

# Report from Management

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**CARE USA'S PROGRAM SPENDING OF \$447 MILLION IN FISCAL YEAR 2003 REPRESENTS A RECORD IN OUR 57-YEAR HISTORY.** This spending includes \$352 million in cash and \$95 million in agricultural commodities and other in-kind contributions that CARE used to advance our mission and vision around the world.

Our program work in Africa continues to grow as a result of our deliberate emphasis on the continent over the past few years. We have increased program spending in sub-Saharan Africa to \$161 million, almost doubling the \$82 million spent in fiscal year 1997. The resources available for work in Africa continue to grow because our own spending of net assets over recent years has leveraged additional funds from government and institutional donors.

In contrast to the growth in Africa, there was a decline in resources used in Asia. This was the result of a significant change in CARE's role in India, as the Indian government chose to provide local food commodities to 10 states rather than accept food from the United States that might include genetically modified organisms. CARE is taking this opportunity to refine our strategic directions and to adopt new program focuses in India, particularly in areas of discrimination and human rights.

CARE was able to increase our direct public support by 13 percent, despite continuing challenges in fund raising from a generally slow economy in the United States. Our private fund-raising efforts provided a record \$101 million, including a gift of more than \$28 million distributed from a unitrust at the death of a long-time donor to CARE. Excluding this gift, private fund-raising efforts yielded \$73 million, also a record and slightly exceeding our plan. This accomplishment, despite the difficult economic conditions in the United States, indicates that we continue to demonstrate to our donors the value of our work around the world. U.S. government support increased from \$245 million last fiscal year to \$271 million, and support obtained through CARE International members increased from \$70 million last fiscal year to \$87 million.

CARE has advanced our poverty-fighting program spending by 14 percent over fiscal year 2002. This allowed us to spend more than 91 cents of every dollar on program activities, more than meeting our historic benchmark of 90 cents per dollar. We thank all of our donors who provide the resources that are essential to continuing efforts to reduce global poverty. We are especially appreciative of donors who provide flexible, unrestricted funding that allows us to develop and implement innovative programming approaches that address root causes of poverty. We treasure our record of good stewardship of the resources made available to us and will continue to use those resources to make a positive difference in the world.



Ted Jastrzebski,  
*Senior Vice President,  
Finance, IT and Administration*

# Report from Independent Auditors

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To the Board of Directors of CARE USA:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of activities, of functional expenses and of cash flows present fairly, in all material respects, the consolidated financial position of CARE USA (a District of Columbia corporation) at June 30, 2003, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These consolidated financial statements are the responsibility of CARE USA's management; our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from CARE USA's 2002 financial statements, and in our report dated September 12, 2002, we expressed an unqualified opinion on those consolidated financial statements. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

*PricewaterhouseCoopers LLP*

Atlanta, Georgia  
September 25, 2003

# Consolidated Balance Sheets

As of June 30, 2003 and 2002 (In Thousands)

	<u>2003</u>	<u>2002</u>
<b>Assets</b>		
Cash and cash equivalents	\$106,341	\$ 99,993
Investments	106,676	99,242
Receivables, net	61,608	34,415
Deposits and other assets	72,605	65,661
Property and equipment, net	10,146	9,621
Perpetual trust held by third party	97,329	94,794
<b>TOTAL ASSETS</b>	<u>\$454,705</u>	<u>\$403,726</u>
<b>Liabilities and Net Assets</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 42,059	\$ 44,495
Program advances by government & nongovernment agencies	133,859	124,496
Annuities payable, pooled income fund, unitrusts	22,188	20,957
Benefits accrued for overseas national employees	15,351	14,621
Long term loans payable	15,179	13,609
Minority interest in subsidiary	852	-
Bonds payable	2,835	3,035
<b>TOTAL LIABILITIES</b>	<u>232,323</u>	<u>221,213</u>
Commitments and contingencies		
Net Assets		
Unrestricted	63,620	53,766
Temporarily restricted	56,172	28,696
Permanently restricted	102,590	100,051
<b>TOTAL NET ASSETS</b>	<u>222,382</u>	<u>182,513</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$454,705</u>	<u>\$403,726</u>

The accompanying notes are an integral part of these financial statements.

