

Report from Management

CARE USA continued to advance our mission around the world with program spending totaling \$517 million in fiscal year 2004. Surpassing the previous year's total by 15 percent, this investment in our work included \$412 million in cash and \$105 million in agricultural commodities and other in-kind contributions that CARE invested in the fight against global poverty. Altogether, 92 cents of every dollar that CARE USA spent went to program activities.

Our program expenditures in sub-Saharan Africa grew to \$244 million, an increase of more than 50 percent over spending in fiscal year 2003. This was the result of our deliberate emphasis on the continent over the past few years and increased emergency activities in response to the droughts in southern Africa and Ethiopia. While CARE is now spending only minimal net assets from our Africa Fund to support work in Africa, the resources available for the region have continued to grow because our earlier spending has leveraged additional funds from government and institutional donors.

In contrast to the growth in Africa, resources available for Asia declined from the previous year. This was partly because CARE is now supporting the Indian government in providing local food commodities rather than commodities from the United States. It also reflects a reduction of resources available for CARE's work in Afghanistan compared to fiscal year 2003.

Our direct public support for the year exceeded our plan, but was down from last year, primarily because the prior year included a gift of more than \$28 million distributed from a unitrust at the death of a longtime donor to CARE. Private fund-raising efforts this year yielded \$75 million, a record if the \$28 million gift is excluded from the prior year's results. This accomplishment indicates that our donors understand the value of our work around the world. U.S. government support increased to \$336 million, with much of the growth coming from commodities and cash provided for our emergency responses in Africa. Support obtained through CARE International members continued an upward path from \$87 million in fiscal year 2003 to \$98 million in fiscal year 2004.

We are grateful to our private, governmental and institutional supporters who provide the resources that are essential to CARE's continuing efforts to end extreme poverty. We are especially appreciative of donors who provide flexible, unrestricted funding that allows us to address root causes of poverty. We know our record of good financial stewardship is critically important to our donors. We will continue to use our resources in the best possible ways to make a positive difference in the world.

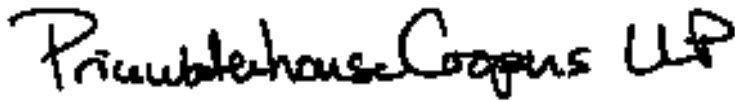


Joseph J. Iarocci,
*Senior Vice President, Strategic Support
& Chief Financial Officer*

Report from Independent Auditors

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, 2004, 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 2003 financial statements, and in our report dated September 25, 2003, 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.



Atlanta, Georgia
September 20, 2004

Consolidated Balance Sheets

As of June 30, 2004 and 2003 (in thousands)

	<u>2004</u>	<u>2003</u>
Assets		
Cash and cash equivalents	\$ 94,692	\$106,341
Investments	162,341	106,676
Receivables, net	41,713	61,608
Deposits and other assets	85,989	72,605
Property and equipment, net	9,119	10,146
Perpetual trust held by third party	109,130	97,329
TOTAL ASSETS	<u>\$502,984</u>	<u>\$454,705</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 53,670	\$ 42,059
Program advances by government and nongovernment agencies	143,725	133,859
Annuities payable, pooled income fund, unitrusts	23,536	22,188
Benefits accrued for overseas national employees	16,325	15,351
Long-term loans payable	16,976	15,179
Minority interest in subsidiary	767	852
Bonds payable	-	2,835
Total Liabilities	<u>254,999</u>	<u>232,323</u>
Commitments and contingencies		
Net Assets		
Unrestricted	71,519	63,620
Temporarily restricted	54,433	56,172
Permanently restricted	122,033	102,590
Total Net Assets	<u>247,985</u>	<u>222,382</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$502,984</u>	<u>\$454,705</u>

