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

Consolidated Financial Report
September 30, 2018

Contents

Independent Auditor's Report

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

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, 2018 and 2017, 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, 2018 and 2017, 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, 2019 and February 26, 2018, 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, 2019

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

Consolidated Statements of Financial Position
September 30, 2018 and 2017
(In Thousands)

		2018		2017
Assets				
Cash and cash equivalents	**$**	**58,337**	$	114,333
Accounts receivable and other assets		**143,934**		109,460
Investments		**140,101**		144,113
Segregated investments		**57,177**		56,544
Undistributed commodities and program materials		**58,876**		87,389
Land, building and equipment, net		**47,555**		51,297
Total assets	**$**	**505,980**	$	563,136
Liabilities and Net Assets				
Liabilities:				
Accounts payable, accrued expenses and other liabilities	**$**	**97,079**	$	88,422
Retirement plan liabilities		**27,324**		34,658
Advances received for programs		**74,830**		99,941
Deferred revenue – commodities		**56,715**		83,804
Annuities payable		**40,969**		43,324
Long-term debt, net of unamortized debt issuance costs		**24,223**		25,139
Total liabilities		**321,140**		375,288
Net assets:				
Unrestricted		**108,530**		97,533
Temporarily restricted		**60,530**		76,565
Permanently restricted		**15,780**		13,750
Total net assets		**184,840**		187,848
Total liabilities and net assets	**$**	**505,980**	$	563,136

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, 2018
(With Comparative Totals for 2017)
(In Thousands)

	2018				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2017
Operating revenue:					
Private revenue:					
Catholic Relief Services Collection	$ 14,016	$ -	$ -	$ 14,016	$ 13,224
Catholic Relief Services Rice Bowl	-	8,802	-	8,802	8,521
Private contributions	89,902	33,351	2,000	125,253	139,410
Foundation and other private revenue	41,007	-	-	41,007	42,165
Bequests	37,321	-	1	37,322	36,343
Total private revenue	182,246	42,153	2,001	226,400	239,663
Public revenue:					
Donated agricultural, other commodities and ocean freight	229,220	-	-	229,220	213,663
United States government grants and agreements	387,550	-	-	387,550	391,399
Other public grants and contributions	144,685	-	-	144,685	132,620
Total public revenue	761,455	-	-	761,455	737,682
Investment and other income	849	651	-	1,500	1,248
Net assets released from restrictions	60,807	(60,807)	-	-	-
Total operating revenue	1,005,357	(18,003)	2,001	989,355	978,593
Operating expenses:					
Program services	944,947	-	-	944,947	918,124
Supporting services:					
Management and general	33,516	-	-	33,516	31,070
Public awareness	8,194	-	-	8,194	7,211
Fundraising	24,181	-	-	24,181	23,378
Total supporting services	65,891	-	-	65,891	61,659
Total operating expenses	1,010,838	-	-	1,010,838	979,783
Change in net assets from operations	(5,481)	(18,003)	2,001	(21,483)	(1,190)
Non-operating revenue and expenses:					
Net change in annuities, trusts and pooled income fund	3,920	748	29	4,697	6,532
Realized and unrealized gain on investments and financial instruments	6,294	1,220	-	7,514	12,925
Defined benefit plan adjustments	6,264	-	-	6,264	2,714
Total non-operating revenue and expenses, net	16,478	1,968	29	18,475	22,171
Change in net assets	10,997	(16,035)	2,030	(3,008)	20,981
Net assets:					
Beginning of year	97,533	76,565	13,750	187,848	166,867
End of year	$ 108,530	$ 60,530	$ 15,780	$ 184,840	$ 187,848