# Consolidated Statement of Activities

For the year ended June 30, 2003 with summarized financial information for 2002 (In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Summarized	
				2003	2002
<b>Support</b>					
Public Support					
General purpose	\$ 49,389	\$ -	\$ -	\$ 49,389	\$ 44,274
Temporarily restricted	-	46,186	-	46,186	14,892
Addition to endowment	-	-	5	5	17
CARE International	86,977	-	-	86,977	70,023
Interest and dividends on restricted net assets	5,106	516	-	5,622	4,980
Net assets released from restrictions	19,285	-	-	19,285	19,348
Satisfaction of program restrictions	-	(19,285)	-	(19,285)	(19,348)
<b>TOTAL PUBLIC SUPPORT</b>	<b>160,757</b>	<b>27,417</b>	<b>5</b>	<b>188,179</b>	<b>134,186</b>
Government and other support					
U.S. government	271,161	-	-	271,161	244,661
Host governments	20,828	-	-	20,828	22,473
Others	40,048	-	-	40,048	19,511
<b>TOTAL GOVERNMENT AND OTHER SUPPORT</b>	<b>332,037</b>	<b>-</b>	<b>-</b>	<b>332,037</b>	<b>286,645</b>
Other Revenue					
Interest and dividends on unrestricted net assets	1,417	-	-	1,417	2,995
Rent and miscellaneous	2,844	-	-	2,844	3,952
<b>TOTAL OTHER REVENUE</b>	<b>4,261</b>	<b>-</b>	<b>-</b>	<b>4,261</b>	<b>6,947</b>
<b>TOTAL OPERATING SUPPORT AND REVENUE</b>	<b>497,055</b>	<b>27,417</b>	<b>5</b>	<b>524,477</b>	<b>427,778</b>
<b>Expenses</b>					
Program	446,501	-	-	446,501	391,557
Fund raising	20,279	-	-	20,279	18,886
Management and general	18,759	-	-	18,759	18,457
Public information	2,897	-	-	2,897	3,562
Grants to CARE International	1,224	-	-	1,224	2,210
<b>TOTAL OPERATING EXPENSES</b>	<b>489,660</b>	<b>-</b>	<b>-</b>	<b>489,660</b>	<b>434,672</b>
<b>Operating Support and Revenue over/(under) Expenses</b>	<b>7,395</b>	<b>27,417</b>	<b>5</b>	<b>34,817</b>	<b>(6,894)</b>
<b>Other Non-operating Changes in Net Assets</b>					
Miscellaneous non-operating revenue	-	-	-	-	763
Minority interest in subsidiary income	(177)	-	-	(177)	-
Foreign exchange gains	1,190	-	-	1,190	1,602
Interest and dividends on gift annuity investments	1,205	-	-	1,205	1,232
Actuarial loss on annuity obligations	(1,130)	-	-	(1,130)	(1,291)
Actuarial gain on split interest agreements	47	21	-	68	1
Realized and unrealized gain/(loss) on investments	1,324	38	-	1,362	(6,706)
Increase/(decrease) in value of trust held by third party	-	-	2,534	2,534	(7,308)
<b>TOTAL CHANGE IN NET ASSETS</b>	<b>9,854</b>	<b>27,476</b>	<b>2,539</b>	<b>39,869</b>	<b>(18,601)</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>53,766</b>	<b>28,696</b>	<b>100,051</b>	<b>182,513</b>	<b>201,114</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 63,620</b>	<b>\$ 56,172</b>	<b>\$102,590</b>	<b>\$222,382</b>	<b>\$182,513</b>

The accompanying notes are an integral part of these financial statements.

# Consolidated Statement of Functional Expenses

For the year ended June 30, 2003 with summarized financial information for 2002 (In Thousands)

	Program Activities	Fund Raising	Management and General	Public Information	CARE International	2003 Total	2002 Total
Personnel costs	\$112,779	\$ 6,493	\$ 11,954	\$ 2,039	\$ 33	\$133,298	\$128,073
Professional services	13,881	1,915	1,354	170	-	17,320	17,421
Equipment	7,937	64	581	24	-	8,606	8,123
Materials and services	89,749	10,705	1,620	504	-	102,578	86,193
Travel and transportation	37,378	305	770	119	3	38,575	32,046
Occupancy	12,328	477	1,207	15	-	14,027	13,069
Financing/Depn/Misc.	14,087	281	1,125	9	-	15,502	6,342
Grants/Subgrants	63,675	-	-	9	1,188	64,872	51,303
AgCommodities/CIKs	94,687	39	148	8	-	94,882	92,102
<b>Total Operating Expenses for 2003</b>	<b>\$446,501</b>	<b>\$ 20,279</b>	<b>\$ 18,759</b>	<b>\$ 2,897</b>	<b>\$ 1,224</b>	<b>\$489,660</b>	
<b>Total Operating Expenses for 2002</b>	<b>\$391,557</b>	<b>\$ 18,886</b>	<b>\$ 18,457</b>	<b>\$ 3,562</b>	<b>\$ 2,210</b>		<b>\$434,672</b>

The accompanying notes are an integral part of these financial statements.

# Consolidated Statements of Cash Flows

For the years ended June 30, 2003 and 2002 (In Thousands)

