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

Consolidated Financial Report
September 30, 2017

Contents

RSM

RSM US LLP

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, 2017 and 2016, 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 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 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, 2017 and 2016, 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 February 26, 2018 and March 7, 2017, 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
February 26, 2018

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

Consolidated Statements of Financial Position
September 30, 2017 and 2016
(In Thousands)

		2017		2016
Assets				
Cash and cash equivalents	**$**	**114,333**	$	61,038
Accounts receivable and other assets		**109,460**		112,064
Investments		**144,113**		151,556
Segregated investments		**56,544**		54,387
Undistributed commodities and program materials		**87,389**		64,065
Land, building and equipment, net		**51,297**		52,214
Total assets	**$**	**563,136**	$	495,324
Liabilities and net assets				
Liabilities:				
Accounts payable, accrued expenses and other liabilities	**$**	**88,422**	$	84,623
Retirement plan liabilities		**34,658**		38,021
Advances received for programs		**99,941**		75,652
Deferred revenue – commodities		**83,804**		59,683
Annuities payable		**43,324**		44,466
Long-term debt, net of unamortized debt issuance costs		**25,139**		26,012
Total liabilities		**375,288**		328,457
Net assets:				
Unrestricted		**97,533**		74,786
Temporarily restricted		**76,565**		83,845
Permanently restricted		**13,750**		8,236
Total net assets		**187,848**		166,867
Total liabilities and net assets	**$**	**563,136**	$	495,324

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, 2017
(With Comparative Totals for 2016)
(In Thousands)

	2017				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2016
Operating revenue:					
Private revenue:					
Catholic Relief Services Collection	$ 13,224	$ -	$ -	$ 13,224	$ 11,767
Catholic Relief Services Rice Bowl	-	8,521	-	8,521	8,435
Private contributions	91,254	43,073	5,083	139,410	121,301
Foundation and other private revenue	42,165	-	-	42,165	37,194
Bequests	34,432	1,623	288	36,343	22,357
Total private revenue	181,075	53,217	5,371	239,663	201,054
Public revenue:					
Donated agricultural, other commodities and ocean freight	191,466	-	-	191,466	269,560
United States government grants and agreements	391,399	-	-	391,399	314,381
Other public grants and contributions	154,817	-	-	154,817	130,713
Total public revenue	737,682	-	-	737,682	714,654
Investment and other income	344	904	-	1,248	2,050
Net assets released from restrictions	63,684	(63,684)	-	-	-
Total operating revenue	982,785	(9,563)	5,371	978,593	917,758
Operating expenses:					
Program services	918,124	-	-	918,124	915,047
Supporting services:					
Management and general	31,070	-	-	31,070	25,603
Public awareness	7,211	-	-	7,211	7,881
Fundraising	23,378	-	-	23,378	22,447
Total supporting services	61,659	-	-	61,659	55,931
Total operating expenses	979,783	-	-	979,783	970,978
Change in net assets from operations	3,002	(9,563)	5,371	(1,190)	(53,220)
Non-operating revenue and expenses:					
Net change in annuities, trusts and pooled income fund	4,406	1,983	143	6,532	4,018
Realized and unrealized gain on investments and financial instruments	12,625	300	-	12,925	10,502
Defined benefit plan adjustments	2,714	-	-	2,714	(8,734)
Total non-operating revenue and expenses, net	19,745	2,283	143	22,171	5,786
Change in net assets	22,747	(7,280)	5,514	20,981	(47,434)
Net assets:					
Beginning of year	74,786	83,845	8,236	166,867	214,301
End of year	$ 97,533	$ 76,565	$ 13,750	$ 187,848	$ 166,867

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
(In Thousands)

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

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, 2017 and 2016
(In Thousands)