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

Consolidated Statement of Activities

For the year ended June 30, 2004, with summarized information for the year ended June 30, 2003 (*in thousands*)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2004	Summarized 2003
Support					
Public Support					
General purpose	\$ 48,727	\$ -	\$ -	\$ 48,727	\$ 49,389
Temporarily restricted	-	12,755	-	12,755	46,186
Addition to endowment	-	-	7,642	7,642	5
CARE International	98,146	-	-	98,146	86,977
Interest and dividends on restricted net assets	5,188	779	-	5,967	5,622
Net assets released from restrictions	16,321	-	-	16,321	19,285
Satisfaction of program restrictions	-	(16,321)	-	(16,321)	(19,285)
TOTAL PUBLIC SUPPORT	168,382	(2,787)	7,642	173,237	188,179
Government and other support					
U.S. government	336,300	-	-	336,300	271,161
Host governments	18,375	-	-	18,375	20,828
Others	39,235	4	-	39,239	40,048
TOTAL GOVERNMENT AND OTHER SUPPORT	393,910	4	-	393,914	332,037
Other Revenue					
Interest and dividends on unrestricted net assets	2,093	-	-	2,093	1,417
Rent and miscellaneous	2,851	-	-	2,851	2,844
TOTAL OTHER REVENUE	4,944	-	-	4,944	4,261
TOTAL OPERATING SUPPORT AND REVENUE	567,236	(2,783)	7,642	572,095	524,477
Expenses					
Program	516,875	-	-	516,875	446,501
Fund raising	19,855	-	-	19,855	20,279
Management and general	20,395	-	-	20,395	18,759
Public information	3,308	-	-	3,308	2,897
Grants to CARE International	1,084	-	-	1,084	1,224
TOTAL OPERATING EXPENSES	561,517	-	-	561,517	489,660
Operating Support and Revenue Over/(Under) Expenses	5,719	(2,783)	7,642	10,578	34,817
Other Non-operating Changes in Net Assets					
Minority interest in subsidiary income	528	-	-	528	(177)
Foreign exchange gains	915	-	-	915	1,190
Interest and dividends on gift annuity investments	1,201	-	-	1,201	1,205
Actuarial loss on annuity obligations	(2,182)	-	-	(2,182)	(1,130)
Actuarial gain on split interest agreements	29	54	-	83	68
Realized and unrealized gain on investments	1,689	990	-	2,679	1,362
Increase in value of trust held by third party	-	-	11,801	11,801	2,534
TOTAL CHANGE IN NET ASSETS	7,899	(1,739)	19,443	25,603	39,869
NET ASSETS, BEGINNING OF YEAR	63,620	56,172	102,590	222,382	182,513
NET ASSETS, END OF YEAR	\$ 71,519	\$ 54,433	\$122,033	\$247,985	\$222,382

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

Consolidated Statement of Functional Expenses

For the year ended June 30, 2004, with summarized information for the year ended June 30, 2003 (*in thousands*)

	Program Activities			Fund Raising	Management and General	Public Information	CARE International	2004 Total	2003 Total
	Emergency	Rehabilitation	Development						
Personnel costs	\$ 16,941	\$ 9,738	\$ 97,567	\$ 6,657	\$ 12,492	2,402	\$ 25	\$145,822	\$133,298
Professional services	1,562	1,400	13,008	1,597	1,715	283	-	19,565	17,320
Equipment	1,927	1,264	6,428	60	765	67	-	10,511	8,606
Materials and services	31,617	13,759	62,654	11,026	1,707	363	-	121,126	102,578
Travel and transportation	5,924	3,158	30,707	432	1,085	153	-	41,459	38,575
Occupancy	1,957	1,161	9,918	495	1,244	17	-	14,792	14,027
Financing/Depn/Misc.	(178)	6,153	12,325	(564)	1,323	4	-	19,063	15,502
Grants/Subgrants	9,644	12,180	61,503	-	1	9	1,059	84,396	64,872
AgCommodities/CIKs	70,264	16,043	18,251	152	63	10	-	104,783	94,882
Total Operating Expenses for 2004	\$139,658	\$64,856	\$312,361	\$ 19,855	\$ 20,395	\$ 3,308	\$ 1,084	\$561,517	
Total Operating Expenses for 2003	\$109,179	\$36,305	\$301,017	\$ 20,279	\$ 18,759	\$ 2,897	\$ 1,224		\$489,660

