

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

Financial Statement As of and for the year ended September 30, 2004  
And Comparative Totals for 2003 and Independent Auditor's Report

**McGladrey & Pullen**  
Certified Public Accountants

## Contents

---

<b>Independent Auditor's Report</b>	1
<hr/>	
<b>Financial Statements</b>	
Statement Of Financial Position	2
Statement Of Activities	3 – 4
Statement Of Cash Flows	5
Statement Of Functional Expenses	6 – 9
<b>Notes To Financial Statements</b>	10 – 21

---

# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report

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

We have audited the accompanying statement of financial position of Catholic Relief Services - United States Conference of Catholic Bishops (CRS) as of September 30, 2004, and the related statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of CRS' management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from CRS' 2003 financial statements and, in our report dated February 20, 2004, we expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2004 financial statements referred to above present fairly, in all material respects, the financial position of Catholic Relief Services - United States Conference of Catholic Bishops as of September 30, 2004, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2005, on our consideration of CRS' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting, or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*McGladrey & Pullen, LLP*

Baltimore, Maryland  
February 18, 2005

Catholic Relief Services -  
United States Conference Of Catholic Bishops

Statement Of Financial Position  
September 30, 2004  
(With Comparative Totals For September 30, 2003)  
(In Thousands)

<b>Assets</b>	<b>2004</b>	<b>2003</b>
Cash and cash equivalents	\$ 40,710	\$ 41,100
Accounts receivable and other assets	37,599	45,352
Investments	75,689	85,971
Segregated investments	39,909	38,685
Undistributed commodity contributions	43,399	49,466
Land, building and equipment, net	15,652	14,597
<b>Total assets</b>	<b>\$ 252,958</b>	<b>\$ 275,171</b>
<b>Liabilities And Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 41,526	\$ 41,279
Advances received for programs	20,241	32,338
Deferred revenue	43,589	49,648
Annuities payable	32,631	31,708
<b>Total liabilities</b>	<b>137,987</b>	<b>154,973</b>
<b>Net assets</b>		
Unrestricted	80,310	77,327
Temporarily restricted	31,589	39,829
Permanently restricted	3,072	3,042
<b>Total net assets</b>	<b>114,971</b>	<b>120,198</b>
<b>Total liabilities and net assets</b>	<b>\$ 252,958</b>	<b>\$ 275,171</b>

See Notes to Financial Statements.

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

**Statement Of Activities  
Year Ended September 30, 2004  
(With Comparative Totals For The Year Ended September 30, 2003)  
(In Thousands)**

	Unrestricted	Temporarily restricted	Permanently restricted
<b>Operating Revenues</b>			
Private donor, foundation and corporate contributions:			
Catholic Relief Services collection	\$ 12,048	\$ -	\$ -
Operation Rice Bowl appeal	-	6,120	-
Contributions	54,312	27,380	-
In-kind contributions	8,818	-	-
<b>Total contributions</b>	<b>75,178</b>	<b>33,500</b>	<b>-</b>
Government, international organizations and other exchange transactions:			
Donated agricultural, other commodities and ocean freight	281,324	-	-
Grants and agreements:			
United States government	145,247	-	-
Other	9,550	-	-
<b>Total</b>	<b>436,121</b>	<b>-</b>	<b>-</b>
Investment and other income	5,688	1,348	-
Net assets released from restrictions	43,096	(43,096)	-
<b>Total operating revenues</b>	<b>560,083</b>	<b>(8,248)</b>	<b>-</b>
<b>Operating Expenses</b>			
Program services	544,062	-	-
Supporting services:			
Management and general	11,026	-	-
Public awareness	1,999	-	-
Fund raising	16,408	-	-
<b>Total supporting services</b>	<b>29,433</b>	<b>-</b>	<b>-</b>
<b>Total operating expenses</b>	<b>573,495</b>	<b>-</b>	<b>-</b>
<b>Change in net assets from operations</b>	<b>(13,412)</b>	<b>(8,248)</b>	<b>-</b>
<b>Non-Operating Revenues and (Expenses)</b>			
Contributions	9,921	-	-
Net change in annuities, trusts and pooled income fund	206	8	34
Realized and unrealized gain (loss) on non-segregated investments	6,268	-	(4)
Reorganization and other costs	-	-	-
<b>Total non-operating revenues and expenses, net</b>	<b>16,395</b>	<b>8</b>	<b>30</b>
<b>Change in net assets</b>	<b>2,983</b>	<b>(8,240)</b>	<b>30</b>
Net assets, beginning of year	77,327	39,829	3,042
Net assets, end of year	<b>\$ 80,310</b>	<b>\$ 31,589</b>	<b>\$ 3,072</b>

See Notes to Financial Statements.

