Catholic Relief Services –
United States Conference of Catholic Bishops

Financial Statement as of and for the year ended September 30, 2007
And Comparative Totals for 2006 and Independent Auditor's Report

McGladrey & Pullen
Certified Public Accountants

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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, 2007, 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' 2006 financial statements and, in our report dated February 17, 2007, 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 2007 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, 2007, 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.

As described in Note 12, effective October 1, 2006, CRS adopted Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension Plan and Other Postretirement Plans*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2008 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
March 12, 2008

Catholic Relief Services -
United States Conference Of Catholic Bishops

Statement Of Financial Position
September 30, 2007
(With Comparative Totals For September 30, 2006)
(In Thousands)

Assets	2007	2006
Cash and cash equivalents	$ 66,120	$ 80,573
Accounts receivable and other assets	41,500	36,071
Construction trust assets	2,740	18,872
Investments	136,113	166,080
Segregated investments	45,494	42,953
Undistributed commodity contributions	21,691	23,220
Land, building and equipment, net	51,366	33,748
Total assets	$ 365,024	$ 401,517
Liabilities And Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 72,453	$ 48,931
Advances received for programs	29,431	26,495
Deferred revenue	21,691	23,220
Annuities payable	36,379	35,683
Long term debt	40,091	34,551
Total liabilities	200,045	168,880
Net assets		
Unrestricted	61,137	69,882
Temporarily restricted	98,658	158,203
Permanently restricted	5,184	4,552
Total net assets	164,979	232,637
Total liabilities and net assets	$ 365,024	$ 401,517

See Notes to Financial Statements.

Catholic Relief Services -
United States Conference Of Catholic Bishops

Statement Of Activities
Year Ended September 30, 2007
(With Comparative Totals For The Year Ended September 30, 2006)
(In Thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total 2007	Total 2006
Operating Revenues					
Private donor, foundation and corporate contributions:					
Catholic Relief Services collection	$ 12,332	$ -	$ -	$ 12,332	$ 11,266
Operation Rice Bowl appeal	-	7,044	-	7,044	6,625
Contributions	73,823	39,772		113,595	144,498
Bequests	14,905	-		14,905	10,931
In-kind contributions	5,010	-	-	5,010	7,652
Total contributions	106,070	46,816	-	152,886	180,972
Government, international organizations and other exchange transactions:					
Donated agricultural, other commodities and ocean freight	108,195	-	-	108,195	148,946
Grants and agreements:					
United States government	216,378	-	-	216,378	205,447
Other	38,052	-	-	38,052	23,363
Total	362,625	-	-	362,625	377,756
Investment and other income	5,281	5,250	-	10,531	10,619
Net assets released from restrictions	111,742	(111,742)	-	-	-
Total operating revenues	585,718	(59,676)	-	526,042	569,347
Operating Expenses					
Program services	560,060	-	-	560,060	561,357
Supporting services:					
Management and general	14,179	-	-	14,179	12,548
Public awareness	4,389	-	-	4,389	5,752
Fund raising	18,637	-	-	18,637	17,380
Total supporting services	37,205	-	-	37,205	35,680
Total operating expenses	597,265	-	-	597,265	597,037
Change in net assets from operations	(11,547)	(59,676)	-	(71,223)	(27,690)
Non-Operating Revenues and (Expenses)					
Endowments	-	-	248	248	605
Net change in annuities, trusts and pooled income fund	1,374	919	177	2,470	1,942
Realized and unrealized gain (loss) on investments	8,050	(788)	207	7,469	1,460
SFAS 158 Defined benefit plan adjustment	(6,622)	-	-	(6,622)	-
Total non-operating revenues and expenses, net	2,802	131	632	3,565	4,007
Change in net assets	(8,745)	(59,545)	632	(67,658)	(23,683)
Net assets, beginning of year	69,882	158,203	4,552	232,637	256,320
Net assets, end of year	$ 61,137	$ 98,658	$ 5,184	$ 164,979	$ 232,637

See Notes to Financial Statements.