	2017	2016
Cash flows from operating activities:		
Change in net assets	**$ 20,981**	$ (47,434)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and other non-cash items	**9,044**	8,719
Loss on disposal of building and equipment	**550**	342
Realized and unrealized gain on sales of investments and financial instruments	**(12,925)**	(10,502)
Contributions restricted for permanent investment	**(5,371)**	(1,266)
Changes in assets and liabilities:		
Decrease (increase) in assets:		
Accounts receivable and other assets	**2,604**	(15,270)
Undistributed commodities and program materials	**(23,324)**	(26,424)
Increase (decrease) in liabilities:		
Accounts payable, accrued expenses and other liabilities	**5,639**	18,723
Retirement plan liabilities	**(3,363)**	7,712
Advances received for programs	**24,289**	(7,711)
Deferred revenue – commodities	**24,121**	26,173
Annuities payable	**(1,142)**	760
Net cash provided by (used in) operating activities	**41,103**	(46,178)
Cash flows from investing activities:		
Proceeds from sale of land, building and equipment	**238**	126
Purchase of land, building and equipment	**(8,914)**	(9,301)
Proceeds from sales and maturities of investments	**414,887**	301,547
Purchase of investments	**(398,512)**	(266,364)
Net cash provided by investing activities	**7,699**	26,008
Cash flows from financing activities:		
Principal payments and liquidations of long-term debt	**(878)**	(834)
Contributions restricted for permanent investment	**5,371**	1,266
Net cash provided by financing activities	**4,493**	432
Net increase (decrease) in cash and cash equivalents	**53,295**	(19,738)
Cash and cash equivalents:		
Beginning of year	**61,038**	80,776
End of year	**$ 114,333**	$ 61,038
Supplemental disclosure of cash flow information:		
Cash payments for interest	**$ 856**	$ 776

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, 2017
(With Comparative Totals for 2016)
(In Thousands)

	2017 Program Services								
Description	Agriculture	Water and Sanitation	Education	Emergency	Microfinance	Health	Peace and Justice	Total	2016
Program services:									
Salaries and related benefits	$ 50,700	$ 2,591	$ 20,889	$ 72,185	$ 2,864	$ 49,678	$ 14,169	$ 213,076	$ 180,719
Contracting and professional fees	8,488	556	3,293	8,147	496	10,715	1,898	33,593	29,056
Telecommunications and postage	1,852	164	566	2,220	35	1,758	317	6,912	6,434
Printing, supplies, office and miscellaneous expenses	1,992	100	956	4,619	67	2,506	483	10,723	10,897
Occupancy	3,162	64	1,643	3,949	170	3,568	1,094	13,650	12,362
Vehicle and equipment	4,205	341	1,440	7,151	188	6,066	737	20,128	18,009
Travel, training and representation	12,654	1,013	6,201	10,761	1,288	20,402	3,858	56,177	49,727
Warehousing and freight	9,455	-	6,383	55,557	1	5,633	76	77,105	115,827
Publicity	64	-	7	94	5	6	19	195	174
Subgrants to implementing partners	31,917	2,051	16,898	77,349	2,293	58,424	14,366	203,298	214,782
Project labor and materials	11,595	1,172	9,682	72,735	1,204	11,276	472	108,136	82,359
Food, other commodities and in-kind contributions	7,180	9	6,745	110,705	8	44,110	-	168,757	188,513
Depreciation	4,486	-	352	388	-	889	259	6,374	6,188
Total expenses	$ 147,750	$ 8,061	$ 75,055	$ 425,860	$ 8,619	$ 215,031	$ 37,748	$ 918,124	$ 915,047

(Continued)

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

Consolidated Statement of Functional Expenses (Continued)
Year Ended September 30, 2017
(With Comparative Totals for 2016)
(In Thousands)