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

Consolidated Statements of Cash Flows

For the years ended June 30, 2004 and 2003 (in thousands)

	2004	2003
CASH FLOWS PROVIDED BY (USED FOR) OPERATING ACTIVITIES:		
Change in net assets	\$ 25,603	\$ 39,869
Adjustments to reconcile change in net assets to cash flows		
Depreciation and amortization	2,181	1,856
Contributions restricted for investment in endowment	(7,642)	(5)
Realized and unrealized gain on investments	(2,679)	(1,362)
Actuarial loss on annuity obligations	2,182	1,130
Actuarial gain on split interest agreements	(83)	(68)
Increase in value of perpetual trust held by third party	(11,801)	(2,534)
Changes in assets and liabilities		
Decrease/(increase) in receivables	19,895	(27,193)
Increase in deposits and other assets	(6,014)	(2,162)
Increase/(decrease) in accounts payable and accrued expenses	11,611	(2,436)
Increase in program advances	9,866	9,363
Increase in benefits accrued for overseas national employees	974	730
Net cash and cash equivalents provided by (used for) operating activities	44,093	17,188
CASH FLOWS PROVIDED BY (USED FOR) INVESTING ACTIVITIES:		
Purchases of investments	(94,216)	(30,970)
Proceeds from sales of investments	41,230	24,897
Purchases of property and equipment	(1,284)	(7,422)
Sales of property and equipment	130	5,041
Net cash and cash equivalents provided by (used for) investing activities	(54,140)	(8,454)
CASH FLOWS PROVIDED BY (USED FOR) FINANCING ACTIVITIES:		
Proceeds from contributions restricted for investment in endowment	7,642	5
Increase in interest-bearing receivables in subsidiary	(7,370)	(4,782)
Increase in long-term loans payable in subsidiary	1,797	1,570
(Decrease)/increase in minority interest in subsidiary	(85)	852
Principal payments on bonds payable	(2,835)	(200)
Net (decrease)/increase in annuities payable, split interest agreements	(751)	169
Net cash and cash equivalents used for financing activities	(1,602)	(2,386)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(11,649)	6,348
CASH AND CASH EQUIVALENTS, beginning of year	106,341	99,993
CASH AND CASH EQUIVALENTS, end of year	\$ 94,692	\$106,341
Non-Cash Investing Activities	\$ 791	\$ 275

Cash paid for interest in fiscal years ended June 30, 2004 and 2003, respectively, was \$1,832 and \$2,090.

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

Notes to Consolidated Financial Statements

Note 1: Organization

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: emergency relief, rehabilitation, and 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

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 Edyficar, a subsidiary in which CARE USA holds a controlling interest. This subsidiary is a for profit entity in Peru which is 90% owned by CARE USA. In consolidation, elimination entries are prepared and the full balance sheets for this entity 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, 2003, 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 accounts 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 U.S. 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 \$1.5 million and \$1.2 million as of June 30, 2004 and 2003, respectively. All pledges are expected to be collected within one year, and are recorded at the estimated amount to be ultimately realized. All pledges are generally due within one year, and are therefore not discounted.

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 federal and all other 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.

Capitalized costs related to internal-use software amounted to \$0.1 and \$1.1 million for the years ended June 30, 2004 and 2003, respectively. Amortization expense for internal-use software amounted to \$1.1 and \$0.7 million for the years ended June 30, 2004 and 2003, 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 at the date of the gift. 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

Unitrusts

CARE USA enters into agreements with donors in which the donor contributes assets to create trusts with CARE as trustee 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 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 with no conditions 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 a purpose specified by the donor or other general purposes.

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 U.S. 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 cash and 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 cash and a liability when the cash proceeds are received 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 2004 and 2003.)