Catholic Relief Services -
United States Conference Of Catholic Bishops

Statement Of Cash Flows
Year Ended September 30, 2007
(With Comparative Totals For The Year Ended September 30, 2006)
(In Thousands)

	2007	2006
Cash Flows From Operating Activities		
Change in net assets	$ (67,658)	$ (23,683)
Adjustments to reconcile change in net assets to net cash used in by operating activities:		
Depreciation	6,470	6,404
Loss on disposal of land, building and equipment	426	333
Realized gain on sales of investments	(8,253)	(706)
Unrealized loss (gain) on investments	623	(754)
Contributions restricted for long-term investment	(248)	(605)
Changes in assets and liabilities		
(Increase) decrease in:		
Accounts receivable and other assets	(5,429)	(249)
Undistributed commodity contributions	1,529	2,519
Increase (decrease) in:		
Accounts payable and accrued expenses	23,522	6,022
Advances received for programs	2,936	(6,064)
Deferred revenue	(1,529)	(2,619)
Net cash used in operating activities	(47,611)	(19,402)
Cash Flows From Investing Activities		
Proceeds from sale of land, building and equipment	426	527
Purchase of land, building and equipment	(24,940)	(10,316)
Proceeds from sales and maturities of investments	345,793	352,173
Purchase of investments	(310,737)	(329,212)
Change in construction trust assets	16,132	(18,872)
Net cash provided by (used in) investing activities	26,674	(5,700)
Cash Flows From Financing Activities		
Proceeds from long term debt	6,300	21,613
Principal payments on long-term debt	(760)	(1,520)
Increase in annuities payable, net	696	1,195
Receipts restricted for long-term investment	248	605
Net cash provided by financing activities	6,484	21,893
Net decrease in cash and cash equivalents	(14,453)	(3,209)
Cash and cash equivalents, beginning of year	80,573	83,782
Cash and cash equivalents, end of year	$ 66,120	$ 80,573
Supplemental Disclosure Of Cash Flow Information		
Cash payments for interest	$ 835	$ 226

See Notes to Financial Statements.

Catholic Relief Services -
United States Conference Of Catholic Bishops

Statement Of Functional Expenses
Year Ended September 30, 2007
(With Comparative Totals For The Year Ended September 30, 2006)
(In Thousands)

Description	Agriculture	Education	Emergency	Small Enterprise	Health	HIV and AIDS	Peace and Justice	Welfare	Program Services 2007	Program Services 2006
Program Services										
Salaries and related benefits	$ 16,778	$ 11,404	$ 32,752	$ 2,710	$ 8,716	$ 24,675	$ 5,677	$ 5,171	$ 107,883	$ 98,110
Contracting and professional fees	1,728	705	34,022	483	858	1,431	830	210	40,267	17,597
Telecommunications and postage	636	323	1,405	91	374	643	366	204	4,042	3,898
Supplies, office expenses and other	4,761	2,460	4,202	-	1,292	5,811	1,318	2,207	22,051	15,797
Occupancy	1,674	1,049	2,039	370	820	1,789	441	672	8,854	7,765
Vehicle and equipment	2,320	1,086	3,151	186	1,012	3,432	864	608	12,659	13,497
Travel, training and representation	3,616	2,602	4,709	579	2,089	6,939	2,556	762	23,852	20,061
Warehousing and freight	7,924	7,640	13,504	4	9,181	2,399	291	4,454	45,397	76,883
Publicity	9	4	7	-	-	2	2	1	25	45
Advances to implementing partners	25,385	14,712	51,613	4,804	14,409	67,011	11,927	5,051	194,912	190,923
Food, other commodities and in-kind contributions	16,935	8,151	39,774	-	7,331	18,749	155	3,038	94,133	110,748
Depreciation	288	140	92	400	141	3,011	990	923	5,985	6,033
Total expenses	$ 82,054	$ 50,276	$ 187,270	$ 9,627	$ 46,223	$ 135,892	$ 25,417	$ 23,301	$ 560,060	$ 561,357

See Notes to Financial Statements.

