses:					
Program services	683,371	-	-	683,371	772,593
Supporting services:					
Management and general	20,449	-	-	20,449	20,229
Public awareness	6,851	-	-	6,851	6,662
Fundraising	21,747	-	-	21,747	20,583
<b>Total supporting services</b>	<b>49,047</b>	<b>-</b>	<b>-</b>	<b>49,047</b>	<b>47,474</b>
<b>Total operating expenses</b>	<b>732,418</b>	<b>-</b>	<b>-</b>	<b>732,418</b>	<b>820,067</b>
<b>Change in net assets from operations</b>	<b>(6,342)</b>	<b>(24,952)</b>	<b>-</b>	<b>(31,294)</b>	<b>2,877</b>
Non-operating revenue and expenses:					
Endowments	-	-	3	3	486
Net change in annuities, trusts and pooled income fund	2,558	2,148	169	4,875	2,026
Realized and unrealized gain (loss) on investments and financial instruments	14,915	438	-	15,353	(2,983)
Defined benefit plan adjustment	(4,901)	-	-	(4,901)	(8,551)
<b>Total non-operating revenue and expenses, net</b>	<b>12,572</b>	<b>2,586</b>	<b>172</b>	<b>15,330</b>	<b>(9,022)</b>
<b>Change in net assets</b>	<b>6,230</b>	<b>(22,366)</b>	<b>172</b>	<b>(15,964)</b>	<b>(6,145)</b>
Net assets, beginning of year	36,114	137,286	6,236	179,636	185,781
Net assets, end of year	\$ 42,344	\$ 114,920	\$ 6,408	\$ 163,672	\$ 179,636

See Notes To Financial Statements.

## Catholic Relief Services – United States Conference Of Catholic Bishops

### Statement Of Activities Year Ended September 30, 2011 (In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenue:				
Private support and revenue:				
Catholic Relief Services collection	\$ 10,756	\$ -	\$ -	\$ 10,756
Operation Rice Bowl	-	5,740	-	5,740
Private contributions	77,224	56,298	-	133,522
Foundation and other private grants	55,661	-	-	55,661
Bequests	16,772	-	-	16,772
Private in-kind gifts	1,595	-	-	1,595
<b>Total private support and revenue</b>	<b>162,008</b>	<b>62,038</b>	<b>-</b>	<b>224,046</b>
Public support and revenue:				
Donated agricultural, other commodities and ocean freight	164,039	-	-	164,039
United States government grants and agreements	351,625	-	-	351,625
Other public grants and contributions	65,946	3,214	-	69,160
Public in-kind gifts	7,941	-	-	7,941
<b>Total public support and revenue</b>	<b>589,551</b>	<b>3,214</b>	<b>-</b>	<b>592,765</b>
Investment and other income	3,493	2,640	-	6,133
Net assets released from restrictions	68,510	(68,510)	-	-
<b>Total operating revenue</b>	<b>823,562</b>	<b>(618)</b>	<b>-</b>	<b>822,944</b>
Operating expenses:				
Program services	772,593	-	-	772,593
Supporting services:				
Management and general	20,229	-	-	20,229
Public awareness	6,662	-	-	6,662
Fundraising	20,583	-	-	20,583
<b>Total supporting services</b>	<b>47,474</b>	<b>-</b>	<b>-</b>	<b>47,474</b>
<b>Total operating expenses</b>	<b>820,067</b>	<b>-</b>	<b>-</b>	<b>820,067</b>
<b>Change in net assets from operations</b>	<b>3,495</b>	<b>(618)</b>	<b>-</b>	<b>2,877</b>
Non-operating revenue and expenses:				
Endowments	-	-	486	486
Net change in annuities, trusts and pooled income fund	1,465	625	(64)	2,026
Realized and unrealized gain (loss) on investments and financial instruments	(1,536)	(1,447)	-	(2,983)
Defined benefit plan adjustment	(8,551)	-	-	(8,551)
<b>Total non-operating revenue and expenses, net</b>	<b>(8,622)</b>	<b>(822)</b>	<b>422</b>	<b>(9,022)</b>
<b>Change in net assets</b>	<b>(5,127)</b>	<b>(1,440)</b>	<b>422</b>	<b>(6,145)</b>
Net assets, beginning of year	41,241	138,726	5,814	185,781
Net assets, end of year	\$ 36,114	\$ 137,286	\$ 6,236	\$ 179,636

See Notes To Financial Statements.

**Catholic Relief Services – United States Conference Of Catholic Bishops**

**Statements Of Cash Flows**  
**Years Ended September 30, 2012 And 2011**  
**(In Thousands)**

	2012	2011
Cash Flows From Operating Activities		
Change in net assets	\$ (15,964)	\$ (6,145)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	9,068	8,910
Loss on disposal of land, building and equipment	154	395
Realized gain on sales of investments	(240)	(4,744)
Unrealized (gain) loss on investments and financial instruments	(15,113)	7,727
Contributions restricted for long-term investment	(3)	(486)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable and other assets	5,781	2,824
Undistributed commodities	(2,341)	22,222
Increase (decrease) in:		
Accounts payable and accrued expenses	(1,793)	1,419
Advances received for programs	(35,952)	7,701
Deferred revenue – commodities	2,341	(22,222)
<b>Net cash (used in) provided by operating activities</b>	<b>(54,062)</b>	<b>17,601</b>
Cash Flows From Investing Activities		
Proceeds from sale of land, building and equipment	497	214
Purchase of land, building and equipment	(9,422)	(11,962)
Proceeds from sales and maturities of investments	178,792	210,368
Purchase of investments	(139,674)	(207,276)
<b>Net cash provided by (used in) investing activities</b>	<b>30,193</b>	<b>(8,656)</b>
Cash Flows From Financing Activities		
Principal payments and liquidations of long-term debt	(683)	(651)
(Decrease) increase in annuities payable, net	(117)	259
Receipts restricted for long-term investment	3	486
<b>Net cash (used in) provided by financing activities</b>	<b>(797)</b>	<b>94</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(24,666)</b>	<b>9,039</b>
Cash And Cash Equivalents:		
Beginning of year	101,853	92,814
End of year	\$ 77,187	\$ 101,853
Supplemental Disclosure Of Cash Flow Information		
Cash payments for interest	\$ 905	\$ 933

See Notes To Financial Statements.

