Catholic Relief Services – United States Conference of Catholic Bishops and Affiliates

Consolidated Financial Report
September 30, 2016

Contents

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Catholic Relief Services – United States Conference of Catholic Bishops and Affiliates, which comprise the consolidated statements of financial position as of September 30, 2016 and 2015, the related consolidated statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Catholic Relief Services – United States Conference of Catholic Bishops and Affiliates as of September 30, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our reports dated March 7, 2017, and March 10, 2016, on our consideration of Catholic Relief Services – United States Conference of Catholic Bishops and Affiliates' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Catholic Relief Services – United States Conference of Catholic Bishops and Affiliates' internal control over financial reporting and compliance.

RSM US LLP

Gaithersburg, Maryland
March 7, 2017

Catholic Relief Services – United States Conference of Catholic Bishops and Affiliates

Consolidated Statements of Financial Position
September 30, 2016 and 2015
(In Thousands)

		2016		2015
Assets				
Cash and cash equivalents	**$**	**61,038**	$	80,776
Accounts receivable and other assets		**112,064**		96,794
Investments		**151,556**		179,299
Segregated investments		**54,387**		50,311
Undistributed commodities and program materials		**64,065**		37,641
Land, building and equipment, net		**52,214**		52,095
Total assets	**$**	**495,324**	$	496,916
Liabilities and net assets				
Liabilities:				
Accounts payable, accrued expenses and other liabilities	**$**	**84,623**	$	64,887
Retirement plan liabilities		**38,021**		30,309
Advances received for programs		**75,652**		83,363
Deferred revenue – commodities		**59,683**		33,510
Annuities payable		**44,466**		43,706
Long-term debt, net of unamortized debt issuance costs		**26,012**		26,840
Total liabilities		**328,457**		282,615
Net assets:				
Unrestricted		**74,786**		101,867
Temporarily restricted		**83,845**		105,551
Permanently restricted		**8,236**		6,883
Total net assets		**166,867**		214,301
Total liabilities and net assets	**$**	**495,324**	$	496,916

See notes to consolidated financial statements.

Catholic Relief Services – United States Conference of Catholic Bishops and Affiliates

Consolidated Statement of Activities
Year Ended September 30, 2016
(With Comparative Totals for 2015)
(In Thousands)

	2016				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2015
Operating revenue:					
Private revenue:					
Catholic Relief Services Collection	$ 11,767	$ -	$ -	$ 11,767	$ 12,594
Catholic Relief Services Rice Bowl	-	8,435	-	8,435	9,083
Private contributions	88,225	32,542	534	121,301	143,176
Foundation and other private revenue	37,194	-	-	37,194	51,374
Bequests	21,320	305	732	22,357	42,802
Total private revenue	158,506	41,282	1,266	201,054	259,029
Public revenue:					
Donated agricultural, other commodities and ocean freight	269,560	-	-	269,560	96,705
United States government grants and agreements	314,381	-	-	314,381	262,861
Other public grants and contributions	130,686	27	-	130,713	118,377
Total public revenue	714,627	27	-	714,654	477,943
Investment and other income	931	1,119	-	2,050	1,673
Net assets released from restrictions	65,031	(65,031)	-	-	-
Total operating revenue	939,095	(22,603)	1,266	917,758	738,645
Operating expenses:					
Program services	915,047	-	-	915,047	678,584
Supporting services:					
Management and general	25,603	-	-	25,603	24,122
Public awareness	7,881	-	-	7,881	8,308
Fundraising	22,447	-	-	22,447	22,299
Total supporting services	55,931	-	-	55,931	54,729
Total operating expenses	970,978	-	-	970,978	733,313
Change in net assets from operations	(31,883)	(22,603)	1,266	(53,220)	5,332
Non-operating revenue and expenses:					
Net change in annuities, trusts and pooled income fund	3,040	891	87	4,018	(3,837)
Realized and unrealized gain (loss) on investments and financial instruments	10,496	6	-	10,502	(5,416)
Defined benefit plan adjustments	(8,734)	-	-	(8,734)	(7,711)
Total non-operating revenue and expenses, net	4,802	897	87	5,786	(16,964)
Change in net assets	(27,081)	(21,706)	1,353	(47,434)	(11,632)
Net assets:					
Beginning of year	101,867	105,551	6,883	214,301	225,933
End of year	$ 74,786	$ 83,845	$ 8,236	$ 166,867	$ 214,301

See notes to consolidated financial statements.

Catholic Relief Services – United States Conference of Catholic Bishops and Affiliates

Consolidated Statement of Activities
Year Ended September 30, 2015
(In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenue:				
Private revenue:				
Catholic Relief Services Collection	$ 12,594	$ -	$ -	$ 12,594
Catholic Relief Services Rice Bowl	-	9,083	-	9,083
Private contributions	87,582	55,261	333	143,176
Foundation and other private revenue	51,374	-	-	51,374
Bequests	42,302	500	-	42,802
Total private revenue	193,852	64,844	333	259,029
Public revenue:				
Donated agricultural, other commodities and ocean freight	96,705	-	-	96,705
United States government grants and agreements	262,861	-	-	262,861
Other public grants and contributions	118,324	53	-	118,377
Total public revenue	477,890	53	-	477,943
Investment and other income	453	1,220	-	1,673
Net assets released from restrictions	72,876	(72,876)	-	-
Total operating revenue	745,071	(6,759)	333	738,645
Operating expenses:				
Program services	678,584	-	-	678,584
Supporting services:				
Management and general	24,122	-	-	24,122
Public awareness	8,308	-	-	8,308
Fundraising	22,299	-	-	22,299
Total supporting services	54,729	-	-	54,729
Total operating expenses	733,313	-	-	733,313
Change in net assets from operations	11,758	(6,759)	333	5,332
Non-operating revenue and expenses:				
Net change in annuities, trusts and pooled income fund	(3,031)	(606)	(200)	(3,837)
Realized and unrealized loss on investments and financial instruments	(4,525)	(891)	-	(5,416)
Defined benefit plan adjustments	(7,711)	-	-	(7,711)
Total non-operating revenue and expenses, net	(15,267)	(1,497)	(200)	(16,964)
Change in net assets	(3,509)	(8,256)	133	(11,632)
Net assets:				
Beginning of year	105,376	113,807	6,750	225,933
End of year	$ 101,867	$ 105,551	$ 6,883	$ 214,301

See notes to consolidated financial statements.