Catholic Relief Services -
United States Conference Of Catholic Bishops

Statement Of Functional Expenses (Continued)
Year Ended September 30, 2007
(With Comparative Totals For The Year Ended September 30, 2006)
(In Thousands)

	Management and General	Public Awareness	Fund Raising	Total Supporting Services 2007	Total Supporting Services 2006	Total Operating Expenses 2007	Total Operating Expenses 2006
Supporting Services							
Salaries and related benefits	$ 9,873	$ 2,170	$ 6,566	$ 18,609	$ 15,106	$ 126,492	$ 113,216
Contracting and professional fees	1,623	525	2,890	5,038	5,206	45,305	22,803
Telecommunications and postage	556	27	3,656	4,239	4,408	8,281	8,306
Supplies, office expenses and other	190	104	4,445	4,739	4,672	26,790	20,469
Occupancy	260	120	284	664	871	9,518	8,636
Vehicle and equipment	15	47	73	135	265	12,794	13,762
Travel, training and representation	1,138	157	568	1,863	1,760	25,715	21,821
Warehousing and freight	40	-	21	61	60	45,458	76,943
Publicity	4	1,227	133	1,364	2,895	1,389	2,940
Advances to implementing partners	3	5	-	8	66	194,920	190,989
Food, other commodities and in-kind contributions	-	-	-	-	-	94,133	110,748
Depreciation	477	7	1	485	371	6,470	6,404
Total expenses	$ 14,179	$ 4,389	$ 18,637	$ 37,205	$ 35,680	$ 597,265	$ 597,037

See 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 13 U.S. Bishops elected from the USCCB, the General Secretary of the Conference, and one religious and 7 lay members. Headquartered in Baltimore, Maryland, CRS provides services in approximately 100 countries through approximately 70 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 2007 edition of the Official Catholic Directory.

In September, 2006, CRS formed a wholly owned subsidiary, Catholic Relief Services Foundation, Inc (Foundation) to conduct certain future 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. As of the date of these financial statements the Foundation has not yet initiated fundraising activities.

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.

Note 1. Organization And Operations (Continued)

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.

HIV and 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 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, 2006. 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, 2006 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.

Note 2. Summary Of Significant Accounting Policies (Continued)

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, 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 2007 and 2006. 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 is 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 are 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.

Note 2. Summary Of Significant Accounting Policies (Continued)

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.

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.

Interest rate swap agreements: CRS accounts for its interest rate swap contracts in accordance with Financial Accounting Standards Board Statement of Financial Accounting Standards No. 133 (FAS 133), *Accounting for Derivative Instruments and Hedging Activities*. 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' risk management strategy and the effect of this strategy on the 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' interest rate swap contracts are considered to be a hedge against changes in the amount of future cash flows associated with CRS' interest payments under variable rate debt obligations. Accordingly, the interest rate swap contracts are reflected at fair value in CRS' statement of financial position and the related gain or loss on these contracts recognized in the statement of activities.

The effect of this accounting on CRS' operating results is that interest expense on the portion of variable rate debt being hedged is generally recorded based on fixed interest rates.

The fair value of interest rate swaps is the estimated amount that the bank or financial institution would receive or pay to terminate the swap agreements at the reporting date, taking into account current interest rates and the current credit worthiness of the swap counter parties.

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 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.

Note 2. Summary Of Significant Accounting Policies (Continued)

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, 2007 and 2006 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 or based on bills of lading. 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 $1,254,000 for the year ended September 30, 2007 and $1,282,000 for the year ended September 30, 2006, are allocated 25% to fundraising and 75% to program services.

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' estimates of the aggregate liability for claims incurred.

Reclassification: Certain of the 2006 comparative amounts were reclassified to conform to the 2007 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, 2007 and 2006, $65,583,000 and $80,266,000, respectively, of deposits were in excess of FDIC insurance including $37,185,000 and $29,541,000, respectively, held in numerous financial institutions outside of the United States. Short-term operating investments of $7,231,000 and $8,605,000, respectively, were also held in numerous financial institutions outside of the United States at September 30, 2007 and 2006.

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, 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 financial statements.

Note 4. Accounts Receivable And Other Assets

Accounts receivable include loans made by CRS for microfinance programming, which provide credit to the working poor, and encompass 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, 2007 and 2006 microfinance loans receivable totaled $22,405,000 and $19,844,000, respectively. As of September 30, 2007 and 2006, the allowances for doubtful accounts on all accounts receivable and microfinance loans were $5,101,000 and $5,864,000, respectively. Other assets include charitable trusts of $9,801,000 and $8,775,000 at September 30, 2007 and 2006. The remaining portion of accounts receivable and other assets at September 30, 2007 and 2006 consists of trade receivables and prepaid expenses. Included in accounts receivables and other assets is an interest rate swap instrument described in Note 10. This instrument is carried at its current market value of $343,000. The change in value of this asset is included in investment and other income.

