

# **CARE USA and subsidiaries**

**Consolidated Financial Statements**

**For the years ended**

**June 30, 2009 and 2008**

**CARE USA**  
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**For the years ended June 30, 2009 and 2008**

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## Report of Independent Auditors

To the Board of Directors  
Cooperative for Assistance and Relief Everywhere USA

We have audited the accompanying consolidated balance sheets of Cooperative for Assistance and Relief Everywhere USA (CARE USA) and subsidiaries as of June 30, 2009 and 2008, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of CARE USA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of CARE USA's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CARE USA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of CARE USA as of June 30, 2009 and 2008, and the consolidated changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 4 of the Notes to the Consolidated Financial Statements, CARE USA adopted FASB Staff Position 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*.

*Ernst + Young LLP*

December 3, 2009

**CARE USA**  
**Consolidated Balance Sheets**  
**As of June 30, 2009 and 2008 (in thousands)**

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	<b>2009</b>	<b>Restated 2008</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 70,115	\$ 110,346
Investments, at fair value	160,072	202,654
Receivables, net	17,092	29,564
Loans receivable, net	214,245	167,497
Inventory	11,889	17,801
Deposits and other assets	56,136	68,500
Property and equipment, net	25,504	24,250
Trusts held by third parties	89,286	112,056
<b>Total Assets</b>	<b><u>\$ 644,339</u></b>	<b><u>\$ 732,668</u></b>
<b>Liabilities and Net Assets</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 50,066	\$ 60,195
Program advances	66,312	122,854
Liability for split interest agreements	19,565	22,362
Benefits accrued for employees	29,137	31,288
Subsidiary loans payable	173,178	132,210
Minority interest in subsidiary	8,591	6,996
<b>Total Liabilities</b>	<b><u>346,849</u></b>	<b><u>375,905</u></b>
Commitments and Contingencies		
Net Assets		
Unrestricted	65,799	77,810
Temporarily restricted	124,362	146,861
Permanently restricted	107,329	132,092
<b>Total Net Assets</b>	<b><u>297,490</u></b>	<b><u>356,763</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 644,339</u></b>	<b><u>\$ 732,668</u></b>

**CARE USA**  
**Consolidated Statements of Activities (in thousands)**

**For the year ended June 30, 2009**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total 2009</b>	<b>Restated Summarized 2008</b>
<b>Support</b>					
Private Support					
Contributions	\$ 62,344	\$ 44,116	\$ 220	\$ 106,680	\$ 139,934
CARE International	133,934	-	-	133,934	147,643
Total Private Support	196,278	44,116	220	240,614	287,577
Government and other support					
U.S. government	274,867	-	-	274,867	267,177
Host governments	20,729	-	-	20,729	25,008
Others	145,731	-	-	145,731	104,639
Total Government and Other Support	441,327	-	-	441,327	396,824
<b>Other Revenue</b>					
Interest and dividends	8,905	3,111	-	12,016	17,325
Rent and miscellaneous	6,541	134	-	6,675	5,421
Total Other Revenue	15,446	3,245	-	18,691	22,746
Net assets released from restrictions					
Satisfaction of program restrictions	59,097	(59,097)	-	-	-
Revision of donor restrictions	-	2,000	(2,000)	-	-
Total net assets released from restrictions	59,097	(57,097)	(2,000)	-	-
<b>Total Operating Support and Revenue</b>	<b>712,148</b>	<b>(9,736)</b>	<b>(1,780)</b>	<b>700,632</b>	<b>707,147</b>
<b>Expenses</b>					
Program					
Emergency	108,793			108,793	106,260
Rehabilitation	29,934			29,934	17,940
Development	503,765			503,765	484,032
Public Information	9,100			9,100	8,519
Supporting Activities					
Fund raising	24,169			24,169	28,023
Management and general	32,625			32,625	28,434
<b>Total Operating Expenses</b>	<b>708,386</b>	<b>-</b>	<b>-</b>	<b>708,386</b>	<b>673,208</b>
<b>Operating Support and Revenue over Expenses</b>	<b>3,762</b>	<b>(9,736)</b>	<b>(1,780)</b>	<b>(7,754)</b>	<b>33,939</b>
<b>Other Nonoperating Changes in Net Assets</b>					
Minority interest in subsidiary income	(1,937)	-	-	(1,937)	(4,725)
Foreign exchange (loss)/gain	(2,075)	-	-	(2,075)	2,068
Interest and dividends on gift annuity investments	941	-	-	941	976
Actuarial loss on annuity obligations	(281)	-	-	(281)	(2,037)
Actuarial (loss)/gain on split interest agreements	160	349	-	509	(77)
Net realized and unrealized loss on investments	(12,396)	(13,112)	-	(25,508)	(13,155)
Decrease in value of trusts held by third parties	-	-	(22,983)	(22,983)	(14,586)
Total Changes in Net Assets before change in pension liability	(11,826)	(22,499)	(24,763)	(59,088)	2,403
Net change in pension liability	(185)	-	-	(185)	413
Change in net assets	(12,011)	(22,499)	(24,763)	(59,273)	2,816
Net Assets, beginning of year as previously reported	77,810	146,861	132,092	356,763	351,547
Correction of prior year error	-	-	-	-	8,023
Change in reporting entity	-	-	-	-	(5,623)
Net Assets, beginning of year as restated	77,810	146,861	132,092	356,763	353,947
Net Assets, end of year	\$ 65,799	\$ 124,362	\$ 107,329	\$ 297,490	\$ 356,763

**CARE USA**  
**Consolidated Statements of Activities (in thousands)**

**For the year ended June 30, 2008 - Restated**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2008
Support				
Private Support				
Contributions	\$ 74,964	\$ 64,970	\$ -	\$ 139,934
CARE International	147,643	-	-	147,643
Total Private Support	<u>222,607</u>	<u>64,970</u>	<u>-</u>	<u>287,577</u>
Government and other support				
U.S. government	267,177	-	-	267,177
Host governments	25,008	-	-	25,008
Others	104,639	-	-	104,639
Total Government and Other Support	<u>396,824</u>	<u>-</u>	<u>-</u>	<u>396,824</u>
Other Revenue				
Interest and dividends	13,838	3,487	-	17,325
Rent and miscellaneous	5,421	-	-	5,421
Total Other Revenue	<u>19,259</u>	<u>3,487</u>	<u>-</u>	<u>22,746</u>
Net assets released from restrictions				
Satisfaction of program restrictions	47,499	(47,499)	-	-
Total net assets released from restrictions	<u>47,499</u>	<u>(47,499)</u>	<u>-</u>	<u>-</u>
Total Operating Support and Revenue	<u>686,189</u>	<u>20,958</u>	<u>-</u>	<u>707,147</u>
Expenses				
Program				
Emergency	106,260			106,260
Rehabilitation	17,940			17,940
Development	484,032			484,032
Public information	8,519			8,519
Supporting Activities				
Fund raising	28,023			28,023
Management and general	28,434			28,434
Total Operating Expenses	<u>673,208</u>			<u>673,208</u>
Operating Support and Revenue over Expenses	12,981	20,958	-	33,939
Other Nonoperating Changes in Net Assets				
Minority interest in subsidiary income	(4,725)	-	-	(4,725)
Foreign exchange gain (loss)	2,068	-	-	2,068
Interest and dividends on gift annuity investments	976	-	-	976
Actuarial loss on annuity obligations	(2,037)	-	-	(2,037)
Actuarial (loss)/gain on split interest agreements	10	(87)	-	(77)
Net realized and unrealized loss on investments	(7,506)	(5,649)	-	(13,155)
Net unrealized loss on trusts held by third parties	-	-	(14,586)	(14,586)
Total Changes in Net Assets before change in pension liability	<u>1,767</u>	<u>15,222</u>	<u>(14,586)</u>	<u>2,403</u>
Net change in pension liability	413	-	-	413
Change in net assets	<u>2,180</u>	<u>15,222</u>	<u>(14,586)</u>	<u>2,816</u>
Net Assets, beginning of year as previously reported	85,687	121,814	144,046	351,547
Correction of prior year error	7,122	(1,731)	2,632	8,023
Change in reporting entity	(5,623)	-	-	(5,623)
Net Assets, beginning of year as restated	<u>87,186</u>	<u>120,083</u>	<u>146,678</u>	<u>353,947</u>
Net Assets, end of year	89,366	135,305	132,092	356,763
Cumulative effect of change in accounting principle	(11,556)	11,556	-	-
Net Assets, end of year as adjusted	<u>\$ 77,810</u>	<u>\$ 146,861</u>	<u>\$ 132,092</u>	<u>\$ 356,763</u>

# CARE USA

## Consolidated Statements of Functional Expenses *(in thousands)*

For the year ended June 30, 2009

	Program Activities					Supporting Activities		2009 Total	2008 Total
	Emergency	Rehabilitation	Development	Public Information	Total	Fund Raising	Management & General		
Personnel costs	\$ 22,818	\$ 8,766	\$ 117,054	\$ 5,662	\$ 154,300	\$ 7,230	\$ 18,214	\$ 179,744	\$ 175,300
Professional services	1,682	853	20,298	1,551	24,384	1,808	5,321	31,513	28,267
Equipment	1,759	534	6,015	218	8,526	63	1,242	9,831	10,049
Materials and services	41,746	9,133	78,567	1,141	130,587	12,997	1,885	145,469	140,094
Travel and transportation	6,007	2,482	34,266	343	43,098	490	2,123	45,711	47,897
Occupancy	2,885	1,330	14,087	110	18,412	547	1,595	20,554	19,320
Financing/Depn/Misc.	584	1,427	54,662	43	56,716	985	482	58,183	48,347
Grants/Subgrants	5,998	5,409	106,394	10	117,811	46	10	117,867	128,803
AgCommodities/CIKs	25,314	-	72,422	22	97,758	3	1,753	99,514	75,131
<b>Total Operating Expenses for 2009</b>	<b>\$ 108,793</b>	<b>\$ 29,934</b>	<b>\$ 503,765</b>	<b>\$ 9,100</b>	<b>\$ 651,592</b>	<b>\$ 24,169</b>	<b>\$ 32,625</b>	<b>\$ 708,386</b>	<b>\$ 673,208</b>