		Total	
		2004	2003
\$	12,048	\$	13,415
	6,120		5,718
	81,692		77,248
	8,818		1,968
	<u>108,678</u>		<u>98,349</u>
	281,324		261,821
	145,247		109,128
	9,550		6,176
	<u>436,121</u>		<u>377,125</u>
	7,036		7,168
	-		-
	<u>551,835</u>		<u>482,642</u>
	544,062		490,307
	11,026		9,910
	1,999		2,823
	16,408		17,667
	<u>29,433</u>		<u>30,400</u>
	<u>573,495</u>		<u>520,707</u>
	<u>(21,660)</u>		<u>(38,065)</u>
	9,921		6,087
	248		1,238
	6,264		19,263
	-		(9,589)
	<u>16,433</u>		<u>16,999</u>
	<u>(5,227)</u>		<u>(21,066)</u>
	<u>120,198</u>		<u>141,264</u>
\$	<u>114,971</u>	\$	<u>120,198</u>

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

**Statement Of Cash Flows  
Year Ended September 30, 2004  
(With Comparative Totals For The Year Ended September 30, 2003)  
(In Thousands)**

	2004	2003
Cash Flows From Operating Activities		
Change in net assets	\$ (5,227)	\$ (21,066)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	5,138	5,213
Loss on disposal of land, building and equipment	400	163
Loss on asset impairment	-	6,503
Realized (gain) loss on sales of investments	(2,107)	1,015
Unrealized gain on investments	(4,158)	(19,970)
Changes in assets and liabilities		
Decrease (increase) in:		
Accounts receivable and other assets	7,753	(9,155)
Undistributed commodity contributions	6,067	(31,743)
Increase (decrease) in:		
Accounts payable and accrued expenses	(115)	9,367
Advances received for programs	(12,097)	19,179
Deferred revenue	(6,059)	31,340
<b>Net cash used in operating activities</b>	<b>(10,405)</b>	<b>(9,154)</b>
Cash Flows From Investing Activities		
Proceeds from sale of land, building and equipment	295	321
Purchase of land, building and equipment	(6,888)	(4,866)
Proceeds from sales and maturities of investments	89,686	75,797
Purchase of investments	(74,363)	(62,618)
<b>Net cash provided by investing activities</b>	<b>8,730</b>	<b>8,634</b>
Cash Flows From Financing Activities		
Loan proceeds	470	25
Principal payments on long-term debt	(108)	(66)
Increase in annuities payable, net	923	1,858
<b>Net cash provided by financing activities</b>	<b>1,285</b>	<b>1,817</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(390)</b>	<b>1,297</b>
Cash and cash equivalents, beginning of year	41,100	39,803
Cash and cash equivalents, end of year	<b>\$ 40,710</b>	<b>\$ 41,100</b>
Supplemental Disclosure Of Cash Flow Information		
Cash payments for interest	<b>\$ 81</b>	<b>\$ 51</b>

See Notes to Financial Statements.

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

**Statement Of Functional Expenses  
Year Ended September 30, 2004  
(With Comparative Totals For The Year Ended September 30, 2003)  
(In Thousands)**

Description	Agriculture	Education	Emergency
Program Services			
Salaries and related benefits	\$ 10,615	\$ 11,618	\$ 20,444
Professional fees	1,407	1,196	2,296
Telecommunications and postage	404	451	858
Supplies, office expenses and other	1,860	1,377	2,128
Occupancy	508	641	1,304
Vehicle and equipment	1,625	2,748	5,615
Travel, training and representation	2,084	2,610	3,668
Warehousing and freight	15,000	10,980	79,365
Publicity	-	7	-
Advances to implementing partners	12,075	5,671	33,644
Food, other commodities and in-kind contributions	26,336	12,425	122,550
Depreciation	278	647	457
<b>Total expenses</b>	<b>\$ 72,192</b>	<b>\$ 50,371</b>	<b>\$ 272,329</b>

See Notes to Financial Statements.