Note 5. Construction Trust Assets

Proceeds from the bond issue described in Note 10, were deposited to a trust fund maintained by Wells Fargo Bank. This fund is used to pay interest on the bonds, construction draws and other expenses, while earnings on the trust assets are credited to the fund. At September 30, 2007 interest credited to the fund of $703,000 was used to reduce the capitalized cost of the renovation.

Note 6. Investments

The fair value by type of investment at September 30, 2007 and 2006 is as follows (in thousands):

	2007	2006
Certificates of deposit and other	$ 7,408	$ 8,936
U.S. treasury securities	28,974	20,678
Corporate debt securities	43,705	75,833
Equity securities	55,293	59,482
Accrued interest and dividends	733	1,151
	$ 136,113	$ 166,080

The components of investment return on the investments described above, cash equivalents and segregated investments for the years ended September 30, 2007 and 2006 are as follows (in thousands):

	2007	2006
Dividends and interest	$ 12,529	$ 10,863
Realized gain on investments	8,254	706
Unrealized (loss) gain on investments	(785)	754
Investment management fees	(860)	(880)
	$ 19,138	$ 11,443

Note 7. Segregated Investments

CRS is required under various statutory regulations to segregate a certain level of appropriate 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, 2007 and 2006 consist of the following (in thousands):

	2007			2006		
	Gift annuities	Pooled income	Total	Gift annuities	Pooled income	Total
Cash and cash equivalents	$ 1,976	$ 64	$ 2,040	$ 2,109	$ 46	$ 2,155
U.S. treasury securities	32,156	1,696	33,852	35,188	1,697	36,885
Corporate debt securities	823	-	823	-	-	-
Equity securities	8,206	161	8,367	3,373	164	3,537
Accrued interest	412	-	412	376	-	376
Totals	$ 43,573	$ 1,921	$ 45,494	$ 41,046	$ 1,907	$ 42,953

During the years ended September 30, 2007 and 2006, CRS received $4,300,000 and $4,600,000, respectively, of new charitable gift annuities and pooled income fund contributions, earned net investment income of $1,900,000 and $1,900,000, respectively, and made contractual annuity payments of $4,200,000 and $4,000,000, respectively.

During the years ended September 30, 2007 and 2006, the pooled income fund made earnings distributions of $78,000 and $97,000, 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 8. 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 foreign currency translation gains of $756,000 for the year ended September 30, 2007 and $2,543,000 for the year ended September 30, 2006, are included in supplies, office expenses, other expenses and investment income.

At September 30, 2007 and 2006, assets of approximately $110,278,000 and $100,022,000, respectively, which consist primarily of cash, short-term investments, receivables and equipment, and $79,650,000 and $69,462,000, respectively, of liabilities are associated with activities in countries outside the United States.

Note 9. Land, Building And Equipment

Land, building and equipment, at cost, at September 30, 2007 and 2006 are summarized as follows (in thousands):

	2007	2006
Land	$ 1,834	$ 1,834
Building and improvements	33,546	21,667
Furniture and equipment	58,320	53,648
	93,700	77,149
Less accumulated depreciation	(45,132)	(43,401)
	48,568	33,748
Building held for sale	2,798	-
	$ 51,366	$ 33,748

Land, building and equipment includes restricted and grant assets of $3,816,000 and $5,094,000 at September 30, 2007 and 2006, respectively. Of these assets, $2,707,000 at September 30, 2007 and $3,366,000 at September 30, 2006 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 under this agreement of $13,465,000, was paid 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 occupied its new headquarters building, at 228 West Lexington St., Baltimore, Maryland at the end of July, 2007 with the building substantially complete. Land, building and equipment at September 30, 2007 include $34,109,000 for leasehold improvements, capitalized lease and other costs expended, including capitalized interest of $817,000, for the new 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 3-5 years for its US Operations. Rental expenses for the years ended September 30, 2007 and 2006 were $3,764,000 and $3,284,000, respectively.