**Catholic Relief Services – United States Conference Of Catholic Bishops**

**Statement Of Functional Expenses  
Year Ended September 30, 2012  
(With Comparative Totals For 2011)  
(In Thousands)**

Description	2012 Program Services								Total	2011
	Agriculture	Education	Emergency	Small Enterprise	Health	HIV And AIDS	Peace And Justice	Welfare		
Program services:										
Salaries and related benefits	\$ 44,184	\$ 10,527	\$ 37,763	\$ 2,469	\$ 20,006	\$ 20,151	\$ 8,691	\$ 5,454	\$ 149,245	\$ 145,966
Contracting and professional fees	6,631	1,231	4,229	214	1,952	669	1,030	1,959	17,915	14,404
Telecommunications and postage	1,765	514	1,614	80	892	885	300	182	6,232	6,355
Printing, supplies and other office expenses	502	151	506	20	313	289	105	102	1,988	8,894
Occupancy	3,300	931	3,419	229	1,664	1,390	781	344	12,058	11,792
Vehicle and equipment	4,224	1,089	3,356	245	2,484	994	334	302	13,028	18,573
Travel, training and representation	8,712	1,986	6,486	642	5,308	3,748	1,922	689	29,493	31,335
Warehousing and freight	16,063	9,064	23,491	449	15,423	387	-	4,642	69,519	54,579
Publicity	66	3	15	-	-	-	-	8	92	66
Subgrants to implementing partners	51,859	13,336	91,207	2,568	25,452	52,389	11,052	8,681	256,544	336,305
Food, other commodities and in-kind contributions	5,901	8,202	59,826	207	14,314	24,612	1,192	6,186	120,440	137,486
Depreciation	2,968	992	918	238	230	1,439	-	32	6,817	6,838
<b>Total expenses</b>	<b>\$ 146,175</b>	<b>\$ 48,026</b>	<b>\$ 232,830</b>	<b>\$ 7,361</b>	<b>\$ 88,038</b>	<b>\$ 106,953</b>	<b>\$ 25,407</b>	<b>\$ 28,581</b>	<b>\$ 683,371</b>	<b>\$ 772,593</b>

(Continued)

**Catholic Relief Services – United States Conference Of Catholic Bishops**

**Statement Of Functional Expenses (Continued)  
Year Ended September 30, 2012  
(With Comparative Totals For 2011)  
(In Thousands)**

Description	2012 Supporting Services				Total Operating Services		
	Management And General	Public Awareness	Fundraising	Total	2011	2012	2011
Supporting services:							
Salaries and related benefits	\$ 12,839	\$ 3,231	\$ 7,659	\$ 23,729	\$ 23,670	\$ 172,974	\$ 169,636
Contracting and professional fees	2,615	341	3,595	6,551	6,068	24,466	20,472
Telecommunications and postage	347	19	4,349	4,715	4,311	10,947	10,666
Printing, supplies and other office expenses	551	101	4,945	5,597	5,122	7,585	14,016
Occupancy	206	294	507	1,007	1,118	13,065	12,910
Vehicle and equipment	100	49	65	214	390	13,242	18,963
Travel, training and representation	1,470	188	502	2,160	1,796	31,653	33,131
Warehousing and freight	1	-	13	14	16	69,533	54,595
Publicity	11	1,059	111	1,181	1,037	1,273	1,103
Subgrants to implementing partners	8	-	-	8	17	256,552	336,322
Food, other commodities and in-kind contributions	53	1,566	1	1,620	1,857	122,060	139,343
Depreciation	2,248	3	-	2,251	2,072	9,068	8,910
<b>Total expenses</b>	<b>\$ 20,449</b>	<b>\$ 6,851</b>	<b>\$ 21,747</b>	<b>\$ 49,047</b>	<b>\$ 47,474</b>	<b>\$ 732,418</b>	<b>\$ 820,067</b>

See Notes To Financial Statements.

**Catholic Relief Services – United States Conference Of Catholic Bishops**

**Statement Of Functional Expenses  
Year Ended September 30, 2011  
(In Thousands)**

Description	Program Services								
	Agriculture	Education	Emergency	Small Enterprise	Health	HIV And AIDS	Peace And Justice	Welfare	Program Services
Program services:									
Salaries and related benefits	\$ 35,064	\$ 8,503	\$ 46,390	\$ 2,824	\$ 16,298	\$ 25,131	\$ 8,548	\$ 3,208	\$ 145,966
Contracting and professional fees	2,870	1,548	4,666	557	1,754	1,582	1,013	414	14,404
Telecommunications and postage	1,505	390	2,083	88	755	1,048	311	175	6,355
Printing, supplies and other office expenses	1,854	650	2,833	177	994	1,815	400	171	8,894
Occupancy	2,308	929	3,904	190	1,199	1,767	840	655	11,792
Vehicle and equipment	3,399	520	7,631	383	2,861	2,608	685	486	18,573
Travel, training and representation	7,315	1,862	6,745	884	5,914	5,342	2,639	634	31,335
Warehousing and freight	6,730	7,951	21,641	508	12,301	302	3	5,143	54,579
Publicity	27	1	28	-	9	1	-	-	66
Subgrants to implementing partners	61,547	15,023	126,523	2,454	26,134	87,556	11,839	5,229	336,305
Food, other commodities and in-kind contributions	8,836	13,751	63,752	403	15,469	22,309	1,083	11,883	137,486
Depreciation	2,458	967	892	275	52	2,101	-	93	6,838
<b>Total expenses</b>	<b>\$ 133,913</b>	<b>\$ 52,095</b>	<b>\$ 287,088</b>	<b>\$ 8,743</b>	<b>\$ 83,740</b>	<b>\$ 151,562</b>	<b>\$ 27,361</b>	<b>\$ 28,091</b>	<b>\$ 772,593</b>