	Small Enterprise	Health	HIV / AIDS	Peace and Justice	Welfare	Program Services	
						2004	2003
\$	4,476	\$ 9,688	\$ 9,479	\$ 6,189	\$ 3,862	\$ <b>76,371</b>	\$ 67,474
	505	787	1,044	841	456	<b>8,532</b>	6,184
	218	279	410	331	128	<b>3,079</b>	2,602
	1,052	754	1,435	836	1,055	<b>10,497</b>	9,772
	367	585	547	384	301	<b>4,637</b>	4,544
	277	1,341	2,008	811	589	<b>15,014</b>	15,114
	741	1,911	2,205	2,392	612	<b>16,223</b>	12,756
	468	4,059	2,670	11	8,921	<b>121,474</b>	126,781
	-	-	-	1	-	<b>8</b>	7
	2,350	10,398	21,620	9,403	5,924	<b>101,085</b>	94,165
	453	10,641	1,481	1	8,541	<b>182,428</b>	146,338
	962	305	1,444	-	621	<b>4,714</b>	4,570
<b>\$</b>	<b>11,869</b>	<b>\$ 40,748</b>	<b>\$ 44,343</b>	<b>\$ 21,200</b>	<b>\$ 31,010</b>	<b>\$ 544,062</b>	<b>\$ 490,307</b>

Catholic Relief Services -  
United States Conference Of Catholic Bishops

Statement Of Functional Expenses (Continued)  
Year Ended September 30, 2004  
(With Comparative Totals For The Year Ended September 30, 2003)  
(In Thousands)

	Management and General	Public Awareness	Fund Raising
Supporting Services			
Salaries and related benefits	\$ 6,970	\$ 957	\$ 4,297
Professional fees	1,037	166	3,140
Telecommunications and postage	281	19	3,538
Supplies, office expenses and other	852	69	4,952
Occupancy	492	33	112
Vehicle and equipment	177	11	30
Travel, training and representation	765	148	272
Warehousing and freight	27	-	19
Publicity	1	584	22
Advances to implementing partners	19	12	7
Food, other commodities and in-kind contributions	-	-	-
Depreciation	405	-	19
<b>Total expenses</b>	<b>\$ 11,026</b>	<b>\$ 1,999</b>	<b>\$ 16,408</b>

See Notes to Financial Statements.

Total Supporting Services		Total Operating Expenses	
2004	2003	2004	2003
\$ 12,224	\$ 12,190	\$ 88,595	\$ 79,664
4,343	4,227	12,875	10,411
3,838	4,259	6,917	6,861
5,873	5,931	16,370	15,703
637	588	5,274	5,132
218	81	15,232	15,195
1,185	908	17,408	13,664
46	58	121,520	126,839
607	1,497	615	1,504
38	18	101,123	94,183
-	-	182,428	146,338
424	643	5,138	5,213
<b>\$ 29,433</b>	<b>\$ 30,400</b>	<b>\$ 573,495</b>	<b>\$ 520,707</b>

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

**Notes To Financial Statements**

---

**Note 1. Organization and Operations**

Nature of activities: Catholic Relief Services - United States Conference of Catholic Bishops (CRS) was founded in 1943 and is the international humanitarian aid and development agency of the United States Conference of Catholic Bishops (USCCB). CRS is governed by a board composed of thirteen U.S. Bishops elected from the USCCB, the General Secretary of the Conference, and five lay members. It is staffed by men and women committed to the Catholic Church's apostolate of helping those in need. Headquartered in Baltimore, Maryland, CRS provides services in approximately 100 countries through approximately 60 offices around the world.

CRS is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is an organization listed in the 2004 edition of the Official Catholic Directory.

Mission statement: Catholic Relief Services was founded in 1943 by the Catholic Bishops of the United States to assist the poor and disadvantaged outside the country. It is administered by a Board of Bishops selected by the Episcopal Conference of the United States, and is staffed by men and women committed to the Catholic Church's apostolate of helping those in need. It maintains strict standards of efficiency and accountability. The fundamental motivating force in all activities of CRS is the Gospel of Jesus Christ as it pertains to the alleviation of human suffering, the development of people and the fostering of charity and justice in the world. The policies and programs of the agency reflect and express the teaching of the Catholic Church. At the same time, Catholic Relief Services assists persons on the basis of need, not creed, race or nationality. Catholic Relief Services gives active witness to the mandate of Jesus Christ to respond to human needs in the following ways:

- by responding to victims of natural and man-made disasters;
- by providing assistance to the poor and to alleviate their immediate needs;
- by supporting self-help programs which involve people and communities in their own development;
- by helping those it serves to restore and preserve their dignity and to realize their potential;
- by collaborating with religious and non-sectarian persons and groups of good will in programs and projects which contribute to a more equitable society;
- by helping to educate the people of the United States to fulfill their moral responsibilities in alleviating human suffering, removing its causes, and promoting social justice.