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
(In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenue:				
Private revenue:				
Catholic Relief Services Collection	$ 13,224	$ -	$ -	$ 13,224
Catholic Relief Services Rice Bowl	-	8,521	-	8,521
Private contributions	91,254	43,073	5,083	139,410
Foundation and other private revenue	42,165	-	-	42,165
Bequests	34,432	1,623	288	36,343
Total private revenue	181,075	53,217	5,371	239,663
Public revenue:				
Donated agricultural, other commodities and ocean freight	213,663	-	-	213,663
United States government grants and agreements	391,399	-	-	391,399
Other public grants and contributions	132,620	-	-	132,620
Total public revenue	737,682	-	-	737,682
Investment and other income	344	904	-	1,248
Net assets released from restrictions	63,684	(63,684)	-	-
Total operating revenue	982,785	(9,563)	5,371	978,593
Operating expenses:				
Program services	918,124	-	-	918,124
Supporting services:				
Management and general	31,070	-	-	31,070
Public awareness	7,211	-	-	7,211
Fundraising	23,378	-	-	23,378
Total supporting services	61,659	-	-	61,659
Total operating expenses	979,783	-	-	979,783
Change in net assets from operations	3,002	(9,563)	5,371	(1,190)
Non-operating revenue and expenses:				
Net change in annuities, trusts and pooled income fund	4,406	1,983	143	6,532
Realized and unrealized gain on investments and financial instruments	12,625	300	-	12,925
Defined benefit plan adjustments	2,714	-	-	2,714
Total non-operating revenue and expenses, net	19,745	2,283	143	22,171
Change in net assets	22,747	(7,280)	5,514	20,981
Net assets:				
Beginning of year	74,786	83,845	8,236	166,867
End of year	$ 97,533	$ 76,565	$ 13,750	$ 187,848

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, 2018 and 2017
(In Thousands)

		2018		2017
Cash flows from operating activities:				
Change in net assets	**$**	**(3,008)**	$	20,981
Adjustments to reconcile change in net assets to net cash				
(used in) provided by operating activities:				
Depreciation and other non-cash items		**8,906**		9,044
Loss on disposal of building and equipment		**90**		550
Realized and unrealized gain on sales of investments				
and financial instruments		**(7,514)**		(12,925)
Contributions restricted for permanent investment		**(2,001)**		(5,371)
Changes in assets and liabilities:				
(Increase) decrease in assets:				
Accounts receivable and other assets		**(34,474)**		2,604
Undistributed commodities and program materials		**28,513**		(23,324)
(Decrease) increase in liabilities:				
Accounts payable, accrued expenses and other liabilities		**10,063**		5,639
Retirement plan liabilities		**(7,334)**		(3,363)
Advances received for programs		**(25,111)**		24,289
Deferred revenue – commodities		**(27,089)**		24,121
Annuities payable		**(2,355)**		(1,142)
Net cash (used in) provided by operating activities		**(61,314)**		41,103
Cash flows from investing activities:				
Proceeds from sale of land, building and equipment		**561**		238
Purchase of land, building and equipment		**(5,815)**		(8,914)
Proceeds from sales and maturities of investments		**343,627**		414,887
Purchase of investments		**(334,140)**		(398,512)
Net cash provided by investing activities		**4,233**		7,699
Cash flows from financing activities:				
Principal payments and liquidations of long-term debt		**(916)**		(878)
Contributions restricted for permanent investment		**2,001**		5,371
Net cash provided by financing activities		**1,085**		4,493
Net (decrease) increase in cash and cash equivalents		**(55,996)**		53,295
Cash and cash equivalents:				
Beginning of year		**114,333**		61,038
End of year	**$**	**58,337**	$	114,333
Supplemental disclosure of cash flow information:				
Cash payments for interest	**$**	**887**	$	856

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, 2018
(With Comparative Totals for 2017)
(In Thousands)