Catholic Relief Services – United States Conference of Catholic Bishops and Affiliates

Consolidated Statements of Cash Flows
Years Ended September 30, 2016 and 2015
(In Thousands)

	2016	2015
Cash flows from operating activities:		
Change in net assets	**$ (47,434)**	$ (11,632)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and other non-cash items	**8,719**	7,896
Loss on disposal of building and equipment	**342**	253
Realized and unrealized (gain) loss on sales of investments and financial instruments	**(10,502)**	5,416
Contributions restricted for permanent investment	**(1,266)**	(333)
Changes in assets and liabilities:		
Increase in assets:		
Accounts receivable and other assets	**(15,270)**	(12,127)
Undistributed commodities and program materials	**(26,424)**	(5,778)
Increase (decrease) in liabilities:		
Accounts payable, accrued expenses and other liabilities	**18,723**	(3,892)
Retirement plan liabilities	**7,712**	6,228
Advances received for programs	**(7,711)**	8,468
Deferred revenue – commodities	**26,173**	5,279
Annuities payable	**760**	5,017
Net cash (used in) provided by operating activities	**(46,178)**	4,795
Cash flows from investing activities:		
Proceeds from sale of land, building and equipment	**126**	556
Purchase of land, building and equipment	**(9,301)**	(10,535)
Proceeds from sales and maturities of investments	**301,547**	348,318
Purchase of investments	**(266,364)**	(334,283)
Net cash provided by investing activities	**26,008**	4,056
Cash flows from financing activities:		
Principal payments and liquidations of long-term debt	**(834)**	(794)
Contributions restricted for permanent investment	**1,266**	333
Net cash provided by (used in) financing activities	**432**	(461)
Net (decrease) increase in cash and cash equivalents	**(19,738)**	8,390
Cash and cash equivalents:		
Beginning of year	**80,776**	72,386
End of year	**$ 61,038**	$ 80,776
Supplemental disclosure of cash flow information:		
Cash payments for interest	**$ 776**	$ 780

See notes to consolidated financial statements.

Catholic Relief Services – United States Conference of Catholic Bishops and Affiliates

Consolidated Statement of Functional Expenses
Year Ended September 30, 2016
(With Comparative Totals for 2015)
(In Thousands)

	2016 Program Services								
Description	Agriculture	Water and Sanitation	Education	Emergency	Microfinance	Health	Peace and Justice	Total	2015
Program services:									
Salaries and related benefits	$ 52,951	$ 4,155	$ 19,564	$ 49,606	$ 1,964	$ 39,009	$ 13,470	$ 180,719	$ 163,155
Contracting and professional fees	7,361	1,291	3,659	6,382	363	7,948	2,052	29,056	26,049
Telecommunications and postage	2,249	96	597	1,670	43	1,366	413	6,434	6,082
Printing, supplies, office and miscellaneous expenses	2,719	165	1,060	3,674	82	2,602	595	10,897	6,945
Occupancy	3,698	115	1,671	2,456	129	3,152	1,141	12,362	11,958
Vehicle and equipment	4,531	368	1,435	4,692	167	5,882	934	18,009	20,115
Travel, training and representation	11,900	1,185	6,042	9,541	1,299	16,227	3,533	49,727	41,498
Warehousing and freight	17,526	1	4,612	90,799	6	2,811	72	115,827	46,128
Publicity	97	1	8	48	4	15	1	174	96
Subgrants to implementing partners	44,544	2,960	18,704	81,772	2,944	51,618	12,240	214,782	169,965
Project labor and materials	9,969	853	9,628	36,006	366	23,525	2,012	82,359	88,277
Food, other commodities and in-kind contributions	16,568	-	6,569	155,212	-	10,164	-	188,513	93,087
Depreciation	4,127	-	305	602	-	868	286	6,188	5,229
Total expenses	$ 178,240	$ 11,190	$ 73,854	$ 442,460	$ 7,367	$ 165,187	$ 36,749	$ 915,047	$ 678,584

(Continued)

Catholic Relief Services – United States Conference of Catholic Bishops and Affiliates

Consolidated Statement of Functional Expenses (Continued)
Year Ended September 30, 2016
(With Comparative Totals for 2015)
(In Thousands)

Description	2016 Supporting Services: Management and General	2016 Supporting Services: Public Awareness	2016 Supporting Services: Fundraising	2016 Supporting Services: Total	2015	Total Operating Expenses: 2016	Total Operating Expenses: 2015
Supporting services:							
Salaries and related benefits	**$ 14,327**	**$ 4,014**	**$ 7,820**	**$ 26,161**	$ 25,203	**$ 206,880**	$ 188,358
Contracting and professional fees	**5,301**	**987**	**3,131**	**9,419**	9,625	**38,475**	35,674
Telecommunications and postage	**499**	**19**	**4,656**	**5,174**	4,825	**11,608**	10,907
Printing, supplies, office and miscellaneous expenses	**772**	**208**	**5,364**	**6,344**	6,419	**17,241**	13,364
Occupancy	**247**	**235**	**422**	**904**	839	**13,266**	12,797
Vehicle and equipment	**87**	**117**	**47**	**251**	242	**18,260**	20,357
Travel, training and representation	**1,705**	**241**	**561**	**2,507**	2,324	**52,234**	43,822
Warehousing and freight	**-**	**-**	**19**	**19**	17	**115,846**	46,145
Publicity	**33**	**715**	**427**	**1,175**	900	**1,349**	996
Subgrants to implementing partners	**73**	**-**	**-**	**73**	31	**214,855**	169,996
Project labor and materials	**1**	**-**	**-**	**1**	6	**82,360**	88,283
Food, other commodities and in-kind contributions	**89**	**1,288**	**-**	**1,377**	1,636	**189,890**	94,723
Depreciation	**2,469**	**57**	**-**	**2,526**	2,662	**8,714**	7,891
Total expenses	**$ 25,603**	**$ 7,881**	**$ 22,447**	**$ 55,931**	$ 54,729	**$ 970,978**	$ 733,313

