

CARE USA and Subsidiaries

Consolidated Financial Statements

For the years ended

June 30, 2011 and 2010

CARE USA
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For the years ended June 30, 2011 and 2010

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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, Inc. (CARE USA) and subsidiaries as of June 30, 2011 and 2010, 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 and subsidiaries as of June 30, 2011 and 2010, and the consolidated changes of their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles

Ernst & Young LLP

December 30, 2011

CARE USA
Consolidated Balance Sheets
As of June 30, 2011 and 2010 (in thousands)

	<u>2011</u>	<u>2010</u>
Assets		
Cash and cash equivalents (Note 2)	\$ 71,995	\$ 89,768
Restricted cash	7,002	9,006
Investments, at fair value (Note 5)	196,509	192,093
Receivables, net (Note 7)	12,790	27,178
Loans receivable, net (Note 8)	14,942	14,398
Inventory	49,070	10,001
Deposits and other assets (Note 9)	48,857	38,058
Property and equipment, net (Note 10)	20,376	14,543
Trusts held by third parties	115,502	96,862
Total Assets	<u>\$ 537,043</u>	<u>\$ 491,907</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 29,772	\$ 42,389
Program advances (Note 13)	98,226	57,718
Liability for split interest agreements	19,352	19,833
Benefits accrued for employees	33,268	30,938
Subsidiary loans payable (Note 14)	14,462	9,551
Minority interest in subsidiary	870	593
Total Liabilities	<u>195,950</u>	<u>161,022</u>
Commitments and Contingencies		
Net Assets		
Unrestricted	82,094	88,050
Temporarily restricted (Note 3)	125,517	127,993
Permanently restricted (Note 3)	133,482	114,842
Total Net Assets	<u>341,093</u>	<u>330,885</u>
Total Liabilities and Net Assets	<u>\$ 537,043</u>	<u>\$ 491,907</u>

CARE USA
Consolidated Statements of Activities (in thousands)
For the year ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2011	Total 2010
Support					
Private Support					
Contributions	\$ 61,812	\$ 58,929	\$ -	\$ 120,741	\$ 131,793
In-kind contributions - PSA	10,704	-	-	10,704	14,651
CARE International	178,423	-	-	178,423	139,492
Total Private Support	250,939	58,929	-	309,868	285,936
Government and other support					
U.S. government	176,112	-	-	176,112	198,871
Host governments	23,396	-	-	23,396	21,799
Others	62,978	88	-	63,066	61,680
Total Government and Other Support	262,486	88	-	262,574	282,350
Other Revenue					
Interest and dividends	9,026	1,656	-	10,682	11,572
Rent and miscellaneous	6,234	307	-	6,541	6,150
Total Other Revenue	15,260	1,963	-	17,223	17,722
Net assets released from restrictions					
Satisfaction of program restrictions	73,364	(73,364)	-	-	-
Total Operating Support and Revenue (Note 15)	602,049	(12,384)	-	589,665	586,008
Expenses					
Program					
Emergency	124,652			124,652	99,835
Rehabilitation	16,873			16,873	19,733
Development	401,961			401,961	405,320
Public Information	17,802			17,802	21,215
Supporting Activities					
Fund raising	28,621			28,621	25,451
Management and general	35,898			35,898	30,192
Total Operating Expenses	625,807	-	-	625,807	601,746
Operating Expenses over Support and Revenue	(23,758)	(12,384)	-	(36,142)	(15,738)
Other Nonoperating Changes in Net Assets					
Minority interest in subsidiary income	(52)	-	-	(52)	(593)
Foreign exchange gain (loss)	2,588	126	-	2,714	(1,859)
Interest and dividends on gift annuity investments	772	-	-	772	835
Actuarial loss on annuity obligations	(1,147)	-	-	(1,147)	(1,154)
Actuarial (loss) gain on split interest agreements	216	19	-	235	(576)
Net realized and unrealized gain on investments	15,656	9,763	-	25,419	8,004
Increase in value of trusts held by third parties	-	-	18,640	18,640	7,494
Total Changes in Net Assets before change in pension liability	(5,725)	(2,476)	18,640	10,439	(3,587)
Net change in pension liability	(231)	-	-	(231)	(775)
Changes in net assets from continuing operations	(5,956)	(2,476)	18,640	10,208	(4,362)
Discontinued operations					
Gain from operations of discontinued operations - Edyficar (including net income of \$3.8 million)	-	-	-	-	37,757
Changes in net assets	(5,956)	(2,476)	18,640	10,208	33,395
Net Assets, beginning of year	88,050	127,993	114,842	330,885	297,490
Net Assets, end of year	\$ 82,094	\$ 125,517	\$ 133,482	\$ 341,093	\$ 330,885

CARE USA
Consolidated Statements of Activities (in thousands)
For the year ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2010
Support				
Private Support				
Contributions	\$ 60,097	\$ 71,677	\$ 19	\$ 131,793
In-kind contributions - PSA	14,651	-	-	14,651
CARE International	139,492	-	-	139,492
Total Private Support	214,240	71,677	19	285,936
Government and other support				
U.S. government	198,871	-	-	198,871
Host governments	21,799	-	-	21,799
Others	61,633	47	-	61,680
Total Government and Other Support	282,303	47	-	282,350
Other Revenue				
Interest and dividends	9,590	1,982	-	11,572
Rent and miscellaneous	5,993	157	-	6,150
Total Other Revenue	15,583	2,139	-	17,722
Net assets released from restrictions				
Satisfaction of program restrictions	74,467	(74,467)	-	-
Total Operating Support and Revenue (Note 15)	586,593	(604)	19	586,008
Expenses				
Program				
Emergency	99,835			99,835
Rehabilitation	19,733			19,733
Development	405,320			405,320
Public Information	21,215			21,215
Supporting Activities				
Fund raising	25,451			25,451
Management and general	30,192			30,192
Total Operating Expenses	601,746	-	-	601,746
Operating Expenses over Support and Revenue	(15,153)	(604)	19	(15,738)
Other Nonoperating Changes in Net Assets				
Minority interest in subsidiary income	(593)	-	-	(593)
Foreign exchange loss	(1,771)	(88)	-	(1,859)
Interest and dividends on gift annuity investments	835	-	-	835
Actuarial loss on annuity obligations	(1,154)	-	-	(1,154)
Actuarial (loss) gain on split interest agreements	24	(600)	-	(576)
Net realized and unrealized gain on investments	3,081	4,923	-	8,004
Increase in value of trusts held by third parties	-	-	7,494	7,494
Total Changes in Net Assets before change in pension liability	(14,731)	3,631	7,513	(3,587)
Net change in pension liability	(775)	-	-	(775)
Changes in net assets from continuing operations	(15,506)	3,631	7,513	(4,362)
Discontinued operations				
Gain from operations of discontinued operations - Edyficar (including net income of \$3.8 million)	37,757	-	-	37,757
Changes in net assets	22,251	3,631	7,513	33,395
Net Assets, beginning of year	65,799	124,362	107,329	297,490
Net Assets, end of year	\$ 88,050	\$ 127,993	\$ 114,842	\$ 330,885