	2018 Program Services								
Description	Agriculture	Water and Environment	Education	Emergency	Microfinance	Heath and Social Services	Justice and Peacebuilding	Total	2017
Program services:									
Salaries and related benefits	$ 43,679	$ 3,506	$ 23,184	$ 82,840	$ 2,940	$ 64,456	$ 13,890	$ 234,495	$ 213,076
Contracting and professional fees	7,331	647	3,512	9,716	294	13,764	2,776	38,040	33,593
Telecommunications and postage	1,723	109	667	1,853	49	2,311	180	6,892	6,912
Printing, supplies, office and miscellaneous expenses	1,709	173	1,250	3,795	69	3,899	550	11,445	10,723
Occupancy	2,161	172	1,753	4,423	211	3,830	948	13,498	13,650
Vehicle and equipment	2,516	666	1,565	4,630	233	5,147	889	15,646	20,128
Travel, training and representation	10,000	1,251	6,552	10,340	998	29,667	4,114	62,922	56,177
Warehousing and freight	4,548	13	8,742	52,905	-	6,591	4	72,803	77,105
Publicity	13	2	11	22	2	33	26	109	195
Subgrants to implementing partners	26,573	2,171	19,679	71,761	1,951	79,780	13,331	215,246	203,298
Project labor and materials	8,446	1,635	8,969	54,222	705	12,715	1,043	87,735	108,136
Food, other commodities and in-kind contributions	2,946	-	10,215	82,441	-	84,011	-	179,613	168,757
Depreciation	4,153	-	982	378	-	775	215	6,503	6,374
Total expenses	$ 115,798	$ 10,345	$ 87,081	$ 379,326	$ 7,452	$ 306,979	$ 37,966	$ 944,947	$ 918,124

(Continued)

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

Consolidated Statement of Functional Expenses (Continued)
Year Ended September 30, 2018
(With Comparative Totals for 2017)
(In Thousands)

	2018 Supporting Services					Total Operating Expenses	
Description	Management and General	Public Awareness	Fundraising	Total	2017	2018	2017
Supporting services:							
Salaries and related benefits	$ 18,554	$ 4,893	$ 8,674	$ 32,121	$ 29,201	$ 266,616	$ 242,277
Contracting and professional fees	8,182	662	3,357	12,201	13,022	50,241	46,615
Telecommunications and postage	702	6	4,457	5,165	4,957	12,057	11,869
Printing, supplies, office and miscellaneous expenses	874	172	5,242	6,288	6,330	17,733	17,053
Occupancy	653	236	448	1,337	1,077	14,835	14,727
Vehicle and equipment	161	105	70	336	327	15,982	20,455
Travel, training and representation	1,981	339	756	3,076	2,067	65,998	58,244
Warehousing and freight	-	1	16	17	20	72,820	77,125
Publicity	-	1,556	1,160	2,716	950	2,825	1,145
Subgrants to implementing partners	13	-	-	13	14	215,259	203,312
Project labor and materials	-	8	1	9	3	87,744	108,139
Food, other commodities and in-kind contributions	44	165	-	209	1,021	179,822	169,778
Depreciation	2,352	51	-	2,403	2,670	8,906	9,044
Total expenses	$ 33,516	$ 8,194	$ 24,181	$ 65,891	$ 61,659	$ 1,010,838	$ 979,783

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
(In Thousands)

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

(Continued)

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

Consolidated Statement of Functional Expenses (Continued)
Year Ended September 30, 2017
(In Thousands)

	Supporting Services				
Description	Management and General	Public Awareness	Fundraising	Total Supporting Services	Total Operating Expenses
Supporting services:					
Salaries and related benefits	$ 16,276	$ 4,484	$ 8,441	$ 29,201	$ 242,277
Contracting and professional fees	8,499	847	3,676	13,022	46,615
Telecommunications and postage	836	12	4,109	4,957	11,869
Printing, supplies, office and miscellaneous expenses	779	108	5,443	6,330	17,053
Occupancy	323	254	500	1,077	14,727
Vehicle and equipment	224	40	63	327	20,455
Travel, training and representation	1,280	275	512	2,067	58,244
Warehousing and freight	-	-	20	20	77,125
Publicity	-	336	614	950	1,145
Subgrants to implementing partners	11	3	-	14	203,312
Project labor and materials	3	-	-	3	108,139
Food, other commodities and in-kind contributions	225	796	-	1,021	169,778
Depreciation	2,614	56	-	2,670	9,044
Total expenses	$ 31,070	$ 7,211	$ 23,378	$ 61,659	$ 979,783

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 thirteen U.S. Bishops elected from the USCCB, the General Secretary of the Conference, and eleven lay members. Headquartered in Baltimore, Maryland, CRS provides services in 114 countries through 73 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 2018 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, 2018 and 2017.