See notes to consolidated financial statements.

Catholic Relief Services – United States Conference of Catholic Bishops and Affiliates

Consolidated Statement of Functional Expenses
Year Ended September 30, 2015
(In Thousands)

	Program Services							
Description	Agriculture	Water and Sanitation	Education	Emergency	Microfinance	Health	Peace and Justice	Total
Program services:								
Salaries and related benefits	$ 46,986	$ 4,247	$ 17,319	$ 47,884	$ 1,672	$ 35,005	$ 10,042	$ 163,155
Contracting and professional fees	7,666	376	2,960	8,861	255	4,210	1,721	26,049
Telecommunications and postage	1,905	116	517	1,819	22	1,291	412	6,082
Printing, supplies, office and miscellaneous expenses	1,811	108	536	2,740	37	1,295	418	6,945
Occupancy	3,582	369	1,729	2,579	193	2,586	920	11,958
Vehicle and equipment	5,610	459	1,756	5,424	206	5,807	853	20,115
Travel, training and representation	9,473	920	5,047	9,898	679	12,705	2,776	41,498
Warehousing and freight	22,093	16	4,541	15,809	-	3,639	30	46,128
Publicity	10	22	3	59	-	2	-	96
Subgrants to implementing partners	36,370	2,924	14,915	58,028	1,854	44,484	11,390	169,965
Project labor and materials	9,586	1,238	7,777	61,736	188	4,649	3,103	88,277
Food, other commodities and in-kind contributions	12,556	-	5,983	52,642	-	21,906	-	93,087
Depreciation	3,595	10	308	364	-	641	311	5,229
Total expenses	$ 161,243	$ 10,805	$ 63,391	$ 267,843	$ 5,106	$ 138,220	$ 31,976	$ 678,584

(Continued)

Catholic Relief Services – United States Conference of Catholic Bishops and Affiliates

Consolidated Statement of Functional Expenses (Continued)
Year Ended September 30, 2015
(In Thousands)

	Supporting Services				
Description	Management and General	Public Awareness	Fundraising	Total Supporting Services	Total Operating Expenses
Supporting services:					
Salaries and related benefits	$ 13,899	$ 3,757	$ 7,547	$ 25,203	$ 188,358
Contracting and professional fees	4,689	1,670	3,266	9,625	35,674
Telecommunications and postage	372	36	4,417	4,825	10,907
Printing, supplies, office and miscellaneous expenses	552	189	5,678	6,419	13,364
Occupancy	180	227	432	839	12,797
Vehicle and equipment	125	77	40	242	20,357
Travel, training and representation	1,530	218	576	2,324	43,822
Warehousing and freight	-	-	17	17	46,145
Publicity	-	574	326	900	996
Subgrants to implementing partners	21	10	-	31	169,996
Project labor and materials	-	6	-	6	88,283
Food, other commodities and in-kind contributions	134	1,502	-	1,636	94,723
Depreciation	2,620	42	-	2,662	7,891
Total expenses	$ 24,122	$ 8,308	$ 22,299	$ 54,729	$ 733,313

See notes to consolidated 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 twelve U.S. Bishops elected from the USCCB, the General Secretary of the Conference, and ten lay members. Headquartered in Baltimore, Maryland, CRS provides services in 114 countries through 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 2016 edition of the Official Catholic Directory.

The consolidated financial statements include CRS Global Services Private Limited, a wholly owned for-profit affiliate in Lucknow, India formed during 2016, which provides technology support services for the agency. All significant intercompany transactions are eliminated.

Catholic Relief Services Foundation, Inc. (the Foundation) is a controlled affiliate which conducts certain fundraising activities on behalf of CRS. The Chairman and President of CRS serve, along with other elected individuals, as members of the board of the Foundation. There was no financial activity within the Foundation for the years ended September 30, 2016 and 2015.

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 business planning, value chain development and marketing, and integration with micro-finance and nutrition.

Water and Sanitation: Programs primarily focusing on community water supply and household sanitation services and hygiene behavior change for health and well-being; improved water management for agricultural productivity; and water and environmental activities that contribute to sustainability of natural resources.

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

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.

Microfinance: programs to support and develop sustainable, community-led and managed, savings and internal lending communities (SILC) that provide a range of financial services; linkages to additional financial (micro insurance, larger loans from MFI and credit unions) and non-financial (financial education, marketing and business skills, and linkages to agricultural extension) services for the poor, who have limited or no access to capital in the formal financial markets.

Health: programs seeking to reduce morbidity and mortality through promotion of health seeking behaviors, preventing and mitigating illness and disease, and promoting stronger health systems to provide quality healthcare to the poor and vulnerable.

Peace and justice: programs strengthen partner, including Church, capacity to promote social transformation by preventing, mitigating or resolving violent conflict and by influencing and engaging with government to advance social justice and social cohesion in the areas of gender inequality and gender-based violence, resource-based conflict, protection, trafficking, and youth development.