CARE USA

Consolidated Statements of Functional Expenses (in thousands)
For the year ended June 30, 2011

	Program Activities					Supporting Activities			2011 Total	2010 Total
	Emergency	Rehabilitation	Development	Public Information	Total	Fund Raising	Management & General	Total		
Personnel costs	\$ 29,960	\$ 5,960	\$ 121,884	\$ 4,436	\$ 162,240	\$ 8,073	\$ 20,204	\$ 28,277	\$ 190,517	\$ 175,322
Professional services	1,657	718	18,857	214	21,446	3,238	6,693	9,931	31,377	29,780
Equipment	1,718	411	5,746	157	8,032	147	1,202	1,349	9,381	12,622
Materials and services	49,783	4,970	71,918	469	127,140	15,968	1,930	17,898	145,038	147,040
Travel and transportation	7,470	1,656	35,543	210	44,879	503	2,207	2,710	47,589	45,354
Occupancy	3,478	943	12,077	704	17,202	316	1,797	2,113	19,315	19,392
Financing/Depn/Misc.	482	604	10,409	359	11,854	350	643	993	12,847	15,592
Grants/Subgrants	19,298	1,611	101,735	496	123,140	10	9	19	123,159	104,117
AgCommodities/CIKs	10,806	-	23,792	53	34,651	16	1,213	1,229	35,880	37,876
Contributed advertising-PSA	-	-	-	10,704	10,704	-	-	-	10,704	14,651
Total Operating Expenses for 2011	\$ 124,652	\$ 16,873	\$ 401,961	\$ 17,802	\$ 561,288	\$ 28,621	\$ 35,898	\$ 64,519	\$ 625,807	\$ 601,746

CARE USA**Consolidated Statements of Functional Expenses (in thousands)****For the year ended June 30, 2010**

	Program Activities					Supporting Activities			2010 Total
	Emergency	Rehabilitation	Development	Public Information	Total	Fund Raising	Management & General	Total	
Personnel costs	\$ 21,779	\$ 5,368	\$ 120,824	\$ 3,908	\$ 151,879	\$ 7,112	\$ 16,331	\$ 23,443	\$ 175,322
Professional services	1,356	574	19,298	957	22,185	2,992	4,603	7,595	29,780
Equipment	1,512	567	6,905	148	9,132	216	3,274	3,490	12,622
Materials and services	36,723	7,508	87,106	741	132,078	13,597	1,365	14,962	147,040
Travel and transportation	8,234	1,617	32,771	303	42,925	649	1,780	2,429	45,354
Occupancy	2,760	885	13,136	226	17,007	587	1,798	2,385	19,392
Financing/Depn/Misc.	224	766	13,865	176	15,031	40	521	561	15,592
Grants/Subgrants	3,823	2,448	97,596	73	103,940	156	21	177	104,117
AgCommodities/CIKs	23,424	-	13,819	32	37,275	102	499	601	37,876
Contributed advertising-PSA	-	-	-	14,651	14,651	-	-	-	14,651
Total Operating Expenses for 2010	\$ 99,835	\$ 19,733	\$ 405,320	\$ 21,215	\$ 546,103	\$ 25,451	\$ 30,192	\$ 55,643	\$ 601,746

CARE USA
Consolidated Statements of Cash Flow (in thousands)
For the years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 10,208	\$ 33,395
Less Changes in net assets from discontinued operations	-	37,757
Changes in net assets from continuing operations	<u>10,208</u>	<u>(4,362)</u>
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	5,386	4,734
Contributions restricted for investment in endowment	-	(19)
Provision for subsidiary microcredit loan losses	360	991
Unrealized gain on derivative contracts	-	107
Net realized and unrealized gain on investments	(25,419)	(8,004)
Actuarial loss on annuity obligations	1,147	1,154
Actuarial loss/(gain) on split interest agreements	(235)	576
Increase in value of trusts held by third parties	(18,640)	(7,494)
Changes in assets and liabilities:		
(Increase)/Decrease in receivables	14,388	(10,086)
(Increase)/Decrease in inventory	(39,069)	1,888
(Increase)/Decrease in deposits and other assets	(10,799)	13,643
Increase/(Decrease) in accounts payable and accrued expenses	(12,617)	14,878
Increase/(Decrease) in program advances	40,508	(8,594)
Increase in benefits accrued for employees	2,330	1,801
Net cash (used in) provided by operating activities	<u>(32,452)</u>	<u>1,213</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(93,155)	(157,419)
Proceeds from sales of investments	114,158	133,402
(Increase)/Decrease in restricted cash	2,004	(9,006)
Purchases of property and equipment	(14,234)	(6,314)
Proceeds from sales of property and equipment	3,015	3,563
Net cash provided by (used in) investing activities	<u>11,788</u>	<u>(35,774)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for investment in endowment	-	19
Increase in loans receivable	(904)	(2,375)
Proceeds from sale of subsidiary	-	73,841
Increase in subsidiary loans payable	4,911	1,316
Increase in minority interest in subsidiary	277	382
Payments to gift annuitants	(2,288)	(2,353)
Increase in liability for split interest agreements	895	891
Net cash and cash equivalents provided by financing activities	<u>2,891</u>	<u>71,721</u>
CASH FLOWS FROM DISCONTINUED OPERATIONS:		
Net cash (used in) provided by operating activities	-	(2,801)
Net cash used in investing activities	-	(442)
Net cash used in financing activities	-	(1,691)
Net cash and cash equivalents provided by (used in) discontinued operations	<u>-</u>	<u>(4,934)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(17,773)	32,226
CASH AND CASH EQUIVALENTS, beginning of year	89,768	57,542
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 71,995</u>	<u>\$ 89,768</u>
Noncash Contributions	<u>\$ 23,136</u>	<u>\$ 23,933</u>
Cash paid for interest	<u>\$ 771</u>	<u>\$ 5,498</u>

CARE USA

Notes to Consolidated Financial Statements

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 60 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 projects including:

Agriculture and Natural Resources

Includes, but is not limited to: sustainable activities to increase crops, livestock and fish production for income and consumption, post-harvest activities and supporting services and input systems.

