Catholic Relief Services –
United States Conference of Catholic Bishops

Financial Statement as of and for the year ended September 30, 2005
And Comparative Totals for 2004 and Independent Auditor's Report

McGladrey & Pullen
Certified Public Accountants

Contents

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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, 2005, 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' 2004 financial statements and, in our report dated February 18, 2005, 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,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 2005 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, 2005, 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 17, 2006, 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 17, 2006

Catholic Relief Services -
United States Conference Of Catholic Bishops

Statement Of Financial Position
September 30, 2005
(With Comparative Totals For September 30, 2004)
(In Thousands)

Assets		**2005**		2004
Cash and cash equivalents	**$**	**83,782**	$	40,710
Accounts receivable and other assets		**35,822**		36,953
Investments		**187,501**		75,936
Segregated investments		**43,033**		40,308
Undistributed commodity contributions		**25,739**		43,399
Land, building and equipment, net		**30,696**		15,652
Total assets	**$**	**406,573**	$	252,958
Liabilities And Net Assets				
Liabilities				
Accounts payable and accrued expenses	**$**	**48,538**	$	41,526
Advances received for programs		**27,923**		20,241
Deferred revenue		**25,839**		43,589
Annuities payable		**34,488**		32,631
Capital lease obligation		**13,465**		-
Total liabilities		**150,253**		137,987
Commitments, contingencies and subsequent events				
Net assets				
Unrestricted		**75,137**		80,310
Temporarily restricted		**177,363**		31,589
Permanently restricted		**3,820**		3,072
Total net assets		**256,320**		114,971
Total liabilities and net assets	**$**	**406,573**	$	252,958

See Notes to Financial Statements.

Catholic Relief Services -
United States Conference Of Catholic Bishops

Statement Of Activities
Year Ended September 30, 2005
(With Comparative Totals For The Year Ended September 30, 2004)
(In Thousands)

	Unrestricted	Temporarily restricted	Permanently restricted
Operating Revenues			
Private donor, foundation and corporate contributions:			
Catholic Relief Services collection	$ 11,661	$ -	$ -
Operation Rice Bowl appeal	-	6,003	-
Contributions	65,077	207,253	
In-kind contributions	6,631		-
Total contributions	83,369	213,256	-
Government, international organizations and other exchange transactions:			
Donated agricultural, other commodities and ocean freight	184,645	-	-
Grants and agreements:			
United States government	188,607	-	-
Other	15,450	-	-
Total	388,702	-	-
Investment and other income	5,874	2,975	-
Net assets released from restrictions	69,778	(69,778)	-
Total operating revenues	547,723	146,453	-
Operating Expenses			
Program services	533,835	-	-
Supporting services:			
Management and general	10,504	-	-
Public awareness	3,082	-	-
Fund raising	19,124	-	-
Total supporting services	32,710	-	-
Total operating expenses	566,545	-	-
Change in net assets from operations	(18,822)	146,453	-
Non-Operating Revenues and (Expenses)			
Contributions	5,980	-	637
Net change in annuities, trusts and pooled income fund	1,233	(318)	44
Realized and unrealized gain (loss) on non-segregated investments	6,436	(361)	67
Total non-operating revenues and expenses, net	13,649	(679)	748
Change in net assets	(5,173)	145,774	748
Net assets, beginning of year	80,310	31,589	3,072
Net assets, end of year	$ 75,137	$ 177,363	$ 3,820

See Notes to Financial Statements.

Total	
2005	2004
$ 11,661	$ 12,048
6,003	6,120
272,330	81,692
6,631	8,818
296,625	108,678
184,645	281,324
188,607	145,247
15,450	9,550
388,702	436,121
8,849	7,036
-	-
694,176	551,835
533,835	544,062
10,504	11,026
3,082	1,999
19,124	16,408
32,710	29,433
566,545	573,495
127,631	(21,660)
6,617	9,921
959	248
6,142	6,264
13,718	16,433
141,349	(5,227)
114,971	120,198
$ 256,320	$ 114,971

Catholic Relief Services -
United States Conference Of Catholic Bishops

Statement Of Cash Flows
Year Ended September 30, 2005
(With Comparative Totals For The Year Ended September 30, 2004)
(In Thousands)