(Continued)

**Catholic Relief Services – United States Conference Of Catholic Bishops**

**Statement Of Functional Expenses (Continued)**  
**Year Ended September 30, 2011**  
**(In Thousands)**

Description	Supporting Services			Total Supporting Services	Total Operating Expenses
	Management And General	Public Awareness	Fundraising		
Supporting services:					
Salaries and related benefits	\$ 12,964	\$ 3,123	\$ 7,583	\$ 23,670	\$ 169,636
Contracting and professional fees	2,562	269	3,237	6,068	20,472
Telecommunications and postage	249	20	4,042	4,311	10,666
Printing, supplies and other office expenses	542	109	4,471	5,122	14,016
Occupancy	308	293	517	1,118	12,910
Vehicle and equipment	208	130	52	390	18,963
Travel, training and representation	1,167	144	485	1,796	33,131
Warehousing and freight	-	-	16	16	54,595
Publicity	1	957	79	1,037	1,103
Subgrants to implementing partners	17	-	-	17	336,322
Food, other commodities and in-kind contributions	144	1,612	101	1,857	139,343
Depreciation	2,067	5	-	2,072	8,910
<b>Total expenses</b>	<b>\$ 20,229</b>	<b>\$ 6,662</b>	<b>\$ 20,583</b>	<b>\$ 47,474</b>	<b>\$ 820,067</b>

See Notes To Financial Statements.

## Catholic Relief Services – United States Conference Of Catholic Bishops

### Notes To Financial Statements

---

#### Note 1. Organization And Operations

Nature of activities: Catholic Relief Services – United States Conference of Catholic Bishops (CRS) was founded in 1943 and is the international humanitarian aid and development agency of the United States Conference of Catholic Bishops (USCCB). CRS is governed by a board composed of a Cardinal and 13 U.S. Bishops elected from the USCCB, the General Secretary of the Conference, and one religious and five lay members. Headquartered in Baltimore, Maryland, CRS provides services in approximately 92 countries through approximately 72 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 2012 edition of the Official Catholic Directory.

CRS has a wholly owned subsidiary, Catholic Relief Services Foundation, Inc. (the 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. There was no activity within the Foundation for the years ended September 30, 2012 and 2011.

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.
- 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, numeracy 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.

## Catholic Relief Services – United States Conference Of Catholic Bishops

### Notes To Financial Statements

---

#### Note 1. Organization And Operations (Continued)

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

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

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

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

Classification of net assets: Net assets, support 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.

## Catholic Relief Services – United States Conference Of Catholic Bishops

### Notes To Financial Statements

---

#### Note 2. Summary Of Significant Accounting Policies (Continued)

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

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

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

Charitable trusts represent the fair value, using present value calculations, of CRS's interest in the donor's trust accounts. These trusts are created by donors independently of CRS and are neither in the possession nor under the control of CRS. The trusts are administered by outside fiscal agents as designated by the donor. CRS records the fair value, using present value of future benefits of the trust assets, discounted at a rate of 6.5% for 2012 and 6.0% for 2011.

CRS is also the owner and beneficiary of donated life insurance policies. These life insurance policies are recorded at current cash surrender value. The charitable trusts and life insurance policies are recognized as support 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.

Investments in investment pools: CRS's non-segregated investments include investment pools which are valued at fair value based on the applicable percentage ownership of the underlying pools' net assets as of the measurement date, as determined by CRS. In determining fair value, CRS utilizes valuations provided by the investment's fund manager. The manager values securities and other financial instruments on a fair value basis of accounting. The fair value of CRS's investment in such investment pools generally represents the amount CRS would expect to receive if it were to liquidate its investment excluding any redemption charges that may apply. However, the estimated fair values of the assets underlying this investment may include securities for which prices are not readily available and are determined by the fund manager and, therefore, may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. CRS may adjust the respective manager's valuation when circumstances support such an adjustment.

Land, building and equipment: Land, building and equipment are capitalized and depreciated on a straight-line basis over the estimated useful lives of the 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 support.

## Catholic Relief Services – United States Conference Of Catholic Bishops

### Notes To Financial Statements

---

#### Note 2. Summary Of Significant Accounting Policies (Continued)

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

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 variable interest rate of 3.75% to 6% compounded annually, and no provision for a surplus or contingency reserve. The interest rate is determined by the year of contribution and the guaranteed duration period.

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

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

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

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

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

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

Donated agricultural commodities and other in-kind gifts: CRS receives agricultural and other commodities at no cost from the United States Agency for International Development (USAID), the United States Department of Agriculture (USDA), the United Nations World Food Programme, and others for distribution under agreements related to specific relief programs. Commodities that have not been distributed at September 30, 2012 and 2011, are carried as undistributed commodities and deferred revenue.

## Catholic Relief Services – United States Conference Of Catholic Bishops

### Notes To Financial Statements

---

#### Note 2. Summary Of Significant Accounting Policies (Continued)

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

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

Other government funding and exchange transactions: Support 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 support, are classified in the statements of financial position as advances received for programs.

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

Joint costs: Expenses related to the Catholic Relief Services Rice Bowl program jointly support fundraising and educational and other programming. These expenses totaled \$1,350,000 and \$1,254,000 for the years ended September 30, 2012 and 2011, respectively. Expenses were allocated 19% to fundraising and 81% to program services for fiscal year 2012 and 20% to fundraising and 80% to program services for fiscal year 2011.