Basic and Girls’ Education

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

Children’s Health

Includes, but is not limited to: prevention (e.g. malaria and pneumonia), immunization, nutrition (e.g. breastfeeding, complementary feeding, and addressing micronutrient deficiencies), early childhood development, and HIV prevention and support for children who already are infected.

Reproductive Health

Includes, but is not limited to: addressing inequitable gender and sexual norms, family planning, maternal and newborn health services, detection and prevention and management of sexually transmitted infections.

CARE USA

Notes to Consolidated Financial Statements

1. Organization (continued)

HIV/AIDS

Includes, but is not limited to: prevention of new infections (reducing incidence); access to quality testing and treatment (anti-retroviral); care and support to adults and children (age appropriate); reduction of stigma and discrimination that accompanies HIV and AIDS; reduction of vulnerabilities attributable to increasing the risk of HIV and AIDS and mitigating the impact of HIV and AIDS in adults and children infected and affected by HIV and AIDS.

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 (e.g. tuberculosis) or strengthening or reforming health systems.

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. Also induces market engagement work, with a particular focus on agriculture and livestock value chains.

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:

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.

CARE USA

Notes to Consolidated Financial Statements

1. Organization (continued)

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

CARE India Trust is a non-profit affiliate operating in India. It is primarily engaged in administering health and nutrition programs funded by the Indian government.

Access Africa Fund, LLC is a for-profit affiliate operating in Africa. It is primarily engaged to serve 150 million people in 39 sub-Saharan African countries by providing them with Micro-credit loans.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of CARE USA and its 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 SEED Finance, MOFAD, CARE India Trust and Access Africa Fund. 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 in 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 \$30.3 million and \$48.3 million, (including \$7 million and \$9 million of restricted cash held in escrow per Edyficar sale agreement in pursuance any future liability), respectively, for the years ended June 30, 2011 and 2010. Cash and cash equivalents held outside the United States were \$48.7 million and \$50.4 million, respectively, for the years ended June 30, 2011 and 2010.

In addition, certain donors require certain cash be held in separate accounts. Donor restricted cash accounts totaled \$21.1 million and \$20.3 million for the years ended June 30, 2011 and 2010, respectively.

Investments

Investments are stated at fair value. 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.

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Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (continued)

- 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).
- 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 and a corresponding liability due to the freight line are recorded when agricultural commodities are shipped to their destination port. These amounts are due from the USAID.

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 fair value based on the present value of the estimated future cash flows. For the years ended June 30, 2010 and 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 \$859,000 and \$1.4 million, respectively, for the years end June 30, 2011 and 2010. 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 dates. Management considers the loan loss factors as well as delinquencies over 60 days in determining the allowance.

CARE USA

Notes to Consolidated Financial Statements

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 which title has passed to CARE USA 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.

CARE USA received mosquito nets for malaria prevention program. This program was financed by Global Fund and distributed by a sub grantee. Revenue and expenses are recognized when the commodities are distributed.

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 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 28.35% and 23.32% respectively. The investments are accounted for using the equity method.

CARE USA

Notes to Consolidated Financial Statements

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 their estimated fair market 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.

The Organization's fixed asset policy was updated and implemented effective July 1st, 2010. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets. The estimated useful lives are twenty-five years for building (previous policy had a useful life of fifteen years), 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.

Trusts Held by Third Parties

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 their fair values.

Charitable Remainder Trusts

Donors have established and funded trusts with independent trustees 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. Revenue 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 to other beneficiaries under the specific terms of the trust. The present value of the estimated future payments was discounted at an average rate of 6.3% in 2011 and 2010.

CARE USA

Notes to Consolidated Financial Statements

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.

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 included in investments 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 0.41% to 11.30%.

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 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 reflect the principal amount of contributions accepted with the stipulation from the donor that the principal be maintained in perpetuity. The investment income may be expended for a purpose specified by the donor or other general purposes and is reflected as temporarily restricted revenue.

CARE USA

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (continued)

Grant Revenue

Grant revenue on cost-reimbursement grants or contracts is recognized by CARE USA when the program expenditures have been incurred and is reflected as government and other support in the consolidated statements of activities. 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 \$24.3 million of questioned costs resulting from various audits. To date, USAID is reviewing supporting documentation related to \$11.2 million of this amount submitted by management.

This review is not complete at this time. 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 Gifts-in-Kind

Gifts-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 gifts is generally not recorded in the consolidated financial statements as they do not meet the criteria for revenue recognition.

CARE USA uses a vendor to promote public service announcements (PSA) for public viewing. Free media outlets include television, radio, billboards and magazines. PSA are recorded at estimated fair value and \$10.7 million and \$14.6 million were recorded for the years ended June 30, 2011 and 2010, respectively.

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.

CARE USA

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (continued)

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 forward contracts are designed to mitigate, over time, a portion of the impact of exchange rate changes on cash flows. These contracts are recorded at their fair value and changes in fair value are recorded as foreign exchange gains or losses.

The principal amount of the outstanding forward foreign exchange contracts at June 30, 2010 was \$2.5 million. CARE USA enters into foreign exchange contracts to hedge against foreign accounts payable.

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 on investments.

Fair Value of Financial Instruments

CARE USA financial instruments consist of cash and cash equivalents, restricted cash, investments, receivables, 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. 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.

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. CARE USA's subsidiaries MOFAD and CARE India Trust are tax-exempt in the countries they are incorporated. SEED Finance is taxable in the Philippines where it is incorporated. Access Africa Fund is taxable in the USA as a limited liability corporation.