**CARE USA****Consolidated Statements of Functional Expenses (in thousands)****For the year ended June 30, 2008 - Restated**

	Program Activities					Supporting Activities		2008 Total
	Emergency	Rehabilitation	Development	Public Information	Total	Fund Raising	Management & General	
Personnel costs	\$ 23,570	\$ 9,437	\$ 112,609	\$ 3,989	\$ 149,605	\$ 9,000	\$ 16,695	\$ 175,300
Professional services	2,285	665	16,204	2,239	21,393	2,253	4,621	28,267
Equipment	1,468	587	6,276	238	8,569	151	1,329	10,049
Materials and services	39,768	3,477	78,860	1,229	123,334	14,559	2,201	140,094
Travel and transportation	6,428	2,618	35,693	732	45,471	766	1,660	47,897
Occupancy	3,257	1,184	12,602	57	17,100	546	1,674	19,320
Financing/Depn/Misc.	377	(3,059)	50,149	23	47,490	739	118	48,347
Grants/Subgrants	9,859	3,031	115,789	2	128,681	1	121	128,803
AgCommodities/CIKs	19,248	-	55,850	10	75,108	8	15	75,131
<b>Total Operating Expenses for 2008</b>	<b>\$ 106,260</b>	<b>\$ 17,940</b>	<b>\$ 484,032</b>	<b>\$ 8,519</b>	<b>\$ 616,751</b>	<b>\$ 28,023</b>	<b>\$ 28,434</b>	<b>\$ 673,208</b>



**CARE USA**  
**Consolidated Statements of Cash Flow (in thousands)**  
**For the years ended June 30, 2009 and 2008**

	<u>2009</u>	<u>Restated 2008</u>
<b>CASH FLOWS FROM FOR OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ (59,273)	\$ 2,816
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation and amortization	5,496	3,100
Contributions restricted for investment in endowment	(220)	-
Provision for subsidiary microcredit loan losses	3,654	754
Unrealized loss on derivative contracts	2,575	-
Net realized and unrealized loss on investments	25,508	13,155
Actuarial loss on annuity obligations	281	2,037
Actuarial (gain)/loss on split interest agreements	(509)	77
Decrease in value of trusts held by third parties	22,983	14,586
Changes in assets and liabilities	-	-
Decrease/(Increase) in receivables	12,472	(1,847)
Decrease in inventory	5,912	33,031
Decrease/(Increase) in deposits and other assets	12,364	(7,348)
(Decrease)/Increase in accounts payable and accrued expenses	(12,704)	13,672
Decrease in program advances	(56,542)	(9,594)
(Decrease)/Increase in benefits accrued for employees	(2,151)	842
<b>Net cash (used in) provided by operating activities</b>	<u>(40,154)</u>	<u>65,281</u>
 <b>CASH FLOWS USED FOR INVESTING ACTIVITIES:</b>		
Purchases of investments	(110,003)	(212,097)
Proceeds from sales of investments	127,077	213,153
Purchases of property and equipment	(7,053)	(15,174)
Proceeds from sales of property and equipment	303	245
<b>Net cash provided by (used in) investing activities</b>	<u>10,324</u>	<u>(13,873)</u>
 <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from contributions restricted for investment in endowment	220	-
Increase in loans receivable	(50,402)	(66,357)
Increase in subsidiary loans payable	40,968	42,360
Increase in minority interest in subsidiary	1,595	4,246
Payments to gift annuitants	(2,445)	(2,523)
(Decrease)/Increase in liability for split interest agreements	(337)	800
<b>Net cash and cash equivalents (used in) financing activities</b>	<u>(10,401)</u>	<u>(21,474)</u>
 <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(40,231)	29,934
 <b>CASH AND CASH EQUIVALENTS, beginning of year</b>	110,346	80,412
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 70,115</u>	<u>\$ 110,346</u>
 Noncash Contributions	<u>\$ 8,402</u>	<u>\$ 22,199</u>
 Cash paid for interest	<u>\$ 14,979</u>	<u>\$ 10,130</u>

# CARE USA

## Notes to Consolidated Financial Statements

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### 1. Organization

The Cooperative for Assistance and Relief Everywhere, Inc. ("CARE USA or the Organization") is a not-for-profit organization formed in 1945 under the laws of the District of Columbia. Its headquarters are located in Atlanta, Georgia. CARE USA operates programs in nearly 70 countries throughout Africa, Asia, Europe and South America. CARE USA's mission is to serve individuals and families in the poorest communities in the world. CARE USA promotes innovative solutions and is an advocate for global responsibility. CARE USA attempts to facilitate lasting change by:

- Strengthening capacity for self-help;
- Providing economic opportunity;
- Delivering relief in emergencies;
- Influencing policy decisions at all levels; and
- Addressing discrimination in all its forms.

CARE USA is a member of CARE International, an umbrella organization that coordinates the program activities of the CARE International member organizations. In the regular course of its operations, CARE USA makes certain grants to CARE International and its member organizations and receives certain funding from members of CARE International.

CARE USA operates a variety of programs including:

#### **Agriculture and Natural Resources**

Includes, but is not limited to: sustainable activities to increase production and incomes while protecting natural resources such as post-harvest practices (storage/processing), planting trees on private and community lands, and the supply of seeds and tools (usually in relief situations).

#### **Basic and Girls' Education**

Includes, but is not limited to: reducing barriers to school attendance, improving the quality of instruction and integrating life-skills programs into literacy and other non-formal education activities.

#### **Children's Health**

Includes, but is not limited to: disease prevention (e.g. malaria and pneumonia), immunization, control of diarrhea disease, nutrition education, breast feeding, addressing micronutrient deficiencies and home gardening.

#### **Reproductive Health**

Includes, but is not limited to: family planning, maternal and newborn health services, and prevention, detection and management of sexually transmitted infections, including HIV/AIDS.

**2. Organization (continued)**

**Water and Sanitation**

Includes, but is not limited to: access to water supplies, local management of watersheds, hygiene education, sanitation, solid waste management and crop irrigation.

**Integrated and Other Health**

Includes a combination of the above health sectors, with none predominant and/or other health interventions not covered above, such as prevention of chronic and infectious diseases.

**Nutritional Support**

Includes, but is not limited to: feeding of children under age 5, food distribution and on-site feeding, feeding of pregnant or lactating women, feeding of school children and general feeding (such as in relief situations).

**Infrastructure**

Includes roads, bridges, buildings, shelters and other construction or maintenance (commonly done through food-for-work or cash-for-work).

**Small Economic Activity Development**

Includes, but is not limited to: finance-related services such as loans to individuals, loans to solidarity or other community groups, savings programs, business development, business management training, technical training and marketing.

**Multi-Sector and Other**

Multi-sector projects include activities related to three or more sectors, none of which is predominant. Other includes certain activities that cannot be classified in any of the sectors described above. Examples are logistical support not related to infrastructure or nutrition programs during emergencies, and land mine awareness and removal activities.

Certain information concerning CARE USA's affiliates and subsidiaries is as follows:

Financiera Edyficar ("Edyficar") is a for profit corporation in Peru in which CARE USA owns of 80% of the outstanding shares. It is primarily engaged in raising financial resources in order to provide micro-credit loans to Peruvian individuals and organizations.

SEED Finance is a for profit affiliate located in the Philippines. It is primarily engaged in providing micro-credit loans to Filipino individuals and organizations.

MOFAD is a non-profit affiliate operating in Afghanistan. It is primarily engaged in providing micro-credit loans to Afghan individuals and organizations.

**CARE USA**  
**Notes to Consolidated Financial Statements**

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**1. Organization (continued)**

CARE India Trust and CISSD are non-profit affiliates operating in India. They are primarily engaged in administering health and nutrition programs funded by the Indian government.

**Change in Reporting Entity**

During the year ended June 30, 2009, CARE USA decreased its membership on the Board of Directors of Anukul Foundation, a not-for-profit micro-finance entity operating in Bangladesh, below the level where CARE USA is able to exercise control over Anukul. Accordingly, Anukul's balance sheet as of June 30, 2009 and the results of its operations for the year then ended are not included in CARE USA's June 30, 2009 consolidated financial statements. The consolidated financial statements as of and for the year ended June 30, 2008 have been restated for the retroactive application of this change in reporting entity. See the following tables for the effect of the change in reporting entity on the consolidated financial statement line items.