	2003	2002
<b>Cash Flows Provided By (Used for) Operating Activities:</b>		
Change in net assets	\$39,869	\$(18,601)
Adjustments to reconcile change in net assets to cash flows		
Depreciation and amortization	1,856	1,809
Miscellaneous non-operating revenue		(763)
Contributions restricted for investment in endowment	(5)	(17)
Realized and unrealized (gain)/loss on investments	(1,362)	6,706
Actuarial loss on annuity obligations	1,130	1,291
Actuarial gain on split interest agreements	(68)	(1)
(Increase)/decrease in value of perpetual trust held by third party	(2,534)	7,308
Changes in assets and liabilities		
Decrease/(increase) in receivables	(27,193)	(13,677)
Increase in deposits and other assets	(2,162)	(10,251)
Decrease in accounts payable and accrued expenses	(2,436)	(3,984)
Increase in program advances	9,363	24,474
Increase in benefits accrued for overseas national employees	730	1,223
<b>NET CASH AND CASH EQUIVALENTS PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>	<b>17,188</b>	<b>(4,483)</b>
<b>Cash Flows Provided By (Used for) Investing Activities:</b>		
Purchases of investments	(30,970)	(33,421)
Proceeds from sales of investments	24,897	43,332
Purchases of property and equipment	(7,422)	(2,642)
Sales of property and equipment	5,041	520
<b>NET CASH AND CASH EQUIVALENTS PROVIDED BY (USED FOR) INVESTING ACTIVITIES</b>	<b>(8,454)</b>	<b>7,789</b>
<b>Cash Flows Provided By (Used for) Financing Activities:</b>		
Proceeds from contributions restricted for investment in endowment	5	17
Increase in interest-bearing receivables in subsidiary	(4,782)	(18,308)
Increase in long-term loans payable in subsidiary	1,570	13,609
Increase in minority interest in subsidiary	852	-
Principal payments on bonds payable	(200)	(200)
Net increase/(decrease) in annuities payable, split interest agreements	169	(737)
<b>NET CASH AND CASH EQUIVALENTS USED FOR FINANCING ACTIVITIES</b>	<b>(2,386)</b>	<b>(5,619)</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>6,348</b>	<b>(2,313)</b>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<b>99,993</b>	<b>102,306</b>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b>\$106,341</b>	<b>\$99,993</b>

Cash paid for interest in fiscal years ended June 30, 2003 and 2002, respectively, was \$2,090 and \$255.

The accompanying notes are an integral part of these financial statements.

# Notes to Consolidated Financial Statements

## **Note 1: Organization**

The Cooperative for Assistance and Relief Everywhere, Inc. ("CARE USA") is a not-for-profit organization formed in 1945 under the laws of the District of Columbia. 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 income 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 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's Vision Statement**

We seek a world of hope, tolerance and social justice, where poverty has been overcome and people live in dignity and security.

CARE International will be a global force and a partner of choice within a worldwide movement dedicated to ending poverty. We will be known everywhere for our unshakable commitment to the dignity of people.

## **CARE's Mission Statement**

CARE International's mission is to serve individuals and families in the poorest communities in the world. Drawing strength from our global diversity, resources and experience, we promote innovative solutions and are advocates for global responsibility.

We facilitate lasting change by:

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

Guided by the aspirations of local communities, we pursue our mission with both excellence and compassion because the people whom we serve deserve nothing less.

## **CARE Program Sectors**

CARE USA classifies its program activities into three major types: (1) emergency relief, (2) rehabilitation, and (3) development. CARE USA also classifies its program activities by technical sectors (refer to Note 11 for expenses by sector and by type). The classification of a program activity (called a project) into a sector is based on the dominant sector of the project. The technical sectors are:

### ***Agriculture and Natural Resources (ANR)***

Includes, but is not limited to, sustainable agricultural and natural resource management techniques such as: bio-intensive crop and production technology, livestock practices, post-harvest practices (storage/processing), agriculture-based income generation activities, recuperation/more environmentally sound use and/or conservation of natural resources, planting trees on private and community lands, integrated conservation and development, and the supply of seeds and tools (usually in relief situations).

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

Includes formal education, literacy, and other forms of non-formal education activities, including school construction.

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

Includes, but is not limited to: disease prevention (e.g. malaria and pneumonia), immunization, control of diarrheal disease, integrated management of childhood illness, nutrition education, breast feeding, addressing micronutrients deficiencies, and home gardening.

### ***Reproductive Health***

Includes, but is not limited to: family planning, prevention of STD/HIV/AIDS, maternal health, and newborn care.

### ***Water and Sanitation***

Includes, but is not limited to: water supply, institutional arrangements for operation and management of water and/or sanitation systems, watershed management, environmental sanitation, hygiene education, sanitation, solid waste management, surface water, and drainage.

### ***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 other infectious diseases.

### ***Nutritional Support***

Includes 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) including distribution and on-site dry rations.

### ***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.

### ***Consolidation of Financial Information***

Financial information for CARE USA country offices worldwide and CARE USA's program activities in other CARE International offices are consolidated with financial information from two subsidiaries in which CARE USA holds a controlling interest. The subsidiaries are Edyficar, a for profit entity in Peru which is 86% owned by CARE USA and Fideicomiso, a microcredit entity in Ecuador which is wholly owned by CARE USA. The full balance sheets for each of these entities are incorporated into the Consolidated Balance Sheets and revenues and expenses are incorporated into the Consolidated Statements of Activities.

# Notes to Consolidated Financial Statements

## Note 2: Summary of Significant Accounting Policies

### Basis of Accounting

The accounts of CARE USA are maintained in accordance with accounting principles generally accepted in the United States of America.

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class nor by functional classification. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended June 30, 2002, from which the summarized information was derived.

The following is a summary of CARE USA's significant accounting policies.

### Cash and Cash Equivalents

Cash and cash equivalents include demand deposits plus all time deposits and highly liquid investments held in banks in account providing immediate access. Amounts held by investment managers temporarily in money market accounts are included as investments (see Note 4). Cash and cash equivalents held in the US are insured up to \$100,000 per account according to FDIC regulations, but most of the cash is held in accounts with balances exceeding the insured limit. In addition, amounts maintained overseas are largely uninsured. The fair value of cash and cash equivalents approximate their respective carrying amounts.