Program services: The program categories that CRS uses to classify its program service operating expenses include:

Agriculture – programs covering a wide range of agricultural and natural resource activities, including crop, tree and livestock production, soil and water conservation, irrigation, weed, disease and pest control, crop processing and storage, crop and livestock marketing, etc.

Education – programs intended to improve access to and delivery of basic literacy, numerary and other life skills through both formal and non-formal education systems, and to enhance educational achievement.

Emergency – programs seeking to prevent loss of life, minimize suffering, reduce property damage, speed recovery, reduce vulnerability, and otherwise better cope with natural or man-made disasters, while fostering a culture of peace, dignity and respect.

Small Enterprise – programs to develop lending and savings services for the self-employed poor who have no access to capital in the formal financial markets.

Health – programs targeted toward problem recognition, evaluation, and intervention in the prevention of somatic illness, disease and death among populations living in poverty.

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

**Notes To Financial Statements**

---

**Note 1. Organization and Operations (Continued)**

HIV/AIDS – programs to provide a continuum of care in which care and prevention are mutually reinforced and address issues of stigma, discrimination, poverty and the special vulnerabilities of women and children affected by HIV/AIDS.

Peace and Justice – programs to prevent, mitigate, or resolve conflict and promote responsibility and right relationships between parties at the individual, community, regional or national levels, including focus upon the strengthening of the institutions of civil society.

Welfare – programs to respond to the urgent and unmet needs of the poorest of society, including the provision of food and complementary assistance, acting as a “bridge” until the local institutions can provide appropriate support structures for self-sufficiency.

**Note 2. Summary of Significant Accounting Policies**

Presentation: The financial statements include the results of CRS’ worldwide operations. The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Revenues and expenses related to unrestricted bequests, annuities and other planned giving contributions, realized and unrealized gains and losses on investments and permanently restricted contributions are considered non-operating activities.

The financial statements include certain prior-year summarized comparative totals as of and for the year ended September 30, 2003. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the financial statements for the year ended September 30, 2003 from which the summarized information was derived.

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 historical dollar amounts of gifts which are required by donors to be permanently retained.

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

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

**Notes To Financial Statements**

---

**Note 2. Summary of Significant Accounting Policies (Continued)**

Accounts receivable and other assets: Accounts receivable and other assets consist of trade receivables, micro-finance loans and charitable trusts. Interest is charged for micro-finance loans at variable 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 a customer's financial condition and current economic conditions, and by using historical experience applied to an aging of the trade receivables. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received.

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

Charitable trusts represent the fair value, using present value calculations, of CRS' interest in the donor's trust accounts and life insurance policies. These trusts are created by donors independently of CRS and are neither in the possession nor under the control of CRS. The trusts are administered by outside fiscal agents as designated by the donor. CRS records the fair value, using present value calculations of the trusts discounted at a rate of 6% for 2004 and 2003. The trusts are recognized as revenue when CRS is notified that it has been named as an irrevocable beneficiary.

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

Land, building and equipment: Land, building and equipment are capitalized and depreciated on a straight-line basis over the estimated useful lives of the respective assets, which are 10 to 40 years for building and improvements and 3 to 10 years for furniture, vehicles and equipment.

Advances received for programs: Funds received on exchange transactions (grants) are recorded as advance obligations to the funding entity until they are spent per the program agreement, at which time they are recognized as revenue.

Annuities payable: Annuities payable represent the actuarial present value of amounts due under annuity agreements paid over various periods, generally the life of the donor. Present value was calculated using the Annuity 2000 Mortality table with no adjustments, assuming a 6% interest rate, compounded annually, and no provision for a surplus or contingency reserve.

Fair value of financial instruments: The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

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

Investments and charitable trusts – The fair value of investments and charitable trusts is estimated based on quoted market prices and dealer quotes, and present value calculations for those or similar investments.

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

**Notes To Financial Statements**

---

**Note 2. Summary of Significant Accounting Policies (Continued)**

Undistributed commodity contributions – The fair value of undistributed commodity contributions is based on quoted market prices.

Annuities payable – Annuities payable are estimated using the actuarial present value of amounts due under annuity agreements paid over various periods, generally the life of the donor. These estimates approximate fair value.

Long-term debt – The recorded value of long-term debt is based on interest rates which are below market value. The difference between fair value and recorded value is considered immaterial by management.