	2017 Supporting Services					Total Operating Expenses	
Description	Management and General	Public Awareness	Fundraising	Total	2016	2017	2016
Supporting services:							
Salaries and related benefits	$ 16,276	$ 4,484	$ 8,441	$ 29,201	$ 26,161	$ 242,277	$ 206,880
Contracting and professional fees	8,499	847	3,676	13,022	9,419	46,615	38,475
Telecommunications and postage	836	12	4,109	4,957	5,174	11,869	11,608
Printing, supplies, office and miscellaneous expenses	779	108	5,443	6,330	6,339	17,053	17,236
Occupancy	323	254	500	1,077	904	14,727	13,266
Vehicle and equipment	224	40	63	327	251	20,455	18,260
Travel, training and representation	1,280	275	512	2,067	2,507	58,244	52,234
Warehousing and freight	-	-	20	20	19	77,125	115,846
Publicity	-	336	614	950	1,175	1,145	1,349
Subgrants to implementing partners	11	3	-	14	73	203,312	214,855
Project labor and materials	3	-	-	3	1	108,139	82,360
Food, other commodities and in-kind contributions	225	796	-	1,021	1,377	169,778	189,890
Depreciation	2,614	56	-	2,670	2,531	9,044	8,719
Total expenses	$ 31,070	$ 7,211	$ 23,378	$ 61,659	$ 55,931	$ 979,783	$ 970,978

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
(In Thousands)

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

(Continued)

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

Consolidated Statement of Functional Expenses (Continued)
Year Ended September 30, 2016
(In Thousands)

	Supporting Services				
Description	Management and General	Public Awareness	Fundraising	Total Supporting Services	Total Operating Expenses
Supporting services:					
Salaries and related benefits	$ 14,327	$ 4,014	$ 7,820	$ 26,161	$ 206,880
Contracting and professional fees	5,301	987	3,131	9,419	38,475
Telecommunications and postage	499	19	4,656	5,174	11,608
Printing, supplies, office and miscellaneous expenses	767	208	5,364	6,339	17,236
Occupancy	247	235	422	904	13,266
Vehicle and equipment	87	117	47	251	18,260
Travel, training and representation	1,705	241	561	2,507	52,234
Warehousing and freight	-	-	19	19	115,846
Publicity	33	715	427	1,175	1,349
Subgrants to implementing partners	73	-	-	73	214,855
Project labor and materials	1	-	-	1	82,360
Food, other commodities and in-kind contributions	89	1,288	-	1,377	189,890
Depreciation	2,474	57	-	2,531	8,719
Total expenses	$ 25,603	$ 7,881	$ 22,447	$ 55,931	$ 970,978

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 110 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 2017 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, 2017 and 2016.

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: strengthening of farmer organizations; seed systems upgrading; enhancing 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; marketing, and integration with micro-finance; nutrition; and policy development.

Water and Sanitation: Programs primarily focusing on community potable water supply, 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 offering a wide array of responses tailored to the context and needs of affected communities; providing lifesaving assistance including food, shelter, clean water and hygiene supplies to help survivors with urgent relief; building on existing local systems to restore livelihoods and the local economy; supporting the repair and rebuilding of safe homes and infrastructure; and providing the tools and skills people need to manage their own recovery.

Microfinance: Programs to support and develop sustainable, community-led and managed, savings and internal lending communities (SILC) that provide a range of financial services (savings, loans, mobile money) and products to the poor, particularly women and rural farmers, who have limited or no access to capital in the formal financial markets.

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

Peace and Justice: Programs to strengthen faith-based and other civil society partners' capacity to promote social change by improving social cohesion through non-violent conflict prevention, mitigation and resolution and by influencing and engaging with government to advance social justice in the areas of gender inequality and gender-based violence, resource-based conflict, protection of vulnerable children and adults, prevention of human trafficking, and positive 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.

Note 2. Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

Accounts receivable and other assets: Accounts receivable and other assets consist of trade receivables, 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 2017 and 2016.

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 investments. However, the estimated fair values of the assets underlying these investments may include securities for which prices are not readily available 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 2017 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. Donated commodities that have not been distributed at September 30, 2017 and 2016, 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. for 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 contributions are included in other private and public revenues, respectively.

Government and other grant funding: Revenue related to government and other 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 $1,635,000 and $1,597,000 for the years ended September 30, 2017 and 2016, respectively. Expenses were allocated 23 percent to fundraising and 77 percent to program services for both fiscal years 2017 and 2016.