### Investments

Investments are carried at fair values. Investment securities are valued based upon quoted market prices or dealer quotes. For financial reporting and budgetary purposes, interest and dividends are considered operating support and revenue. Interest and dividends on restricted net assets are reflected in public support and interest and dividends on unrestricted net assets are reflected in other revenue in the consolidated statements of activities. Realized and unrealized gains and losses are considered non-operating and are classified as other changes in net assets in the consolidated statements of activities.

CARE USA maintains certain investments on behalf of others, normally the result of monetizing commodities with the proceeds going to other non-profit organizations (see Note 9). Investment income related to these investments results in an increase in a liability to the other entity and is not reflected in the total return.

See Note 4 for further discussion.

### Receivables

Receivables represent contribution pledges not yet collected and program expenditures not yet reimbursed by donors. The receivables on the consolidated balance sheets are net of allowances of \$1.2 million and \$1.3 million as of June 30, 2003 and 2002, respectively. The fair value of the receivables approximate its carrying amount.

### Deposits and Other Assets

Deposits and other assets include receivables from microfinance loans outstanding (net of allowances), project advances to partner organizations, commodities in transit not yet expensed and various other miscellaneous assets.

### Property and Equipment

Property and equipment are recorded at cost if purchased or, if donated, at the fair value at the date of the gift. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets. The estimated useful lives are 15 years for building and building improvements, 5 years for equipment, and the life of the lease, if less, for leasehold improvements. In accordance with program guidelines, equipment acquired for direct use in programs is expensed in the year of acquisition.

### Internal Use Software

CARE USA capitalizes the costs of software licenses and associated consulting costs, installation costs and the payroll costs of employees directly associated with the project. The costs of software maintenance, training and data conversion are expensed in the period incurred. CARE USA amortizes information system costs over a five-year life once the asset is placed in service.

Capitalization costs related to internal-use software amounted to \$1.1 and \$0.7 million for the years ended June 30, 2003 and 2002, respectively. Amortization expense for internal-use software amounted to \$0.7 and \$1.0 million for the years ended June 30, 2003 and 2002, respectively.

### Gift Annuities

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 based on IRS mortality tables and prevailing interest rates. The difference between the asset and the liability constitutes revenue and is recorded as unrestricted support in the consolidated statements of activities. The liability is updated annually for changes in actuarial assumptions.

### Pooled Income Fund

CARE USA has formed and manages a pooled income fund divided into units in which contributions from many donors are combined. Donors are assigned a specific number of units based on the proportion of the fair value of the contribution to the fair value of the fund at the date the gift is received. Until a donor's death, the donor or their designated beneficiary is paid the actual interest and dividends earned on the donor's assigned units. CARE USA recognizes the remainder interest in the assets received as temporarily restricted contribution revenue in the period in which the assets are received from the donor. As of the date of the donor's or the designated beneficiary's death, the net assets are released from restriction.

# Notes to Consolidated Financial Statements

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## Unitrusts

CARE USA enters into agreements with donors in which the donor contributes assets to create trusts which provide income to designated beneficiaries for the remainder of their lives. The income streams may be defined amounts to be paid periodically or amounts determined based on the investment performance of the assets in the trust. The assets received for a trust are recorded at fair value at the date of the contribution. The liability associated with these trusts is recorded at the present value of the anticipated income stream based on IRS mortality tables and prevailing interest rates. CARE USA recognizes the remainder interest in the assets received as temporarily restricted contribution revenue in the period in which the assets are received from the donor. As of the date of the designated beneficiary's death, the net assets are released from restriction.

## Revolving Loan Fund

Revolving funds contributed by donors are expensed when initially loaned out to project participants and revenue is recognized. 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.

## Minority Interest in Subsidiary

The value of the shares of minority stockholders in Edyficar, a CARE subsidiary in Peru (see Note 1) is shown as a liability.

## Accounting for Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or are restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. Gifts or contributions and those with conditions 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 statement of activities as net assets released from restrictions. Restricted contributions received in the same year in which the restrictions are met are recorded as an increase to restricted support at the time of receipt and as net assets released from 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 other general purposes or a purpose specified by the donor.

## Bequests

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

## Agricultural Commodities

CARE USA receives agricultural commodities ("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 non-profit organizations.

Commodities received for distribution are recorded at an amount approximating fair value. These commodities are recorded as revenue and expense upon receipt at the destination country. Commodities in transit from the US to the distribution country are recorded as inventory on hand. Commodities for distribution received outside of the U.S. are recorded as revenue and expense when title is obtained.

Commodities received that are to be sold (monetized), where the related proceeds are designated for CARE USA project activities, are recorded as a liability when the cash proceeds are received. Revenue and expense are recognized when the proceeds are utilized for project activities.

Commodities received that are to be sold (monetized), where the related proceeds are designated for other non-profit organizations, are recorded as a liability until the funds are distributed to the other organizations. CARE USA usually receives a management fee for facilitating the shipping and sale of such commodities.

(See Note 9 for the tonnage and value of agricultural commodities received during fiscal 2003 and 2002.)