Valuation of long-lived assets: CRS accounts for the valuation of long-lived assets under Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. Recoverability of long-lived assets is measured by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying value of the assets exceed the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

Donated agricultural commodities and supplies: CRS receives agricultural and other commodities at no cost from the United States Agency for International Development (USAID), the United States Department of Agriculture (USDA) and others for distribution under contracts related to specific relief programs. Commodities that have not been distributed at September 30, 2004 and 2003 are carried as undistributed commodity contributions and deferred revenue.

Commodity contributions are valued using guidelines published by the Commodity Credit Corporation (an agency of the United States government). European Union commodity donations are recorded at their insurable value, which approximates market value. In-kind contributions of medical supplies are recorded at the Pharmacies Fundamental Reference book (Red-Book) value. Other in-kind contributions are recorded at fair value.

Other government funding and exchange transactions: Revenues related to government grants and other exchange transactions are recognized when funds are utilized by CRS to carry out the activity stipulated by the grant or contract, since such contracts can be terminated by the grantor, or refunding can be required under certain circumstances. Accordingly, amounts received, but not recognized as revenue, are classified in the statement of financial position as advances received for programs.

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

Joint costs: Expenses related to the Operation Rice Bowl program jointly support fundraising and educational and other programming. These expenses, totaling \$1,114,000 are allocated 25% to fundraising and 75% to program services for the year ended September 30, 2004. In prior years all of these costs were allocated to fundraising.

Reclassification: Certain of the 2003 comparative amounts were reclassified to conform with the 2004 presentation. These reclassifications had no effect on the previously reported change in net assets.

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

**Notes To Financial Statements**

**Note 3. Concentration of Credit Risk**

Cash and cash equivalents include demand deposits which are maintained at various financial institutions in the United States and foreign countries. The total deposits at institutions in the United States at times exceed FDIC insurance limits. Deposits held at institutions outside of the United States are not subject to insurance. At September 30, 2004 and 2003, \$40,000,000 and \$40,108,000, respectively, of deposits were in excess of FDIC insurance including \$23,551,000 and \$22,182,000, respectively, held in numerous financial institutions outside of the United States. Short-term operating investments of \$12,337,000 and \$9,536,000, respectively, were also held in numerous financial institutions outside of the United States at September 30, 2004 and 2003.

CRS invests in a professionally managed portfolio that contains shares of U.S. Treasury securities, equity securities and corporate debt securities. These investments are exposed to various risks 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 at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

**Note 4. Accounts Receivable and Other Assets**

Accounts receivable include loans made by CRS for microfinance programming, which provides credit to the working poor and encompasses both loans direct to the final borrower as well as loans to local partners who operate these programs. In some instances, CRS may contribute loan balances to local partners. At September 30, 2004 and 2003 microfinance loans receivable totaled \$20,973,000 and \$19,972,000, respectively. As of September 30, 2004 and 2003, the allowances for doubtful accounts on all accounts receivable and microfinance loans were \$4,660,000 and \$5,910,000, respectively. Other assets include charitable trusts of \$8,478,000 and \$8,518,000 at September 30, 2004 and 2003. The remaining portion of accounts receivable and other assets at September 30, 2004 and 2003 consists of trade receivables and prepaid expenses.

**Note 5. Investments**

The fair value by type of investment at September 30, 2004 and 2003 is as follows (in thousands):

	2004	2003
Certificates of deposit and other	\$ 12,654	\$ 9,840
U.S. treasury securities	2,263	4,116
Corporate debt securities	10,348	24,631
Equity securities	50,424	47,384
	<u>\$ 75,689</u>	<u>\$ 85,971</u>

The components of investment return on the investments described above and segregated investments for the years ended September 30, 2004 and 2003 are as follows (in thousands):

	2004	2003
Dividends and interest	\$ 6,914	\$ 8,216
Realized gain (loss) on investments	2,107	(923)
Unrealized gain on investments	4,157	19,702
Investment management fees	(551)	(518)
	<u>\$ 12,627</u>	<u>\$ 26,477</u>



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

**Notes To Financial Statements**

**Note 6. Segregated Investments**

CRS is required under various statutory regulations to segregate a certain level of acceptable investments to support its charitable gift annuity giving program. In addition, CRS sponsors a pooled income fund wherein the fund's earnings are distributed to participants until their death at which time the assets become available to CRS. Such investments, at fair value, at September 30, 2004 and 2003 consist of the following (in thousands):

	2004			2003		
	Gift annuities	Pooled income	Total	Gift annuities	Pooled income	Total
Cash and cash equivalents	\$ 1,877	\$ 36	\$ 1,913	\$ 4,942	\$ 29	\$ 4,971
U.S. treasury securities	32,790	1,913	34,703	28,598	1,871	30,469
Equity securities	3,077	216	3,293	3,065	180	3,245
Totals	<u>\$ 37,744</u>	<u>\$ 2,165</u>	<u>\$ 39,909</u>	<u>\$ 36,605</u>	<u>\$ 2,080</u>	<u>\$ 38,685</u>

During the years ended September 30, 2004 and 2003, CRS received \$4,000,000 and \$5,650,000, respectively, of new charitable gift annuities and pooled income fund contributions, earned net investment income of \$1,800,000 and \$2,500,000, respectively, and made contractual annuity payments of \$3,700,000 and \$4,500,000, respectively.