	<u>Previously Reported</u>	<u>Change in Reporting Entity</u>	<u>Restated 2008</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 111,100	\$ (754)	\$ 110,346
Investments, at fair value	204,980	(2,326)	202,654
Receivables, net	29,564	-	29,564
Loans receivable, net	170,298	(2,801)	167,497
Inventory	17,801	-	17,801
Deposits and other assets	68,514	(14)	68,500
Property and equipment, net	24,251	(1)	24,250
Trusts held by third parties	112,056	-	112,056
<b>Total Assets</b>	<u>\$ 738,564</u>	<u>\$ (5,896)</u>	<u>\$ 732,668</u>
<b>Liabilities and Net Assets</b>			
Liabilities			
Accounts payable and accrued expenses	\$ 60,150	\$ 45	\$ 60,195
Program advances	122,871	(17)	122,854
Liability for split interest agreements	22,362	-	22,362
Benefits accrued for employees	31,297	(9)	31,288
Subsidiary loans payable	132,220	(10)	132,210
Minority interest in subsidiary	6,996	-	6,996
<b>Total Liabilities</b>	<u>375,896</u>	<u>9</u>	<u>375,905</u>
Commitments and contingencies			
Net Assets			
Unrestricted	95,271	(17,461)	77,810
Temporarily restricted	135,305	11,556	146,861
Permanently restricted	132,092	-	132,092
<b>Total Net Assets</b>	<u>362,668</u>	<u>(5,905)</u>	<u>356,763</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 738,564</u>	<u>\$ (5,896)</u>	<u>\$ 732,668</u>

**CARE USA**  
**Notes to Consolidated Financial Statements**

**1. Organization (continued)**

	<b>Previously Reported</b>	<b>Change in Reporting Entity</b>	<b>Restated 2008</b>
<b>Support</b>			
Private Support			
Contributions	\$ 139,934	\$ -	\$ 139,934
CARE International	147,643	-	147,643
Total Private Support	<u>287,577</u>	<u>-</u>	<u>287,577</u>
Government and other support			
U.S. government	267,177	-	267,177
Host governments	25,008	-	25,008
Others	105,318	(679)	104,639
Total Government and Other Support	<u>397,503</u>	<u>(679)</u>	<u>396,824</u>
<b>Other Revenue</b>			
Interest and dividends	17,325	-	17,325
Rent and miscellaneous	5,421	-	5,421
Total Other Revenue	<u>22,746</u>	<u>-</u>	<u>22,746</u>
<b>Total Operating Support and Revenue</b>	<u>707,826</u>	<u>(679)</u>	<u>707,147</u>
<b>Expenses</b>			
Program			
Emergency	106,260	-	106,260
Rehabilitation	17,940	-	17,940
Development	484,429	(397)	484,032
Public Information	8,519	-	8,519
Supporting Activities			
Fund raising	28,023	-	28,023
Management and general	28,434	-	28,434
<b>Total Operating Expenses</b>	<u>673,605</u>	<u>(397)</u>	<u>673,208</u>
<b>Operating Support and Revenue over Expenses</b>	34,221	(282)	33,939
<b>Other Nonoperating Changes in Net Assets</b>			
Minority interest in subsidiary income	(4,725)	-	(4,725)
Foreign exchange gain	2,068	-	2,068
Interest and dividends on gift annuity investments	976	-	976
Actuarial loss on annuity obligations	(2,037)	-	(2,037)
Actuarial (loss)/gain on split interest agreements	(77)	-	(77)
Net realized and unrealized loss on investments	(13,155)	-	(13,155)
Decrease in value of trusts held by third parties	(14,586)	-	(14,586)
Total Changes in Net Assets before change in pension liability	<u>2,685</u>	<u>(282)</u>	<u>2,403</u>
Net change in pension liability	413	-	413
Change in net assets	<u>3,098</u>	<u>(282)</u>	<u>2,816</u>
Net Assets, beginning of year as previously reported	351,547	-	351,547
Correction of an error	8,023	-	8,023
Change in reporting entity	-	(5,623)	(5,623)
Net Assets, beginning of year as restated	<u>359,570</u>	<u>-</u>	<u>353,947</u>
Net Assets, end of year	<u>\$ 362,668</u>	<u>\$ (5,905)</u>	<u>\$ 356,763</u>

**CARE USA**  
**Notes to Consolidated Financial Statements**

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**1. Organization (continued)**

	Previously Reported	Change in Reporting Entity	Restated 2008
<b>CASH FLOWS FROM FOR OPERATING ACTIVITIES:</b>			
Changes in net assets	\$ 3,098	\$ (282)	\$ 2,816
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities			
Depreciation and amortization	3,100	-	3,100
Provision for subsidiary microcredit loan losses	816	(62)	754
Net realized and unrealized loss on investments	13,155	-	13,155
Actuarial loss on annuity obligations	2,037	-	2,037
Actuarial loss on split interest agreements	77	-	77
Decrease in value of trusts held by third parties	14,586	-	14,586
Changes in assets and liabilities			
Decrease in receivables	(1,847)	-	(1,847)
Decrease in inventory	33,031	-	33,031
Increase in deposits and other assets	(7,348)	-	(7,348)
Increase in accounts payable and accrued expenses	14,007	(335)	13,672
Decrease in program advances	(9,594)	-	(9,594)
Increase in benefits accrued for employees	842	-	842
<b>Net cash (used in) provided by operating activities</b>	<u>65,960</u>	<u>(679)</u>	<u>65,281</u>
<b>CASH FLOWS USED FOR INVESTING ACTIVITIES:</b>			
Purchases of investments	(212,097)	-	(212,097)
Proceeds from sales of investments	213,153	-	213,153
Purchases of property and equipment	(15,174)	-	(15,174)
Proceeds from sales of property and equipment	245	-	245
<b>Net cash (used in) provided by investing activities</b>	<u>(13,873)</u>	<u>-</u>	<u>(13,873)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Increase in microcredit loans receivable	(67,036)	679	(66,357)
Increase in subsidiary loans payable	42,360	-	42,360
Increase in minority interest in subsidiary	4,246	-	4,246
Payments to gift annuitants	(2,523)	-	(2,523)
Increase in liability for split interest agreements	800	-	800
<b>Net cash and cash equivalents (used in) financing activities</b>	<u>(22,153)</u>	<u>679</u>	<u>(21,474)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	29,934	-	29,934
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	81,166	(754)	80,412
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 111,100</u>	<u>\$ (754)</u>	<u>\$ 110,346</u>

**2. Summary of Significant Accounting Policies****Principles of Consolidation**

The consolidated financial statements include the accounts of CARE USA and its domestic and non-USA subsidiaries that are consolidated in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). All significant intercompany transactions have been eliminated. Consolidated subsidiaries include Financiera Edyficar, SEED Finance, MOFAD, CARE India Trust, and CISSD. Gains and losses from the translation of foreign currency financial statements are recorded in the consolidated statements of activities.

**Cash and Cash Equivalents**

Cash and cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to cash on demand without penalty, and having maturities of three months or less, when purchased, with the exception of cash held for reinvestment which is included as investments.

Cash and cash equivalents held in the United States are insured according to FDIC regulations. The majority of cash and cash equivalents are held in accounts with balances exceeding the insured limit. Cash amounts maintained overseas are largely uninsured. Cash and cash equivalents held in the United States were \$15.7 million and \$26.4 million, respectively, for the years ended June 30, 2009 and 2008. Cash and cash equivalents held outside the United States were \$54.4 million and \$83.9 million (including \$16.3 million for 2009 and \$20.3 million for 2008 in subsidiaries), respectively, for the years ended June 30, 2009 and 2008.

In addition, certain donors require certain cash be held in separate accounts. Donor restricted cash accounts totaled \$18.7 million at June 30, 2009.

**Investments**

Investments with readily determinable values are stated at fair value.

The fair value for investments in securities traded on national securities exchanges is based upon the last reported sales price on the last business day of the year. The fair value for securities traded on the over-the-counter market is based upon the last reported bid price.

Investment income and net appreciation (depreciation) on investments of donor restricted amounts are reported as follows:

- As increases in permanently restricted net assets if the terms of the gift or relevant state law require that they be added back to the principal of the permanently restricted contributions.
- As increases (decreases) in temporarily restricted net assets if the terms of the gift or state law impose restrictions on the current use of the investment income or net appreciation (depreciation).

**2. Summary of Significant Accounting Policies (continued)**

- As increases (decreases) in unrestricted net assets in all other cases.

Charitable gift annuities are maintained in separate portfolios and are invested in accordance with applicable laws for such monies. CARE USA maintains assets sufficient to meet the annuity requirements stipulated by the various state laws.

**Receivables**

Receivables represent grants and contracts receivables, ocean freight receivable from the United States Agency for International Development (USAID) and contributions receivables.

Grants and contracts receivable are expected to be collected within one year and are recorded at net realizable value.

Ocean freight receivables are due from USAID and are recorded when agricultural commodities are shipped to their destination port with a corresponding liability due to the freight line.

Contributions receivable that are expected to be collected within one year are recorded at net realizable value. Contributions receivable that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. Contributions receivable are reflected net of an allowance for uncollectible amounts and have been discounted at 3.5%. Prior to the year ended June 30, 2009, the discount rate represents the risk free rate of return at the origination of the pledge as was determined using the rate for U.S. treasury securities. For the year ended June 30, 2009, the discount rate represents the rate of return that is commensurate with the risk associated with the ultimate collection of the receivables at the origination of the pledge. The discount is amortized using an effective yield over the expected collection period of the receivables.

**Loans Receivable**

Microcredit loans receivable are recorded in the consolidated balance sheets at their unpaid principal amounts adjusted for the net unamortized deferred loan origination costs and fees and allowance for possible losses. Interest income is accrued based on the outstanding principal amount and contractual terms of each individual loan. The accrual of interest is discontinued when, in management's judgment, it is determined that the collectability of interest or principal is doubtful.

Microcredit loans receivable represents credit services for rural and urban micro-enterprises. The balance is net of the allowance for doubtful accounts of \$7.3 million and \$3.7 million, respectively, for the years end June 30, 2009 and 2008. The allowance for loan losses is maintained at such level that in management's best judgment is sufficient to cover potential losses in the loan portfolio at the consolidated balance sheet date. Management considers the loan loss factors as well as delinquencies over 60 days in determining the allowance.



**2. Summary of Significant Accounting Policies (continued)**

The allowance is based on assessments of certain factors, including historical loan loss experience of similar types of loans, CARE USA's loan loss experience, the amount of past due and nonperforming loans, specific known risks, and current and anticipated economic and interest rate conditions. Evaluation of these factors involves subjective estimates and judgments that may change. Additions to the allowance are provided through a reduction to net assets. Subsequent recoveries, if any, are credited to the allowance.

**Inventory**

Inventories are stated at lower of cost or market and include supplies and agricultural commodities ("commodities"). Cost is determined using the weighted average method.

CARE USA receives commodities from agencies of the U.S. government, the United Nations and others for the following: distribution via CARE USA projects, monetization with the cash proceeds to be used in CARE USA projects, or monetization with the proceeds to be distributed to other nonprofit organizations.

Inventory includes all commodities in its possession, regardless of whether the commodities are in transit from the United States or held in storage in primary warehouses at the intended recipient country.

For commodities to be distributed, revenue and expense are recognized when the commodities are distributed

For commodities to be monetized, revenue and expense are recognized when the proceeds are utilized for the related project activities or distributed to other nonprofit organizations.