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* (ASC 740) ("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 has adopted the recognition and disclosure provisions of FIN 48 for its fiscal year ending June 30, 2010.

CARE USA

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (continued)

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.

Fair Value Measurements

CARE USA records certain financial assets and financial liabilities at fair value. Fair value is defined 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. Additionally, the inputs used to measure fair value are prioritized based on a three level hierarchy. 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: Valuation based on 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: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates that market participants would use in pricing the asset or liability.

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.

Corporate stocks and mutual funds are principally valued at the regular trading session closing price on the exchange or market in which such securities are principally traded on the last business day of each period presented using the market approach.

U.S. government obligations are valued on the basis of evaluated prices provided by independent pricing services.

CARE USA

Notes to 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*):

	Temporarily Restricted		Permanently Restricted	
	2011	2010	2011	2010
Africa	\$ 646	\$ 429	\$ 512	\$ 512
Agriculture and Natural Resources	3,421	6,187	-	-
Basic and Girls' Education	24,383	22,356	-	-
Emergency Response	18,556	22,756	1,006	1,006
Multi-Sector and Other	27,880	32,866	-	-
Reproductive Health	3,528	9,107	-	-
Rehabilitation	458	208	-	-
Signature Programs	14,578	9,019	-	-
Small Economic Activity Development	2,375	1,909	-	-
Water and Sanitation	6,730	7,157	-	-
Time Restricted	22,962	15,999	131,964	113,324
Total	\$ 125,517	\$ 127,993	\$ 133,482	\$ 114,842

4. Endowment

CARE USA's endowment consists of approximately nine 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:

CARE USA
Notes to Consolidated Financial Statements

4. Endowment (continued)

- (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.

The changes in endowment assets for the year ended June 30, 2011 are as follows (*in thousands*):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ (118)	\$ 10,095	\$ 18,305	\$ 28,282
Investment income	-	688	-	688
Net appreciation: (realized and unrealized)	118	4,544	-	4,662
Total investment return	118	5,232	-	5,350
Contributions	-	-	-	-
Appropriation of endowment assets for expenditure	-	(1,025)	-	(1,025)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 14,302</u>	<u>\$ 18,305</u>	<u>\$ 32,607</u>

The changes in endowment assets for the year ended June 30, 2010 are as follows (*in thousands*):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 9,793	\$ 18,305	\$ 28,098
Investment income	113	445	-	558
Net appreciation: (realized and unrealized)	(231)	888	-	657
Total investment return	(118)	1,333	-	1,215
Contributions	-	-	-	-
Appropriation of endowment assets for expenditure	-	(1,031)	-	(1,031)
Endowment net assets, end of year	<u>\$ (118)</u>	<u>\$ 10,095</u>	<u>\$ 18,305</u>	<u>\$ 28,282</u>

CARE USA's Board of Directors approved a one-time spending appropriation of \$1.5 million subsequent to year-end. This appropriation supports the utilization of surplus earnings from permanently restricted endowments. The Board of Directors also approved a one-time release of temporarily restricted net assets to unrestricted net assets of \$9.6 million. This amount represents authorized spending in prior years against CARE USA's unrestricted endowment.

CARE USA
Notes to Consolidated Financial Statements

4. Endowment (continued)

Description of amount classified as permanently restricted net assets and temporarily restricted net assets (Endowment only) *(in thousands)*:

	<u>2011</u>	<u>2010</u>
Permanently Restricted Net Assets:		
The portion of perpetual endowment funds required to be retained permanently either by explicit donor stipulation or by SPMIFA	\$ 18,305	\$ 18,305
Total Endowment funds classified as Permanently Restricted Net Assets	<u>\$ 18,305</u>	<u>\$ 18,305</u>
Temporarily Restricted Net Assets:		
Term endowment funds		
The portion of perpetual endowment funds subject to time restriction under SPMIFA		
Without purpose restrictions	\$ 5,018	\$ 6,487
With purpose restrictions	9,284	3,608
Total Endowment funds classified as Temporarily Restricted Net Assets	<u>\$ 14,302</u>	<u>\$ 10,095</u>

Investment Policy

CARE USA has a spending policy specific to the Endowment Fund, which is monitored by the Investment Committee of its Board of Directors. The policy states that CARE USA will annually allocate five percent (5%) of the three-year (3 year) average of the fair market value from investment earnings to be spent on operations, unless otherwise specified by the donor. The objective of this policy is to maintain the purchasing power of the endowment funds held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. 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.

CARE USA
Notes to Consolidated Financial Statements

4. Endowment (continued)

The following is a summary of the asset allocation guidelines, with allowable ranges for each asset type in 2011.

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

CARE USA utilized the spending policy authorized by the Board of Directors for disbursement of approximately \$1 million for each of the years ended June 30, 2011 and 2010 to be used in CARE USA operations.

5. Investments

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

	<u>2011</u>		<u>2010</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
U.S. treasury & agency obligations	\$ 25,614	\$ 26,602	\$ 27,307	\$ 28,601
Mutual funds	74,239	79,519	80,056	70,520
Marketable equity securities	46,492	56,880	47,824	48,110
Marketable debt securities	18,701	19,635	22,628	24,117
Money market funds	9,956	9,956	19,424	19,404
Overseas time deposits	3,917	3,917	1,341	1,341
	<u>\$ 178,919</u>	<u>\$ 196,509</u>	<u>\$ 198,580</u>	<u>\$ 192,093</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.

Management fees and expenses of \$511,186 and \$477,983, respectively, for the years ending June 30, 2011 and 2010, are netted against investment income.

Operating investment income consists of interest and dividend income earned. Operating investment income is reported in the statement of activity. Non-operating income consists of investment income, net increase or decrease in fair market value of investments and non-operating expenses. Non-operating income and expenses is reported in the change in net assets in the statement of activity.