	2005	2004
Cash Flows From Operating Activities		
Change in net assets	$ 141,349	$ (5,227)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	5,662	5,138
Loss on disposal of land, building and equipment	205	400
Realized gain on sales of investments	(3,298)	(2,107)
Unrealized gain on investments	(2,844)	(4,157)
Contributions restricted for long-term investment	(637)	-
Changes in assets and liabilities		
Decrease in:		
Accounts receivable and other assets	1,131	8,399
Undistributed commodity contributions	17,660	6,067
Increase (decrease) in:		
Accounts payable and accrued expenses	7,613	(115)
Advances received for programs	7,682	(12,097)
Deferred revenue	(17,750)	(6,059)
Net cash provided by (used in) operating activities	156,773	(9,758)
Cash Flows From Investing Activities		
Proceeds from sale of land, building and equipment	442	295
Purchase of land, building and equipment	(7,888)	(6,888)
Proceeds from sales and maturities of investments	133,597	89,686
Purchase of investments	(241,745)	(75,010)
Net cash (used in) provided by investing activities	(115,594)	8,083
Cash Flows From Financing Activities		
Loan proceeds	494	470
Principal payments on long-term debt	(1,095)	(108)
Increase in annuities payable, net	1,857	923
Receipts restricted for long-term investment	637	-
Net cash provided by financing activities	1,893	1,285
Net increase (decrease) in cash and cash equivalents	43,072	(390)
Cash and cash equivalents, beginning of year	40,710	41,100
Cash and cash equivalents, end of year	$ 83,782	$ 40,710
Supplemental Disclosure Of Cash Flow Information		
Cash payments for interest	$ 162	$ 81

Supplemental Disclosure Of Noncash Investing And Financing Activities
A capital lease obligation of $13,465 was incurred for the purchase of a building during 2005

See Notes to Financial Statements.

Catholic Relief Services -
United States Conference Of Catholic Bishops

Statement Of Functional Expenses
Year Ended September 30, 2005
(With Comparative Totals For The Year Ended September 30, 2004)
(In Thousands)

Description	Agriculture	Education	Emergency
Program Services			
Salaries and related benefits	$ 14,971	$ 11,351	$ 23,306
Professional fees	1,831	1,336	5,324
Telecommunications and postage	668	475	1,160
Supplies, office expenses and other	4,085	1,895	3,665
Occupancy	1,011	863	1,399
Vehicle and equipment	2,176	2,203	6,741
Travel, training and representation	2,743	2,003	5,153
Warehousing and freight	25,447	10,381	30,125
Publicity	-	23	-
Advances to implementing partners	19,836	7,545	50,444
Food, other commodities and in-kind contributions	31,202	12,930	57,732
Depreciation	544	313	195
Total expenses	$ 104,514	$ 51,318	$ 185,244

See Notes to Financial Statements.

Small Enterprise	Health	HIV / AIDS	Peace and Justice	Welfare	Program Services **2005**	Program Services 2004
$ 3,599	$ 9,709	$ 14,073	$ 5,750	$ 4,607	**$ 87,366**	$ 76,371
454	1,194	843	642	264	**11,888**	8,532
147	288	527	280	159	**3,704**	3,079
1,888	2,464	3,281	1,372	1,228	**19,878**	10,497
258	821	598	379	472	**5,801**	4,637
178	1,629	1,582	503	490	**15,502**	15,014
889	1,893	3,256	2,338	580	**18,855**	16,223
435	6,724	2,422	5	5,018	**80,557**	121,474
-	-	-	-	-	**23**	8
4,081	11,019	53,227	10,638	3,948	**160,738**	101,085
450	12,629	1,388	184	7,664	**124,179**	182,428
1,044	339	2,055	352	502	**5,344**	4,714
$ 13,423	$ 48,709	$ 83,252	$ 22,443	$ 24,932	**$ 533,835**	$ 544,062

Catholic Relief Services -
United States Conference Of Catholic Bishops

Statement Of Functional Expenses (Continued)
Year Ended September 30, 2005
(With Comparative Totals For The Year Ended September 30, 2004)
(In Thousands)