**Deposits and Other Assets**

Deposits and other assets include sub grantee advances to partner organizations, project advances to project managers, receivables from CARE International members, equity investments, and various other miscellaneous assets.

Sub grantee advances are recorded when cash is forwarded to the partner organization. As the sub grantee performs in accordance with the grant objectives and expense reports are submitted, the receivable is reduced and the related income and expense are recognized.

CARE USA owns a 45% non-controlling interest in MicroVest General Partner Holding Company. In addition, CARE USA has non-controlling interest in MicroVest I and II, Limited Partnerships of 30% and 9% respectively. The investment is accounted for using the equity method and is included in other assets. This investment amount is net of CARE USA's share of MicroVest's minority interest in Edyficar.

**2. Summary of Significant Accounting Policies (continued)****Property and Equipment**

Property and equipment are recorded at cost if purchased. Contributions of long-lived assets are recorded at the estimated fair value at the date of receipt and are recorded as unrestricted support unless the use of such contributed assets is restricted by a donor-imposed restriction. If donors contribute long-lived assets with stipulations as to how long the assets must be used or with any other restrictions, such contributions are recorded as temporarily restricted support.

CARE USA does not imply time restrictions on contributions of long lived assets (or of other assets restricted to the purchase of long-lived assets) received without donor stipulations about how long the contributed assets must be used. As a result, contributions of cash and other assets restricted to the acquisition of long-lived assets are reported as temporarily restricted revenue that increases temporarily restricted net assets; those restrictions expire when the long-lived assets are placed in service.

The costs of software licenses and associated consulting costs, installation costs and the payroll costs of employees directly associated with the project are capitalized. The costs of software maintenance, training and data conversion are expensed in the period incurred.

Depreciation is provided on the straight-line basis over the estimated useful lives of the assets. The estimated useful lives are fifteen years for building, five to seven years for building improvements, three to five years for equipment and software, and five years for leasehold improvements, or the life of the lease, if less than five years. Capitalized leases are amortized over the life of the lease or the estimated life of the asset, whichever is shorter.

**Assets Held by Third Party Trusts**

Trusts held by third parties include amounts related to both charitable remainder trusts and perpetual trusts. Accounting standards require that these instruments be recorded at the fair value.

**Charitable Remainder Trusts**

Donors have established and funded trusts under which specified distributions are to be made to a designated beneficiary or beneficiaries over the trust's term. Upon termination of the trust, CARE USA receives the assets remaining in the trust. Trusts are recorded at fair value. Fair value is determined based on contributions from split interest agreements at fair value of trust assets, less the present value of the estimated future payments to be made under the specific terms of the trust. The assets in the trust are assumed to earn an average rate of 7% over the estimated life of the trust and are discounted at an average rate of 6.3% in 2009.

## **2. Summary of Significant Accounting Policies (continued)**

### **Perpetual Trusts**

CARE USA is the beneficiary of certain perpetual irrevocable trusts held and administered by independent trustees. Under the terms of the trusts, CARE USA has the irrevocable right to receive the income earned on the trust assets in perpetuity. The fair value is recognized as an asset and as a permanently restricted contribution at the date the trust is established. The estimate of fair value is based on fair value information received from the trustees. Gains and losses, which are not distributed by the trusts, are reflected as permanently restricted gains or losses in the consolidated statements of activities and changes in net assets.

### **Liability for Split Interest Agreements**

The liability for split interest agreements include amounts related to charitable gift annuities, and pooled (life) income gifts for which CARE USA serves as trustee.

### **Charitable Gift Annuities**

Donors have contributed assets to CARE USA in exchange for a promise by CARE USA to pay a fixed amount or percentage for a specified period of time to the donor or to individuals or organizations designated by the donor. Under the terms of such agreements, the assets received are recorded as assets and the related annuity liability is an obligation of CARE USA. The liability is recorded at the present value of expected future payments based on Table 90 CM issued by the Internal Revenue Service. The obligations have been discounted at rates ranging from 3.8% to 11.3%.

### **Charitable Remainder Trusts**

CARE USA enters into agreements with donors in which the donor contributes assets to the organization in exchange for an annuity to be paid to the donor or their designee for a specified period of time. The assets received for an annuity are recorded at fair value at the date of the gift. The liability associated with these annuities is recorded at the present value of the future expected payments based on IRS mortality tables and prevailing interest rates at the date of the gift. The difference between the asset and the liability constitutes revenue and is recorded as temporarily restricted support in the consolidated statements of activities. The liability is updated annually for changes in actuarial assumptions.

### **Pooled (Life) Income Fund**

CARE USA manages a pooled income fund. The fund is divided into units, and contributions from many donors are pooled and invested as a group. Donors are assigned a specific number of units based on the proportion of the fair value of their contributions to the total fair value of the pooled fund on the date of the donor's entry into the pooled fund. The donor is paid the actual income earned on those units through the date of his or her death. Upon the donor's death, the value of the donor's units reverts to CARE USA.

**2. Summary of Significant Accounting Policies (continued)**

CARE USA recognizes its interest in the assets received as contribution revenue, at the fair value of the assets received net of a discount for future interest based on the life expectancy of the donor representing the amount of the discount for future interest.

**Program Advances**

Program advances relate to cash received directly from government and nongovernmental agencies, proceeds received from monetization, and inventory related to distribution and monetization commodities.

**Accounting for Contributions**

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted for future periods or are restricted by the donor for specific purposes or in perpetuity are reported as temporarily restricted or permanently restricted support that increases those net asset classes. Gifts or contributions with no restrictions and those with restrictions that are met prior to fiscal year-end are classified as unrestricted net assets.

A donor restriction expires when a stipulated time restriction ends or when a purpose restriction is accomplished. Upon expiration, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the consolidated statements of activities as satisfaction of program restrictions.

Permanently restricted net assets include the principal amount of contributions accepted with the stipulation from the donor that the principal be maintained in perpetuity and only the income from investment thereof may be expended for a purpose specified by the donor or other general purposes.

The principal from permanently restricted gifts are classified as permanently restricted net assets. Income on those assets, not permanently restricted by the donor, is classified as temporarily restricted net assets.

**Bequests**

Contributions received through bequests are recorded as contribution revenue when the amounts are determinable and collection is reasonably assured.

**Grant Revenue**

Grant revenue on cost-reimbursement grants or contracts is recognized when CARE USA requests reimbursement from the granting agencies after the program expenditures have been incurred and is reflected as government and other support in the consolidated financial statements. Certain direct support from government agencies is subject to independent audit under the Office of Management and Budget Circular A-133 and review by grantor agencies.

Management is aware of approximately \$23 million of questioned costs resulting from various audits. To date, USAID is reviewing supporting documentation related to \$12.6 million of this amount submitted by management. This review is not complete at this time.

## **CARE USA**

### **Notes to Consolidated Financial Statements**

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#### **2. Summary of Significant Accounting Policies (continued)**

No estimate can be made of the possible range of loss, if any, related to these questioned costs. Based on prior experience, CARE USA believes that cost ultimately disallowed, if any, would not materially affect the consolidated financial position of CARE USA.

#### **Nonfood Contributions-in-Kind**

Contributions-in-kind received for use in assistance programs that meet the criteria for recognition are recorded at estimated fair value when received.

In countries where CARE USA operates, government and local communities supply labor, technical services, materials, transportation and storage facilities to the programs in which they participate. The value of these contributions is generally not recorded in the consolidated financial statements as they do not meet the criteria for revenue recognition.

#### **Revolving Loan Fund**

Revolving funds contributed by donors are expensed when initially loaned to project participants and revenue is recognized as these transactions are exchange transactions. A contract payable equivalent to the amount of the principal is set up to establish a revolving fund that will be made available for use in the project. This liability is converted to an unrestricted net asset if the donor releases all claims against the assets.

#### **Foreign Currency Translation**

The U.S. dollar (“dollars”) is the functional currency for CARE USA’s operations worldwide. Transactions in currencies other than dollars are translated into dollars at the rates of exchange in effect during the month of the transaction. Property and equipment purchased with non-U.S. currency are translated into US dollars at the exchange rate in effect at the time of purchase. Current assets and liabilities denominated in non-U.S. currency are translated into dollars at the exchange rate in effect at the date of the consolidated balance sheets. Net transaction and translation gains and losses are included in the accompanying consolidated statements of activities in the non-operating section as Foreign Currency Exchange Gain or Loss.

#### **Foreign Exchange Contracts**

Foreign currency contracts are designed to mitigate, over time, a portion of the impact of exchange rate changes on cash flows through forward contracts. Market gains and losses are recognized, and recorded as foreign exchange gains or losses. At June 30, 2009, Edyficar had contracts to purchase \$44.1 million and €3.5 million with maturities through June 2010.

#### **Operating and Non-operating Results**

Operating Support and Revenue and Operating Expenses reflect the normal income and expense from receiving and using resources for program activities and support functions.

Other Non-operating Changes in Net Assets reflect activities not central to the Organization’s mission including actuarial changes in value and realized and unrealized gains and losses.

## CARE USA

### Notes to Consolidated Financial Statements

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#### 2. Summary of Significant Accounting Policies (continued)

##### **Fair Value of Financial Instruments**

CARE USA financial instruments consist of cash and cash equivalents, investments, receivables, microcredit loans receivable, trusts held by third parties, accounts payable and accrued expenses, liability for split-interest agreements and subsidiary loans payable.

Receivables are recorded at net realizable value which approximates fair value. Investments and trusts held by third parties are recorded at their fair values based on quoted market prices or other relevant market data. Annuities and charitable remainder trusts are recorded at net present value which approximates fair value. All other financial instruments are stated at cost which approximates fair value.

Financial instruments that potentially expose CARE USA to concentrations of credit and market risk consist primarily of cash and cash equivalents, receivables, microcredit receivables and investments. Cash and cash equivalents are maintained at large multi-state financial institutions and credit exposure is limited to the amount of deposits at any one institution in excess of the federally insured limit. Receivables are due from a large number of government agencies, entities and individuals; therefore, diversifying the related concentration of credit risk. CARE USA's investments do not represent significant concentrations of market risk inasmuch as CARE USA's investments portfolio is diversified among issuers.