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

Income taxes: CRS is generally exempt from federal income taxes under IRC §501(c)(3). In addition, 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, 2012 and 2011, CRS has concluded it has no such unrelated business income.

CRS has adopted the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this policy, CRS may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position would be sustained on examination by taxing authorities, based on the technical merits of the position.

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

## Catholic Relief Services – United States Conference Of Catholic Bishops

### Notes To Financial Statements

---

#### Note 2. Summary Of Significant Accounting Policies (Continued)

Subsequent events: CRS has established a general standard of accounting for the disclosure of events that occur after the statement of financial position date through the date the financial statements are issued. CRS evaluated subsequent events through March 21, 2013, which is the date the financial statements were issued.

Reclassification: Certain of the 2011 comparative amounts were reclassified to conform to the 2012 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, 2012 and 2011, \$76,715,000 and \$100,586,000, respectively, of deposits were in excess of FDIC insurance including \$37,885,000 and \$57,156,000, respectively, held in numerous financial institutions outside of the United States. Short-term operating investments of \$4,335,000 and \$8,344,000 were also held in numerous financial institutions outside of the United States at September 30, 2012 and 2011, respectively.

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

#### Note 4. Accounts Receivable And Other Assets

Accounts receivable include loans made by CRS for micro-finance 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, 2012 and 2011, accounts receivable and other assets consist of the following (in thousands):

	2012	2011
Program receivables	\$ 20,929	\$ 29,420
Trade receivables, prepaid expenses and other assets	16,439	20,063
Charitable trust and life insurance policy receivables	12,490	10,479
CRS collection receivable	6,043	2,873
Micro-finance loans receivable	4,256	6,059
	<u>60,157</u>	<u>68,894</u>
Less: Allowance for doubtful accounts	<u>(4,547)</u>	<u>(7,503)</u>
	<u>\$ 55,610</u>	<u>\$ 61,391</u>

## Catholic Relief Services – United States Conference Of Catholic Bishops

### Notes To Financial Statements

---

#### Note 5. Investments And Fair Value Measurements

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

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

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

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

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

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

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

Level 3 – Charitable trusts are stated at fair value, using present value calculations of the trusts discounted at a rate of 6.5% for 2012. There is no active market for selling beneficial interests in charitable trusts; therefore, these financial instruments are classified as Level 3 in the fair value hierarchy.

## Catholic Relief Services – United States Conference Of Catholic Bishops

### Notes To Financial Statements

#### Note 5. Investments And Fair Value Measurements (Continued)

The overall total of investments held at September 30, 2012, including securities detailed in the fair value disclosure, is as follows below (in thousands):

Non-segregated investments		\$ 172,382
Segregated gift annuities	\$ 47,032	
Segregated pooled income fund	1,836	
<b>Total segregated investments</b>		<b>48,868</b>
<b>Total investments</b>		<b>221,250</b>
Accrued interest and cash equivalents		(897)
Segregated cash equivalents		(1,798)
<b>Investments included in fair value disclosure</b>		<b>\$ 218,555</b>

The following table presents CRS's fair value hierarchy for those assets reflected in the statements of financial position, measured at fair value on a recurring basis as of September 30, 2012 (in thousands):

Description	Total	Fair Value Measurements Using		
		Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:				
U.S. equities:				
Materials	\$ 1,761	\$ 1,761	\$ -	\$ -
Industrials	6,765	6,765	-	-
Telecommunications	1,342	1,342	-	-
Consumer discretionary	6,468	6,468	-	-
Consumer staples	6,817	6,817	-	-
Energy	6,762	6,762	-	-
Financials	10,031	10,031	-	-
Health care	5,843	5,843	-	-
Information technology	10,169	10,169	-	-
Utilities	1,788	1,788	-	-
Other equities	336	336	-	-
International equities	12,702	-	12,702	-
Fixed income securities:				
U.S. treasury obligations	30,981	-	30,981	-
U.S. government agency bonds	32,734	-	32,734	-
Mortgage backed securities	16,185	-	16,185	-
Asset backed securities	21,523	-	21,523	-
Corporate, foreign and other obligations	42,678	-	42,678	-
Other types of securities:				
Overseas investments	3,670	-	3,670	-
<b>Total investments</b>	<b>\$ 218,555</b>	<b>\$ 58,082</b>	<b>\$ 160,473</b>	<b>\$ -</b>
Charitable trusts	\$ 11,744	\$ -	\$ -	\$ 11,744
Financial liabilities:				
Interest rate swap contracts	\$ (5,720)	\$ -	\$ (5,720)	\$ -

## Catholic Relief Services – United States Conference Of Catholic Bishops

### Notes To Financial Statements

#### Note 5. Investments And Fair Value Measurements (Continued)

The overall total of investments held at September 30, 2011, including securities detailed in the fair value disclosure, is as follows below (in thousands):

Non-segregated investments		\$ 196,293
Segregated gift annuities	\$ 46,682	
Segregated pooled income fund	1,780	
<b>Total segregated investments</b>		<u>48,462</u>
<b>Total investments</b>		<u>244,755</u>
Accrued interest and cash equivalents		(1,235)
Segregated cash equivalents		(1,518)
<b>Investments included in fair value disclosure</b>		<u><u>\$ 242,002</u></u>

The following table presents CRS's fair value hierarchy for those assets reflected in the statements of financial position, measured at fair value on a recurring basis as of September 30, 2011 (in thousands):