Note 2. Summary of Significant Accounting Policies

Basis of accounting: The consolidated financial statements are presented on the accrual basis of accounting in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification 958 Not-for-Profit entities. The consolidated financial statements include the results of CRS's worldwide operations. Revenue and expenses related to gift annuities, pooled income, charitable trusts, realized and unrealized gains and losses on investments and defined benefit plan adjustments are classified as non-operating activities.

Principles of consolidation: The accompanying consolidated financial statements include the accounts of CRS and its wholly owned affiliate. All intercompany transactions and balances have been eliminated in consolidation.

Use of estimates: The preparation of the consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

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

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

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

Note 2. Summary of Significant Accounting Policies (Continued)

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

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

Program receivables represent funds expended and recognized as revenue, but not yet received, on donor agreements for conditional grant programs.

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 percent for 2016 and 2015.

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

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

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

Note 2. Summary of Significant Accounting Policies (Continued)

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

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

Advances received for programs: Funds received on conditional 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 2016 Mortality table with no adjustments, assuming interest rates of 2.5 percent to 6.0 percent compounded annually, and no provision for a surplus or contingency reserve. The interest rate is determined by the year of contribution and the guaranteed duration period, if any.

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

Note 2. Summary of Significant Accounting Policies (Continued)

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.

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

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, 2016 and 2015, are carried as undistributed commodities and deferred revenue.

Commodities received from the U.S. 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. Pharmaceutical donations are from United States producers and are approved by the United States Food and Drug Administration (FDA) for use in the United States.

In determining the fair value for these pharmaceuticals, management has concluded that the geographical areas where these are distributed do not represent their principal market and therefore considers the most advantageous market to be the U.S. or those approved for use in the U.S. Therefore, those approved for use in the U.S. are recorded at the wholesale value as indicated in recognized industry publications.

Other in-kind contributions are recorded at fair value. These are included in other private and public revenues, respectively.

Other government funding: Revenue related to government grants 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. For this reason, CRS' grant agreements are considered conditional, and so referred to as “conditional grants”. Accordingly, amounts received, but not recognized as revenue, are classified in the consolidated statements of financial position as advances received for programs.

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

Joint costs: Expenses related to the CRS Rice Bowl program jointly support fundraising and educational and other programming. These expenses totaled $1,597,000 and $1,544,000 for the years ended September 30, 2016 and 2015, respectively. Expenses were allocated 23 percent to fundraising and 77 percent to program services for both fiscal years 2016 and 2015.

Note 2. Summary of Significant Accounting Policies (Continued)

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

Income taxes: CRS is generally exempt from federal income taxes under IRC §501(c)(3). In addition, contributions to CRS qualify for charitable deductions under Section 170(b)(1)(A)(vi). CRS has been classified as an organization that is not a private foundation under Section 509(a)(1). Income which is not related to exempt purposes, less applicable deductions, may be subject to federal and state corporate income taxes. For the years ended September 30, 2016 and 2015, CRS has concluded it has no such unrelated business income.

CRS has adopted the standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the consolidated 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 consolidated financial statements to comply with the provision of this guidance. CRS would be liable for income taxes in the U.S. federal jurisdiction.

Subsequent events: CRS has established a general standard of accounting for the disclosure of events that occur after the consolidated statement of financial position date through the date the consolidated financial statements are issued. CRS evaluated subsequent events through March 7, 2017, which is the date the consolidated financial statements were issued.

Reclassification: Certain of the 2015 comparative amounts were reclassified to conform to the 2016 presentation. These reclassifications had no effect on the previously reported net assets or the change in net assets.

Recent accounting pronouncements: Certain accounting pronouncements which have recently been issued by the Financial Accounting Standards Board (FASB) are relevant to CRS.

In May 2015, the FASB issued Accounting Standards Update (ASU) 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value Per Share (or Its Equivalent)* which reduces some of the detailed requirements of Fair Value disclosures. This change in disclosure will be effective for CRS's fiscal year ending September 30, 2018, but as early adoption is permitted, it was adopted for the fiscal year ended September 30, 2016 and applied retrospectively to 2015.

Note 2. Summary of Significant Accounting Policies (Continued)

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. This change in disclosure will be effective for CRS's fiscal year ending September 30, 2020, with early adoption permitted. The Agency is in the process of evaluating the impact of this new guidance.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments–Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including loans, trade receivables and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The ASU requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct write-down. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of income as the amounts expected to be collected change. This change in disclosure will be effective for CRS's fiscal year ending September 30, 2022. The Agency is in the process of evaluating the impact of this new guidance.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance, and cash flows. This change in disclosure will be effective for CRS's fiscal year ending September 30, 2019, and while early adoption is permitted, CRS has elected not to do so.

Note 3. Concentration of Credit Risk

Cash and cash equivalents and segregated investments 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, 2016 and 2015, $61,093,000 and $81,709,000, respectively, of deposits were in excess of FDIC insurance including $23,810,000 and $24,925,000, respectively, held in numerous financial institutions outside of the United States. Short-term operating investments of $1,437,000 and $206,000, respectively, were also held in numerous financial institutions outside of the United States at September 30, 2016 and 2015.

CRS invests in a professionally managed portfolio that contains shares of U.S. Treasury and Agency securities, equity securities, corporate and other private debt securities and investment pools. 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 consolidated financial statements.

Note 4. Accounts Receivable and Other Assets

At September 30, 2016 and 2015, accounts receivable and other assets consist of the following (in thousands):

	2016	2015
Program receivables	$ 63,529	$ 47,784
CRS Collection receivable	4,042	3,969
Bequest and other contributions receivable	12,069	14,468
Charitable trust and life insurance policy receivables	13,924	10,540
Trade receivables	5,609	5,533
Micro-finance loans receivable	1,063	1,051
Total accounts receivable	100,236	83,345
Less allowance for doubtful accounts	(1,684)	(1,633)
Total accounts receivable, net	98,552	81,712
Prepaid expenses	12,217	12,540
Other assets	1,295	2,542
Total accounts receivable and other assets	$ 112,064	$ 96,794

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. Three levels of the hierarchy are used to determine fair value for consolidated financial statement purposes, as described below:

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

Level 2: Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly; Level 2 includes the use of models or other valuation methodologies. Investments which are in this category generally 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.