Non-Food Contributions in Kind

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

In countries where CARE USA operates, government and local communities supply labor, technical services, materials, transportation and storage facilities to the programs in which they participate. 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 fund-raising 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

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. The amounts CARE will ultimately realize could differ materially, in the near term, from the amounts assumed in arriving at the net realizable value. Significant estimates include the allowance for doubtful accounts, assumptions made in recording liabilities for annuities payable and unitrusts, and the fair value of certain investments.

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, 2004, are listed below (*in thousands*):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Fund	\$37,844	\$18,950	\$ -	\$56,794
Emergency Response Fund	5,000	1,090	1,006	7,096
CARE International Support Fund	3,812	-	-	3,812
Africa Fund	-	384	512	896
Country Office Organization Evolution	200	-	-	200
HIV/AIDS	1,550	-	-	1,550
Population Trust Fund	4,364	1,186	-	5,550
Basic and Girls' Education Fund	-	29,176	-	29,176
Revolving Loan Fund	7,556	-	-	7,556
New Revenue Streams	250	-	-	250
CARE Academy	417	2	-	419
Donor Restricted Endowment Fund	-	3,645	120,515	124,160
Fixed Assets Fund	10,526	-	-	10,526
Total at June 30, 2004	\$71,519	\$54,433	\$122,033	\$247,985
Total at June 30, 2003	\$63,620	\$56,172	\$102,590	\$222,382

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 \$24 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

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.

Country Office Organizational Evolution Fund

Board designated funds to support the development of local governance structures and constituencies in the countries where CARE works. This will also allow CARE USA, in coordination with CARE International, to develop a plan for how to support organizational change in country offices.

HIV/AIDS Funds

Board-designated funds 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 in the strategic program priority 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 is financing 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.

Basic and Girls' Education Fund

Contribution received in fiscal year 2003 from a unitrust that is restricted for basic and girls' education activities to be used over a period of up to 20 years.

Notes to Consolidated Financial Statements

Revolving Loan Fund

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

New Revenue Streams

A Board designated fund to be used for developing new innovative fund-raising 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 \$109.1 million and \$97.3 million at June 30, 2004 and 2003, 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 million and \$5.1 million for the years ended June 30, 2004 and 2003, respectively. These amounts are included in the consolidated statements of activities as interest and dividends on restricted net assets. A fair value increase of \$11.8 million and \$2.5 million for the years ended June 30, 2004 and 2003, 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, 2004 is reported below (in thousands):

Fixed Assets, net of depreciation (see Note 5)	\$ 9,119
Capital expenditures authorized from net assets	<u>1,407</u>
	<u>\$10,526</u>

Notes to Consolidated Financial Statements

Note 4: Investments

Investments at June 30, 2004 and 2003 were comprised of the following (*in thousands*):

	2004		2003	
	Cost	Fair Value	Cost	Fair Value
U.S. Treasury obligations	\$24,326	\$24,643	\$21,747	\$23,365
Mutual funds	36,654	36,805	17,553	16,812
Marketable equity securities	40,765	42,989	29,173	26,017
Marketable debt securities	33,358	33,414	25,614	27,559
Money market funds	9,405	9,470	11,861	11,861
Overseas investments	15,020	15,020	1,062	1,062
	\$159,528	\$162,341	\$107,010	\$106,676

Total return on cash balances, investments, and the trust held by a third party was as follows for the years ended June 30, 2004 and 2003 (*in thousands*):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2004	2003
Dividends and interest					
Unrestricted	\$2,093	\$ -	\$ -	\$2,093	\$1,417
Temporarily restricted	-	779	-	779	516
Unrestricted dividends and interest on restricted net assets	5,188	-	-	5,188	5,106
Investment income included in operating revenue	7,281	779	-	8,060	7,039
Interest and dividends on gift annuity investments	1,201	-	-	1,201	1,205
Net realized gains/(losses)					
Unrestricted	(69)	-	-	(69)	(657)
Temporarily restricted	-	(5)	-	(5)	(112)
Change in net unrealized gains/(losses)					
Unrestricted	1,758	-	-	1,758	1,981
Temporarily restricted	-	995	-	995	150
Net change in value of trust held by third party	-	-	11,801	11,801	2,534
Total return on cash balances, investments, and trust held by third party	\$10,171	\$1,769	\$11,801	\$23,741	\$12,140