##### **Tax Status**

CARE USA is a tax-exempt organization under Section 501(c) (3) of the U.S. Internal Revenue Code ("IRC") and is therefore exempt from federal taxation under Section 501(a) of the IRC. In addition, under IRC Section 509(a) (1), CARE USA is a public charity and, thus, donations to CARE USA qualify for the maximum allowable charitable deduction.

##### **Use of Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### **Adoption of New Accounting Pronouncements**

Effective July 1, 2008 CARE USA adopted SFAS No. 157, *Fair Value Measurements*, which defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. FASB Staff Position FAS 157-2 delayed the effective date for all nonfinancial assets and liabilities to fiscal years beginning after November 15, 2008, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis.

**2. Summary of Significant Accounting Policies (continued)**

CARE USA does not believe the adoption of SFAS No. 157 for nonfinancial assets and liabilities will have a material impact on the June 30, 2010 consolidated financial statements.

SFAS No. 157 established a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

**Level 1:** Quoted market prices for identical assets or liabilities to which an entity has access at measurement date.

**Level 2:** Inputs and information other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include:

- a. Quoted prices for similar assets or liabilities in active markets
- b. Quoted prices for identical or similar assets in markets that are not active
- c. Observable inputs other than quoted prices for the asset or liability
- d. Inputs derived principally from, or corroborated by, observable market data by correlation or by other means.

**Level 3:** Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available.

Observable inputs reflect the assumptions market participants would use in pricing the asset or liability developed from sources independent of the reporting entity; and unobservable inputs reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

CARE USA's adoption of SFAS No. 157 did not have a material impact on its consolidated financial statements. CARE USA has segregated all financial assets and liabilities that are measured at fair value on a recurring basis (at least annually) into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date.

**CARE USA**  
**Notes to Consolidated Financial Statements**

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**2. Summary of Significant Accounting Policies (continued)**

Assets and liabilities measured at fair value on a recurring basis as of June 30, 2009, are summarized below (*in thousands*):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3*</u>	<u>Fair Value Measurement</u>
<b>Assets</b>				
Investments	\$ 156,345	\$ 3,727	\$ -	\$ 160,072
Trust held by third parties	-	88,172	1,114	89,286
<b>Total Assets</b>	<u>\$ 156,345</u>	<u>\$ 91,899</u>	<u>\$ 1,114</u>	<u>\$ 249,358</u>
<b>Liabilities</b>				
Derivatives	\$ -	\$ -	\$ 2,575	\$ 2,575
<b>Total Liabilities</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,575</u>	<u>\$ 2,575</u>

\*Gross realized and unrealized gains and losses on level 3 assets and liabilities were not significant for the year ended June 30, 2009.

Effective July 1, 2008, CARE USA adopted SFAS No. 159 which provides entities the option to measure many financial instruments and certain other items at fair value. Entities that choose the fair value option will recognize unrealized gains and losses on items for which the fair value option was elected in earnings at each subsequent reporting date. CARE USA has chosen not to elect the fair value option for any items that are not already required to be measured at fair value in accordance with accounting principles generally accepted in the United States.

**Future Accounting Pronouncements**

In June 2006, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* (“FIN 48”). FIN 48 prescribes a recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return when there is uncertainty about whether a tax position will ultimately be sustained upon examination. CARE USA will be required to adopt the recognition and disclosure provisions of FIN 48 for its fiscal year ending June 30, 2010. CARE USA is currently evaluating the effect that the adoption of FIN 48 will have on its financial position and changes in net assets.

**Derivative financial instruments**

CARE USA’s only use of derivatives is in Edyficar. Edyficar has entered into forward currency contracts with notional amounts totaling US\$44.1 million and €3.5 million.



**CARE USA**  
**Notes to Consolidated Financial Statements**

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**2. Summary of Significant Accounting Policies (continued)**

The notional amounts of the derivative financial instruments do not necessarily represent amounts exchanged by the parties and, therefore, are not a direct measure of the financial risks associated with these contracts. Edyficar uses derivatives financial instruments primarily to reduce the exposure to adverse fluctuations in interest rates and foreign currency exchange rates, commodity prices and other market risks. None of these contracts qualify for hedge accounting.

CARE USA recognizes all derivative instruments as either assets or liabilities in the consolidated balance sheets at fair value. The amounts recorded reflect the effect of legally enforceable master netting agreements that allow the Organization to settle positive and negative positions and cash collateral held or placed with the same counterparties. The accounting for changes in fair value of derivative instruments is reflected as foreign exchange gain or loss in the consolidated statements of activities. CARE USA estimated the fair values of these contracts based on quoted market prices or pricing models using current market rates, and the unrealized loss of \$2.5 million at June 30, 2009 is included in accounts payable and accrued expenses and foreign exchange rate gain/loss in the consolidated financial statements.

**3. Description of Net Asset Designations and Restriction**

The donor-imposed restriction (listed under Temporarily Restricted and Permanently Restricted) of Net Assets as of June 30 are listed below (*in thousands*):

	<b>Temporarily Restricted</b>		<b>Permanently Restricted</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Africa Fund	\$ 352	\$ 551	\$ 512	\$ 512
Agriculture and Natural Resources	4,811	4,499	-	-
Basic and Girls' Education Fund	23,869	33,364	-	-
Emergency Response Fund	16,795	28,421	1,006	1,006
Multi-Sector and Other	33,059	38,865	-	-
Reproductive Health	9,686	13,164	-	-
Rehabilitation	1,843	1,959	-	-
Signature Programs	2,059	-	-	-
Small Economic Activity Development	2,434	2,282	-	-
Water and Sanitation	13,378	10,745	-	-
Time Restricted	16,076	13,011	105,811	130,574
Total	<u>\$ 124,362</u>	<u>\$ 146,861</u>	<u>\$ 107,329</u>	<u>\$ 132,092</u>

#### **4. Endowment**

CARE USA adopted FASB Staff Position 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (“FSP” or “FSP 117-1”) during fiscal 2009. This FSP provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (“UPMIFA”). UPMIFA was enacted by the District of Columbia during CARE USA’s fiscal year ended June 30, 2008. CARE USA reflected its adoption of this FSP as a reclassification of net assets at June 30, 2008.

CARE USA’s endowment consists of approximately 14 individual funds established for a variety of purposes. Its endowment only includes donor-restricted endowment funds. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

#### **Interpretation of Relevant Law**

CARE USA has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, CARE USA classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, CARE USA considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund;
- (2) The purposes of the organization and the donor-restricted endowment fund;
- (3) General economic conditions;
- (4) The possible effect of inflation and deflation;
- (5) The expected total return from income and the appreciation and depreciation of investments;
- (6) Other resources of CARE USA; and
- (7) The investment policies of CARE USA.

**CARE USA**  
**Notes to Consolidated Financial Statements**

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**4. Endowment (continued)**

The changes in endowment assets for the year ended June 30, 2009 are as follows (*in thousands*):

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 4,922	\$ 2,842	\$ 20,305	\$ 28,069
Net assets reclassification based on change in law	<u>(11,556)</u>	<u>11,556</u>	<u>-</u>	<u>-</u>
Endowment net asset after reclassification	(6,634)	14,398	20,305	\$ 28,069
Investment income	-	1,082	-	1,082
Net depreciation: (realized and unrealized)	<u>-</u>	<u>(5,687)</u>	<u>-</u>	<u>(5,687)</u>
Total investment return	-	(4,605)	-	(4,605)
Contributions	-	-	-	-
Appropriation of endowment assets for expenditure	-	-	-	-
Other changes:				
Revision of Donor restrictions	<u>-</u>	<u>-</u>	<u>(2,000)</u>	<u>(2,000)</u>
Endowment net assets, end of year	<u>\$ (6,634)</u>	<u>\$ 9,793</u>	<u>\$ 18,305</u>	<u>\$ 21,464</u>

**Investment Policy**

CARE USA has an investment policy specific to the Endowment Fund, which is monitored by the Investment Committee of its Board of Directors. Endowment Fund assets include those assets of donor-restricted funds that CARE USA must hold in perpetuity. The investment policy describes the objective for the fund and sets ranges for asset allocation. Asset allocations are determined in accordance with the purpose and restrictions of each specific fund. The objective of the Endowment Fund is to earn the highest possible total return consistent with a level of risk suitable for these assets. At a minimum, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of these assets and provide necessary capital to fund the spending policy. Actual returns in any given year may vary. In light of this requirement, the portfolio is constructed using a total return approach with a significant portion of the funds invested to seek growth of principal over time. The assets are invested for the long term, and a higher short-term volatility in these assets is to be expected and accepted.

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**Notes to Consolidated Financial Statements**

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**4. Endowment (continued)**

The following is a summary of the asset allocation guidelines, with allowable ranges for each asset type in 2009.

<u>Asset Category</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Cash	0%	0%	10%
Fixed Income	35%	40%	50%
Equity	40%	60%	65%

CARE USA does not utilize a spending policy and the Board of Directors authorizes amounts for disbursement.

**5. Investments**

Investments at June 30 were comprised of the following (*in thousands*):

	<u>2009</u>		<u>2008</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
U.S.Treasury obligations	\$ 24,995	\$ 25,346	\$ 29,993	\$ 30,506
Mutual funds	80,409	69,010	65,354	64,685
Marketable equity securities	36,049	29,284	51,072	51,374
Marketable debt securities	17,308	17,128	13,985	13,576
Money market funds	15,577	15,577	30,315	30,315
Marketable alternative funds	-	-	4,666	5,288
Overseas time deposits	3,727	3,727	6,910	6,910
	<u>\$ 178,065</u>	<u>\$ 160,072</u>	<u>\$ 202,295</u>	<u>\$ 202,654</u>

CARE USA's investments are diversified across strategies, managers and geography. There are no significant concentrations of market risk in as much as the investment portfolio is diversified among issuers.