Note 5. Investments and Fair Value Measurements (Continued)

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

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

Level 2: Investments in U.S. treasury obligations, U.S. government agency bonds, mortgage backed securities, asset backed securities, corporate, foreign and other obligations and overseas investments are stated at the last reported sales price on the day of valuation. These financial instruments are classified as Level 2 in the fair value hierarchy. 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 percent for 2016. 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.

The overall total of investments held at September 30, 2016, including securities detailed in the fair value disclosure, is as follows (in thousands):

	2016	
Non-segregated investments:		$ 151,556
Segregated gift annuities	$ 52,805	
Segregated pooled income fund	1,582	
Total segregated investments		54,387
Total investments		205,943
Accrued interest		(646)
Cash equivalents from segregated investments		(3,413)
Investments included in fair value disclosure		$ 201,884

Note 5. Investments and Fair Value Measurements (Continued)

The following table presents CRS's fair value hierarchy for those assets reflected in the consolidated statements of financial position, measured at fair value on a recurring basis as of September 30, 2016, (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	$ 1,810	$ 1,810	$ -	$ -
Industrials	7,859	7,859	-	-
Telecommunications	1,400	1,400	-	-
Consumer discretionary	9,245	9,245	-	-
Consumer staples	7,107	7,107	-	-
Energy	5,267	5,267	-	-
Financials	15,080	15,080	-	-
Health care	8,024	8,024	-	-
Information technology	13,837	13,837	-	-
Utilities	2,982	2,982	-	-
Fixed income securities:				
U.S. treasury obligations	31,306	-	31,306	-
U.S. government agency bonds	24,960	-	24,960	-
Mortgage backed securities	5,458	-	5,458	-
Asset backed securities	10,285	-	10,285	-
Corporate, foreign and other obligations	38,800	-	38,800	-
	183,420	$ 72,611	$ 110,809	$ -
Investment pools (a):				
International equities	18,129			
Alternative investment fund	335			
Total investments	$ 201,884			
Charitable trusts	$ 13,108	$ -	$ -	$ 13,108
Money market funds	$ 26,901	$ 26,901	$ -	$ -
Financial liabilities:				
Interest rate swap contracts	$ (5,984)	$ -	$ (5,984)	$ -

(a) Certain investments which are measured at net asset value (NAV) per share are not required to be classified in the fair value hierarchy according to ASU 2015-07. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the consolidated statements of financial position.

Note 5. Investments and Fair Value Measurements (Continued)

The overall total of investments held at September 30, 2015, including securities detailed in the fair value disclosure, is as follows (in thousands):

	2015	
Non-segregated investments:		$ 179,299
Segregated gift annuities	$ 48,804	
Segregated pooled income fund	1,507	
Total segregated investments		50,311
Total investments		229,610
Accrued interest		(780)
Cash equivalents from segregated investments		(1,698)
Investments included in fair value disclosure		$ 227,132

Note 5. Investments and Fair Value Measurements (Continued)

The following table presents CRS's fair value hierarchy for those assets reflected in the consolidated statements of financial position, measured at fair value on a recurring basis as of September 30, 2015, (in thousands):

		Fair Value Measurements Using		
Description	Total	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	$ 1,824	$ 1,824	$ -	$ -
Industrials	6,695	6,695	-	-
Telecommunications	1,654	1,654	-	-
Consumer discretionary	10,387	10,387	-	-
Consumer staples	7,662	7,662	-	-
Energy	5,033	5,033	-	-
Financials	14,445	14,445	-	-
Health care	9,359	9,359	-	-
Information technology	13,928	13,928	-	-
Utilities	2,835	2,835	-	-
Other equities	128	128	-	-
Fixed income securities:				
U.S. treasury obligations	44,241	-	44,241	-
U.S. government agency bonds	29,641	-	29,641	-
Mortgage backed securities	9,620	-	9,620	-
Asset backed securities	12,034	-	12,034	-
Corporate, foreign and other obligations	40,214	-	40,214	-
Other types of securities:				
Overseas investments	206	-	206	-
	209,906	$ 73,950	$ 135,956	$ -
Investment pools:				
International equities	17,226			
Total investments	$ 227,132			
Charitable trusts	$ 9,758	$ -	$ -	$ 9,758
Money market funds	$ 25,917	$ 25,917	$ -	$ -
Financial liabilities:				
Interest rate swap contracts	$ (4,971)	$ -	$ (4,971)	$ -

For the years ended September 30, 2016 and 2015, the fair value hierarchy above includes money market funds of $26,901,000 and $25,917,000, respectively, which are included as cash equivalents on the consolidated statements of financial position. Cash and accrued interest are excluded from the fair value hierarchy as cash is generally measured at cost.

Note 5. Investments and Fair Value Measurements (Continued)

For the period from October 1, 2014, through September 30, 2016, the application of the valuation techniques has been consistent for CRS' held investments. The valuation technique for charitable trust assets held by others has been revised to conform to the modifications of ASU 2011-04, *Fair Value Measurement* (Topic 820). Changes in Level 3 assets for the years ended September 30, 2016 and 2015, were as follows (in thousands):

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Charitable Trusts	
	2016	2015
Beginning balance, October 1,	$ 9,758	$ 8,762
Contributions	3,198	2,345
Distributions	(741)	(497)
Change in valuation	893	(852)
Ending balance, September 30,	$ 13,108	$ 9,758

CRS investments include investment pools. Information pertaining to these investments at September 30, 2016 and 2015, is as follows (in thousands):

	2016	2015	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
International equities	$ 18,129	$ 17,226	$ -	Monthly	10 days
Alternative investment fund	$ 335	$ -	$ 650	N/A	N/A

The international equities include 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.