Description	Total	Fair Value Measurements Using		
		Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:				
U.S. equities:				
Materials	\$ 1,527	\$ 1,527	\$ -	\$ -
Industrials	5,576	5,576	-	-
Telecommunications	1,094	1,094	-	-
Consumer discretionary	4,537	4,537	-	-
Consumer staples	5,514	5,514	-	-
Energy	5,323	5,323	-	-
Financials	7,036	7,036	-	-
Health care	4,610	4,610	-	-
Information technology	8,004	8,004	-	-
Utilities	1,385	1,385	-	-
Other equities	82	82	-	-
International equities	9,930	-	9,930	-
Fixed income securities:				
U.S. treasury obligations	41,362	-	41,362	-
U.S. government agency bonds	35,352	-	35,352	-
Mortgage backed securities	18,771	-	18,771	-
Asset backed securities	26,273	-	26,273	-
Corporate, foreign and other obligations	57,282	-	57,282	-
Other types of securities:				
Overseas investments	8,344	-	8,344	-
<b>Total investments</b>	<u>\$ 242,002</u>	<u>\$ 44,688</u>	<u>\$ 197,314</u>	<u>\$ -</u>
Charitable trusts	<u>\$ 9,093</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,093</u>
Financial liabilities:				
Interest rate swap contracts	<u>\$ (5,460)</u>	<u>\$ -</u>	<u>\$ (5,460)</u>	<u>\$ -</u>

## Catholic Relief Services – United States Conference Of Catholic Bishops

### Notes To Financial Statements

#### Note 5. Investments And Fair Value Measurements (Continued)

Changes in Level 3 assets for the years ended September 30, 2012 and 2011, were as follows (in thousands):

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Charitable Trusts	
	2012	2011
Beginning balance, October 1,	\$ 9,093	\$ 8,659
Contributions	-	558
Distributions	(523)	(501)
Change in valuation	3,174	377
<b>Ending balance, September 30,</b>	<b>\$ 11,744</b>	<b>\$ 9,093</b>

CRS invests in investment pools for which the total investment includes both CRS's investment and pension plan portfolios. Information pertaining to this investment is as follows (in thousands):

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Long-term value and growth fund	\$ 19,056	\$ -	Monthly	5 days

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

## Catholic Relief Services – United States Conference Of Catholic Bishops

### Notes To Financial Statements

#### Note 5. Investments And Fair Value Measurements (Continued)

Pension plan assets as of September 30, 2012, not reflected in the statements of financial position (in thousands):

Description	Total	Fair Value Measurements Using		
		Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment component				
Equities:				
Materials	\$ 709	\$ 709	\$ -	\$ -
Industrials	3,586	3,586	-	-
Consumer discretionary	1,965	1,965	-	-
Consumer staples	2,752	2,752	-	-
Energy	2,468	2,468	-	-
Financials	3,392	3,392	-	-
Health care	1,287	1,287	-	-
Information technology	2,893	2,893	-	-
Utilities	174	174	-	-
Miscellaneous	316	316	-	-
International equities	6,354	-	6,354	-
Fixed income securities:				
U.S. treasury obligations	3,947	-	3,947	-
U.S. government agency bonds	3,868	-	3,868	-
Corporate and foreign bonds	4,812	-	4,812	-
<b>Total investments</b>	<b>\$ 38,523</b>	<b>\$ 19,542</b>	<b>\$ 18,981</b>	<b>\$ -</b>

Cash, cash equivalents, and accrued interest are excluded from the fair value hierarchy as cash is generally measured at cost. As such, \$1,556,000 at September 30, 2012, has been excluded from this table.

## Catholic Relief Services – United States Conference Of Catholic Bishops

### Notes To Financial Statements

#### Note 5. Investments And Fair Value Measurements (Continued)

Pension plan assets as of September 30, 2011, not reflected in the statements of financial position (in thousands):

Description	Total	Fair Value Measurements Using		
		Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment component				
Equities:				
Materials	\$ 803	\$ 803	\$ -	\$ -
Industrials	2,888	2,888	-	-
Consumer discretionary	1,283	1,283	-	-
Consumer staples	1,779	1,779	-	-
Energy	1,864	1,864	-	-
Financials	1,905	1,905	-	-
Health care	1,272	1,272	-	-
Information technology	2,291	2,291	-	-
Utilities	136	136	-	-
Common stock	209	209	-	-
Miscellaneous	188	188	-	-
International equities	4,438	-	4,438	-
Fixed income securities:				
U.S. treasury obligations	4,218	-	4,218	-
U.S. government agency bonds	4,129	-	4,129	-
Corporate and foreign bonds	3,786	-	3,786	-
<b>Total investments</b>	<b>\$ 31,189</b>	<b>\$ 14,618</b>	<b>\$ 16,571</b>	<b>\$ -</b>

Cash, cash equivalents, and accrued interest are excluded from the fair value hierarchy as cash is generally measured at cost. As such, \$1,563,000 at September 30, 2011, has been excluded from this table.

For the period from October 1, 2011, through September 30, 2012, the application of the valuation techniques applied to similar assets and liabilities has been consistent for CRS held investments. The valuation technique for charitable trust assets held by others has been revised to conform to the modifications of Accounting Standards Update Number 2011-04 Fair Value Measurement (Topic 820).

#### Note 6. Gift Annuities And Pooled Income Fund

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

During the years ended September 30, 2012 and 2011, CRS received \$4,567,000 and \$3,841,000, respectively, of new charitable gift annuities and pooled income fund contributions, earned net investment income of \$1,276,000 and \$1,336,000, respectively, and made contractual annuity payments of \$4,194,000 and \$4,134,000, respectively.

## Catholic Relief Services – United States Conference Of Catholic Bishops

### Notes To Financial Statements

---

#### Note 6. Gift Annuities And Pooled Income Fund (Continued)

During the years ended September 30, 2012 and 2011, the pooled income fund made earnings distributions to participants of \$90,000 and \$139,000, respectively.