As discussed in Note 2 to these consolidated financial statements, the organization adopted SFAS 157, as of July 1, 2008. As required by SFAS 157, investments are measured on a fund-by-fund basis and reported at fair value in one of the following categories based on inputs:

**CARE USA**  
**Notes to Consolidated Financial Statements**

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**5. Investments (continued)**

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date. The types of investments which are included in Level 1 include listed equity securities commingled fund traded in active markets with daily pricing and cash and cash equivalents. As required by SFAS 157, the organization does not adjust the quoted price for these investments.

Level 2: Inputs and information other than quoted market indices included in Level 1 that is observable for the asset or liability, either directly or indirectly. Level 2 inputs include:

- a. Quoted prices for similar assets or liabilities in active markets;
- b. Quoted prices for identical or similar assets in markets that are not active;
- c. Observable inputs other than quoted prices for the asset or liability; and
- d. Inputs derived principally from, or corroborated by, observable market data by correlation or by other means.

The following table summarizes the levels in the SFAS 157 fair value hierarchy of the organization's investment funds at June 30, 2009, are summarized below (*in thousands*):

	Total	Level 1 Market Value	Level 2 Market Value	Level 3 Market Value
U.S.Treasury obligations	\$ 25,346	\$ 25,346	\$ -	\$ -
Mutual funds	69,010	69,010	-	-
Marketable equity securities	29,284	29,284	-	-
Marketable debt securities	17,128	17,128	-	-
Money market funds	15,577	15,577	-	-
Overseas time deposits	3,727	-	3,727	-
	<u>\$ 160,072</u>	<u>\$ 156,345</u>	<u>\$ 3,727</u>	<u>\$ -</u>

**CARE USA**  
**Notes to Consolidated Financial Statements**

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**5. Investments (continued)**

Management fees and expenses of \$485,325 and \$563,000, respectively, for the years ending June 30, 2009 and 2008, are netted against investment income. Total return on cash balances, investments and the trusts held by third parties was as follows for the year ended June 30, 2009 (*in thousands*):

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2009</u>	<u>Total 2008</u>
Dividends and interest included in operating revenue	\$ 8,905	\$ 3,111	\$ -	\$ 12,016	\$ 17,325
Dividends and interest on gift annuity investments	941	-	-	941	976
Net realized gains/(losses)	(1,959)	(5,035)	-	(6,994)	5,843
Change in net unrealized (losses)	(10,437)	(8,077)	-	(18,514)	(18,998)
Net change in value of trusts held by third parties	-	-	(22,983)	(22,983)	(14,586)
Total return on cash balances, investments and trusts held by third parties	<u>\$ (2,550)</u>	<u>\$ (10,001)</u>	<u>\$ (22,983)</u>	<u>\$ (35,534)</u>	<u>\$ (9,440)</u>

**6. Receivables, net**

Receivables, net at June 30 were comprised of the following (*in thousands*):

	<u>2009</u>	<u>2008</u>
Grants and Contracts Receivable	\$ 9,033	\$ 11,112
Ocean Freight Receivable from USAID	193	2,617
Contributions Receivable	8,812	16,576
Allowance for Uncollectible Accounts	(946)	(741)
	<u>\$ 17,092</u>	<u>\$ 29,564</u>

**CARE USA**  
**Notes to Consolidated Financial Statements**

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**6. Receivables, net (continued)**

As of June 30, 2009 the expected future cash flows from receivable are as follows (*in thousands*):

Due in one year or less	\$ 13,116
Due in one year through five years	4,177
	<u>17,293</u>
Less: discount	(201)
	<u><u>\$ 17,092</u></u>

**Conditional Pledges**

CARE USA has received conditional pledges of \$48.9 million at June 30, 2009. These pledges will be recorded in the consolidated financial statements in the fiscal year all related conditions have been substantially met.

CARE USA received \$4 million from donors under conditional promises to give that were inappropriately recorded as pledge receivables and contribution revenue in the consolidated statement of activities for the year ended June 30, 2008. This error was corrected in the June 30, 2009 consolidated balance sheet and consolidated statement of activities.

**7. Loans Receivable**

Loans receivable, net at June 30 were concentrated in the following countries (*in thousands*):

	<u>2009</u>	<u>2008</u>
Peru	\$ 208,098	\$ 157,461
Philippines	4,317	3,224
Afghanistan	2,449	2,475
Other	6,658	7,979
	<u>221,522</u>	<u>171,139</u>
Less:		
Allowance for doubtful accounts	(7,277)	(3,642)
	<u><u>\$ 214,245</u></u>	<u><u>\$ 167,497</u></u>

Microcredit loans are comprised of variable and fixed rate loans with individuals and other microcredit lending institutions. The loans bear interest at rates generally ranging from 7% to 24% per annum with original maturities ranging up to 5 years. There is no collateral for these loans.

**CARE USA**  
**Notes to Consolidated Financial Statements**

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**7. Loans Receivable (continued)**

In the event that an individual is unable to repay its loan according to its original schedule, CARE USA pursues collection and workout plans including interest only payments, reduced payments, and moratorium on payment, depending on the individual's circumstances.

It is CARE USA's preference not to provide any concession which reduces the loan's yield; however, there are some situations that warrant discontinuing interest payments for a certain period of time. Generally, CARE USA discontinues interest accrual for all loans on which collection of interest is not reasonably expected. Interest income on nonaccrual loans is recognized on a cash basis. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Activity in the allowance for possible loan losses on microcredit loans is as follows for the year ended June 30, 2009 (*in thousands*):

Allowance for doubtful accounts beginning of year	\$ (3,642)
Additions	(8,478)
Write-offs	2,876
Recovery of previous write-off	<u>1,967</u>
Allowance for doubtful accounts end of year	<u>\$ (7,277)</u>

Under SFAS No. 114, *Accounting by Creditors for Impairment of a Loan*, a loan is considered impaired when, based on current information, it is probable that CARE USA will not receive all amounts due in accordance with the contractual terms of the underlying loan agreement. The fair value of the loan is then compared with the recorded investment in the loan to determine whether or not a specific reserve is necessary. CARE USA's recorded investment in loans that are considered to be impaired under SFAS No. 114 was \$4.2 million for the year ended June 30, 2009. The related allowance for credit losses for all impaired loans as of June 30, 2009 was \$4.2 million. CARE USA's average recorded investment in impaired loans during the years ended June 30, 2009 was approximately \$3.5 million.



**CARE USA**  
**Notes to Consolidated Financial Statements**

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**8. Deposits and Other Assets**

Deposits and other assets at June 30 were comprised of the following (*in thousands*):

	<u>2009</u>	<u>2008</u>
Subgrantee and project advances	\$ 29,144	\$ 29,852
Investment in MicroVest	5,462	5,122
Accrued interest/dividends	378	440
Receivable from CARE International Members	4,656	8,619
Other assets	16,496	24,467
	<u>\$ 56,136</u>	<u>\$ 68,500</u>

Other assets include prepaid expenses of \$4.8 million for the years ended June 30, 2009 and 2008, travel advances of \$1.5 million and \$1.9 million, respectively, for the years ended June 30, 2009 and 2008, miscellaneous advances of \$1.4 million and \$4.0 million, respectively, for the years ended June 30, 2009 and 2008, and miscellaneous receivables of \$8.8 million and \$13.8 million, respectively for the years ended June 30, 2009 and 2008.

The investment in Micro Vest is net of CARE USA's share of Micro Vest's minority interest in Edyficar.

**9. Property and Equipment**

Property and equipment are as follows at June 30 (*in thousands*):

	<u>2009</u>	<u>2008</u>
Land	\$ 3,235	\$ 3,235
Buildings and building improvements	11,092	10,656
Vehicles, equipment and software	33,007	27,999
Leasehold improvements	1,164	1,164
Work in progress	-	339
Accumulated depreciation/amortization	(22,994)	(19,143)
	<u>\$ 25,504</u>	<u>\$ 24,250</u>

Depreciation expense was \$5.5 million and \$2.7 million, respectively, for the years ended June 30, 2009 and 2008.

Unamortized internal use software costs were \$2.5 million and \$2.4 million, respectively for the years ended June 30, 2009 and 2008.

### **10. Defined Contribution Plans**

Effective January 1, 1992, CARE USA adopted a defined contribution plan for employees who meet certain eligibility conditions. Within the various countries in which CARE USA operates outside the United States, most employees are citizens of the host country. These employees are generally not eligible for the CARE USA defined contribution plan, but they are eligible for local government or CARE USA-sponsored plans appropriate for that country. These plans generally require payment to the employee at time of employment termination. The payments are calculated based on the number of years employed. There are certain host country nationals who do meet the eligibility conditions for the CARE USA defined contribution plan. These employees participate in the CARE USA Retirement Savings Plan for Nonresident Alien Employees. Under both the resident and nonresident plan, CARE USA contributes to a participant's account an amount equal to 8 percent of the participant's gross salary and, if the participant qualifies, a supplemental contribution is also made. The plan allows employee after-tax contributions.

The plan was amended, effective January 1, 1997, to also allow employee pre-tax contributions. All contributions by employees are invested in various funds within the plan. Employer contributions were \$3.2 million and \$3.1 million, respectively, for the years ended June 30, 2009 and 2008, and employee contributions were \$2.5 million and \$2.6 million, respectively, for the years ended June 30, 2009 and 2008.

### **11. Postretirement Benefits**

CARE USA provides certain health care and life insurance benefits to eligible retired employees. CARE USA provides Medicare supplemental coverage to eligible retirees who have reached age 65. In addition, CARE USA provides retirees under age 65 with the option to continue medical coverage until age 65, if the retiree contributes a portion of the premium. Generally, the medical plans pay a percentage of most medical expenses reduced for a deductible and payments made by government programs. The plans are funded on a pay-as-you-go basis.

CARE USA accrues the cost of providing postretirement benefits, including medical and life insurance coverage, during the active service period of the employee. The benefit obligation in 2008 was adjusted to reflect changes in assumptions regarding the percentage of active and retired staff accessing certain benefits when eligible.