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 helping smallholder farming families increase food security and income by improving sustainable production systems, upgrading seed systems, strengthening farmer organizations, enhancing women's decision-making roles, linking farmers to markets and financial services, and producing more nutritious foods.

Water and Environment: Programs focusing on three priority areas: safe water, sanitation, and hygiene for health and well-being in emergency and development contexts; improving water and watershed management for agriculture and sustainable landscapes; and water finance and governance, convening stakeholder groups to access capital and equitably govern water resources to achieve sustainable water access for all.

Education: Programs seeking to improve learning for all children and adolescents by strengthening 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.

Note 1. Organization and Operations (Continued)

Emergency: Programs offering a wide array of responses tailored to the local context and needs of affected communities; providing lifesaving assistance including food, shelter, medical equipment and assistance, clean water and hygiene supplies to help people experiencing an emergency 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; strengthening the capacity of local partners to implement and manage quality, accountable and efficient emergency programming; and providing the tools and skills people need to manage their own recovery.

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

Health and Social Services: Programs seeking to ensure that all children reach their full health and development potential in safe and nurturing families by: reducing morbidity and mortality due to preventable diseases, including HIV and malaria; improving nutrition; and ensuring families provide safe and nurturing care.

Justice and Peacebuilding: 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 revenue 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, microfinance loans, charitable trusts, and life insurance policies. Interest is charged for microfinance 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 microfinance receivables are considered to be past due if any portion of the receivable balance is outstanding for more than 90 days. Interest is accrued on microfinance receivables until the receivables are deemed uncollectible.

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 2018 and 2017.

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 2018 Mortality table with no adjustments, assuming interest rates of 2.5% to 6.0% 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 counterparties.

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 Program and others for distribution under agreements related to specific relief programs. Donated commodities that have not been distributed at September 30, 2018 and 2017, 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's 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 $1,594,000 and $1,635,000 for the years ended September 30, 2018 and 2017, respectively. Expenses were allocated 23% to fundraising and 77% to program services for both fiscal years 2018 and 2017.

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, 2018 and 2017, 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, 2019, which is the date the consolidated financial statements were issued.

Reclassification: Certain of the 2017 comparative amounts were reclassified to conform to the 2018 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 Accounting Standards Update (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. CRS 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. CRS is in the process of evaluating the impact of this new guidance.

In August 2016, the FASB issued ASU 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.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* This ASU clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. The ASU has different effective dates for resource recipients and resource providers. Where CRS is a resource recipient, the ASU is applicable to contributions received for fiscal year ending September 30, 2019 and CRS currently recognizes revenue in accordance with this guidance for resource recipients. Where CRS is a resource provider, the ASU is effective for fiscal year ending September 30, 2020. CRS is in the process of evaluating the impact of this new guidance for resource providers.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. The changes in disclosure requirements will be effective for CRS's fiscal year ending September 30, 2021. CRS is in the process of evaluating the impact of this new guidance.

In August 2018, the FASB issued ASU 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans* which modifies the disclosure requirements for defined benefit pension plans and other post-retirement plans. The disclosure requirement modifications will be effective for CRS's fiscal year ending September 30, 2021 and will be applied on a retrospective basis in accordance with the guidance. CRS is in the process of evaluating the impact of this new guidance.

In August 2018, the FASB issued ASU 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This ASU aligns the requirements for capitalizing implementation costs in a cloud computing arrangement that is a service contract with the requirements for capitalizing implementation costs incurred for internal-use software. The amendments will be effective for CRS's fiscal year ending September 30, 2021. CRS is in the process of evaluating the impact of this new guidance.