	Management and General	Public Awareness	Fund Raising
Supporting Services			
Salaries and related benefits	$ 6,736	$ 1,636	$ 4,653
Professional fees	1,147	353	3,688
Telecommunications and postage	312	19	4,294
Supplies, office expenses and other	387	152	5,668
Occupancy	438	51	89
Vehicle and equipment	221	39	34
Travel, training and representation	921	189	332
Warehousing and freight	30	-	21
Publicity	1	625	337
Advances to implementing partners	12	-	6
Food, other commodities and in-kind contributions	-	-	-
Depreciation	299	18	2
Total expenses	$ 10,504	$ 3,082	$ 19,124

See Notes to Financial Statements.

Total Supporting Services		Total Operating Expenses	
2005	2004	**2005**	2004
$ 13,025	$ 12,224	**$ 100,391**	$ 88,595
5,188	4,343	**17,076**	12,875
4,625	3,838	**8,329**	6,917
6,207	5,873	**26,085**	16,370
578	637	**6,379**	5,274
294	218	**15,796**	15,232
1,442	1,185	**20,297**	17,408
51	46	**80,608**	121,520
963	607	**986**	615
18	38	**160,756**	101,123
-	-	**124,179**	182,428
319	424	**5,663**	5,138
$ 32,710	$ 29,433	**$ 566,545**	$ 573,495

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 13 U.S. Bishops elected from the USCCB, the General Secretary of the Conference, and six lay members. 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 2005 edition of the Official Catholic Directory.

Mission statement: Catholic Relief Services was founded 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.

Note 1. Organization and Operations (Continued)

HIV/AIDS – programs that assist the poor and vulnerable through care and support, awareness and prevention, treatment of opportunistic infections, and provision of anti-retroviral drugs, prolonging the lives of many, and enabling all participants to live in dignity.

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

Welfare – programs to respond to the urgent and unmet needs of the poorest of society, including the provision of food and complementary assistance, enabling participants to reach their full human potential.

Note 2. Summary of Significant Accounting Policies

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, 2004. 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, 2004 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.

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 the debtor's financial condition and current economic conditions, and by using historical experience applied to an aging of the trade receivables. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received.

Trade and micro-finance receivables are considered to be past due if any portion of the receivable balance is outstanding for more than 90 days. Interest is accrued on 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 2005 and 2004. 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 three 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.

Note 2. Summary of Significant Accounting Policies (Continued)

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

Debt **–** The recorded value of debt is based on interest rates which approximate fair value.

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.

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, 2005 and 2004 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 $1,131,000 for the year ended September 30, 2005 and $1,114,000 for the year ended September 30, 2004, are allocated 25% to fundraising and 75% to program services.

Self insured medical plan: Under the CRS' plan, 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' estimates of the aggregate liability for claims incurred.

Note 2. Summary of Significant Accounting Policies (Continued)

Reclassification: Certain of the 2004 comparative amounts were reclassified to conform with the 2005 presentation. These reclassifications had no effect on the previously reported change in net assets.

Note 3. Concentration of Credit Risk

Cash and cash equivalents include demand deposits which are maintained at various financial institutions in the United States and foreign countries. The total deposits at institutions in the United States at times exceed FDIC insurance limits. Deposits held at institutions outside of the United States are not subject to insurance. At September 30, 2005 and 2004, $82,641,000 and $40,000,000, respectively, of deposits were in excess of FDIC insurance including $28,325,000 and $23,551,000, respectively, held in numerous financial institutions outside of the United States. Short-term operating investments of $9,701,000 and $12,417,000, respectively, were also held in numerous financial institutions outside of the United States at September 30, 2005 and 2004.

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, 2005 and 2004, microfinance loans receivable totaled $17,173,000 and $20,973,000, respectively. As of September 30, 2005 and 2004, the allowances for doubtful accounts on all accounts receivable and microfinance loans were $3,155,000 and $4,660,000, respectively. Other assets include charitable trusts of $8,158,000 and $8,478,000 at September 30, 2005 and 2004. The remaining portion of accounts receivable and other assets at September 30, 2005 and 2004 consists of trade receivables and prepaid expenses.