During the years ended September 30, 2004 and 2003, the pooled income fund made earnings distributions of \$130,000 and \$153,000, respectively, to participants.

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

**Note 7. Foreign Currency Translation**

Assets and liabilities denominated in foreign currencies are translated into U.S. dollars at exchange rates in effect on reporting dates, and revenue and expenses are translated at rates in effect on transaction dates. Transaction and translation gains and losses are included in current results. The resulting gains on foreign currency transactions of \$131,000 for the year ended September 30, 2004 and of \$2,400,000 for the year ended September 30, 2003, are included in supplies, office expenses, other expenses and investment income.

At September 30, 2004 and 2003, assets of approximately \$119,446,000 and \$134,015,000, respectively, which consist primarily of cash, short-term investments, receivables and equipment, and \$39,767,000 and \$44,622,000, respectively, of liabilities are associated with activities in countries outside the United States.

**Note 8. Land, Building and Equipment**

Land, building and equipment, at cost, at September 30, 2004 and 2003 are summarized as follows (in thousands):

	2004	2003
Land	\$ 1,834	\$ 1,834
Building and improvements	6,233	6,114
Furniture and equipment	42,083	39,301
	<u>50,150</u>	<u>47,249</u>
Less accumulated depreciation	(34,498)	(32,652)
	<u>\$ 15,652</u>	<u>\$ 14,597</u>

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

**Notes To Financial Statements**

---

**Note 8. Land, Building and Equipment (Continued)**

Land, building and equipment includes restricted and grant assets of \$5,530,664 and \$4,539,989 at September 30, 2004 and 2003, respectively. These assets are restricted in compliance with federal program grant agreements as to use, resale and maintenance.

CRS acquired its Baltimore, Maryland headquarters building in 1988. Substantial improvements have been made to the building, while property values have not increased in the local market. An appraisal was commissioned which valued the property at \$6,500,000 below the then current book value. As a result, for the year ended September 30, 2003, CRS recognized a loss on asset impairment of \$6,503,000 included in reorganization and other costs.

CRS has operating lease commitments for its offices maintained throughout the world. These leases are generally renewable on an annual basis. Rental expenses for the years ended September 30, 2004 and 2003 were \$2,305,000 and \$2,373,000, respectively.

**Note 9. Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses include notes payable by CRS country programs in El Salvador and the Philippines of \$250,000 each, borrowed from a private investment group. The interest rate on the consolidated loan is 4.25 percent, payable semi-annually. No collateral is required for the loan. During 2003, the maturity of the loan was extended to April 30, 2006.

CRS Niger has borrowed \$113,000 from West African bank with a 4% interest rate payable semi-annually. The maturity date of this loan was extended to January 31, 2005.

CRS Bolivia has borrowed \$75,000 from a Central American bank with interest equal to the local inflation rate plus 1% payable semi-annually. This loan was repaid during the year ahead of its April 17, 2010 maturity date.

CRS Cambodia's microfinance program opened a local currency line of credit with the Rural Development Bank in March 2004 with a limit of approximately \$520,000 which is available for three years. Two draws of \$135,000 were made against this line, in May and August 2004, each maturing in one year. The agreement includes a 1% origination fee on each draw and accrues interest at a floating rate. The rate at September 30, 2004 was 7.26%.