Note 3. Concentration of Credit Risk

Cash and cash equivalents and segregated investments include demand deposits that 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, 2018 and 2017, $61,241,000 and $112,288,000, respectively, of deposits were in excess of FDIC insurance including $29,698,000 and $43,536,000, respectively, held in numerous financial institutions outside of the United States. Short-term operating investments of $1,698,000 and $3,453,000, respectively, were also held in numerous financial institutions outside of the United States at September 30, 2018 and 2017.

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, 2018 and 2017, accounts receivable and other assets consist of the following (in thousands):

	2018	2017
Program receivables	$ 66,610	$ 52,193
CRS Collection receivable	5,819	4,082
Bequest and other contributions receivable	22,988	14,820
Charitable trust and life insurance policy receivables	16,186	15,820
Trade receivables	6,048	5,372
Microfinance loans receivable	1,116	1,123
Total accounts receivable	118,767	93,410
Less allowance for doubtful accounts	(1,729)	(1,852)
Total accounts receivable, net	117,038	91,558
Prepaid expenses	26,313	16,317
Other assets	583	1,585
Total accounts receivable and other assets	$ 143,934	$ 109,460

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.

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.

Note 5. Investments and Fair Value Measurements (Continued)

Level 3: Charitable trusts are stated at fair value, using present value calculations of the trusts discounted at a rate of 6.5% for 2018. 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, 2018, including securities detailed in the fair value disclosure, is as follows (in thousands):

	2018	
Non-segregated investments:		$ 140,101
Segregated gift annuities	$ 55,785	
Segregated pooled income fund	1,392	
Total segregated investments		57,177
Total investments		197,278
Accrued interest		(415)
Cash equivalents from segregated investments		(3,551)
Investments included in fair value disclosure		$ 193,312

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, 2018 (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	$ 1,645	$ 1,645	$ -	$ -
Industrials	8,021	8,021	-	-
Telecommunications	1,416	1,416	-	-
Consumer discretionary	9,826	9,826	-	-
Consumer staples	4,738	4,738	-	-
Energy	4,135	4,135	-	-
Financials	16,843	16,843	-	-
Health care	7,192	7,192	-	-
Information technology	17,079	17,079	-	-
Utilities	2,234	2,234	-	-
Fixed income securities:				
U.S. treasury obligations	51,067	-	51,067	-
U.S. government agency bonds	18,075	-	18,075	-
Mortgage-backed securities	1,707	-	1,707	-
Asset-backed securities	3,577	-	3,577	-
Corporate, foreign and other obligations	30,412	-	30,412	-
Other types of securities:				
Overseas investments	1,698	-	1,698	-
	179,665	$ 73,129	$ 106,536	$ -
Investment pools (a):				
International equities	12,029			
Alternative investment funds	1,618			
Total investments	$ 193,312			
Charitable trusts	$ 15,377	$ -	$ -	$ 15,377
Money market funds	$ 13,445	$ 13,445	$ -	$ -
Financial liabilities:				
Interest rate swap contracts	$ (2,742)	$ -	$ (2,742)	$ -

(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, 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 fund	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)	$ -

For the years ended September 30, 2018 and 2017, the fair value hierarchy above includes money market funds of $13,445,000 and $24,698,000, 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)

Changes in Level 3 assets for the years ended September 30, 2018 and 2017, were as follows (in thousands):

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Charitable Trusts	
	2018	2017
Beginning balance, October 1,	$ 15,030	$ 13,108
Contributions	-	228
Distributions	(424)	(506)
Change in valuation	771	2,200
Ending balance, September 30,	$ 15,377	$ 15,030

CRS investments include investment pools. Information pertaining to these investments at September 30, 2018 and 2017, is as follows (in thousands):

	2018	2017	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
International equities	$ 12,029	$ 14,623	$ -	Monthly	10 days
Alternative investment funds	1,618	1,604	350	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, 2018 and 2017, CRS received $4,082,000 and $5,873,000, respectively, of new charitable gift annuities, earned net investment income of $1,173,000 and $930,000, respectively, and made contractual annuity payments of $4,844,000 and $5,083,000, respectively.