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

#### Note 7. Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into U.S. dollars at exchange rates in effect on reporting dates, and revenue and expenses are translated at rates in effect on transaction dates. Transaction and translation gains and losses are included in current results. The resulting foreign currency translation gains of \$2,361,000 and \$1,554,000 for the years ended September 30, 2012 and 2011, respectively, are included in printing, supplies and other office expenses and investment income.

#### Note 8. Land, Building And Equipment

Land, building and equipment, at cost, at September 30, 2012 and 2011, are summarized as follows (in thousands):

	2012	2011
Land	\$ 463	\$ 463
Building and improvements	37,850	37,346
Furniture and equipment	70,531	70,005
	<u>108,844</u>	<u>107,814</u>
Less accumulated depreciation	(56,417)	(55,090)
	<u>\$ 52,427</u>	<u>\$ 52,724</u>

Land, building and equipment includes restricted and grant assets of \$4,766,000 and \$6,624,000 at September 30, 2012 and 2011, respectively. Of these assets, \$3,030,000 and \$3,989,000 at September 30, 2012 and 2011, respectively, are restricted in compliance with federal program grant agreements as to use, resale and maintenance.

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

Land, building and equipment at September 30, 2012, include \$29,086,000 for leasehold improvements, capitalized lease and other costs expended, including capitalized interest of \$1,232,000, for the 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, 2012 and 2011, were \$4,418,000 and \$4,574,000, respectively.

## Catholic Relief Services – United States Conference Of Catholic Bishops

### Notes To Financial Statements

#### Note 8. Land, Building And Equipment (Continued)

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

Years Ending September 30,	
2013	\$ 217
2014	239
2015	206
2016	113
2017	35
	<u>\$ 810</u>

#### Note 9. Long-Term Debt

To finance the capital lease obligation for its headquarters building, CRS has an outstanding term loan with Bank of America in the amount of \$9,717,000 and \$10,400,000 at September 30, 2012 and 2011, respectively. The loan matures on 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 .30% per year.

CRS has issued tax-exempt variable rate demand bonds in the amount of \$19,555,000 in connection with renovations of the headquarters space. The bonds bear interest at a floating rate as determined by the bond remarketing agent based upon market conditions, unless converted to a fixed rate at the election of the borrower. Principal payments on the bonds begin in May 2023 and continue until final maturity in May 2036. A credit enhancement provided by Bank of America was used to obtain a credit rating on the bonds at issuance on May 18, 2006, of Aa1/VMIG 1. This rating has been revised several times, and, as of September 30, 2012, was A3/VMIG 2.

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

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

CRS entered into interest rate swap agreements to reduce the impact of interest rate changes on its floating rate term loan and tax-exempt bonds. One swap agreement was executed with notional principal amount of \$2,378,000 of the taxable term loan, at a fixed rate of 4.96%, through October 2015. A second agreement was executed with a notional principal in the amount of \$19,145,000 for the tax-exempt variable rate demand bonds. The contract is based on an issue rate of 67% of LIBOR, and fixes the interest rate at 3.40%, through May 1, 2036.

The value of the swap instruments as of September 30, 2012 and 2011, and the change in value is reflected as follows (in thousands):

	2012	2011
Beginning balance, October 1	\$ 5,460	\$ 4,366
Unrealized loss	260	1,094
<b>Ending balance, September 30</b>	<u>\$ 5,720</u>	<u>\$ 5,460</u>

## Catholic Relief Services – United States Conference Of Catholic Bishops

### Notes To Financial Statements

#### Note 9. Long-Term Debt (Continued)

The swap instrument values are included in accounts payable and accrued expenses. The annual changes in the values of the swap instruments are included in the realized and unrealized 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.

Future annual maturities on long-term debt as of September 30, 2012, are as follows (in thousands):

Years Ending September 30,	
2013	\$ 721
2014	756
2015	793
2016	834
2017	878
2018 – 2036	25,290
	<u>\$ 29,272</u>

#### Note 10. Commodities Received And Other In-Kind Contributions

Commodities received and other in-kind contributions for the years ended September 30, 2012 and 2011, consist of the following (in thousands):

	2012	2011
Agricultural commodities donated by USAID and USDA	\$ 82,363	\$ 91,800
Commodities and other contributions provided by the UN and other donors	20,967	13,194
Pharmaceuticals donated by US DHHS	5,268	9,703
Pharmaceuticals provided by other donors	6,782	5,298
Ocean freight	60,478	44,044
<b>Total commodities and ocean freight</b>	<u>\$ 175,858</u>	<u>\$ 164,039</u>
Medical supplies and other tangible assets	\$ 2,423	\$ 9,260
Donated services	1,979	276
<b>Total other in-kind contributions</b>	<u>\$ 4,402</u>	<u>\$ 9,536</u>

## Catholic Relief Services – United States Conference Of Catholic Bishops

### Notes To Financial Statements

---

#### Note 11. Investment Earnings

The components of return on investments described in Note 5, as well as earnings on micro-finance lending, cash equivalents and segregated investments for the years ended September 30, 2012 and 2011, are as follows (in thousands):

	2012	2011
Dividends and interest	\$ 4,061	\$ 5,337
Realized gain on investments	240	4,744
Unrealized gain (loss) on investments	15,373	(6,633)
Investment management fees	(879)	(1,058)
	<u>\$ 18,795</u>	<u>\$ 2,390</u>

#### Note 12. Retirement Plans

CRS has a non-contributory defined benefit pension plan covering all lay employees who have completed one year of service and attained the age of 21. The benefits are based on years of service and the employee's highest average compensation during five consecutive years of the last ten years of service.

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, 2012 and 2011, paid \$162,000 and \$461,000, respectively, for retirees' healthcare coverage. The expected contribution for the year ending September 30, 2013, is \$313,000.