The alternative investment fund includes investment pools that seek to achieve attractive risk-adjusted returns while attempting to preserve capital in adverse market conditions through the implementation of diversified investment strategies. The goal of the fund's Impact Investment strategy is to source private equity, private credit and private real estate funds that make investments in companies or other entities that generate a beneficial social and/or environmental impact.

Note 6. Segregated Investments

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

During the years ended September 30, 2016 and 2015, CRS received $6,070,000 and $4,400,000, respectively, of new charitable gift annuities, earned net investment income of $1,201,000 and $1,167,000, respectively, and made contractual annuity payments of $4,815,000 and $4,742,000, respectively.

During the years ended September 30, 2016 and 2015, the pooled income fund made earnings distributions to participants of $34,000 and $233,000, respectively.

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

Note 7. Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into U.S. dollars at exchange rates in effect on reporting dates, and revenue and expenses are translated at rates in effect on transaction dates. Translation gains and losses are included in current results. Total foreign currency translation losses of $809,000 and gains of $1,676,000 for the years ended September 30, 2016 and 2015, respectively, are included in miscellaneous expense and investment income.

Note 8. Land, Building and Equipment

Land, building and equipment, at cost, at September 30, 2016 and 2015, are summarized as follows (in thousands):

	2016	2015
Land	$ 422	$ 422
Building and improvements	39,222	38,783
Furniture, equipment, and vehicles	75,160	71,402
	114,804	110,607
Less accumulated depreciation	(62,590)	(58,512)
	$ 52,214	$ 52,095

Land, building and equipment includes restricted and grant assets of $4,501,000 and $4,861,000 at September 30, 2016 and 2015, respectively. Of these assets, $2,788,000 and $3,076,000 at September 30, 2016 and 2015, 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 five-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 percent of the then fair market rental for the first renewal year, with subsequent years' rent increasing based on the Consumer Price Index.

Note 8. Land, Building and Equipment (Continued)

Land, building and equipment at September 30, 2016, includes $24,315,000 for leasehold improvements, capitalized lease and other leasehold 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, 2016 and 2015, were $4,571,000 and $4,042,000, respectively.

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

Years ending September 30:		
2017	$	259
2018		205
2019		98
2020		54
2021		40
2022		2
	$	658

Note 9. Long-Term Debt

Long-term debt at September 30, 2016, consisted of the following (in thousands):

		Principal		Unamortized Debt Issuance Costs		Net
Term-loan, due 2021	$	6,613	$	-	$	6,613
Tax-exempt variable rate demand bonds		19,555		156		19,399
Total	$	26,168	$	156	$	26,012

Long-term debt at September 30, 2015, consisted of the following (in thousands):

		Principal		Unamortized Debt Issuance Costs		Net
Term-loan, due 2021	$	7,446	$	-	$	7,446
Tax-exempt variable rate demand bonds		19,555		161		19,394
Total	$	27,001	$	161	$	26,840

To finance the capital lease obligation for its headquarters building, CRS has an outstanding term loan with Bank of America with balances in the amounts of $6,613,000 and $7,446,000 at September 30, 2016 and 2015, respectively. The loan matures on May 1, 2021. Interest accrues, and is payable monthly, at a rate based on the one-month London Interbank Offered Rate (LIBOR) plus .35 percent per year in FY2016 and plus .30 percent per year in FY2015 (0.88 percent and 0.49 percent at September 30, 2016 and 2015, respectively).

Note 9. Long-Term Debt (Continued)

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, 2016, was A1/VMIG 1.

The bond and term loan agreements contain certain financial and non-financial covenants, which were met for the years ended September 30, 2016 and 2015.

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, 2021.

CRS entered into an interest rate swap agreement to reduce the impact of interest rate changes on its floating rate term loan and tax-exempt bonds. The 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 percent of LIBOR, and fixes the interest rate at 3.40 percent, through May 1, 2036.

The value of the swap instruments as of September 30, 2016 and 2015, and the change in value is reflected as follows (in thousands):

	2016	2015
Beginning liability balance, October 1	$ 4,971	$ 3,827
Unrealized loss	1,013	1,144
Ending liability balance, September 30	$ 5,984	$ 4,971

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

Future annual maturities on long-term debt as of September 30, 2016, are as follows (in thousands):

Years ending September 30:	
2017	$ 878
2018	921
2019	968
2020	1,017
2021	1,070
2022 – 2036	21,314
	$ 26,168

Note 10. Donated Agriculture, Other Commodities and Ocean Freight

Commodities and freight received in the years ended September 30, 2016 and 2015, consist of the following (in thousands):

	2016	2015
Agricultural commodities donated by USAID and USDA	$ 144,236	$ 48,053
Commodities and pharmaceuticals provided by the UN and other donors	24,424	14,932
Ocean freight provided by donors	100,900	33,720
Total donated agriculture, other commodities and ocean freight	$ 269,560	$ 96,705

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, 2016 and 2015, are as follows (in thousands):

	2016	2015
Dividends and interest	$ 2,861	$ 2,501
Realized and unrealized gain (loss) on investments	11,515	(4,272)
Investment management fees	(888)	(1,005)
	$ 13,488	$ (2,776)

Note 12. Retirement Plans

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

CRS also has a post-retirement health plan for employees who retire after the age of 65 with at least 20 years of service. Effective December 31, 2013, the plan was modified to exclude benefit contribution subsidies for any future qualifying participants. CRS funds retiree healthcare premiums on a cash basis, and for the years ended September 30, 2016 and 2015, paid $244,000 and $165,000, respectively for retirees’ healthcare coverage. The expected contribution for the year ending September 30, 2017, is $216,000.