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, 2017 and 2016, 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 February 26, 2018, which is the date the consolidated financial statements were issued.

Reclassification: Certain of the 2016 comparative amounts were reclassified to conform to the 2017 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 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.

Note 2. Summary of Significant Accounting Policies (Continued)

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, 2017 and 2016, $112,288,000 and $61,093,000, respectively, of deposits were in excess of FDIC insurance including $43,536,000 and $23,810,000, respectively, held in numerous financial institutions outside of the United States. Short-term operating investments of $3,453,000 and $1,437,000, respectively, were also held in numerous financial institutions outside of the United States at September 30, 2017 and 2016.

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, 2017 and 2016, accounts receivable and other assets consist of the following (in thousands):

	2017	2016
Program receivables	$ 51,079	$ 63,529
CRS Collection receivable	4,082	4,042
Bequest and other contributions receivable	14,820	12,069
Charitable trust and life insurance policy receivables	15,820	13,924
Trade receivables	6,410	5,609
Micro-finance loans receivable	1,123	1,063
Total accounts receivable	93,334	100,236
Less allowance for doubtful accounts	(1,852)	(1,684)
Total accounts receivable, net	91,482	98,552
Prepaid expenses	16,317	12,217
Other assets	1,661	1,295
Total accounts receivable and other assets	$ 109,460	$ 112,064

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 2017. 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, 2017, including securities detailed in the fair value disclosure, is as follows (in thousands):

	2017	
Non-segregated investments:		$ 144,113
Segregated gift annuities	$ 55,055	
Segregated pooled income fund	1,489	
Total segregated investments		56,544
Total investments		200,657
Accrued interest		(448)
Cash equivalents from segregated investments		(6,988)
Investments included in fair value disclosure		$ 193,221

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 as of September 30, 2017 (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	$ 1,803	$ 1,803	$ -	$ -
Industrials	7,186	7,186	-	-
Telecommunications	1,219	1,219	-	-
Consumer discretionary	9,269	9,269	-	-
Consumer staples	5,928	5,928	-	-
Energy	4,187	4,187	-	-
Financials	14,628	14,628	-	-
Health care	6,989	6,989	-	-
Information technology	15,571	15,571	-	-
Utilities	2,686	2,686	-	-
Fixed income securities:				
U.S. treasury obligations	42,867	-	42,867	-
U.S. government agency bonds	19,326	-	19,326	-
Mortgage backed securities	2,558	-	2,558	-
Asset backed securities	5,737	-	5,737	-
Corporate, foreign and other obligations	33,587	-	33,587	-
Other types of securities:				
Overseas investments	3,453	-	3,453	-
	176,994	$ 69,466	$ 107,528	$ -
Investment pools (a):				
International equities	14,623			
Alternative investment funds	1,604			
Total investments	$ 193,221			
Charitable trusts	$ 15,030	$ -	$ -	$ 15,030
Money market funds	$ 24,698	$ 24,698	$ -	$ -
Financial liabilities:				
Interest rate swap contracts	$ (4,148)	$ -	$ (4,148)	$ -

(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, 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 as of September 30, 2016 (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	$ 1,810	$ 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)	$ -

For the years ended September 30, 2017 and 2016, the fair value hierarchy above includes money market funds of $24,698,000 and $26,901,000, 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, 2015 through September 30, 2017, 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, 2017 and 2016, were as follows (in thousands):

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Charitable Trusts	
	2017	2016
Beginning balance, October 1,	$ 13,108	$ 9,758
Contributions	228	3,198
Distributions	(506)	(741)
Change in valuation	2,200	893
Ending balance, September 30,	$ 15,030	$ 13,108

CRS investments include investment pools. Information pertaining to these investments at September 30, 2017 and 2016, is as follows (in thousands):

	2017	2016	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
International equities	$ 14,623	$ 18,129	$ -	Monthly	10 days
Alternative investment funds	$ 1,604	$ 335	$ 450	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 funds include investment pools targeting Impact Investments through two investment portfolios. The first portfolio seeks 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 this 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. The second portfolio invests in small and medium enterprises primarily in developing economies that provide the opportunity to achieve both competitive financial returns and positive measurable impact. The goal of the fund's Impact Investment strategy is to provide its unitholders current income, capital preservation, and modest capital appreciation primarily through trade finance and term loan financing.