Minimum annual lease payments on operating leases are:

Years Ending September 30,	
2008	$ 208,076
2009	168,570
2010	167,133
2011	96,999
2012	26,501
	$ 667,279

Note 10. Long Term Debt

Long term debt includes various notes payable by CRS' wholly owned subsidiary in Cambodia, Thaneakea Phum (Cambodia) Ltd, (TPC), in addition to a term loan and tax exempt bonds payable in connection with the renovations of CRS' new headquarters building. None of the obligations of TPC have recourse to the other assets of CRS.

TPC has entered into a number of loans with both financial institutions and other private organizations to fund its microfinance lending capital. These loans range in amount from $250,000 to $1,177,000, denominated in US dollars, Cambodian riel and Thai baht. Most include origination fees of between 1% - 1.5% and carry interest rates of from 5.75% - 13% per annum. These have maturities of between one and three years through 2010.

TPC also has several small loans with one year terms at 12% which automatically renew unless called by the borrower 30 days prior to maturity. These have various maturity dates in 2008, and total $32,000.

To finance the capital lease obligation for its new headquarters building, CRS has an outstanding term loan with Bank of America in the amount of $12,445,000. The loan matures on May 1, 2009 but automatically extends until May 1, 2012 and then, again, until May 1, 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 June 1, 2008 and adjust each year on the basis of full amortization through May 1, 2023.

In June 2006, CRS 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 of Aa1.

The bond agreement contains certain financial and non-financial covenants.

CRS entered into interest rate swap agreements to reduce the impact of interest rate changes on its floating rate term loan and tax-exempt bonds. One swap agreement was executed with notional principal amount of $4,855,000 of the taxable term loan, at a fixed rate of 4.96% to be effective March 1, 2006 through October 2015. A second 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% of LIBOR, and fixes the interest rate at 3.40% effective May 1, 2006 through May 1, 2036.

Interest due on the term loan and the bonds in connection with the headquarters building was capitalized while the space was under renovation and unoccupied.

Future annual maturities on long term debt as of September 30, 2007 are as follows (in thousands):

Years Ending September 30,		
2008	$	3,885
2009		3,190
2010		2,411
2011		651
2012		691
2013-2036		29,263
	$	40,091

Note 11. Commodities Received And Other In-Kind Contributions

Commodities received and other in-kind contributions for the years ended September 30, 2007 and 2006 consist of the following (in thousands):

		2007		2006
Agricultural commodities donated by USAID and USDA	$	46,685	$	60,895
Commodities and other contributions provided by the European Union, UN and other donors		25,277		25,681
Ocean freight		36,233		62,370
Total agricultural commodities and ocean freight	$	108,195	$	148,946
Medical supplies and other tangible assets	$	4,410	$	4,033
Donated services		600		3,619
Total in-kind contributions	$	5,010	$	7,652

Note 12. Retirement Plans

CRS has a non-contributory defined benefit pension 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, 2007 and 2006, paid $140,000 and $128,000, respectively, for retirees' healthcare coverage.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 132(R). Statement No. 158 applies to employers that sponsor single-employer defined benefit pension and other postretirement plans, including not-for-profit organizations. The Statement requires that the full funded status of defined benefit plans be recognized in the financial statements. Funded status is defined as the difference between the projected benefit obligations and the fair value of the plan assets. Under previous accounting standards, employers were required to disclose in the notes to the financial statements the funded status of the plans and record the current benefit cost or income. The effect on the financial statements of adopting SFAS No. 158 is a decrease in the change in unrestricted net assets of $6,622,000.

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, 2007 and 2006 ($ in thousands):