CARE USA
Notes to Consolidated Financial Statements

5. Investments (continued)

Total return on cash balances, investments and the trusts held by third parties was as follows for the year ended June 30, 2011 (*in thousands*):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2011	Total 2010
Dividends and interest included in operating revenue	\$ 9,026	\$ 1,656	\$ -	\$ 10,682	\$ 11,572
Dividends and interest on gift annuity investments	772	-	-	772	835
Net realized gains/(losses)	958	1,028	-	1,986	(2,876)
Change in net unrealized gains	14,698	8,735	-	23,433	10,880
Net change in value of trusts held by third parties	-	-	18,641	18,641	7,494
Total return on cash balances, investments & trusts held by third parties	<u>\$ 25,454</u>	<u>\$ 11,419</u>	<u>\$ 18,641</u>	<u>\$ 55,514</u>	<u>\$ 27,905</u>

Total return on cash balances, investments and the trusts held by third parties was as follows for the year ended June 30, 2010 (*in thousands*):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2010
Dividends and interest included in operating revenue	\$ 9,590	\$ 1,982	\$ -	\$ 11,572
Dividends and interest on gift annuity investments	835	-	-	835
Net realized losses	(2,037)	(839)	-	(2,876)
Change in net unrealized gains	5,118	5,762	-	10,880
Net change in value of trusts held by third parties	-	-	7,494	7,494
Total return on cash balances, investments & trusts held by third parties	<u>\$ 13,506</u>	<u>\$ 6,905</u>	<u>\$ 7,494</u>	<u>\$ 27,905</u>

CARE USA
Notes to Consolidated Financial Statements

6. Fair Value Measurements

The following table presents the assets and liabilities measured at fair value on a recurring basis as of June 30, 2011 (*in thousands*):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value Measurement</u>
<u>Assets</u>				
Cash and cash equivalents	\$ 71,995	\$ -	\$ -	\$ 71,995
Restricted Cash	7,002	-	-	7,002
Investments:				
Money market funds	9,956	-	-	9,956
Fixed Income Securities:				
US treasury obligations	10,274	-	-	10,274
Agency obligations:				
Fannie Mae	-	9,183	-	9,183
Freddie Mac	-	4,337	-	4,337
Federal Home Loans	-	2,064	-	2,064
Others	-	744	-	744
Corporate bonds	-	19,635	-	19,635
Equity securities:				
Corporate stocks	44,453	-	-	44,453
Exchange-traded fund	12,427	-	-	12,427
Mutual Funds:				
Fixed income funds	24,278	-	-	24,278
Equity funds	55,241	-	-	55,241
Overseas time deposits	-	3,917	-	3,917
Total Investments	<u>156,629</u>	<u>39,880</u>	<u>-</u>	<u>196,509</u>
Trust held by third parties	-	115,177	325	115,502
Total Assets	<u>\$ 235,626</u>	<u>\$ 155,057</u>	<u>\$ 325</u>	<u>\$ 391,008</u>

CARE USA
Notes to Consolidated Financial Statements

6. Fair Value Measurement (continued)

The following table presents the assets and liabilities measured at fair value on a recurring basis as of June 30, 2010 (*in thousands*):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value Measurement</u>
<u>Assets</u>				
Cash and cash equivalents	\$ 89,768	\$ -	-	\$ 89,768
Restricted Cash	9,006	-	-	9,006
Investments:				
Money market funds	19,404	-	-	19,404
Fixed Income Securities:				
US treasury obligations	11,922	-	-	11,922
Agency obligations:				
Fannie Mae	-	11,278	-	11,278
Freddie Mac	-	2,443	-	2,443
Federal Home Loans	-	2,063	-	2,063
Others	-	894	-	894
Corporate bonds	-	24,118	-	24,118
Equity securities:				
Corporate stocks	36,120	-	-	36,120
Exchange-traded fund	11,990	-	-	11,990
Mutual Funds:				
Fixed income funds	22,363	-	-	22,363
Equity funds	48,157	-	-	48,157
Overseas time deposits	-	1,341	-	1,341
Total Investments	<u>149,956</u>	<u>42,137</u>	<u>-</u>	<u>192,093</u>
Trust held by third parties	-	95,923	939	96,862
Total Assets	<u>\$ 248,730</u>	<u>\$ 138,060</u>	<u>\$ 939</u>	<u>\$ 387,729</u>
<u>Liabilities</u>				
Derivatives	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,441</u>	<u>\$ 2,441</u>
Total Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,441</u>	<u>\$ 2,441</u>

Derivatives are made up of forwards contracts whose purpose is to hedge Euro exchanges rates. The Organization had realized gains of \$107,000 for the year ended June 30, 2011 and unrealized loss of \$107,000 for the year ended June 30, 2010.

CARE USA
Notes to Consolidated Financial Statements

7. Receivables, net

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

	<u>2011</u>	<u>2010</u>
Grants and contracts receivable	\$ 11,574	\$ 23,731
Ocean freight receivable from USAID	-	24
Contributions receivable	2,209	4,347
Allowance for uncollectible accounts	(993)	(924)
	<u>\$ 12,790</u>	<u>\$ 27,178</u>

All receivables are due in one year or less at June 30, 2011. At June 30, 2010, \$22.9 million were due in one year or less; while \$4.3 million were due greater than one year through five years.

Conditional Pledges

Pledges are recognized as revenue when the donor makes a promise to give unconditionally and in substance and collection is reasonably assured. CARE USA had \$43.2 million conditional pledges at June 30, 2011 and \$28.4 million at June 30, 2010. The future payments are dependent on meeting the milestones set according to the pledge agreement. The types of program these pledges are utilized are maternal health, HIV, agriculture, water and sanitation, education and emergency relief and efforts.

8. Loans Receivable

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

	<u>2011</u>	<u>2010</u>
Microcredit loans	\$ 13,844	\$ 12,319
Loans due from:		
Microvest	1,957	1,957
Access Africa Fund	-	1,523
	<u>15,801</u>	<u>15,799</u>
Less:		
Allowance for doubtful accounts	(859)	(1,401)
	<u>\$ 14,942</u>	<u>\$ 14,398</u>

CARE USA

Notes to Consolidated Financial Statements

8. Loans Receivable (continued)

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 5% to 10% per annum with original maturities ranging up to 5 years. There is no collateral for these loans.

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 (*in thousands*):

	<u>2011</u>	<u>2010</u>
Allowance for doubtful accounts beginning of year	(1,401)	(410)
Additions	(772)	(991)
Write-offs	1,314	-
Allowance for doubtful accounts end of year	<u>\$ (859)</u>	<u>\$ (1,401)</u>

Under ASC 310, *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 and the related allowance for credit losses for all impaired loans was \$859,000 and \$1.4 million as of June 30, 2011 and 2010, respectively. CARE USA's average recorded investment in impaired loans was approximately \$1.8 million during the year ended June 30, 2011 and approximately \$2.5 million during the year ended June 30, 2010.