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, 2017 and 2016, CRS received $5,873,000 and $6,070,000, respectively, of new charitable gift annuities, earned net investment income of $930,000 and $1,201,000, respectively, and made contractual annuity payments of $5,083,000 and $4,815,000, respectively.

During the years ended September 30, 2017 and 2016, the pooled income fund made earnings distributions to participants of $39,000 and $34,000, 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 gains of $1,071,000 and losses of $809,000 for the years ended September 30, 2017 and 2016, respectively, are included in miscellaneous expense and investment income.

Note 8. Land, Building and Equipment

Land, building and equipment, at cost, at September 30, 2017 and 2016, are summarized as follows (in thousands):

	2017	2016
Land	$ 786	$ 422
Building and improvements	39,254	39,222
Furniture, equipment and vehicles	75,697	75,160
	115,737	114,804
Less accumulated depreciation	(64,440)	(62,590)
	$ 51,297	$ 52,214

Land, building and equipment includes restricted and grant assets of $5,451,000 and $4,501,000 at September 30, 2017 and 2016, respectively. Of these assets, $3,696,000 and $2,788,000 at September 30, 2017 and 2016, respectively, are restricted in compliance with federal program grant agreements as to use, resale and maintenance.

Note 8. Land, Building and Equipment (Continued)

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.

Land, building and equipment at September 30, 2017, includes $23,513,000 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, 2017 and 2016, were $5,211,000 and $4,571,000, respectively.

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

Years ending September 30:		
2018	$	205
2019		98
2020		54
2021		40
2022		2
	$	399

Note 9. Long-Term Debt

Long-term debt at September 30, 2017, consisted of the following (in thousands):

		Principal		Unamortized Debt Issuance Costs		Net
Term-loan, due 2021	$	5,734	$	-	$	5,734
Tax-exempt variable rate demand bonds		19,555		150		19,405
Total	$	25,289	$	150	$	25,139

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

Note 9. Long-Term Debt (Continued)

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 $5,734,000 and $6,613,000 at September 30, 2017 and 2016, 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 (1.59 percent and 0.88 percent at September 30, 2017 and 2016, respectively).

CRS has issued tax-exempt variable rate demand bonds in the amount of $19,555,000 in connection with renovations of the headquarters space. The bonds bear interest at a floating rate as determined by the bond remarketing agent based upon market conditions, unless converted to a fixed rate at the election of the borrower. Principal payments on the bonds begin in May 2023 and continue until final maturity in May 2036. A credit enhancement provided by Bank of America was used to obtain a credit rating on the bonds at issuance on May 18, 2006, of Aa1/VMIG 1. This rating has been revised several times, and, as of September 30, 2017, 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, 2017 and 2016.

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, 2017 and 2016, and the change in value is reflected as follows (in thousands):

	2017	2016
Beginning liability balance, October 1	$ 5,984	$ 4,971
Unrealized (gain) loss	(1,836)	1,013
Ending liability balance, September 30	$ 4,148	$ 5,984

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.