	Pension Benefits		Post Retirement Health	
	2007	2006	2007	2006
Change in projected benefit obligation:				
Benefit obligation at beginning of period	$ 33,748	$ 28,039	$ 4,239	$ 4,058
Service cost	3,533	3,110	268	226
Interest cost	2,190	1,877	283	248
Actuarial (gain) loss	77	980	183	(165)
Benefits paid	(317)	(259)	(140)	(128)
Benefit obligation at end of period	$ 39,231	$ 33,747	$ 4,833	$ 4,239
Change in plan assets:				
Fair value of plan assets at beginning of period	$ 16,848	$ 13,060	$ -	$ -
Actual return on plan assets	2,248	931	-	-
Employer contributions	3,005	3,116	140	128
Benefits paid	(317)	(259)	(140)	(128)
Fair value of plan assets at end of period	21,784	16,848	-	-
Funded status at end of year:	$ (17,447)	$ (16,899)	$ (4,833)	$ (4,239)
Amounts recognized in statement of financial position:	$ (17,447)	$ (16,899)	$ (4,833)	$ (4,239)
Amounts recognized in non-operating revenues and expenses:				
Unrecognized transition obligation	$ -	$ -	$ 1,044	$ 1,188
Unrecognized prior service cost	118	135	-	-
Net loss (gain)	5,958	6,810	(498)	(684)
Accrued benefit cost - Effect of SFAS No. 158	$ 6,076	$ 6,945	$ 546	$ 504
Components of net periodic benefit cost:				
Service cost	$ 3,533	$ 3,111	$ 268	$ 226
Interest cost	2,190	1,878	283	248
Expected return on plan assets	(1,570)	(1,276)	-	-
Net amortization and deferral	309	331	141	126
Total net periodic benefit cost	$ 4,462	$ 4,044	$ 692	$ 600
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 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. 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 pension 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, 2007 and 2006 ($ in thousands):

	2007		2006	
	Amount	Percent	Amount	Percent
Equity and equivalents	$ 14,340	65.9%	$ 11,705	69.5%
Fixed income	5,999	27.5%	3,694	21.9%
Cash equivalents	1,445	6.6%	1,449	8.6%
	$ 21,784	100.0%	$ 16,848	100.0%

The pension plan contribution for the year ending September 30, 2008 is expected to be $2,467,000. The plan's expected payouts for the next five years and in the aggregate for the following five years are:

Fiscal Year	Payout
2008	$ 234,364
2009	452,014
2010	534,210
2011	694,008
2012	911,454
2013-2017	9,763,672

Note 12. Retirement Plans (Continued)

The healthcare inflation rates for 2007 and 2006 are assumed to be 4.5% and 5.5%, respectively. The 4.5% ultimate rate was projected to be reached by the year 2007. A 1% point increase in the healthcare inflation rate from the assumed rate could increase the accumulated post-retirement health benefit obligation by approximately $1,099,000 as of September 30, 2007 and would increase the aggregate of the service cost and interest cost components of net periodic post-retirement health benefit cost for 2007 by approximately $145,000. A 1% point decrease in the healthcare inflation rate from the assumed rate could decrease the accumulated post-retirement health benefit obligation by approximately $849,000 as of September 30, 2007 and would decrease the aggregate of the service cost and interest components of net periodic post-retirement health benefit cost for 2007 by approximately $110,000.

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 $733,000 and $635,000, respectively, for the years ended September 30, 2007 and 2006.

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

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 2007, this rate was $660 per employee per month, or approximately $6,400,000. 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 $4,700,000 and $4,000,000 for the years ended September 30, 2007 and 2006.

Note 14. Temporarily Restricted Net Assets

Temporarily restricted net assets at September 30, 2007 and 2006 are comprised of the following (in thousands):

	2007	2006
Time restricted:		
Charitable trusts	$ 7,497	$ 6,649
Pooled income fund	747	723
Other time restricted	342	143
Total	8,586	7,515
Program restricted:	90,072	150,688
Total temporarily restricted net assets	$ 98,658	$ 158,203

Note 14. Temporarily Restricted Net Assets (Continued)

Net assets were released for the following purposes during 2007 and 2006 (in thousands):

	2007	2006
Program restricted purposes met	$ 111,695	$ 114,094
Time restricted purposes met	47	-
	$ 111,742	$ 114,094

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. 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, 2007 and 2006, 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 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, 2007 (in thousands):

	Private Contributions	Other Donors, including US Government	Total
Revenue, cumulative through September 30, 2007	$ 162,799	$ 29,303	$ 192,102
Investment income	10,962	-	10,962
Total revenues	173,761	29,303	203,064
Total expenses	125,375	29,303	154,678
Net assets at September 30, 2007	$ 48,386	$ -	$ 48,386

Note 17. Sale Of Former Headquarters Land And Building

On October 30, 2007, CRS sold its former headquarters land and building located at 209 West Fayette St., Baltimore, Maryland for $6,900,000, generating net cash proceeds of approximately $6,700,000 after settlement charges and resulting in a net gain of $3,860,000.