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Notes to Consolidated Financial Statements

9. Deposits and Other Assets

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

	<u>2011</u>	<u>2010</u>
Deposits:		
Subgrantee and project advances	\$ 19,705	\$ 15,439
Investment in MicroVest	6,505	5,897
Accrued interest/dividends	301	336
Receivable from CARE International Members	6,795	3,619
Other Assets:		
Prepaid expenses	3,388	3,843
Travel advances	1,026	1,449
Advances	1,013	1,681
Other receivables	3,408	4,874
Long-term investments	3,601	862
Insurance claims	3,115	58
	<u>\$ 48,857</u>	<u>\$ 38,058</u>

10. Property and Equipment

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

	<u>2011</u>	<u>2010</u>
Land	\$ 3,235	\$ 3,235
Buildings and building improvements	11,357	11,092
Vehicles, equipment and software	35,495	25,855
Leasehold improvements	1,141	1,147
Construction in progress	200	-
Accumulated depreciation/amortization	(31,052)	(26,786)
	<u>\$ 20,376</u>	<u>\$ 14,543</u>

Depreciation expense was \$5.4 million and \$4.7 million, respectively, for the years ended June 30, 2011 and 2010.

Unamortized internal use software costs were \$6.2 million and \$98,000, respectively for the years ended June 30, 2011 and 2010.

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Notes to Consolidated Financial Statements

11. 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 not 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 \$3.0 million, respectively, for the years ended June 30, 2011 and 2010, and employee contributions were \$2.5 million and \$2.1 million, respectively, for the years ended June 30, 2011 and 2010.

12. 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.

CARE USA expects contributions to be equal to benefit payments for the year ending June 30, 2011.

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, 2011 (*in thousands*):

CARE USA
Notes to Consolidated Financial Statements

12. Postretirement Benefits (continued)

	<u>2011</u>	<u>2010</u>
Changes in benefit obligation		
Benefit obligation at beginning of year	\$ 2,787	\$ 2,184
Service cost	101	91
Interest cost	127	137
Participant contributions	178	164
Benefits paid	(764)	(564)
Actuarial gain	258	775
Benefit obligation at end of year	<u>2,687</u>	<u>2,787</u>
Changes in plan assets		
Fair value of plan assets at beginning of year		
Employer contributions	586	400
Participant contributions	178	164
Benefits paid	(764)	(564)
Fair value of plan assets at end of year	<u>-</u>	<u>-</u>
Funded status		
Funded status at the end of the year	<u>(2,687)</u>	<u>(2,787)</u>
Net amount recognized in the consolidated balance sheet	<u>\$ (2,687)</u>	<u>\$ (2,787)</u>
Amount not yet reflected in net periodic benefit cost and expected to be amortized in next year's net periodic benefit cost:		
Prior service cost	\$ (1)	\$ (1)
Accumulated loss	(50)	(33)
	<u>\$ (51)</u>	<u>\$ (34)</u>
Amounts recognized in the consolidated balance sheet consist of:		
Benefits accrued - Post retirement	<u>\$ (2,687)</u>	<u>\$ (2,787)</u>
Net amount recognized in the consolidated balance sheet	<u>\$ (2,687)</u>	<u>\$ (2,787)</u>
Amounts not yet reflected in net periodic benefit cost and included in unrestricted net assets		
Prior service cost	\$ (6)	\$ (8)
Accumulated loss	(973)	(742)
Change in unrestricted net assets	<u>(979)</u>	<u>(750)</u>
Cumulative employer contributions in excess of net periodic benefit cost	<u>(1,708)</u>	<u>(2,037)</u>
Net amount recognized in the consolidated balance sheet	<u>\$ (2,687)</u>	<u>\$ (2,787)</u>

CARE USA
Notes to Consolidated Financial Statements

12. Postretirement Benefits (continued)

Components of net periodic benefit cost	2011	2010
Service cost	\$ 101	\$ 91
Interest cost	127	137
Amortization of prior service cost	1	1
Net periodic benefit cost	<u>\$ 229</u>	<u>\$ 229</u>

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

	2011	2010
Discount rate	<u>4.90%</u>	<u>4.95%</u>

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

	2011
Discount rate	<u>4.95%</u>

The assumed projected health care cost trend rate is 7.4% declining to 6.7% 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

12. 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>2011</u>	<u>2010</u>
One-percentage point increase in trend impact		
Effect on total of service and interest cost components	\$ 26	\$ 27
Effect on postretirement benefit obligation	<u>\$ 235</u>	<u>\$ 327</u>
One-percentage point decrease in trend impact		
Effect on total of service and interest cost components	\$ (22)	\$ (23)
Effect on postretirement benefit obligation	<u>\$ (209)</u>	<u>\$ (286)</u>

Estimated Future Benefit Payments After Fiscal Year-End

2012	\$ 236
2013	235
2014	232
2015	224
2016	218
Next 5 years	<u>\$ 1,145</u>

13. Program Advances

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

	<u>2011</u>	<u>2010</u>
Commodity grants	\$ 52,049	\$ 9,784
Grants and contracts:		
U.S. government	9,464	17,502
CARE International	12,386	14,189
Revolving funds	3,375	3,449
Host governments	3,363	4,968
Others	17,589	7,826
	<u>\$ 98,226</u>	<u>\$ 57,718</u>

CARE USA received \$35.6 million Long Lasting Insecticidal Nets (LLINs) that were not distributed by June 30, 2011.

CARE USA

Notes to Consolidated Financial Statements

14. Subsidiary Loans Payable

Loan proceeds are used primarily to carry out microfinance lending activities. Loans are provided to micro-companies to be used for financial and technical assistance in local currency to local institutions like local cooperatives, rural banks, and non-governmental institutions for the production, trade and service providing activities.