During the years ended September 30, 2018 and 2017, the pooled income fund made earnings distributions to participants of $38,000 and $39,000, 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 $339,000 and $1,071,000 for the years ended September 30, 2018 and 2017, respectively, are included in miscellaneous expense and investment income.

Note 8. Land, Building and Equipment

Land, building and equipment, at cost, at September 30, 2018 and 2017, are summarized as follows (in thousands):

	2018	2017
Land	$ 786	$ 786
Building and improvements	39,314	39,254
Furniture, equipment and vehicles	77,860	75,697
	117,960	115,737
Less accumulated depreciation	(70,405)	(64,440)
	$ 47,555	$ 51,297

Land, building and equipment includes restricted and grant assets of $4,473,000 and $5,451,000 at September 30, 2018 and 2017, respectively. Of these assets, $2,959,000 and $3,696,000 at September 30, 2018 and 2017, 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% 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, 2018 includes $22,758,000 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, 2018 and 2017, were $5,274,000 and $5,211,000, respectively.

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

Years ending September 30:		
2019	$	114
2020		56
2021		40
2022		2
	$	212

Note 9. Long-Term Debt

Long-term debt at September 30, 2018, consisted of the following (in thousands):

		Principal		Unamortized Debt Issuance Costs		Net
Term-loan, due 2021	$	4,813	$	-	$	4,813
Tax-exempt variable rate demand bonds		19,555		145		19,410
Total	$	24,368	$	145	$	24,223

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

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 $4,813,000 and $5,734,000 at September 30, 2018 and 2017, 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% per year (2.61% and 1.59% at September 30, 2018 and 2017, 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, 2018, was Aa3/VMIG 1.

The bond and term loan agreements contain certain financial and non-financial covenants, which were met for the years ended September 30, 2018 and 2017.

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, 2018 and 2017, and the change in value is reflected as follows (in thousands):

	2018	2017
Beginning liability balance, October 1	$ 4,148	$ 5,984
Unrealized gain	(1,406)	(1,836)
Ending liability balance, September 30	$ 2,742	$ 4,148

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, 2018, are as follows (in thousands):

Years ending September 30:		
2019	$	968
2020		1,017
2021		1,070
2022		1,077
2023		681
2024 – 2036		19,555
	$	24,368

Note 10. Donated Agriculture, Other Commodities and Ocean Freight

Commodities and freight received in the years ended September 30, 2018 and 2017, consist of the following (in thousands):

		2018		2017
Agricultural commodities donated by USAID and USDA	$	70,956	$	88,257
Commodities and pharmaceuticals provided by the UN and other donors		100,076		64,426
Ocean freight provided by donors		58,188		60,980
Total donated agriculture, other commodities and ocean freight	$	229,220	$	213,663

Note 11. Investment Earnings

The components of return on investments described in Note 5, as well as earnings on microfinance lending, cash equivalents and segregated investments for the years ended September 30, 2018 and 2017, are as follows (in thousands):

		2018		2017
Dividends and interest	$	2,134	$	2,005
Realized and unrealized gain on investments		6,108		11,089
Investment management fees		(898)		(888)
	$	7,344	$	12,206

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, 2018 and 2017, paid $211,000 and $171,000, respectively, for retirees' healthcare coverage. The expected contribution for the year ending September 30, 2019, is $224,000.