Future annual maturities on notes payable as of September 30, 2004 are due as follows:

Years Ending September 30,	
2005	\$ 386,540
2006	500,000
	<u>\$ 886,540</u>

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

**Notes To Financial Statements**

**Note 10. Commodities Received and Other In-Kind Contributions**

Commodities received and other in-kind contributions for the years ended September 30, 2004 and 2003 consist of the following (in thousands):

	2004	2003
Agricultural commodities donated by USAID and USDA, excluding ocean freight	\$ 154,516	\$ 131,054
Commodities and other contributions provided by the European Union, UN and other donors	19,626	13,554
Ocean freight	107,182	117,213
<b>Total agricultural commodities and ocean freight</b>	<b>\$ 281,324</b>	<b>\$ 261,821</b>
Medical supplies and other tangible assets	\$ 7,708	\$ 887
Donated services	1,110	1,081
<b>Total in-kind contributions</b>	<b>\$ 8,818</b>	<b>\$ 1,968</b>

**Note 11. Retirement Plans**

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

CRS also sponsors a non-contributory post-retirement health plan for employees who retire after the age of 65 with at least 20 years of service. CRS funds retiree healthcare premiums on a cash basis, and for the years ended September 30, 2004 and 2003, paid \$165,000 and \$153,000, respectively, for retirees' healthcare coverage.

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

**Notes To Financial Statements**

**Note 11. Retirement Plans (Continued)**

The following schedule sets forth the funded status, components of net periodic benefit cost and weighted-average assumptions of the plans for the years ended September 30, 2004 and 2003 (\$ in thousands):

	Pension Benefits		Post Retirement	
	2004	2003	2004	2003
<b>Change in projected benefit obligation:</b>				
Benefit obligation at beginning of period	\$ 22,694	\$ 17,430	\$ 3,461	\$ 3,126
Service cost	2,427	2,132	156	179
Interest cost	1,515	1,388	192	210
Actuarial loss	(100)	166	(347)	99
Benefits paid	(763)	(290)	(164)	(153)
Actuarial loss - discount rate change	1,307	4,050	-	-
Voluntary terminations & early retirements	-	(328)	-	-
Acquisitions, divestitures, curtailments	-	(2,536)	-	-
Special termination benefits	-	681	-	-
Projected benefit obligation at end of period	<u>\$ 27,080</u>	<u>\$ 22,693</u>	<u>\$ 3,298</u>	<u>\$ 3,461</u>
Accumulated benefit obligation at end of period	<u>\$ 17,076</u>	<u>\$ 13,957</u>	<u>\$ 3,298</u>	<u>\$ 3,461</u>
<b>Change in plan assets:</b>				
Fair value of plan assets at beginning of period	\$ 9,145	\$ 6,599	\$ -	\$ -
Actual return on plan assets	89	(768)	-	-
Employer contributions	2,178	3,604	165	153
Benefits paid	(763)	(290)	(165)	(153)
Fair value of plan assets at end of period	<u>10,649</u>	<u>9,145</u>	<u>-</u>	<u>-</u>
Funded status	(16,431)	(13,548)	(3,298)	(3,461)
Unrecognized net loss (gain)	18	91	(1,029)	(735)
Unrecognized prior service cost	151	96	-	-
Unrecognized net actuarial loss	8,819	7,179	1,476	1,619
Accrued benefit cost	<u>(7,443)</u>	<u>(6,182)</u>	<u>(2,851)</u>	<u>(2,577)</u>
<b>Components of net periodic benefit cost:</b>				
Service cost	\$ 2,427	\$ 2,132	\$ 156	\$ 179
Interest cost	1,515	1,388	192	210
Expected return on plan assets	(918)	(634)	-	-
Net amortization and deferral	415	378	91	117
Early Retirement Incentive	-	681	-	-
Lump sum payments	-	1,002	-	-
Total net periodic benefit cost	<u>\$ 3,439</u>	<u>\$ 4,947</u>	<u>\$ 439</u>	<u>\$ 506</u>
<b>Weighted-average assumptions:</b>				
Discount rate	6.50%	6.75%	6.50%	6.75%
Expected return on plan assets	8.50%	8.50%	N/A	N/A
Rate of compensation increase	5.50%	5.50%	N/A	N/A

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

**Notes To Financial Statements**

**Note 11. Retirement Plans (Continued)**

The investment objective of the defined benefit plan is to attain an overall return in excess of the actuarially assumed rate, while protecting the plan's principal by managing investment risk. The investment objective also incorporates the financial condition of the plan, future growth of active and retired participants, inflation and the rate of salary increases. CRS' finance committee has selected market-based benchmarks to monitor the performance of the investment strategy and perform periodic review of investment performance.

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

Asset Class	Minimum	Target	Maximum
Equity and equivalents	60%	<b>70%</b>	80%
Fixed income	20%	<b>30%</b>	40%

The investment policy requires compliance with existing and future applicable state and federal regulations, including ERISA. The expected long-term rate of return on plan assets is based primarily on expectations of future returns for the defined benefit plan's investments, based upon the target asset allocations. Additionally, the historical returns on comparable equity and fixed income investments is considered in the estimate of the expected long-term rate of return on plan assets.