Debt maturities by institution for the years ended June 30 is as follows (in thousands):

Bank	2011	2010	Term	Interest Rate %
SEED Finance:				
Small Business Corporation	\$ 1,644	\$ 1,119	09/2009 - 07/2013	7 - 9
Bank of the Philippines	2,666	991	06/2009 - 01/2012	6 - 7
Producers Bank	70	65	09/2009 - 09/2011	6.50
Symbiotics	1,982	-	03/2011 - 03/2013	8
DWN	1,000	-	11/2010 - 11/2011	8
MicroVest	-	999	05/2009 - 05/2011	8
Landbank	1,840	-	04/2011 - 07/2012	5 - 7
Bangko	1,840	1,273	10/2007 - 10/2012	7
Other Source	-	349	12/2009 - 12/2010	8
Oiko	966	1,510	10/2009 - 11/2012	10
Planet Finance	500	499	03/2010 - 03/2012	8
MOFAD:				
MISFA	1,954	2,692	Payable on demand	5
Other Source	-	54	05/2009 - 05/2011	5
	<u>\$ 14,462</u>	<u>\$ 9,551</u>		

Debt maturities for the year ended June 30, 2011 are as follows (*in thousands*):

	Interest Rate Range	Debt Maturities
2012	5%-8%	\$ 3,524
2013	5%-7%	4,506
2014	5%-10%	2,806
2015	7%-9%	3,626
		<u>\$ 14,462</u>

CARE USA
Notes to Consolidated Financial Statements

15. 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, 2011 and 2010 (*in thousands*):

Donor	Cash	Agricultural Commodities	Nonfood In Kind	Total 2011	Total 2010
<u>Contributions</u>					
U.S. private support	\$ 118,172	\$ -	\$ 2,569	\$ 120,741	\$ 131,793
Public Information - PSA	-	-	10,704	10,704	14,651
Total Contributions	118,172	-	13,273	131,445	146,444
<u>CARE International</u>					
CARE Australia	6,863	-	-	6,863	3,504
CARE Canada	20,020	-	-	20,020	16,669
CARE Danmark	12,636	-	-	12,636	13,485
CARE Deutschland	15,659	-	169	15,828	9,042
CARE France	12,998	-	11	13,009	13,003
CARE Japan	712	-	-	712	1,186
CARE Nederland	18,433	-	9	18,442	21,775
CARE Norge	15,310	-	-	15,310	13,102
CARE Österreich	17,035	-	-	17,035	13,715
CARE United Kingdom	57,472	-	-	57,472	33,502
CI Secretariat	1,096	-	-	1,096	509
Total CARE International	178,234	-	189	178,423	139,492
<u>Government and other support</u>					
U.S. government	148,001	27,186	925	176,112	198,871
Host governments	23,396	-	-	23,396	21,799
UNHCR	1,119	-	-	1,119	2,203
UNICEF	3,978	-	-	3,978	1,287
WFP	2,492	48	978	3,518	3,416
Other U.N. agencies	5,755	-	30	5,785	6,732
Switzerland	2,854	-	-	2,854	1,563
World Bank	1,556	-	-	1,556	1,356
Global Fund	21,305	-	-	21,305	29,857
Grants, contracts from Subsidiary	18,591	-	4,360	22,951	15,266
Total Government & other support	229,047	27,234	6,293	262,574	282,350
<u>Other revenue</u>					
Interest, dividends, rents, and miscellaneous	17,223	-	-	17,223	17,722
Support and Revenue	<u>\$ 542,676</u>	<u>\$ 27,234</u>	<u>\$ 19,755</u>	<u>\$ 589,665</u>	<u>\$ 586,008</u>

CARE USA
Notes to Consolidated Financial Statements

16. Agricultural Commodities

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

	<u>2011</u>	<u>2010</u>
Commodities distributed via CARE USA programs		
U.S. government	\$ 27,186	\$ 30,572
Others	48	135
Total	<u>27,234</u>	<u>30,707</u>
Commodities received for monetization with proceeds used by CARE USA from the U.S. government	20,690	1,304
Total agricultural commodities support	<u>\$ 47,924</u>	<u>\$ 32,011</u>

17. Subsidiary and Related Entities Balance Sheets and Statements of Activities

The balance sheets for CARE USA's subsidiary and related entities before consolidation as of June 30, 2011 are as follows (*in thousands*):

	<u>SEED Finance</u>	<u>MOFAD</u>	<u>CARE India Trust</u>	<u>Access Africa Fund</u>	<u>Elimination</u>	<u>Total</u>
Assets						
Cash and cash equivalents	\$ 4,552	\$ -	\$ 1	\$ 291	\$ -	\$ 4,844
Grants receivable	139	-	104	-	-	243
Microcredit loans receivable, net	9,740	-	-	17	-	9,757
Other assets	515	-	-	-	-	515
Property and equipment, net	101	-	19	-	-	120
Investments	-	-	11	2,527	-	2,538
Total Assets	<u>15,047</u>	<u>-</u>	<u>135</u>	<u>2,835</u>	<u>-</u>	<u>18,017</u>
Liabilities and Net Assets						
Liabilities						
Accounts payable and other liabilities	219	-	35	60	-	314
Loans payable	12,858	1,954	-	-	(350)	14,462
Total Liabilities	<u>13,077</u>	<u>1,954</u>	<u>35</u>	<u>60</u>	<u>(350)</u>	<u>14,776</u>
Commitments and contingencies						
Retained Earnings and Stockholders Equity						
Retained earnings and stockholders equity	1,100	(1,954)	100	2,775	350	2,371
Minority interest	870	-	-	-	-	870
Total Retained Earnings and Stockholders Equity	<u>1,970</u>	<u>(1,954)</u>	<u>100</u>	<u>2,775</u>	<u>350</u>	<u>3,241</u>
Total Liabilities and Equity	<u>\$ 15,047</u>	<u>\$ -</u>	<u>\$ 135</u>	<u>\$ 2,835</u>	<u>\$ -</u>	<u>\$ 18,017</u>

CARE USA
Notes to Consolidated Financial Statements

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

The balance sheets for CARE USA's subsidiary and related entities before consolidation as of June 30, 2010 are as follows (*in thousands*):