## Non-Food Contributions in Kind

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

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. While these contribute to the successful implementation of the program, the control of these contributions are maintained by the partner organizations. The value of these contributions are generally not recorded in the consolidated financial statements as CARE does not have control over these activities. In addition, various media for public information and fundraising campaigns are provided at no charge to CARE USA. The value of these contributions is generally not recorded in the consolidated financial statements, as CARE USA would not purchase these services.

# Notes to Consolidated Financial Statements

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## **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 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 balance sheets.

## **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 unusual activities and actuarial changes in value and realized and unrealized gains and losses.

## **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Receivables are based on management's best estimate of the amounts expected to be collected. The amounts CARE will ultimately realize could differ materially, in the near term, from the amounts assumed in arriving at the net realizable value.

## **Application of New Accounting Interpretation**

During fiscal 2003, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 45 ("FIN 45"), Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34). Application of FIN 45 requires additional disclosures regarding guarantees (Note 12). FIN 45 did not have a material effect on the financial position or changes in net assets of CARE USA as of and for the year ended June 30, 2003.

## **Reclassifications**

Certain amounts in the 2002 financial statements have been reclassified to conform to the 2003 presentation.

# Notes to Consolidated Financial Statements

## Note 3: Description of Net Asset Designations and Restrictions

The donor-imposed restrictions (listed under Temporarily Restricted and Permanently Restricted) and the Board designated uses (listed under Unrestricted) of Net Assets as of June 30, 2003, are listed below (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Fund	\$ 33,026	\$ 19,614	\$ -	\$ 52,640
Emergency Response Fund	5,000	3,028	1,006	9,034
CARE International Support Fund	2,201	-	-	2,201
Africa Fund	430	269	512	1,211
Program Innovations and Development Fund	179	-	-	179
HIV/AIDS	350	-	-	350
Population Trust Fund	4,315	1,185	-	5,500
Basic and Girls Education Fund	-	28,400	-	28,400
Revolving Loan Fund	6,067	-	-	6,067
New Revenue Streams	50	-	-	50
CARE Academy	566	22	-	588
Donor Restricted Endowment Fund	-	3,654	101,072	104,726
Fixed Assets Fund	11,436	-	-	11,436
<b>Total at June 30, 2003</b>	<b>\$ 63,620</b>	<b>\$ 56,172</b>	<b>\$102,590</b>	<b>\$222,382</b>
<b>Total at June 30, 2002</b>	<b>\$ 53,766</b>	<b>\$ 28,696</b>	<b>\$100,051</b>	<b>\$182,513</b>

### Operating Fund

*Unrestricted* - A Board designated fund intended to facilitate day-to-day operations and to protect against short-term unrestricted revenue shortfalls. The Board of Directors has authorized an unrestricted operating fund of \$22 million in support of the next fiscal year unrestricted expense budget. The remaining amount is available for spending authorizations at the discretion of the Board.

*Temporarily restricted* - CARE USA receives various donations for non-emergency operations that also have donor-imposed restrictions. In addition, CARE USA's endowment funds generate revenue that can be used for operations but are also subject to donor-imposed restrictions. The restrictions may be time restrictions, purpose restrictions (the donation may only be used for a specific purpose), or both time and purpose restrictions.

### Emergency Response Fund

*Unrestricted* - A Board designated fund to provide resources to enable the organization to mount significant and timely responses to major humanitarian disasters. This fund is replenished each year from results of operations or from the net assets operating fund reserve.

*Temporarily restricted* - Contributions and revenue from other sources that are restricted for emergency response or preparedness.

*Permanently restricted* - Contributions that require permanent maintenance of the gift and allow use of the related investment income for emergencies.

### CARE International Support Fund

A Board designated unrestricted fund intended to increase the institutional capacity of the CARE International federation and its members to achieve CARE's mission. This includes a revolving fund to start up implementation of program activities before the receipt of donor funds, and a loan fund to support marketing efforts to improve the access to funds by various CARE International members.

### Africa Fund

*Unrestricted* - A Board designated fund to be utilized during fiscal years 1999 through 2004 to increase CARE USA's programming in Africa. CARE USA has an existing, strong and relevant program in Africa that has adapted to the changing social and political environment on the continent. The fund's purpose is to increase CARE USA's involvement in response to the changing environment and the enormous challenges due to chronic food insecurity, conflict, and infectious diseases.

*Temporarily restricted* - Investment income generated from permanently restricted funds that are restricted to use for Africa in general.

*Permanently restricted* - Contributions that require permanent maintenance of the gift and require use of the related investment income for Africa.

### Program Innovations and Development, and HIV/AIDS Funds

Board designated funds to improve CARE USA's programming and advocacy activities. The purpose of these funds is to strengthen CARE USA's intellectual and financial capacity to create high-impact and innovative programming and to increase and improve CARE USA's policy intervention activities, particularly in strategic program priorities of HIV/AIDS.

### Population Trust Fund

*Unrestricted* - A Board designated fund to satisfy a required match to USAID's \$9 million contribution to this Trust Fund, from which CARE will subsequently finance its core reproductive health activities for an 8-10 year period, starting in fiscal year 2004.

*Temporarily restricted* - Contributions and revenue from other sources that are restricted for reproductive health activities.

# Notes to Consolidated Financial Statements

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

Contribution received this year from a unitrust that are restricted for basic and girls' education activities to be used over a period of twenty years.