Note 9. Long-Term Debt (Continued)

Future annual maturities on long-term debt as of September 30, 2017, are as follows (in thousands):

Years ending September 30:		
2018	$	921
2019		968
2020		1,017
2021		1,070
2022		1,077
2023 – 2036		20,236
	$	25,289

Note 10. Donated Agriculture, Other Commodities and Ocean Freight

Commodities and freight received in the years ended September 30, 2017 and 2016, consist of the following (in thousands):

		2017		2016
Agricultural commodities donated by USAID and USDA	$	88,257	$	144,236
Commodities and pharmaceuticals provided by the UN and other donors		42,229		24,424
Ocean freight provided by donors		60,980		100,900
Total donated agriculture, other commodities and ocean freight	$	191,466	$	269,560

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, 2017 and 2016, are as follows (in thousands):

		2017		2016
Dividends and interest	$	2,005	$	2,861
Realized and unrealized gain on investments		11,089		11,515
Investment management fees		(888)		(888)
	$	12,206	$	13,488

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, 2017 and 2016, paid $171,000 and $244,000, respectively, for retirees' healthcare coverage. The expected contribution for the year ending September 30, 2018, is $235,000.

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, 2017 and 2016 (dollars in thousands):

	Pension Benefits		Post-Retirement Health	
	2017	2016	2017	2016
Change in projected benefit obligation:				
Benefit obligation at beginning of period	$ 96,915	$ 83,918	$ 3,612	$ 4,096
Interest cost	3,565	3,697	123	159
Plan participant contributions	-	-	52	54
Benefits and administrative expenses paid	(2,076)	(1,894)	(223)	(298)
Actuarial loss (gain)	1,134	11,194	396	(399)
Benefit obligation at end of period	99,538	96,915	3,960	3,612
Change in plan assets:				
Fair value of plan assets at beginning of period	62,506	57,705	-	-
Actual return on plan assets	7,410	5,695	-	-
Employer contributions	1,000	1,000	171	244
Plan participant contributions	-	-	52	54
Benefits and administrative expenses paid	(2,076)	(1,894)	(223)	(298)
Fair value of plan assets at end of period	68,840	62,506	-	-
Funded status at end of year	$ (30,698)	$ (34,409)	$ (3,960)	$ (3,612)
Amounts recognized in statement of financial position	$ (30,698)	$ (34,409)	$ (3,960)	$ (3,612)
Cumulative amounts recognized in non-operating revenue and expenses:				
Net loss (gain)	$ 14,833	$ 17,943	$ 12	$ (386)
Accrued benefit cost	$ 14,833	$ 17,943	$ 12	$ (386)
Components of net periodic benefit cost:				
Interest cost	$ 3,565	$ 3,697	$ 123	$ 159
Expected return on plan assets	(3,981)	(3,674)	-	-
Amortization of net loss	816	40	(2)	-
Total net periodic benefit cost	400	63	121	159
Other changes in plan assets and benefit obligations recognized in non-operating revenue:				
Net loss (gain)	(2,295)	9,173	396	(399)
Amortization of net loss	(817)	(40)	2	-
Total recognized in non-operating revenue	(3,112)	9,133	398	(399)
Total recognized in net periodic benefit cost and non-operating revenue	$ (2,712)	$ 9,196	$ 519	$ (240)
Weighted-average assumptions:				
Discount rate	4.00%	3.75%	3.75%	3.50%
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 is $487,000.

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, 2017 and 2016, are as follows (dollars in thousands):

	2017		2016	
	Amount	Percent	Amount	Percent
U.S. equities and equivalents	$ 34,359	50%	$ 33,540	54%
International equities and equivalents	10,657	15	8,897	14
Fixed income	19,286	28	18,997	30
Cash equivalents	4,538	7	1,072	2
	$ 68,840	100%	$ 62,506	100%

Note 12. Retirement Plans (Continued)

Pension plan assets as of September 30, 2017, 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	$ 824	$ 824	$ -	$ -
Industrials	4,058	4,058	-	-
Telecommunications	551	551	-	-
Consumer discretionary	4,537	4,537	-	-
Consumer staples	2,928	2,928	-	-
Energy	2,019	2,019	-	-
Financials	7,511	7,511	-	-
Health care	3,324	3,324	-	-
Information technology	7,328	7,328	-	-
Utilities	1,279	1,279	-	-
Fixed income securities:				
U.S. treasury obligations	8,628	-	8,628	-
U.S. government agency bonds	3,917	-	3,917	-
Corporate and foreign bonds	6,741	-	6,741	-
	53,645	$ 34,359	$ 19,286	$ -
Investment pools (a):				
International equities	10,657			
Total investments	$ 64,302			
Money market funds	$ 4,538	$ 4,538	$ -	$ -