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, 2018 and 2017 (dollars in thousands):

	Pension Benefits		Post-Retirement Health	
	2018	2017	2018	2017
Change in projected benefit obligation:				
Benefit obligation at beginning of period	$ 99,538	$ 96,915	$ 3,960	$ 3,612
Interest cost	3,915	3,565	144	123
Plan participant contributions	-	-	54	52
Benefits and administrative expenses paid	(2,400)	(2,076)	(266)	(223)
Actuarial (gain) loss	(4,616)	1,134	(821)	396
Benefit obligation at end of period	96,437	99,538	3,071	3,960
Change in plan assets:				
Fair value of plan assets at beginning of period	68,840	62,506	-	-
Actual return on plan assets	4,745	7,410	-	-
Employer contributions	1,000	1,000	211	171
Plan participant contributions	-	-	54	52
Benefits and administrative expenses paid	(2,401)	(2,076)	(265)	(223)
Fair value of plan assets at end of period	72,184	68,840	-	-
Funded status at end of year	$ (24,253)	$ (30,698)	$ (3,071)	$ (3,960)
Amounts recognized in statement of financial position	$ (24,253)	$ (30,698)	$ (3,071)	$ (3,960)
Cumulative amounts recognized in non-operating revenue and expenses:				
Net loss (gain)	$ 9,390	$ 14,833	$ (809)	$ 12
Accrued benefit cost	$ 9,390	$ 14,833	$ (809)	$ 12
Components of net periodic benefit cost:				
Interest cost	$ 3,915	$ 3,565	$ 144	$ 123
Expected return on plan assets	(4,405)	(3,981)	-	-
Amortization of net loss (gain)	487	816	-	(2)
Total net periodic benefit cost	(3)	400	144	121
Other changes in plan assets and benefit obligations recognized in non-operating revenue:				
Net loss (gain)	(4,956)	(2,295)	(821)	396
Amortization of net (gain) loss	(487)	(817)	-	2
Total recognized in non-operating revenue	(5,443)	(3,112)	(821)	398
Total recognized in net periodic benefit cost and non-operating revenue	$ (5,446)	$ (2,712)	$ (677)	$ 519
Weighted-average assumptions:				
Discount rate	4.26%	4.00%	4.12%	3.75%
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 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	31%	46%	61%
International equities	9%	19%	29%
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, 2018 and 2017, are as follows (dollars in thousands):

	2018		2017	
	Amount	Percent	Amount	Percent
U.S. equities and equivalents	$ 34,899	48%	$ 34,359	50%
International equities and equivalents	12,920	18	10,657	15
Fixed income	23,052	32	19,286	28
Cash equivalents	1,313	2	4,538	7
	$ 72,184	100%	$ 68,840	100%

Note 12. Retirement Plans (Continued)

Pension plan assets as of September 30, 2018, 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	$ 832	$ 832	$ -	$ -
Industrials	4,075	4,075	-	-
Telecommunications	686	686	-	-
Consumer discretionary	5,028	5,028	-	-
Consumer staples	2,504	2,504	-	-
Energy	1,960	1,960	-	-
Financials	7,013	7,013	-	-
Health care	3,392	3,392	-	-
Information technology	8,300	8,300	-	-
Utilities	1,109	1,109	-	-
Fixed income securities:				
U.S. treasury obligations	9,412	-	9,412	-
U.S. government agency bonds	5,338	-	5,338	-
Corporate and foreign bonds	8,302	-	8,302	-
	57,951	$ 34,899	$ 23,052	$ -
Investment pools (a):				
International equities	12,920			
Total investments	$ 70,871			
Money market funds	$ 1,313	$ 1,313	$ -	$ -

(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, 2017, 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	$ 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:				
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	$ -	$ -

CRS investments include investment pools. Information pertaining to these investments at September 30, 2018 and 2017, is as follows (in thousands):

	2018	2017	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
International equities (Long-term value and growth fund)	$ 12,920	$ 10,657	$ -	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, 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:		
2019	$	3,522
2020		3,278
2021		3,523
2022		3,781
2023		3,828
2024 – 2028		22,456

The healthcare inflation rate is assumed to be 7.5 percent in 2018. The health care cost trend rate for the year ended September 30, 2018, is assumed to be 7.15 percent. The 4 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 $313,000 as of September 30, 2018, and would increase the aggregate of the service cost and interest cost components of net periodic post-retirement health benefit cost for 2018 by approximately $17,000. 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 $270,000 as of September 30, 2018, and would decrease the aggregate of the service cost and interest components of net periodic post-retirement health benefit cost for 2018 by approximately $14,000. 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:		
2019	$	224
2020		223
2021		221
2022		217
2023		212
2024 – 2028		987

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 $8,856,000 and $8,027,000 to these retirement plans for the years ended September 30, 2018 and 2017, 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 $9,433,000 and $7,912,000 for the years ended September 30, 2018 and 2017, respectively.