## **Revolving Loan Fund**

A Board designated fund set up for continuing use of resources released by original donors in Small Economic Activity Development (SEAD) loan projects.

## **New Revenue Streams**

A Board designated fund to be used for developing new innovative fundraising initiatives and the introduction of a new global brand.

## **CARE Academy**

*Unrestricted* - A Board designated fund to be used to advance the training and learning capacity of CARE.

*Temporarily restricted* - Contributions and revenue from other sources that are restricted for activities that enhance the knowledge and capabilities of CARE staff.

## **Donor Restricted Endowment Fund (non-emergency, non-Africa)**

*Temporarily restricted* - CARE USA receives contributions for which the funds must be temporarily maintained. The income generated from donor restricted endowment funds is generally restricted to specific uses. This related income is listed above under Operating Fund in the temporarily restricted column.

*Permanently restricted* - CARE USA receives donations for which the principal must be permanently maintained. This includes permanent endowments other than the Emergency Response Fund and Africa Fund.

*Williams Trust* - A component of the permanently restricted donor endowment fund, which includes \$97.3 million and \$94.8 million at June 30, 2003 and 2002, respectively, relates to a trust created under the will of Thomas Lyle Williams (the "Trust"). These amounts represent two-thirds of the fair value of the investments of the Trust. CARE USA is an income beneficiary, but not a trustee, of the Trust. The corpus of the Trust is to be maintained in perpetuity. The annual income distributed to CARE USA is equal to 5% of the three-year average fair market value of CARE's share of the Trust. The distributions to CARE USA are not to be less than \$2 million in a calendar year. CARE USA received distributions of \$5.1 million and \$4.4 million for the years ended June 30, 2003 and 2002, respectively. These amounts are included in the consolidated statements of activities as interest and dividends on restricted net assets. A fair value increase of \$2.5 million and a decrease of \$7.3 million for the years ended June 30, 2003 and 2002 respectively, are reflected in the consolidated statements of activities under other changes in permanently restricted net assets.

## **Fixed Assets Fund**

A portion of unrestricted net assets is segregated for use in the purchase of fixed assets. The fixed assets authorized by the Board of Directors at June 30, 2003 is reported below (in thousands):

Fixed Assets, net of depreciation (see Note 5)	\$10,146
Capital expenditures authorized from net assets	<u>1,290</u>
	<u>\$11,436</u>

# Notes to Consolidated Financial Statements

## Note 4: Investments

Investments at June 30, 2003 and 2002 were comprised of the following (in thousands):

	2003		2002	
	Cost	Fair Value	Cost	Fair Value
U.S. Treasury obligations	\$ 21,747	\$ 23,365	\$ 23,311	\$ 24,118
Mutual funds	17,553	16,812	13,753	13,314
Marketable equity securities	29,173	26,017	29,791	25,619
Marketable debt securities	25,614	27,559	27,932	28,855
Money market funds	11,861	11,861	6,843	6,785
Overseas investments	1,062	1,062	551	551
	<u>\$107,010</u>	<u>\$106,676</u>	<u>\$102,181</u>	<u>\$ 99,242</u>

Total return on cash balances, investments, and the trust held by a third party was as follows for the years ended June 30, 2003 and 2002 (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2003	2002
Dividends and interest					
Unrestricted	\$ 1,417	\$ -	\$ -	\$ 1,417	\$ 2,995
Temporarily restricted	-	516	-	516	555
Unrestricted support from trust held by third party	<u>5,106</u>	<u>-</u>	<u>-</u>	<u>5,106</u>	<u>4,425</u>
Investment income included in operating revenue	6,523	516	-	7,039	7,975
Interest and dividends on gift annuity investments	1,205	-	-	1,205	1,232
Net realized gains (losses)					
Unrestricted	(657)	-	-	(657)	(6,397)
Temporarily restricted	-	(112)	-	(112)	252
Change in net unrealized gains (losses)					
Unrestricted	1,981	-	-	1,981	686
Temporarily restricted	-	150	-	150	(1,247)
Net change in value of trust held by third party	-	-	2,534	2,534	(7,308)
<b>Total return on cash balances, investments, and trust held by third party</b>	<u>\$ 9,052</u>	<u>\$ 554</u>	<u>\$ 2,534</u>	<u>\$12,140</u>	<u>\$(4,807)</u>

# Notes to Consolidated Financial Statements

## Note 5: Property and Equipment

The components of property and equipment, at cost, are as follows at June 30, 2003 and 2002 (in thousands):

	2003	2002
Land	\$1,342	\$1,342
Buildings and improvements	8,903	8,544
Equipment and software	10,092	8,193
Leasehold improvements	323	391
Accumulated depreciation	(10,514)	(8,849)
	<u>\$10,146</u>	<u>\$9,621</u>

See Note 3 for a summary of Fixed Assets authorized.

Depreciation expense (excluding amortization of internal-use software – see Note 2) amounted to \$1.1 million and \$0.8 million for the years ended June 30, 2003 and 2002, respectively.