(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, 2016, 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	$ 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	$ -	$ -

CRS investments include investment pools. Information pertaining to these investments at September 30, 2017 and 2016, is as follows (in thousands):

	2017	2016	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
International equities (Long-term value and growth fund)	$ 10,657	$ 8,897	$ -	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, 2018, 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:	
2018	$ 3,339
2019	3,175
2020	3,164
2021	3,462
2022	3,727
2023 – 2027	21,231

The healthcare inflation rate is assumed to be 6.7 percent in 2017. The health care cost trend rate for the year ended September 30, 2017, is assumed to be 7.5 percent. The 4.0 percent ultimate rate is projected to be reached by 2027. 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 $442,000 as of September 30, 2017, and would increase the aggregate of the service cost and interest cost components of net periodic post-retirement health benefit cost for 2017 by approximately $15,000. 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 $377,000 as of September 30, 2017, and would decrease the aggregate of the service cost and interest components of net periodic post-retirement health benefit cost for 2017 by approximately $13,000. 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:	
2018	$ 235
2019	246
2020	248
2021	250
2022	249
2023 – 2027	1,213

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.

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.

Note 12. Retirement Plans (Continued)

CRS contributed $8,027,000 and $7,411,000 to these retirement plans for the years ended September 30, 2017 and 2016, 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 $7,912,000 and $5,456,000 for the years ended September 30, 2017 and 2016, respectively.

Note 14. Restricted Net Assets

Temporarily restricted net assets at September 30, 2017 and 2016, are composed of the following (in thousands):

	2017	2016
Time restricted:		
Charitable trusts	$ 13,145	$ 11,474
Pooled income fund	841	878
Other time restricted funds	645	597
Total time restricted	14,631	12,949
Program restricted:		
Private emergency funds	53,708	61,121
Caritas partners	5	216
Agency strategy and other program activities	8,221	9,559
Total program restricted	61,934	70,896
Total temporarily restricted net assets	$ 76,565	$ 83,845

Net assets were released for the following purposes during 2017 and 2016 (in thousands):

	2017	2016
Program restricted purposes met	$ 62,786	$ 63,904
Time restricted purposes met	898	1,127
	$ 63,684	$ 65,031

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. CRS therefore 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 as 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 income and gains of 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, 2017 (In Thousands)

	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ 388	$ 6,004	$ 6,392
Undesignated – other endowment funds	1,016	5,069	6,085
Third-party trust assets	-	2,677	2,677
Total funds	$ 1,404	$ 13,750	$ 15,154

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

Note 15. Endowments (Continued)

Changes in Endowment Net Assets
Year Ended September 30, 2017
(In Thousands)

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of the year	$ 878	$ 8,236	$ 9,114
Net investment income	917	143	1,060
Contributions	-	5,371	5,371
Endowment draw to operating	(391)	-	(391)
Endowment net assets, end of the year	$ 1,404	$ 13,750	$ 15,154

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

Note 16. Contingencies

CRS entered into a six-year service agreement with a software vendor, effective March 1, 2017, 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, 2017 and 2016, 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, 2017 (in thousands):

	Private Contributions	Public Donors, Including U.S. Government	Total Revenues	Total Expenses	Net Assets at 2017
Haiti Earthquake	$ 151,805	$ 61,482	$ 213,287	$ 209,033	$ 4,254
Middle East Crisis and Europe Refugee Response	46,436	149,604	196,040	195,422	618
Philippines Typhoon	57,845	20,912	78,757	75,805	2,952
Nepal Earthquake	30,183	4,867	35,050	19,665	15,385
Ethiopia Drought	311	384,046	384,357	384,357	-
Total	$ 286,580	$ 620,911	$ 907,491	$ 884,282	$ 23,209