## Catholic Relief Services – United States Conference Of Catholic Bishops

### Notes To Financial Statements

#### Note 12. Retirement Plans (Continued)

The following schedule sets forth the funded status, components of net periodic benefit cost and weighted-average assumptions of the plans for the years ended September 30, 2012 and 2011 (in thousands):

	Pension Benefits		Post-Retirement Health	
	2012	2011	2012	2011
<b>Change in projected benefit obligation</b>				
Benefit obligation at beginning of period	\$ 74,145	\$ 62,794	\$ 12,715	\$ 9,210
Service cost	5,337	4,900	845	498
Interest cost	3,644	3,734	627	543
Plan amendments	-	30	(13)	-
Actuarial loss	7,202	3,400	1,391	2,925
Plan participant contributions	-	-	51	33
Benefits paid	(2,681)	(713)	(213)	(494)
<b>Benefit obligation at end of period</b>	<b>\$ 87,647</b>	<b>\$ 74,145</b>	<b>\$ 15,403</b>	<b>\$ 12,715</b>
<b>Change in plan assets</b>				
Fair value of plan assets at beginning of period	\$ 32,752	\$ 29,142	\$ -	\$ -
Actual return on plan assets	4,778	(698)	-	-
Employer contributions	5,230	5,021	162	461
Plan participant contributions	-	-	51	33
Benefits paid	(2,681)	(713)	(213)	(494)
<b>Fair value of plan assets at end of period</b>	<b>40,079</b>	<b>32,752</b>	<b>-</b>	<b>-</b>
<b>Funded status at end of year</b>	<b>\$ (47,568)</b>	<b>\$ (41,393)</b>	<b>\$ (15,403)</b>	<b>\$ (12,715)</b>
Amounts recognized in statement of financial position	<b>\$ (47,568)</b>	<b>\$ (41,393)</b>	<b>\$ (15,403)</b>	<b>\$ (12,715)</b>
<b>Amounts recognized in non-operating revenue and expenses</b>				
Unrecognized transition obligation	\$ -	\$ -	\$ 311	\$ 468
Unrecognized prior service cost	60	80	-	-
Net loss	27,118	23,309	4,164	2,896
<b>Accrued benefit cost</b>	<b>\$ 27,178</b>	<b>\$ 23,389</b>	<b>\$ 4,475</b>	<b>\$ 3,364</b>
<b>Components of net periodic benefit cost</b>				
Service cost	\$ 5,337	\$ 4,900	\$ 845	\$ 498
Interest cost	3,644	3,734	627	543
Expected return on plan assets	(2,937)	(2,619)	-	-
Net amortization and deferral	1,573	978	267	144
<b>Total net periodic benefit cost</b>	<b>\$ 7,617</b>	<b>\$ 6,993</b>	<b>\$ 1,739</b>	<b>\$ 1,185</b>
<b>Weighted-average assumptions</b>				
Discount rate	4.25%	5.00%	4.25%	5.00%
Expected return on plan assets	6.50%	8.50%	N/A	N/A
Rate of compensation increase	3.50%	4.50%	N/A	N/A

## Catholic Relief Services – United States Conference Of Catholic Bishops

### Notes To Financial Statements

#### Note 12. Retirement Plans (Continued)

The investment objective of the defined benefit plan is to attain an overall return in excess of the actuarially assumed rate, while protecting the plan's principal by managing investment risk. 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's 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
U.S. equities	35%	50%	65%
International equities	10%	15%	20%
Fixed income	25%	35%	45%

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 are considered in the estimate of the expected long-term rate of return on plan assets.

Allocation of plan assets at September 30, 2012 and 2011 (in thousands):

	2012		2011	
	Amount	Percent	Amount	Percent
Equity and equivalents	\$ 25,896	65%	\$ 19,056	58%
Fixed income	12,627	31%	12,133	37%
Cash equivalents	1,556	4%	1,563	5%
	<b>\$ 40,079</b>	<b>100%</b>	<b>\$ 32,752</b>	<b>100%</b>

The pension plan contribution for the year ending September 30, 2013, is expected to be \$5,140,000. The plan's expected payouts for the next five years and thereafter in the aggregate, are as follows (in thousands):

Fiscal Year	Payout
2013	\$ 3,200
2014	2,465
2015	3,494
2016	3,898
2017	3,678
Thereafter	30,833

## Catholic Relief Services – United States Conference Of Catholic Bishops

### Notes To Financial Statements

---

#### Note 12. Retirement Plans (Continued)

The healthcare inflation rate is assumed to be 7.0% for participants 65 and older and 10.0% for participants under 65 for 2012 and 7.50% for 2011. The health care cost trend rate for the year ended September 30, 2013, is assumed to be 9.0% for individuals under 65 and 6.5% for individuals aged 65 and over. The 5% ultimate rate is projected to be reached by 2016 for individuals under 65 and by 2015 for individuals aged 65 and over. A one percentage point increase in the healthcare inflation rate from the assumed rate could increase the accumulated post-retirement health benefit obligation by approximately \$3,892,000 as of September 30, 2012, and would increase the aggregate of the service cost and interest cost components of net periodic post-retirement health benefit cost for 2012 by approximately \$426,000. A one percentage point decrease in the healthcare inflation rate from the assumed rate could decrease the accumulated post-retirement health benefit obligation by approximately \$2,950,000 as of September 30, 2012, and would decrease the aggregate of the service cost and interest components of net periodic post-retirement health benefit cost for 2012 by approximately \$317,000. The plan's expected payouts for the next five years and thereafter in the aggregate, are as follows (in thousands):

Fiscal Year	Payout
2013	\$ 313
2014	313
2015	312
2016	309
2017	314
Thereafter	13,842

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 \$1,098,000 and \$994,000 for the years ended September 30, 2012 and 2011, respectively.