CARE USA financed a portion of the purchase and renovation of the headquarters located in Atlanta, Georgia, with the proceeds of \$5,000,000 City of Atlanta revenue bonds. The bonds mature on June 1, 2013 and bear interest at a rate, which is adjusted periodically. As of June 30, 2003 and 2002, the adjustable rate was 1.00% and 1.25%, respectively. The bonds required payments of interest only through June 1, 1995 and interest and principal payments thereafter. The principal is payable in annual installments pursuant to a sinking fund redemption schedule. The fair value of bonds payable approximates its carrying amount. These bonds are collateralized by a letter of credit (see Note 12). The letter of credit is collateralized by the building and improvements thereto. Under the terms of the agreement, CARE USA is required to maintain minimum unrestricted net assets of \$10,000,000. In addition, a waiver has been obtained since other indebtedness, as defined, exceeds \$500,000. Annual sinking fund payments, excluding interest, are payable as follows (in thousands):

Year ending June 30	
2004	\$ 200
2005	200
2006	200
2007	200
2008	200
Thereafter	<u>1,835</u>
	<u>\$2,835</u>

## Note 6: Defined Contribution Plans

Effective January 1, 1992, CARE USA adopted a defined contribution plan for employees who meet the eligibility conditions. Under the plan, CARE USA contributes to a participant's account an amount equal to 8% 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 of the contributions by the employees are invested in various funds within the plan. Employer contributions were \$2.5 million and \$2.3 million and employee contributions were \$1.9 million and \$1.8 million for the years ended June 30, 2003 and 2002.

Within the various countries in which CARE USA operates outside of 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.

# Notes to Consolidated Financial Statements

## Note 7: Postretirement Benefits

CARE USA provides certain healthcare 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 retirees contribute 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 unfunded.

CARE USA accrues the cost of providing postretirement benefits, including medical and life insurance coverage, during the active service period of the employee. This accrual is included in accounts payable and accrued expenses in the consolidated balance sheets. The benefit obligation for this year is reduced from the prior year to reflect changes in assumptions regarding the percentage of active and retired staff accessing certain benefits when eligible.

The following table sets forth the postretirement benefit obligation reconciled to the accrued postretirement benefit cost recognized in CARE USA's consolidated balance sheet as of June 30, 2003 and 2002 (in thousands).

	Other Benefits	
	2003	2002
<b>Changes in benefit obligation</b>		
Benefit obligation at beginning of year	4,308	3,989
Service cost	108	209
Interest cost	155	277
Plan amendments	19	0
Actuarial (gain)/loss	(1,664)	100
Benefits paid	(258)	(267)
Benefit obligation at end of year	<u>2,668</u>	<u>4,308</u>
Funded status	(2,668)	(4,308)
Unrecognized net actuarial (gain)/loss	(2,067)	(586)
Unrecognized prior service cost	(70)	(117)
Accrued benefit cost	<u>(4,805)</u>	<u>(5,011)</u>

For measurement purposes, health care cost trend rates were assumed to be 12.00% for eligible costs in 2003 with rates declining gradually to an ultimate rate of 5.50% in 2011.

	Other Benefits	
	2003	2002
<b>Weighted-average assumptions as of FYE</b>		
Discount rate	6.00%	7.00%
<b>Components of net periodic benefit cost</b>		
Service Cost	108	209
Interest Cost	155	277
Amortization of prior service cost	(28)	(29)
Recognized net actuarial gain	(183)	-
<b>Net periodic benefit cost</b>	<u>52</u>	<u>457</u>

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:

	1-Percentage- Point Decrease	1-Percentage- Point Decrease
Effect on total of service and interest cost components	29	(25)
Effect on postretirement benefit obligation	254	(222)

# Notes to Consolidated Financial Statements

## Note 8: Sources of Support

CARE USA receives support for our programs from charitable contributions and grants and contracts from government and non-government entities. The following describes CARE USA's sources of support and revenue (in thousands):

Donor	Cash	Agricultural Commodities See Note 9	Non-Food In Kind	2003 Total	2002 Total
U.S. government	\$188,801	\$82,023	\$337	\$271,161	\$244,661
U.S. direct public support	100,877	-	266	101,143	64,126
CARE Australia	1,492	-	-	1,492	641
CARE Canada	10,834	501	-	11,335	10,266
CARE Danmark	6,210	-	-	6,210	6,149
CARE Deutschland	2,949	-	15	2,964	1,495
CARE France	3,411	-	116	3,527	1,434
CARE Japan	324	-	-	324	103
CARE Nederland	10,566	-	-	10,566	7,378
CARE Norge	6,810	-	-	6,810	4,623
CARE Österreich	2,633	65	-	2,698	1,677
CARE United Kingdom	39,079	1,972	-	41,051	36,257
Host governments	17,219	-	3,609	20,828	22,473
UNHCR	1,438	-	-	1,438	1,423
UNICEF	462	-	-	462	583
WFP	2,329	5,671	(172)	7,828	3,894
Other U.N. agencies	2,650	-	-	2,650	2,461
Luxemburg	780	-	21	801	168
Switzerland	1,281	-	-	1,281	2,883
World Bank	1,615	-	-	1,615	777
Others (grants, contracts)	23,941	-	64	24,005	7,354
Other revenue (interest, dividends, rents, etc.)	4,288	-	-	4,288	6,952
<b>Support and Revenue 2003</b>	<b>\$429,989</b>	<b>\$90,232</b>	<b>\$4,256</b>	<b>\$524,477</b>	
<b>Support and Revenue 2002</b>	<b>\$335,392</b>	<b>\$87,486</b>	<b>\$4,900</b>		<b>\$427,778</b>