CARE USA expects contributions to be equal to benefit payments for the year ending June 30, 2010.

The measurement date is June 30. The following table sets forth the postretirement benefit obligation reconciled to the accrued postretirement benefit cost recognized in CARE USA's consolidated balance sheets as of June 30, 2009 (*in thousands*):

**CARE USA**  
**Notes to Consolidated Financial Statements**

**11. Postretirement Benefits (continued)**

	<u>2009</u>	<u>2008</u>
<b>Changes in benefit obligation</b>		
<b>Benefit obligation at beginning of year</b>	<b>\$ 2,147</b>	<b>\$ 2,726</b>
Service cost	84	93
Interest cost	136	131
Participant contributions	149	164
Benefits paid	(517)	(546)
Actuarial gain	185	(421)
<b>Benefit obligation at end of year</b>	<b>2,184</b>	<b>2,147</b>
<b>Changes in plan assets</b>		
<b>Fair value of plan assets at beginning of year</b>	<b>\$ -</b>	<b>\$ -</b>
Employer contributions	368	382
Participant contributions	149	164
Benefits paid	(517)	(546)
<b>Fair value of plan assets at end of year</b>	<b>-</b>	<b>-</b>
<b>Funded status</b>		
Funded status at the end of the year	(2,184)	(2,147)
<b>Net amount recognized in the consolidated balance sheet</b>	<b>\$ (2,184)</b>	<b>\$ (2,147)</b>
<b>Amount not yet reflected in net periodic benefit cost and expected to be amortized in next year's net periodic benefit cost:</b>		
Transition asset (obligation)	\$ -	\$ -
Prior service credit (cost)	(1)	(1)
Accumulated gain (loss)	-	-
	<b>\$ (1)</b>	<b>\$ (1)</b>
<b>Amounts recognized in the consolidated balance sheet consist of:</b>		
Accrued benefit liability	\$ (2,184)	\$ (2,147)
<b>Net amount recognized in the consolidated balance sheet</b>	<b>\$ (2,184)</b>	<b>\$ (2,147)</b>
<b>Amounts not yet reflected in net periodic benefit cost and included in unrestricted net assets</b>		
Prior service cost	\$ (9)	\$ (11)
Accumulated gain	33	221
<b>Change in unrestricted net assets</b>	<b>24</b>	<b>210</b>
Cumulative employer contributions in excess of net periodic benefit cost	(2,208)	(2,357)
<b>Net amount recognized in the consolidated balance sheet</b>	<b>\$ (2,184)</b>	<b>\$ (2,147)</b>

**CARE USA**  
**Notes to Consolidated Financial Statements**

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**11. Postretirement Benefits (continued)**

<b>Components of net periodic benefit cost</b>	<b>2009</b>	<b>2008</b>
Service Cost	\$ 84	\$ 93
Interest Cost	136	130
Amortization of prior service cost*	1	1
Amortization of net gain	(3)	(9)
Net periodic benefit cost	<u>\$ 218</u>	<u>\$ 215</u>

\* The same amount of prior service cost will be recognized as component of net periodic benefit cost next fiscal year

**Weighted-average assumptions as of June 30 used in determining obligations**

	<b>2009</b>	<b>2008</b>
Discount rate	<u>6.55%</u>	<u>6.75%</u>

**Weighted-average assumptions as of June 30 used in determining net periodic benefit cost**

	<b>2009</b>
Discount rate	<u>6.75%</u>

The assumed projected health care cost trend rate is 7% declining to 5% in 2016.

Future changes in actual compensation and retirement dates can materially affect both the amount of the benefits ultimately paid and the period over which the related expense is recognized.

**CARE USA**  
**Notes to Consolidated Financial Statements**

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**11. Postretirement Benefits (continued)**

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage point change in assumed health care cost trend rates would have the following effects (*in thousands*):

	<u>2009</u>
<b>One-percentage point increase in trend impact</b>	
Effect on total of service and interest cost components	\$ 24
Effect on postretirement benefit obligation	\$ 213
<b>One-percentage point decrease in trend impact</b>	
Effect on total of service and interest cost components	\$ (21)
Effect on postretirement benefit obligation	\$ (189)

**Estimated Future Benefit Payments**

**After Fiscal Year-End**

2010	\$ 197
2011	196
2012	186
2013	203
2014	207
2015 - 2019	1,080

**12. Program Advances**

Program advances by government and nongovernment agencies for the years ended June 30 were comprised of the following (*in thousands*):

	<u>2009</u>	<u>2008</u>
Monetization proceeds	\$ 234	\$ 1,826
Commodity grants	11,590	15,792
Grants and Contracts:		
U.S. government	13,376	52,081
CARE International	12,588	13,949
Host governments	6,300	5,922
Others	22,224	33,284
	<u>\$ 66,312</u>	<u>\$ 122,854</u>

## CARE USA

### Notes to Consolidated Financial Statements

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#### 13. Subsidiary Loans Payable

Loan proceeds are used primarily to carry out microfinance lending activities.

For Edyficar, loans are not collateralized, but there are compensating cash balances held in financial institutions in Peru. In addition, Edyficar has secured certain borrowings with collateral comprising the loan portfolio assignment totaling \$30 million. Payment terms on these loans vary. Edyficar expects to repay all amounts due from the collection of its receivables. CARE USA does not guarantee the repayment of these loans.

Management believes that Edyficar was in compliance with all outstanding debt covenants, as of June 30, 2009.

Debt maturities and interest rate range for the year end June 30 are as follows (*in thousands*):

	<b>Interest Rate Range</b>	<b>Debt Maturities</b>
2010	3.50% - 10.50%	\$ 36,031
2011	4.50% - 12.00%	41,307
2012	8.75% - 11.73%	18,422
2013	7.72% - 9.00%	9,252
2014	7.00% - 9.20%	12,033
2015 and thereafter	5.50% - 12.85%	56,133
		<u>\$ 173,178</u>

**CARE USA**  
**Notes to Consolidated Financial Statements**

**14. Sources of Support**

CARE USA receives support for its programs from charitable contributions and grants and contracts from government and nongovernment entities. The following describes CARE USA's sources of support and revenue for the years ended June 30, 2009 and 2008 (*in thousands*):

<u>Donor</u>	<u>Cash</u>	<u>Agricultural Commodities</u>	<u>Nonfood In Kind</u>	<u>Total 2009</u>	<u>Total 2008</u>
<u>Contributions</u>					
U.S. private support	\$104,775	\$ -	\$ 1,905	\$106,680	\$139,934
Total Contributions	104,775	-	1,905	106,680	139,934
<u>CARE International</u>					
CARE Australia	7,935	-	-	7,935	8,494
CARE Canada	9,848	-	-	9,848	7,889
CARE Danmark	11,525	-	-	11,525	12,437
CARE Deutschland	9,800	-	-	9,800	7,043
CARE France	13,312	-	-	13,312	15,700
CARE Japan	341	-	-	341	673
CARE Nederland	22,686	-	-	22,686	26,845
CARE Norge	10,048	66	-	10,114	12,949
CARE Österreich	11,410	-	-	11,410	10,016
CARE United Kingdom	36,963	-	-	36,963	45,597
Total CARE International	133,868	66	-	133,934	147,643
<u>Government and other support</u>					
U.S. government	180,508	94,359	-	274,867	267,177
Host governments	20,729	-	-	20,729	25,008
UNHCR	2,061	-	-	2,061	419
UNICEF	2,211	-	-	2,211	3,117
WFP	3,477	3,333	-	6,810	6,557
Other U.N. agencies	8,170	-	-	8,170	4,981
Switzerland	1,276	-	-	1,276	21,699
World Bank	9,348	-	-	9,348	9,080
Others (grants, contracts)	115,733	-	122	115,855	58,786
Total Government and other support	343,513	97,692	122	441,327	396,824
<u>Other revenue</u>					
Interest, dividends, rents, & misc.	18,691	-	-	18,691	22,746
<b>Support and Revenue</b>	<b>\$600,847</b>	<b>\$ 97,758</b>	<b>\$ 2,027</b>	<b>\$700,632</b>	<b>\$707,147</b>

**CARE USA**  
**Notes to Consolidated Financial Statements**

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**15. Agricultural Commodities**

A summary of agricultural commodity activity by CARE USA is as follows (*in thousands*):

	<u>2009</u>	<u>2008</u>
Commodities distributed via CARE USA programs		
U.S. government	\$ 94,359	\$ 71,443
Others	<u>3,399</u>	<u>3,271</u>
Total	97,758	74,714
Commodities received for monetization with proceeds used by CARE USA from the U.S. government	<u>17,443</u>	<u>53,390</u>
Total agricultural commodities support	<u>\$ 115,201</u>	<u>\$ 128,104</u>



**CARE USA**  
**Notes to Consolidated Financial Statements**

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**16. Subsidiary and Related Entities Balance Sheets and Statements of Activities**

The balance sheets for CARE USA's subsidiary and related entities as of June 30, 2009 are as follows (*in thousands*):

	<u>Edyficar</u>	<u>SEED Finance</u>	<u>MOFAD</u>	<u>Other</u>	<u>Total</u>
<b>Assets</b>					
Cash and cash equivalents	\$ 12,573	\$ 1,413	\$ 2,152	\$ 112	\$ 16,250
Grants receivable	-	-	-	189	189
Microcredit loans receivable, net	201,231	4,253	2,104	11	207,599
Other assets	6,011	111	78	27	6,227
Property and equipment, net	8,978	9	56	-	9,043
Investments	-	-	-	104	104
<b>Total Assets</b>	<u>\$ 228,793</u>	<u>\$ 5,786</u>	<u>\$ 4,390</u>	<u>\$ 443</u>	<u>\$ 239,412</u>
<b>Liabilities and Net Assets</b>					
Liabilities					
Accounts payable and other liabilities	\$ 22,555	\$ 74	\$ 276	\$ 359	\$ 23,264
Loans payable	164,943	4,615	4,175	-	173,733
<b>Total Liabilities</b>	<u>187,498</u>	<u>4,689</u>	<u>4,451</u>	<u>359</u>	<u>196,997</u>
Commitments and contingencies					
Retained Earnings and Stockholders Equity					
Retained earnings and stockholders equity	31,842	882	(57)	84	32,751
Minority interest	9,453	215	(4)	-	9,664
<b>Total Retained Earnings and Stockholders Equity</b>	<u>41,295</u>	<u>1,097</u>	<u>(61)</u>	<u>84</u>	<u>42,415</u>
<b>Total Liabilities and Equity</b>	<u>\$ 228,793</u>	<u>\$ 5,786</u>	<u>\$ 4,390</u>	<u>\$ 443</u>	<u>\$ 239,412</u>