Notes to Consolidated Financial Statements

Note 5: Property and Equipment

The components of property and equipment, at cost, are as follows at June 30, 2004 and 2003 (*in thousands*):

	2004	2003
Land	\$1,342	\$1,342
Buildings and improvements	8,272	8,903
Equipment and software	10,864	10,092
Leasehold improvements	303	323
Accumulated depreciation	(11,662)	(10,514)
	<u>\$9,119</u>	<u>\$10,146</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 for each of the years ended June 30, 2004 and 2003.

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 \$2.5 million and employee contributions were \$2.1 million and \$1.9 million for the years ended June 30, 2004 and 2003, respectively.

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.

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 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. This accrual is included in accounts payable and accrued expenses in the consolidated balance sheets. The benefit obligation for this year is adjusted 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 sheets as of June 30, 2004 and 2003 (*in thousands*):

	Other Benefits	
	2004	2003
Changes in benefit obligation		
Benefit obligation at beginning of year	\$ 2,668	\$ 4,308
Service cost	82	108
Interest cost	155	155
Plan amendments	-	19
Actuarial (gain)/loss	43	(1,664)
Benefits paid	(269)	(258)
Benefit obligation at end of year	<u>\$ 2,679</u>	<u>\$ 2,668</u>
Changes in plan assets		
Fair value of plan assets at beginning of year	\$ -	\$ -
Employer contributions	269	258
Participant contributions	144	113
Benefits paid	(413)	(371)
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
Funded status	\$ (2,680)	\$ (2,668)
Unrecognized net actuarial gain	(30)	(2,067)
Unrecognized prior service cost	(42)	(70)
Accrued benefit cost	<u>\$ (2,752)</u>	<u>\$ (4,805)</u>
Weighted-average assumptions as of FYE		
Discount rate	6.25%	6.00%
First year health care cost trend	11.00%	12.00%
Ultimate health care cost trend	5.50%	5.50%
Year ultimate health care cost trend reached	2011	2011
Components of net periodic benefit cost		
Service cost	\$ 82	\$ 108
Interest cost	155	155
Amortization of prior service cost	(28)	(28)
Recognized net actuarial gain	(141)	(183)
Net periodic benefit cost	<u>\$ 68</u>	<u>\$ 52</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:

	2004	2003
One-percentage point increase in trend impact		
Effect on total of service and interest cost components	\$ 26	\$ 29
Effect on postretirement benefit obligation	270	254
One-percentage point decrease in trend impact		
Effect on total of service and interest cost components	\$ (22)	\$ (25)
Effect on postretirement benefit obligation	(237)	(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 nongovernment 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	2004 Total	2003 Total
U.S. government	\$232,569	\$103,508	\$223	\$336,300	\$271,161
U.S. direct public support	74,826	-	265	75,091	101,143
CARE Australia	1,249	-	-	1,249	1,492
CARE Canada	13,701	-	-	13,701	11,335
CARE Danmark	6,325	-	-	6,325	6,210
CARE Deutschland	2,215	-	-	2,215	2,964
CARE France	5,070	-	-	5,070	3,527
CARE Japan	384	-	-	384	324
CARE Nederland	13,285	-	22	13,307	10,566
CARE Norge	7,222	-	-	7,222	6,810
CARE Österreich	3,438	-	-	3,438	2,698
CARE United Kingdom	45,235	-	-	45,235	41,051
Host governments	18,310	-	65	18,375	20,828
UNHCR	1,878	-	509	2,387	1,438
UNICEF	993	8	11	1,012	462
WFP	1,734	-	128	1,862	7,828
Other U.N. agencies	3,644	-	-	3,644	2,650
Luxemburg	676	-	-	676	801
Switzerland	3,773	-	-	3,773	1,281
World Bank	2,758	-	-	2,758	1,615
Others (grants, contracts)	23,061	-	66	23,127	24,005
Other revenue (interest, dividends, rents, etc.)	4,944	-	-	4,944	4,288
Support and Revenue 2004	\$467,290	\$103,516	\$1,289	\$572,095	-
Support and Revenue 2003	\$429,989	\$90,232	\$4,256	-	\$524,477