# Notes to Consolidated Financial Statements

## Note 9: Agricultural Commodities

A summary of agricultural commodities by CARE USA is as follows (unaudited):

	Year ended June 30			
	Metric Tonnage		Dollar Value (in thousands)	
	2003	2002	2003	2002
Commodities received for distribution via CARE USA programs				
U.S. government	184,942	201,901	\$82,023	\$84,703
CARE International	1,734	4,476	2,538	1,541
Others	30,691	5,070	5,671	1,242
See also Note 8 and 11	<u>217,367</u>	<u>211,447</u>	<u>90,232</u>	<u>87,486</u>
Commodities received for monetization with proceeds used by CARE USA				
U.S. government	<u>210,934</u>	<u>231,695</u>	<u>64,625</u>	<u>53,836</u>
Commodities received for monetization with proceeds going to other non-profit organizations				
U.S. government	55,325	175,017	17,807	62,773
<b>Total agricultural commodities received during the fiscal year</b>	<b>483,626</b>	<b>618,159</b>	<b>\$172,664</b>	<b>\$204,095</b>

See Note 2 for revenue recognition policies related to agricultural commodities.

## Note 10: Geographic Information

A summary of Program expenses by geographic region for the years ended June 30, 2003 and 2002 follows (in thousands):

	Cash	Agricultural Commodities	Non-Food In Kind	2003 Total	2002 Total
Africa (Sub-Saharan)	\$110,246	\$50,950	\$208	\$161,404	\$110,506
Asia	109,344	30,586	397	140,327	154,738
Europe and Middle East	36,630	-	-	36,630	24,646
Latin America and the Caribbean	78,280	8,696	3,690	90,666	86,120
Multi-Regional	17,314	-	160	17,474	15,547
<b>Program Expenses 2003</b>	<b>\$351,814</b>	<b>\$90,232</b>	<b>\$4,455</b>	<b>\$446,501</b>	
<b>Program Expenses 2002</b>	<b>\$299,956</b>	<b>\$87,486</b>	<b>\$4,115</b>		<b>\$391,557</b>

# Notes to Consolidated Financial Statements

## Note 11: Program Expenses by Sector and Type

A summary of Program expenses by sector and type for the years ended June 30, 2003 and 2002 follows (in thousands):

	Types			Year Ended June 30	
	Emergency	Rehabilitation	Development	2003	2002
Agriculture and Natural Resources	\$559	\$10,550	\$45,571	\$56,680	\$57,660
Basic and Girls' Education	-	1,137	25,120	26,257	17,350
Children's Health	-	399	11,343	11,742	15,535
Reproductive Health	7,682	1,295	12,882	21,859	10,161
Water and Sanitation	393	4,647	11,273	16,313	15,928
Integrated and Other Health	3,390	1,502	17,487	22,379	20,067
Nutritional Support	39,129	-	37,191	76,320	100,969
Infrastructure	51	3,932	13,095	17,078	17,292
Small Economic Activity Development	203	295	19,591	20,089	12,411
Multi-Sector and Other	57,772	12,548	107,464	177,784	124,184
<b>Total Program Expenses by Type for 2003</b>	<b>\$109,179</b>	<b>\$36,305</b>	<b>\$301,017</b>	<b>\$446,501</b>	
<b>Total Program Expenses by Type for 2002</b>	<b>\$45,406</b>	<b>\$34,005</b>	<b>\$312,146</b>		<b>\$391,557</b>

## Note 12: Commitments and Other Matters

As of June 30, 2003, CARE USA is obligated under noncancelable operating lease agreements for warehousing, office space, and staff housing at minimum rentals as follows (in thousands):

Year ending June 30:	
2004	\$ 4,985
2005	1,995
2006	1,124
2007	761
2008	313
2009 and there after	571
<b>Total</b>	<b>\$ 9,749</b>

Total rent expense was approximately \$9.8 million and \$9.4 million for the years ended June 30, 2003 and 2002, respectively.

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 organization's financial position, changes in net assets or cash flows.

CARE USA maintains a letter of credit to collateralize the City of Atlanta revenue bonds used to renovate the Atlanta headquarters building. The amount of the letter of credit was \$2.9 million and \$3.0 million at June 30, 2003 and 2002, respectively. No amounts have been drawn against this letter of credit. A 0.625% commitment fee is paid on the letter of credit. In addition,

CARE USA is the guarantor on \$6.4 million of obligations to donors resulting from advance funding of projects in CARE USA and other CARE International member country offices received through various CARE International members with expirations from February 2004 through May 2007. 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 who 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's liability for these guarantees did not have a material effect on the financial position or changes in net assets of CARE USA as of and for the year ended June 30, 2003..

A subsidiary of CARE USA has \$15.2 million in outstanding loans due to banking institutions. The loan proceeds are used to accomplish microfinance lending and are not collateralized. Interest rates on these outstanding loans depend on the sources of the loans and range from 7% to current market rates for funds borrowed from banking institutions. Payment terms on these loans vary. The subsidiary expects to repay all amounts due from collection of its receivables. However, CARE USA does not guarantee the repayment of these loans.