Note 5. Investments

The fair value by type of investment at September 30, 2005 and 2004 is as follows (in thousands):

	2005	2004
Certificates of deposit and other	**$ 9,944**	$ 12,654
U.S. treasury securities	**42,744**	2,263
Corporate debt securities	**74,338**	10,348
Equity securities	**59,328**	50,424
Accrued Interest and dividends	**1,147**	247
	$ 187,501	$ 75,936

Note 5. Investments (Continued)

The components of investment return on the investments described above and segregated investments for the years ended September 30, 2005 and 2004 are as follows (in thousands):

	2005	2004
Dividends and interest	**$ 8,146**	$ 6,914
Realized gain on investments	**3,298**	2,107
Unrealized gain on investments	**2,844**	4,157
Investment management fees	**(589)**	(551)
	$ 13,699	$ 12,627

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, 2005 and 2004 consist of the following (in thousands):

	2005			2004		
	Gift annuities	**Pooled income**	**Total**	Gift annuities	Pooled income	Total
Cash and cash equivalents	**$ 1,719**	**$ 23**	**$ 1,742**	$ 1,877	$ 36	$ 1,913
U.S. treasury securities	**35,324**	**1,990**	**37,314**	32,790	1,913	34,703
Equity securities	**3,375**	**220**	**3,595**	3,077	216	3,293
Accrued Interest	**382**	**-**	**382**	399	-	399
Totals	**$ 40,800**	**$ 2,233**	**$ 43,033**	**$ 38,143**	**$ 2,165**	**$ 40,308**

During the years ended September 30, 2005 and 2004, CRS received $5,100,000 and $4,000,000, respectively, of new charitable gift annuities and pooled income fund contributions, earned net investment income of $1,800,000 and $1,800,000, respectively, and made contractual annuity payments of $3,900,000 and $3,700,000, respectively.

During the years ended September 30, 2005 and 2004, the pooled income fund made earnings distributions of $99,000 and $130,000, 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 revenues 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 translations of $1,052,000 for the year ended September 30, 2005 and of $131,000 for the year ended September 30, 2004, are included in supplies, office expenses, other expenses and investment income.

Note 7. Foreign Currency Translation (Continued)

At September 30, 2005 and 2004, assets of approximately $104,149,000 and $119,446,000, respectively, which consist primarily of cash, short-term investments, receivables and equipment, and $38,144,000 and $39,767,000, 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, 2005 and 2004 is summarized as follows (in thousands):

	2005	2004
Land	**$ 1,834**	$ 1,834
Building and improvements	**20,338**	6,233
Furniture and equipment	**47,081**	42,083
	69,253	50,150
Less accumulated depreciation	**(38,557)**	(34,498)
	$ 30,696	$ 15,652

Land, building and equipment includes restricted and grant assets of $6,389,000 and $5,530,664 at September 30, 2005 and 2004, respectively. These assets are restricted in compliance with federal program grant agreements as to use, resale and maintenance.

On July 25, 2005 CRS entered into a capital lease for the acquisition of a new world headquarters building in Baltimore, Maryland. The lease is for an initial term of thirty years, with three five-year renewal options. The minimum lease payment due under this agreement is $13,465,000, payable in full on the Rent Commencement Date, January 21, 2006. 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.

CRS has operating lease commitments for its offices maintained throughout the world. These leases are generally renewable on an annual basis. However, during the fiscal year ended September 30, 2005 CRS entered into operating leases for office space for periods ranging from 3-5 years for its US Operations. Rental expenses for the years ended September 30, 2005 and 2004 were $2,746,000 and $2,305,000, respectively. Minimum annual lease payments on operating leases are:

Years Ending September 30,	
2006	$ 91,258
2007	94,926
2008	97,237
2009	63,129
2010	62,220
	$ 408,770

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%, payable semi-annually, maturing April 30, 2006. No collateral is required for the loan.

CRS Cambodia's microfinance program has a local currency line of credit with the Rural Development Bank with a limit of approximately $500,000, which is available for three years. It currently has outstanding one draw for $247,000 taken in October 2004 and two draws of $123,000 each taken in May and August 2005, 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, 2005 was 4.6%.