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)	
	2004	2003	2004	2003
Commodities received for distribution via CARE USA programs				
U.S. government	252,177	184,942	\$103,508	\$82,023
CARE International	-	1,734	-	2,538
Others	54	30,691	8	5,671
See also Note 8 and 11	<u>252,231</u>	<u>217,367</u>	<u>103,516</u>	<u>90,232</u>
Commodities received for monetization with proceeds used by CARE USA				
U.S. government	<u>172,905</u>	<u>210,934</u>	<u>60,828</u>	<u>64,625</u>
Commodities received for monetization with proceeds going to other nonprofit organizations				
U.S. government	<u>26,029</u>	<u>55,325</u>	<u>18,584</u>	<u>17,807</u>
Total agricultural commodities received during the fiscal year	<u>451,165</u>	<u>483,626</u>	<u>\$182,928</u>	<u>\$172,664</u>

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, 2004 and 2003 follows (in thousands):

	Cash	Agricultural Commodities	Non-Food In Kind	2004 Total	2003 Total
Africa (Sub-Saharan)	\$155,789	\$87,452	\$337	\$243,578	\$161,404
Asia	122,564	7,543	508	130,615	140,327
Latin America and the Caribbean	75,414	8,521	109	84,044	90,666
Europe and Middle East	40,409	-	-	40,409	36,630
Multi-Regional	18,140	-	89	18,229	17,474
Program Expenses 2004	<u>\$412,316</u>	<u>\$103,516</u>	<u>\$1,043</u>	<u>\$516,875</u>	
Program Expenses 2003	<u>\$351,814</u>	<u>\$90,232</u>	<u>\$4,455</u>		<u>\$446,501</u>

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, 2004 and 2003 follows (in thousands):

	Types			Year Ended June 30	
	Emergency	Rehabilitation	Development	2004	2003
Agriculture and Natural Resources	\$ 815	\$ 36,109	\$ 32,160	\$ 69,084	\$ 56,680
Basic and Girls' Education	26	909	25,806	26,741	26,257
Children's Health	-	393	11,545	11,938	11,742
Reproductive Health	6,855	509	14,730	22,094	21,859
Water and Sanitation	1,276	4,193	8,025	13,494	16,313
Integrated and Other Health	3,090	811	16,664	20,565	22,379
Nutritional Support	62,302	98	25,442	87,842	76,320
Infrastructure	975	3,533	14,043	18,551	17,078
Small Economic Activity Development	353	352	24,198	24,903	20,089
Multi-Sector and Other	63,966	17,949	139,748	221,663	177,784
Total Program Expenses by Type for 2004	\$139,658	\$64,856	\$312,361	\$516,875	-
Total Program Expenses by Type for 2003	\$109,179	\$36,305	\$301,017	-	\$446,501

Note 12: Commitments and Other Matters

As of June 30, 2004, 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:	
2005	\$ 5,215
2006	2,191
2007	1,184
2008	525
2009	282
2010 and thereafter	322
Total	\$ 9,719

Total rent expense was approximately \$10.2 million and \$9.8 million for the years ended June 30, 2004 and 2003, respectively.

CARE is committed to contribute \$1.875 million in additional funding to Microvest through fiscal year 2007. This funding is likely to be fulfilled by an annual in kind equity contribution of \$0.625 million from CARE's interest in microfinance entities.

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 no longer maintains a letter of credit to collateralize the City of Atlanta revenue bonds used to renovate the Atlanta headquarters building which have been repaid. The amount of the letter of credit was \$2.9 million at June 30, 2003.

In addition, CARE USA is the guarantor on \$6.6 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 August 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, 2004.

A subsidiary of CARE USA has \$17.0 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 3% 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.