	SEED		CARE India		
	Finance	MOFAD	Trust	Elimination	Total
Assets					
Cash and cash equivalents	\$ 2,214	\$ 1,240	\$ 28	\$ -	\$ 3,482
Grants receivable	-	-	143	-	143
Microcredit loans receivable, net	6,002	397	1	-	6,400
Other assets	207	15	14	-	236
Property and equipment, net	9	39	23	-	71
Total Assets	8,432	1,691	209	-	10,332
Liabilities and Net Assets					
Liabilities					
Accounts payable and other liabilities	89	483	173	-	745
Loans payable	6,805	2,746	-	-	9,551
Total Liabilities	6,894	3,229	173	-	10,296
Commitments and contingencies					
Retained Earnings and Stockholders Equity					
Retained earnings and stockholders equity	884	(1,476)	36	(1)	(557)
Minority interest	654	(62)	-	1	593
Total Retained Earnings and Stockholders Equity	1,538	(1,538)	36	-	36
Total Liabilities and Equity	\$ 8,432	\$ 1,691	\$ 209	\$ -	\$ 10,332

CARE USA

Notes to Consolidated Financial Statements

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

The statements of activities for CARE USA's subsidiary and related entities before consolidation for the year ended June 30, 2011 are as follows (*in thousands*):

	SEED Finance	MOFAD	CARE India Trust	Access Africa Fund	Total
Program Income					
Interest and other income	\$ 611	\$ 128	\$ -	\$ 161	\$ 900
Interest expense	75	-	-	-	75
Net interest income	686	128	-	161	975
Less: Provision for loan losses	12	-	-	348	360
Net interest income after provision for loan losses	674	128	-	(187)	615
Program Expense					
General and administrative expenses	550	623	16	732	1,921
Other expenses	7	-	-	-	7
Total program expenses	557	623	16	732	1,928
Net Income (Loss)	\$ 117	\$ (495)	\$ (16)	\$ (919)	\$ (1,313)

The statements of activities for CARE USA's subsidiary and related entities before consolidation for the year ended June 30, 2010 are as follows (*in thousands*):

	Edyficar (Jul – Oct 2009)	SEED Finance	MOFAD	CARE India Trust	Total
Program Income					
Interest and other income	\$ 26,144	\$ 799	\$ 325	\$ 715	\$ 27,983
Interest expense	4,766	485	-	-	5,251
Net interest income	21,378	314	325	715	22,732
Less: Provision for loan losses	1,982	12	900	-	2,894
Net interest income after provision for loan losses	19,396	302	(575)	715	19,838
Program Expense					
General and administrative expenses	14,333	257	746	675	16,011
Total program expenses	14,333	257	746	675	16,011
Net Income (Loss)	\$ 5,063	\$ 45	\$ (1,321)	\$ 40	\$ 3,827

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.

CARE USA

Notes to Consolidated Financial Statements

18. Commitments and Other Matters

As of June 30, 2011, CARE USA is obligated under noncancelable operating lease agreements for warehousing, office space and staff housing at minimum rentals as follows (*in thousands*):

Year	Amount
2012	\$ 6,973
2013	3,324
2014	2,193
2015	1,494
2016	679
2017 - 2024	2,729
Total	<u>\$ 17,392</u>

Total rent expense was approximately \$15.8 million and \$15.0 million, respectively, for the years ended June 30, 2011 and 2010.

CARE USA has committed to invest \$5 million in MicroVest II, LP, a wholly owned limited partner of MicroVest General Partners. Cumulative contributions made were \$1.4 million as of June 30, 2011 and \$537,240 as of June 30, 2010.

CARE USA has a \$1.9 million line of credit used for funding microcredit loans in Honduras. At June 30, 2011, the outstanding balance owed was \$223,000. The line of credit is secured by \$1.1 million of microcredit loans receivable. The interest rate is 16%.

CARE USA maintains a letters of credit total \$2.5 million to cover Peruvian guarantees. At June 30, 2011, CARE had \$1 million issued against the letter of credit.

In addition, CARE USA is the guarantor on \$1.2 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 May 2012. 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.

CARE USA has committed to invest \$8 million to fund Access Africa Fund, LLC. As of June 30, 2011, \$2.8 million has been contributed. CARE USA owns 100% class A capital of Access Africa LLC. Their mission is to provide microloans to the working poor and their families in Africa.

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

19. Related Parties

Members of CARE USA's Board of Directors and senior management may, from time to time, be associated, either directly or indirectly, with companies doing business with the Organization. For senior management, the Organization requires annual disclosure of significant financial interests in, or employment or consulting relationship with, entities doing business with the Organization. These annual disclosures cover both senior management and their immediate family members. When such relationships exist, measures are taken to appropriately manage the actual or perceived conflict in the best interest of the Organization.

The Organization has a written conflict of interest policy that requires, among other things, that no member of the Board of Directors can participate in any decision in which he or she (or an immediate family member) has a material financial interest.

Each Board member is required to certify compliance with the conflict of interest policy on an annual basis and indicate whether the Organization does business with an entity in which a trustee has a material financial interest. When such relationships exist, measures are taken to mitigate any actual or perceived conflict, including requiring that such transactions be conducted at arm's length, for good and sufficient consideration, based on terms that are fair and reasonable to and for the benefit of the Organization, and in accordance with conflict of interest laws. No such associations are considered to be significant. 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 \$2.0 million for the year ended June 30, 2011 and \$1.7 million for the year ended June 30, 2010. CARE USA also loaned money to CARE International for emergency purposes at Country Offices. The direct loan has a balance of \$1.6 million for the year ended June 30, 2011 and \$820,000 for the year ended June 30, 2010.

20. Subsequent Events

CARE USA entered in a \$25 million line of credit agreement. It is collateralized with CARE's investment portfolio. There is a commitment fee of \$50,000 per year on the unused portion of the facility.

As of November 30, 2011, the value of both the trust held by third parties and the investments declined by \$8.7 million and \$8.9 million respectively, due to the slowing global economy.

Management has disclosed all subsequent events through December 30, 2011, the date the financial statements were available to be issued.

21. Contingencies

The Government of Bolivia has served CARE USA with tax claims of approximately \$21.8 million for the commercial sale and distribution of commodities during the calendar years 2002 - 2006. CARE USA has filed lawsuits in Bolivia contesting the validity of these claims. The lawsuits are still pending. Although the outcome of this matter is currently not determinable, management is monitoring the situation closely; should there be any knowledge of the probable effect on CARE USA's financial position, the contingent liability will be adequately accrued.