Future annual maturities on notes payable as of September 30, 2005 are as follows (in thousands):

Years Ending September 30,		
2006	$	994

Note 10. Commodities Received and Other In-Kind Contributions

Commodities received and other in-kind contributions for the years ended September 30, 2005 and 2004 consist of the following (in thousands):

		2005		2004
Agricultural commodities donated by USAID and USDA, excluding ocean freight	**$**	**93,239**	$	154,516
Commodities and other contributions provided by the European Union, UN and other donors		**24,450**		19,626
Ocean freight		**66,956**		107,182
Total agricultural commodities and ocean freight	**$**	**184,645**	$	281,324
Medical supplies and other tangible assets	**$**	**5,246**	$	7,708
Donated services		**1,385**		1,110
Total in-kind contributions	**$**	**6,631**	$	8,818

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 10 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, 2005 and 2004, paid $168,000 and $165,000, respectively, for retirees' healthcare coverage.

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, 2005 and 2004 (in thousands):

	Pension Benefits		Post Retirement	
	2005	2004	**2005**	2004
Change in projected benefit obligation:				
Benefit obligation at beginning of period	**$ 27,080**	$ 22,694	**$ 3,298**	$ 3,461
Service cost	**2,628**	2,427	**212**	156
Interest cost	**1,562**	1,515	**238**	192
Actuarial (gain) loss	**(2,945)**	(100)	**478**	(346)
Benefits paid	**(287)**	(763)	**(168)**	(165)
Actuarial loss - discount rate change	**-**	1,307	**-**	-
Projected benefit obligation at end of period	**$ 28,038**	$ 27,080	**$ 4,058**	$ 3,298
Accumulated benefit obligation at end of period	**$ 18,538**	$ 17,076	**$ 4,058**	$ 3,298
Change in plan assets:				
Fair value of plan assets at beginning of period	**$ 10,649**	$ 9,145	**$ -**	$ -
Actual return on plan assets	**963**	89	**-**	-
Employer contributions	**1,735**	2,178	**168**	165
Benefits paid	**(287)**	(763)	**(168)**	(165)
Fair value of plan assets at end of period	**13,060**	10,649	**-**	-
Funded status	**(14,978)**	(16,431)	**(4,058)**	(3,298)
Unrecognized net loss (gain)	**-**	18	**(538)**	(1,029)
Unrecognized prior service cost	**152**	151	**-**	-
Unrecognized net actuarial loss	**5,720**	8,819	**1,332**	1,476
Accrued benefit cost	**$ (9,106)**	$ (7,443)	**$ (3,264)**	$ (2,851)
Components of net periodic benefit cost:				
Service cost	**$ 2,628**	$ 2,427	**$ 212**	$ 156
Interest cost	**1,562**	1,515	**238**	192
Expected return on plan assets	**(1,018)**	(918)	**-**	-
Net amortization and deferral	**302**	415	**132**	91
Early Retirement Incentive	**-**	-	**-**	-
Lump sum payments	**-**	-	**-**	-
Total net periodic benefit cost	**$ 3,474**	$ 3,439	**$ 582**	$ 439
Weighted-average assumptions:				
Discount rate	**6.50%**	6.50%	**6.50%**	6.50%
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

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' budget and finance committee has selected market-based benchmarks to monitor the performance of the investment strategy and perform periodic review of investment performance.

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

Asset Class	Minimum	**Target**	Maximum
Equity and equivalents	60%	**70%**	80%
Fixed income	20%	**30%**	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, 2005 and 2004 (in thousands):

	2005		2004	
	Amount	**Percent**	Amount	Percent
Equity and equivalents	**$ 9,888**	**76.00%**	$ 7,758	73.00%
Fixed income	**2,899**	**22.00%**	2,394	22.00%
Cash equivalents	**273**	**2.00%**	497	5.00%
	$ 13,060	**100.00%**	$ 10,649	100.00%

The pension plan contribution for the year ending September 30, 2006 is expected to be $2,000,000. The plan's expected payouts for the next five years and in the aggregate for the following five years are:

Fiscal Year	Payout
2006	$ 206,188
2007	$ 237,104
2008	$ 236,703
2009	$ 454,115
2010	$ 512,126
2011-2015	$ 5,809,265

The healthcare inflation rates for 2005 and 2004 are 6% and 7%, respectively. These rates are projected to gradually decrease to an ultimate rate of 4.5% by the year 2006. A 1% point increase in the healthcare inflation rate from the assumed rate could increase the accumulated post-retirement benefit obligation by approximately $892,000 as of September 30, 2005 and would increase the aggregate of the service cost and interest

Note 11. Retirement Plans (Continued)

cost components of net periodic post-retirement benefit cost for 2005 by approximately $119,000. A 1% point decrease in the healthcare inflation rate from the assumed rate could decrease the accumulated post-retirement benefit obligation by approximately $691,000 as of September 30, 2005 and would decrease the aggregate of the service cost and interest components of net periodic post-retirement benefit cost for 2005 by approximately $90,000.

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 $578,000 and $477,000, respectively, for the years ended September 30, 2005 and 2004.

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. Capital Lease Obligation

The capital lease obligation represents the amount due to the lessor on the capital lease transaction described in Note 8. CRS is required under the lease agreement to prepay the initial 30 year term in the amount of $13,465,000 no later than January 21, 2006.

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' 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 2005, this rate was $534 per employee per month, or approximately $4,200,000. 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 $4,100,000 and $3,600,000 for the years ended September 30, 2005 and 2004.

Note 14. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at September 30, 2005 and 2004 are comprised of the following (in thousands):

	2005	2004
Time restricted:		
Charitable trusts	**$ 6,111**	$ 6,474
Pooled income fund	**839**	792
Other time restricted	**142**	-
Total	**7,092**	7,266
Program restricted:	**170,271**	24,323
Total temporarily restricted net assets	**$ 177,363**	**$ 31,589**

Note 14. Temporarily and Permanently Restricted Net Assets (Continued)

Net assets were released for the following purposes during 2005 and 2004 (in thousands):

	2005	2004
Program restricted purposes met	$ **69,778**	$ 43,081
Time restricted purposes met	**-**	15
	$ **69,778**	$ 43,096

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 15. 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, 2005 and 2004, 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.

Note 16. Tsunami Emergency

On December 26, 2004 a tsunami struck South and Southeast Asia, resulting in the largest donor response in CRS' history. CRS' emergency response as well as reconstruction efforts will extend over a number of years. The following is a financial summary of the activity in Indonesia, Sri Lanka, India, Thailand and other parts of this region through September 30, 2005 (in thousands):

	Private Contributions	Other Donors, including US Government	Total
Revenue	$ **159,645**	$ **16,610**	$ **176,255**
Investment income	**2,127**	**-**	**2,127**
Total revenues	**161,772**	**16,610**	**178,382**
Total expenses	**26,198**	**15,372**	**41,570**
Net assets	$ **135,574**	$ **1,238**	$ **136,812**

Note 17. Subsequent Events

CRS executed a term loan with Bank of America on January 20, 2006 in connection with the capital lease payment obligation of $13,465,000 referred to in Note 12. This agreement matures on January 20, 2009 but automatically extends until January 20, 2012 and then, again, until January 20, 2016 if the loan is not in default. Interest accrues, and is payable monthly, at a rate based on the one-month LIBOR plus either .14% or .30% depending on the liability coverage ratio as defined in the agreement. Monthly principal payments begin on March 1, 2009 and adjust each year on the basis of full amortization through February 1, 2024.

On February 7, 2006 CRS entered into interest rate swap agreements to reduce the impact of interest rate changes on its floating debt. One agreement was executed with an initial notional principal amount of $4,855,000 of the term loan, at a fixed rate of 4.96% to be effective March 1, 2006 through October 1, 2015. A second agreement was executed with a notional principal amount of $19,145,000 in anticipation of a future issue of tax-exempt variable rate demand bonds. The contract is based on an issue rate of 67% of LIBOR, and fixes the interest rate at 3.40% effective May 1, 2006 through May 1, 2036.