Allocation of plan assets at September 30, 2004 and 2003 (\$ in thousands):

	2004		2003	
	Amount	Percent	Amount	Percent
Equity and equivalents	\$ 7,758	72.85%	\$ 6,482	70.89%
Fixed income	2,394	22.48%	1,534	16.76%
Cash equivalents	497	4.67%	1,129	12.35%
	<b>\$ 10,649</b>	<b>100.00%</b>	<b>\$ 9,145</b>	<b>100.00%</b>

The pension plan contribution for the year ending September 30, 2005 is expected to be \$2,460,000. The plan's expected payouts for the next five years and in the aggregate for the following five years are:

Fiscal Year	Payout
2005	\$ 249,823
2006	277,937
2007	285,742
2008	431,693
2009	513,245
2010-2014	5,848,238

The healthcare inflation rates for 2004 and 2003 are assumed to be 7% and 8%, respectively. These rates are projected to gradually decrease to an ultimate rate of 4.5% by the year 2006. A one-percentage point increase in the healthcare inflation rate from the assumed rate could increase the accumulated post-retirement benefit obligation by approximately \$716,000 as of September 30, 2004 and would have increased the aggregate of the service cost and interest cost components of net periodic post-retirement benefit cost for 2004 by approximately \$90,000. A one-percentage point decrease in the healthcare inflation rate from the assumed rate could decrease the accumulated

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

**Notes To Financial Statements**

**Note 11. Retirement Plans (Continued)**

post-retirement benefit obligation by approximately \$555,000 as of September 30, 2004 and would have decreased the aggregate of the service cost and interest components of net periodic post-retirement benefit cost for 2004 by approximately \$68,000.

CRS also provides eligible employees a defined contribution plan, which qualifies under Section 403(b) of the Internal Revenue Code. Under the plan, CRS contributes to a participant's account an amount equal to 50% of the participant's contribution, not to exceed 3% of the participant's eligible earnings. The contributions are invested in various mutual funds chosen by the participant. CRS contributed \$477,000 and \$279,000, respectively, for the years ended September 30, 2004 and 2003.

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

**Note 12. Self Insured Medical Plan**

CRS maintains a self-insured medical plan for the benefit of its employees. A stop loss policy is in effect, which limits CRS' loss per individual employee to \$150,000 and an aggregate stop loss based on a preset rate as of the beginning of each fiscal year. For fiscal year 2004, this rate was \$501 per employee per month, or approximately \$3,700,000. The medical plan is administered through a contractual relationship with an unrelated company. However, CRS is solely responsible for all claims incurred up to the amount of the stop loss provisions. CRS' expense under the self-insured medical plan amounted to \$3,600,000 and \$3,560,000 for the years ended September 30, 2004 and 2003.

**Note 13. Temporarily Restricted Net Assets**

Temporarily restricted net assets at September 30, 2004 and 2003 are comprised of the following (in thousands):

	2004	2003
Time restricted:		
Charitable trusts	\$ 6,474	\$ 6,549
Pooled income fund	792	724
Total	<u>7,266</u>	<u>7,273</u>
Program restricted:		
Development projects	1,479	1,194
Emergency relief efforts	13,783	21,042
Specific donor restricted projects	9,061	10,320
Total	<u>24,323</u>	<u>32,556</u>
Total temporarily restricted net assets	<u>\$ 31,589</u>	<u>\$ 39,829</u>

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

**Notes To Financial Statements**

---

**Note 13. Temporarily Restricted Net Assets (Continued)**

Net assets were released for the following purposes during 2004 and 2003 (in thousands):

	2004	2003
Emergency relief efforts	\$ 16,872	\$ 21,503
Specific donor restricted projects	25,789	26,131
Development projects	420	670
Time restricted purposes met	15	-
	<u>\$ 43,096</u>	<u>\$ 48,304</u>

Permanently restricted net assets represent contributions by donors for which the corpus must be permanently restricted. The income derived from these permanently restricted amounts can be used to fund administrative costs and program services.

**Note 14. Contingencies**

CRS receives significant financial and non-financial assistance from the U.S. government. Entitlement to such resources is generally conditioned upon compliance with terms and conditions of the related agreements and applicable federal regulations. The use of such resources is subject to audit by governmental agencies and CRS is contingently liable to refund amounts received in excess of allowable expenditures. As of September 30, 2004 and 2003, CRS has recorded a liability for its estimate of questioned costs that may have to be refunded to the government.

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