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, 2016 and 2015, (dollars in thousands):

	Pension Benefits		Post-Retirement Health	
	2016	2015	2016	2015
Change in projected benefit obligation:				
Benefit obligation at beginning of period	$ 83,918	$ 79,234	$ 4,096	$ 3,859
Interest cost	3,697	3,293	159	149
Plan participant contributions	-	-	54	55
Benefits and administrative expenses paid	(1,894)	(1,832)	(298)	(220)
Actuarial loss/(gain)	11,194	3,223	(399)	253
Benefit obligation at end of period	$ 96,915	$ 83,918	$ 3,612	$ 4,096
Change in plan assets:				
Fair value of plan assets at beginning of period	$ 57,705	$ 59,012	$ -	$ -
Actual return on plan assets	5,695	(475)	-	-
Employer contributions	1,000	1,000	244	165
Plan participant contributions	-	-	54	55
Benefits and administrative expenses paid	(1,894)	(1,832)	(298)	(220)
Fair value of plan assets at end of period	62,506	57,705	-	-
Funded status at end of year	$ (34,409)	$ (26,213)	$ (3,612)	$ (4,096)
Amounts recognized in statement of financial position	$ (34,409)	$ (26,213)	$ (3,612)	$ (4,096)
Cumulative amounts recognized in non-operating revenue and expenses:				
Net loss/(gain)	$ 17,943	$ 8,810	$ (386)	$ 13
Accrued benefit cost	$ 17,943	$ 8,810	$ (386)	$ 13
Components of net periodic benefit cost:				
Interest cost	$ 3,697	$ 3,293	$ 159	$ 149
Expected return on plan assets	(3,674)	(3,760)	-	-
Amortization of net loss	40	-	-	-
Total net periodic benefit cost	$ 63	$ (467)	$ 159	$ 149
Other changes in plan assets and benefit obligations recognized in non-operating revenue:				
Net loss (gain)	$ 9,173	$ 7,459	$ (399)	$ 253
Amortization of net loss	(40)	-	-	-
Total recognized in non-operating revenue	9,133	7,459	(399)	253
Total recognized in net periodic benefit cost and non-operating revenue	$ 9,196	$ 6,992	$ (240)	$ 402
Weighted-average assumptions:				
Discount rate	3.75%	4.50%	3.50%	4.00%
Expected return on plan assets	6.50%	6.50%	N/A	N/A
Rate of compensation increase	N/A	N/A	N/A	N/A

Note 12. Retirement Plans (Continued)

The estimated net loss for the defined benefit pension plan that will be amortized from the cumulative non-operating revenue and expenses into net periodic benefit cost over the next fiscal year approximates $816,000.

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

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

Asset class	Minimum	Target	Maximum
U.S. equities	35%	50%	65%
International equities	10%	15%	20%
Fixed income	25%	35%	45%
Real estate	0%	0%	5%

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

Allocations of plan assets at September 30, 2016 and 2015, are as follows (dollars in thousands):

	2016		2015	
	Amount	Percent	Amount	Percent
U.S. equities and equivalents	$ 33,540	54%	$ 29,423	51%
International equities and equivalents	8,897	14%	7,657	13%
Fixed income	18,997	30%	20,049	35%
Cash equivalents	1,072	2%	576	1%
	$ 62,506	100%	$ 57,705	100%

Note 12. Retirement Plans (Continued)

Pension plan assets as of September 30, 2016, which are not separately reflected in the consolidated statement of financial position, are invested as follows (in thousands):

		Fair Value Measurements Using		
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Investment component:				
U.S. equities:				
Materials	$ 908	$ 908	$ -	$ -
Industrials	3,754	3,754	-	-
Telecommunications	621	621	-	-
Consumer discretionary	4,237	4,237	-	-
Consumer staples	3,320	3,320	-	-
Energy	2,390	2,390	-	-
Financials	7,038	7,038	-	-
Health care	3,668	3,668	-	-
Information technology	6,262	6,262	-	-
Utilities	1,342	1,342	-	-
Fixed income securities:				
U.S. treasury obligations	7,253	-	7,253	-
U.S. government agency bonds	4,802	-	4,802	-
Corporate and foreign bonds	6,942	-	6,942	-
	52,537	$ 33,540	$ 18,997	$ -
Investment pools (a):				
International equities	8,897			
Total Investments	$ 61,434			
Money market funds	$ 1,072	$ 1,072	$ -	$ -

(a) Certain investments which are measured at NAV per share are not required to be classified in the fair value hierarchy according to ASU 2015-07. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the consolidated statements of financial position.

Note 12. Retirement Plans (Continued)

Pension plan assets as of September 30, 2015, which are not reflected in the consolidated statement of financial position, are invested as follows (in thousands):

		Fair Value Measurements Using		
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Investment component:				
U.S. equities:				
Materials	$ 750	$ 750	$ -	$ -
Industrials	3,110	3,110	-	-
Telecommunications	676	676	-	-
Consumer discretionary	4,005	4,005	-	-
Consumer staples	2,963	2,963	-	-
Energy	1,853	1,853	-	-
Financials	6,378	6,378	-	-
Health care	3,157	3,157	-	-
Information technology	5,217	5,217	-	-
Utilities	1,236	1,236	-	-
Miscellaneous	78	78	-	-
Fixed income securities:				
U.S. treasury obligations	7,321	-	7,321	-
U.S. government agency bonds	5,274	-	5,274	-
Corporate and foreign bonds	7,454	-	7,454	-
	49,472	$ 29,423	$ 20,049	$ -
Investment pools:				
International equities	7,657			
Total Investments	$ 57,129			
Money market funds	$ 576	$ 576	$ -	$ -