Note 14. Restricted Net Assets

Temporarily restricted net assets at September 30, 2018 and 2017, are composed of the following (in thousands):

	2018	2017
Time restricted:		
Charitable trusts	$ 13,481	$ 13,145
Pooled income fund	821	841
Other time restricted funds	1,062	645
Total time restricted	15,364	14,631
Program restricted:		
Private emergency funds	39,110	53,708
Caritas partners	37	5
Agency strategy and other program activities	6,019	8,221
Total program restricted	45,166	61,934
Total temporarily restricted net assets	$ 60,530	$ 76,565

Net assets were released for the following purposes during 2018 and 2017 (in thousands):

	2018	2017
Program restricted purposes met	$ 59,983	$ 62,786
Time restricted purposes met	824	898
	$ 60,807	$ 63,684

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% 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, 2018 (In Thousands)

	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ 1,272	$ 8,005	$ 9,277
Undesignated – other endowment funds	1,285	5,070	6,355
Third-party trust assets	-	2,705	2,705
Total funds	$ 2,557	$ 15,780	$ 18,337

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

Note 15. Endowments (Continued)

Changes in Endowment Net Assets
Year Ended September 30, 2018
(In Thousands)

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of the year	$ 1,404	$ 13,750	$ 15,154
Net investment income	1,856	29	1,885
Contributions	-	2,001	2,001
Endowment draw to operating	(703)	-	(703)
Endowment net assets, end of the year	$ 2,557	$ 15,780	$ 18,337

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

Note 16. Commitments and 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. As of September 30, 2018, the remaining minimum commitment is $6.2 million.

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, 2018 and 2017, CRS has recorded a liability for its estimate of questioned costs that may have to be refunded to the government.

Note 16. Commitments and Contingencies (Continued)

During the year ended September 30, 2018, CRS identified a probable loss of assets relating to a distribution activity in a single overseas operating location. CRS is fully complying with the funder's requests for information. As the matter is still pending resolution, CRS has estimated a contingent liability for the probable loss using information obtained from the investigation as to the nature of how the loss occurred relative to the volume of the overall activity. CRS's estimate of this contingent liability is $10 million and has been accrued in the financial statements as of September 30, 2018. The actual loss (reimbursement to funder), if any, may vary from the estimate and that variance could be material.

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, 2018 (in thousands):

	Private Contributions	Public Donors, Including U.S. Government	Total Revenues	Total Expenses	Net Assets at 2018
Haiti Earthquake	$ 151,463	$ 61,482	$ 212,945	$ 212,875	$ 70
Middle East Crisis and					
Europe Refugee Response	58,263	162,624	220,887	218,775	2,112
Philippines Typhoon	57,845	20,876	78,721	77,222	1,499
Nepal Earthquake	30,767	5,711	36,478	27,889	8,589
Ethiopia Drought	498	491,360	491,858	491,858	-
Total	$ 298,836	$ 742,053	$ 1,040,889	$ 1,028,619	$ 12,270

Note 18. Subsequent Events

On March 1, 2019, CRS became the managing partner and owner of a 75% membership interest in a Maryland Limited Liability Company (new LLC) that owns the CRS headquarters building located at 228 West Lexington Street, Baltimore, MD 21201. Previously, on July 25, 2005, CRS entered into a 30-year lease as tenant for the headquarters building; this lease agreement is now held by the new LLC as landlord. CRS is currently in the process of determining the value of this transaction.