**CARE USA**  
**Notes to Consolidated Financial Statements**

**16. Subsidiary and Related Entities Balance Sheets and Statements of Activities**  
**(continued)**

The balance sheets for CARE USA's subsidiary and related entities as of June 30, 2008 are as follows *(in thousands)*:

	<u>Edyficar</u>	<u>SEED Finance</u>	<u>MOFAD</u>	<u>Total</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 18,821	\$ 309	\$ 423	\$ 19,553
Investments	-	-	-	-
Microcredit loans receivable, net	153,868	3,224	2,426	159,518
Other assets	2,719	296	-	3,015
Property and equipment, net	8,272	10	21	8,303
<b>Total Assets</b>	<u>\$ 183,680</u>	<u>\$ 3,839</u>	<u>\$ 2,870</u>	<u>\$ 190,389</u>
<b>Liabilities and Net Assets</b>				
Liabilities				
Accounts payable and other liabilities	\$ 23,768	\$ 61	\$ 178	\$ 24,007
Loans payable	127,096	2,792	2,728	132,616
<b>Total Liabilities</b>	<u>150,864</u>	<u>2,853</u>	<u>2,906</u>	<u>156,623</u>
Commitments and contingencies				
Retained Earnings and Stockholders Equity				
Retained earnings and stockholders equity	25,304	772	(37)	26,039
Minority interest	7,512	214	1	7,727
<b>Total Retained Earnings and Stockholders Equity</b>	<u>32,816</u>	<u>986</u>	<u>(36)</u>	<u>33,766</u>
<b>Total Liabilities and Equity</b>	<u>\$ 183,680</u>	<u>\$ 3,839</u>	<u>\$ 2,870</u>	<u>\$ 190,389</u>

The statements of activities for CARE USA's subsidiary and related entities for the year ended June 30, 2009 are as follows *(in thousands)*:

	<u>Edyficar</u>	<u>SEED Finance</u>	<u>MOFAD</u>	<u>Other</u>	<u>2009</u>
<b>Program Income</b>					
Interest and other income	\$ 65,931	\$ 504	\$ 617	\$ 1,148	\$ 68,200
Interest expense	14,192	282	-	-	14,474
Net interest income	51,739	222	617	1,148	53,726
Less: Provision for loan losses	3,674	19	-	-	3,693
Net interest income after provision for loan losses	48,065	203	617	1,148	50,033
<b>Program Expense</b>					
Program expenses	35,020	200	741	1,064	37,025
Total program expenses	35,020	200	741	1,064	37,025
<b>Net Income</b>	<u>\$ 13,045</u>	<u>\$ 3</u>	<u>\$ (124)</u>	<u>\$ 84</u>	<u>\$ 13,008</u>

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**Notes to Consolidated Financial Statements**

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**16. Subsidiary and Related Entities Balance Sheets and Statements of Activities**  
**(continued)**

The statements of activities for CARE USA's subsidiary and related entities for the year ended June 30, 2008 are as follows *(in thousands)*:

	<u>Edyficar</u>	<u>SEED Finance</u>	<u>MOFAD</u>	<u>2008</u>
<b>Program Income</b>				
Interest and other income	\$ 46,866	\$ 564	\$ 204	\$ 47,634
Interest expense	<u>9,408</u>	<u>284</u>	<u>-</u>	<u>9,692</u>
Net interest income	37,458	280	204	37,942
Less: Provision for loan losses	<u>697</u>	<u>25</u>	<u>32</u>	<u>754</u>
Net interest income after provision for loan losses	36,761	255	172	37,188
<b>Program Expense</b>				
Program expenses	20,347	189	287	20,823
Other expenses	<u>5,309</u>	<u>32</u>	<u>-</u>	<u>5,341</u>
Total program expenses	25,656	221	287	26,164
<b>Net Income</b>	<u>\$ 11,105</u>	<u>\$ 34</u>	<u>\$ (115)</u>	<u>\$ 11,024</u>

Interest and other income are included in government and other support in the accompanying consolidated statements of activities. Interest expense is included in financing, depreciation and miscellaneous expenses in the accompanying consolidated statements of functional expenses. Provision for loan losses is included in program expenses in the accompanying consolidated statements of activities. Program expenses are included in the appropriate natural classification in the accompanying consolidated statements of functional expenses.

**17. Commitments and Other Matters**

As of June 30, 2009, CARE USA is obligated under noncancelable operating lease agreements for warehousing, office space and staff housing at minimum rentals as follows *(in thousands)*:

<b>Year ending June 30:</b>	
2010	\$ 5,844
2011	2,866
2012	1,439
2013	928
2014	682
2015 and thereafter	<u>2,851</u>
Total	<u>\$ 14,610</u>

## **CARE USA**

### **Notes to Consolidated Financial Statements**

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#### **17. Commitments and Other Matters (continued)**

Total rent expense was approximately \$15.2 million and \$14.1 million, respectively, for the years ended June 30, 2009 and 2008.

CARE USA has a commitment to loan a total \$3.0 million to \$3.6 million to BRAC Africa Microfinance, Ltd over a four year period. The loan receivable as of June 30, 2009 was \$800,000. Repayment will begin in 2013. CARE USA earns a 5% interest on the loan.

CARE USA has committed to invest \$5 million in MicroVest II, LP, a wholly owned limited partner of MicroVest General Partners. Contributions made as of June 30, 2009 were \$650,000.

CARE USA has a \$562,500 revolving loan agreement with MicroVest Capital Management, LLC (MVCM) through June 2010. MVCM is a wholly-owned fund manager of Micro Vest General Partners. At June 30, 2009, \$268,500 was outstanding with an interest rate of 12%.

CARE USA has a \$1.9 million line of credit used for funding microcredit loans in Honduras. At June 30, 2009, the outstanding balance owed was \$1.0 million. The line of credit is secured by \$2.2 million of microcredit loans receivable. The interest rate is 16%.

CARE USA maintains a \$10 million line of credit for miscellaneous cash needs. No amount was outstanding at June 30, 2009. There were no amounts outstanding under this line of credit as of June 30, 2009.

CARE USA maintains two lines of credit to secure standby letters of credit and other guarantees. These lines of credit total \$10 million and \$2.5 million and cover U.S. and Peruvian guarantees, respectively. There were no amounts outstanding under these lines of credit as of June 30, 2009.

In addition, CARE USA is the guarantor on \$2.8 million of obligations to donors resulting from advance funding of projects in CARE USA and other CARE International member country offices. These guarantees have expirations through October 2011. These guarantees are released upon the final expenditure of funds on the associated projects in accordance with the terms and conditions of the contract. The CARE International member that obtained the donor funding is primarily liable for outstanding amounts, with the guarantees providing additional protection to the donors. The guarantees would only be exercised if the country offices failed to deliver project work and were unable to return the cash advances, and the CARE International member was also unable to repay the donor. CARE USA does not expect to expend any resources as a result of these guarantees as no expenditures have been required since this program has been in effect.

In the normal course of business, CARE USA is party to various claims and assessments. In the opinion of management, these matters will not have a material effect on the consolidated financial position, consolidated changes in net assets or consolidated cash flows.

## **CARE USA**

### **Notes to Consolidated Financial Statements**

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#### **18. Related Parties**

CARE USA loaned money to the CARE International Revolving Fund. This is used by CARE International to loan money to other members. The direct loan to the CARE International Revolving Fund has a balance of \$2.5 million and \$2.1 million, respectively, for the years ended June 30, 2009 and 2008. No interest is charged on these loans. Edyficar has an outstanding loan to CARE Peru of \$2.3 million at June 30, 2009.

#### **19. Subsequent Events**

On September 4, 2009, CARE USA entered into an agreement with Banco De Credito Del Peru (BCP) for the sale of its subsidiary Edyficar. CARE USA owns 77.11% direct interest in Edyficar. The sale price is \$74 million. The sale was completed on October 14, 2009.

Management has adopted SFAS No. 165, *Subsequent Events*, and has disclosed all subsequent events through December 4, 2009, the date the financial statements were available to be issued.

#### **20. Correction of Prior Period Error**

CARE USA did not consolidate related entities with net assets of \$5.9 million at June 30, 2007. Accordingly, the consolidated financial statements have been restated to properly reflect these net assets. The effect of this prior period error is to increase unrestricted net assets at June 30, 2007 by this amount.

CARE USA did not record certain split interest agreements totaling \$0.9 million at June 30, 2007. As a result, trusts held by third parties were understated at June 30, 2007 by that amount. Accordingly, the consolidated financial statements have been restated to properly reflect this amount. The effect of this prior period error is to increase temporarily restricted and permanently restricted net assets at June 30, 2007 by \$0.3 and \$0.6 million, respectively.

CARE USA did not properly classify an endowment trust totaling \$2 million as permanently restricted at June 30, 2007. The consolidated financial statements have been restated to properly reflect this amount. The effect of the prior period error is an increase in permanently restricted net assets and a decrease in temporarily restricted net assets at June 30, 2007.

CARE USA failed to capitalize vehicles totaling \$1.2 million at June 30, 2007. Accordingly, the consolidated financial statements have been restated to properly reflect these net assets. The effect of this prior period error is to increase unrestricted net assets at June 30, 2007 by this amount.