CRS investments include investment pools. Information pertaining to these investments at September 30, 2016 and 2015, is as follows (in thousands):

	2016	2015	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
International equities (Long-term value and growth fund)	$ 8,897	$ 7,657	$ -	Monthly	10 days

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

Note 12. Retirement Plans (Continued)

The pension plan contribution for the year ending September 30, 2017, is expected to be $1,000,000. The plan's expected payouts for the next five years and the following five years in the aggregate, are as follows (in thousands):

	Payout
Years ending September 30:	
2017	$ 3,740
2018	3,515
2019	3,472
2020	3,395
2021	3,736
2022 – 2026	21,085

The healthcare inflation rate is assumed to be 7.0 percent for participants under 65 and 7.0 percent for participants 65 and older for 2016. The health care cost trend rate for the year ended September 30, 2016, is assumed to be 6.7 percent for individuals under 65 and 6.7 percent for individuals aged 65 and over. The 4.5 percent ultimate rate is projected to be reached by 2030 for individuals under 65 and by 2030 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 $427,000 as of September 30, 2016, and would increase the aggregate of the service cost and interest cost components of net periodic post-retirement health benefit cost for 2016 by approximately $20,000. 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 $362,000 as of September 30, 2016, and would decrease the aggregate of the service cost and interest components of net periodic post-retirement health benefit cost for 2016 by approximately $17,000. The plans' expected payouts for the next five years and the following five years in the aggregate, are as follows (in thousands):

	Payout
Years ending September 30:	
2017	$ 216
2018	211
2019	218
2020	217
2021	215
2022 – 2026	1,021

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

Note 12. Retirement Plans (Continued)

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

CRS contributed $7,411,000 and $6,609,000 to these retirement plans for the years ended September 30, 2016 and 2015, respectively.

Note 13. Self-Insured Medical Plan

CRS maintains a self-insured medical plan for the benefit of its employees. A stop loss policy is in effect, which limits CRS's loss per individual employee to $225,000. The medical plan is administered through a contractual relationship with a third party plan administrator. However, CRS is solely responsible for all claims incurred up to the amount of the stop loss provisions. CRS's expense under the self-insured medical plan amounted to $5,456,000 and $6,810,000 for the years ended September 30, 2016 and 2015, respectively.

Note 14. Restricted Net Assets

Temporarily restricted net assets at September 30, 2016 and 2015, are composed of the following (in thousands):

	2016	2015
Time restricted:		
Charitable trusts	$ 11,474	$ 8,177
Pooled income fund	878	827
Other time restricted funds	597	527
Total time restricted	12,949	9,531
Program restricted:		
Private emergency funds	61,121	81,636
Caritas partners	216	761
Agency strategy and other program activities	9,559	13,623
Total program restricted	70,896	96,020
Total temporarily restricted net assets	$ 83,845	$ 105,551

Net assets were released for the following purposes during 2016 and 2015 (in thousands):

	2016	2015
Program restricted purposes met	$ 63,904	$ 72,074
Time restricted purposes met	1,127	802
	$ 65,031	$ 72,876

Note 14. Restricted Net Assets (Continued)

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.

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

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

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

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

Note 15. Endowments (Continued)

Endowment Net Asset Composition by Type of Fund
As of September 30, 2016 (In Thousands)

	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 1,004	$ 1,004
Undesignated – other endowment funds	878	4,782	5,660
Third-party trust assets	-	2,450	2,450
Total funds	$ 878	$ 8,236	$ 9,114

Endowment Net Asset Composition by Type of Fund
As of September 30, 2015 (In Thousands)

	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 1,004	$ 1,004
Undesignated – other endowment funds	682	3,515	4,197
Third-party trust assets	-	2,364	2,364
Total funds	$ 682	$ 6,883	$ 7,565

Note 15. Endowments (Continued)

Changes in Endowment Net Assets
Year Ended September 30, 2016
(In Thousands)

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of the year	$ 682	$ 6,883	$ 7,565
Net investment income	582	87	669
Contributions	-	1,266	1,266
Endowment draw to operating	(386)	-	(386)
Endowment net assets, end of the year	$ 878	$ 8,236	$ 9,114

Changes in Endowment Net Assets
Year Ended September 30, 2015
(In Thousands)

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of the year	$ 1,009	$ 6,750	$ 7,759
Net investment income	49	(200)	(151)
Contributions	-	333	333
Endowment draw to operating	(376)	-	(376)
Endowment net assets, end of the year	$ 682	$ 6,883	$ 7,565

Note 16. Contingencies

Subsequent to year-end CRS entered into a six-year service agreement with a software vendor, to be effective March 1, for a minimum financial commitment of $7.2 million over that period. Termination rights under the agreement are only for a breach upon 30 days' notice.

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, 2016 and 2015, 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.

Note 17. Emergency Responses

The following is a financial summary of major emergency activity, with ongoing responses, from inception through September 30, 2016 (in thousands):

	Private Contributions	Public Donors, Including U.S. Government	Total Revenues	Total Expenses	Net Assets at 2016
Haiti Earthquake	$ 151,576	$ 61,482	$ 213,058	$ 205,619	$ 7,439
Middle East Crisis and Europe Refugee Response	35,895	99,426	135,321	134,980	341
Philippines Typhoon	57,731	20,918	78,649	72,669	5,980
Nepal Earthquake	27,414	4,080	31,494	11,709	19,785
Ethiopia Drought	398	246,051	246,449	246,363	86
Total	$ 273,014	$ 431,957	$ 704,971	$ 671,340	$ 33,631

Subsequent to year-end, on October 4, 2016, Hurricane Matthew struck Haiti. CRS responded with emergency relief and long-term recovery and reconstruction assistance, and has raised $8.4M of funding for this response.