On March 14, 2013, the board of directors approved a proposal to freeze the defined benefit pension plan, enhance the 403(b) defined contribution plan and modify the post-retirement health plan, all to be completed effective December 31, 2013.

#### Note 13. Self-Insured Medical Plan

CRS maintains a self-insured medical plan for the benefit of its employees. A stop loss policy is in effect, which limits CRS's loss per individual employee to \$150,000. 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's expense under the self-insured medical plan amounted to \$5,428,000 and \$5,280,000 for the years ended September 30, 2012 and 2011, respectively.

## Catholic Relief Services – United States Conference Of Catholic Bishops

### Notes To Financial Statements

#### Note 14. Temporarily Restricted Net Assets

Temporarily restricted net assets at September 30, 2012 and 2011, are composed of the following (in thousands):

	2012	2011
Time restricted:		
Charitable trusts	\$ 3,752	\$ 2,119
Pooled income fund	814	793
Other time restricted funds	462	-
<b>Total time restricted</b>	<b>5,028</b>	<b>2,912</b>
Program restricted:		
Emergencies	84,256	110,892
Strategic funding initiatives	295	1,388
Caritas internationalis	6,559	4,068
Other	18,782	11,399
<b>Total program restricted</b>	<b>109,892</b>	<b>127,747</b>
Time and program restricted – charitable trusts	-	6,627
<b>Total temporarily restricted net assets</b>	<b>\$ 114,920</b>	<b>\$ 137,286</b>

Net assets were released for the following purposes during 2012 and 2011 (in thousands):

	2012	2011
Program restricted purposes met	\$ 67,340	\$ 68,504
Time restricted purposes met	691	6
	<b>\$ 68,031</b>	<b>\$ 68,510</b>

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. Endowments

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

## Catholic Relief Services – United States Conference Of Catholic Bishops

### Notes To Financial Statements

#### Note 15. Endowments (Continued)

Interpretation of relevant law (continued): In accordance with UPMIFA, CRS considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

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

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

#### Endowment Net Asset Composition By Type Of Fund As Of September 30, 2012 (In Thousands)

	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 1,004	\$ 1,004
Undesignated – other endowment funds	462	3,501	3,963
Third-party trust assets	-	1,903	1,903
<b>Total funds</b>	<b>\$ 462</b>	<b>\$ 6,408</b>	<b>\$ 6,870</b>

#### Endowment Net Asset Composition By Type Of Fund As Of September 30, 2011 (In Thousands)

	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 1,005	\$ 1,005
Undesignated – other endowment funds	-	3,498	3,498
Third-party trust assets	-	1,733	1,733
<b>Total funds</b>	<b>\$ -</b>	<b>\$ 6,236</b>	<b>\$ 6,236</b>

**Catholic Relief Services – United States Conference Of Catholic Bishops**

**Notes To Financial Statements**

**Note 15. Endowments (Continued)**

**Changes In Endowment Net Assets  
For The Year Ended September 30, 2012  
(In Thousands)**

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of the year	\$ -	\$ 6,236	\$ 6,236
Net investment income (loss)	799	169	968
Contributions	-	3	3
Endowment draw to operating	(337)	-	(337)
<b>Endowment net assets, end of the year</b>	<b>\$ 462</b>	<b>\$ 6,408</b>	<b>\$ 6,870</b>

**Changes In Endowment Net Assets  
For The Year Ended September 30, 2011  
(In Thousands)**

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of the year	\$ -	\$ 5,814	\$ 5,814
Net investment income (loss)	8	(64)	(56)
Contributions	-	486	486
Endowment draw to operating	(8)	-	(8)
<b>Endowment net assets, end of the year</b>	<b>\$ -</b>	<b>\$ 6,236</b>	<b>\$ 6,236</b>

**Note 16. Contingencies**

CRS receives significant financial and non-financial assistance from the U.S. government. Entitlement to such resources is generally conditioned upon compliance with terms and conditions of the related agreements and applicable federal regulations. The use of such resources is subject to audit by governmental agencies, and CRS is contingently liable to refund amounts received in excess of allowable expenditures. As of September 30, 2012 and 2011, CRS has recorded a liability for its estimate of questioned costs that may have to be refunded to the government.

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

## Catholic Relief Services – United States Conference Of Catholic Bishops

### Notes To Financial Statements

#### Note 17. Haiti Earthquake Response

On January 12, 2010, a catastrophic earthquake struck Haiti. CRS responded to provide emergency relief and is providing long-term recovery and reconstruction assistance. The following is a financial summary of the activity from inception through September 30, 2012 (in thousands):

	Private Contributions	Other Donors, Including U.S. Government	Total
Contributions and grant support	\$ 128,253	\$ 68,852	\$ 197,105
Investment income	4,739	2	4,741
<b>Total support</b>	<b>132,992</b>	<b>68,854</b>	<b>201,846</b>
Total expenses	81,391	68,850	150,241
<b>Net assets at September 30, 2012</b>	<b>\$ 51,601</b>	<b>\$ 4</b>	<b>\$ 51,605</b>

As a part of the response the United States Conference of Catholic Bishops (USCCB) initiated an appeal to U.S. dioceses for donations to be remitted to CRS. This diocesan response amounted to \$84,160,000 through September 30, 2012. In addition to providing emergency relief funding for CRS's response, this appeal also designated a portion specifically for rebuilding of church structures in Haiti. Overall response proceeds include \$50,496,000 designated for emergency relief, and \$33,664,000 designated for rebuilding of church structures, of which \$10,000,000 was disbursed to USCCB during 2012. This latter portion is managed by the USCCB Subcommittee on the Church in Latin America, and is reflected as a liability to USCCB on the statements of financial position in the amounts of \$24,594,000 and \$33,815,000 for the years ended September 30, 2012 and 2011, respectively.