



**care**<sup>®</sup>

CARE USA 2005 Financial Supplement

# Report of Independent Auditors

## To the Board of Directors of CARE USA:

In our opinion, the accompanying consolidated balance sheets 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, 2005, 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 2004 financial statements, and in our report dated September 20, 2004, 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. Those standards 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.

A handwritten signature in black ink that reads "PricewaterhouseCoopers USA". The signature is written in a cursive, flowing style.

September 30, 2005

# Consolidated Balance Sheet

As of June 30, 2005, with summarized financial information for 2004 (*in thousands*):

	2005	2004
<b>Assets</b>		
Cash and cash equivalents	\$ 104,548	\$ 94,692
Investments	195,361	162,341
Receivables, net	47,255	41,713
Subsidiary microcredit loans receivable, net	43,034	30,460
Deposits and other assets	64,996	55,529
Property and equipment, net	7,516	9,119
Perpetual trust held by third party	111,136	109,130
<b>TOTAL ASSETS</b>	<b>\$ 573,846</b>	<b>\$ 502,984</b>
<b>Liabilities and Net Assets</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 45,766	\$ 42,990
Program advances by government and non-government agencies	130,304	143,725
Annuities payable, pooled income fund, unitrusts	22,166	23,536
Benefits accrued for overseas national employees	15,992	16,325
Subsidiary loans payable	43,871	27,656
Minority interest in subsidiary	1,633	767
<b>Total Liabilities</b>	<b>259,732</b>	<b>254,999</b>
Commitments and contingencies		
Net Assets		
Unrestricted	79,899	71,519
Temporarily restricted	110,160	54,433
Permanently restricted	124,055	122,033
<b>Total Net Assets</b>	<b>314,114</b>	<b>247,985</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 573,846</b>	<b>\$ 502,984</b>

# Consolidated Statement of Activities

For the year ended June 30, 2005, with summarized financial information for 2004 (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	2005	2004
<b>Support</b>					
Public Support					
General purpose	\$ 63,535	\$ -	\$ -	\$ 63,535	\$ 48,727
Temporarily restricted	-	74,389	-	74,389	12,755
Addition to endowment	-	-	15	15	7,642
CARE International	119,649	-	-	119,649	98,146
Interest and dividends on restricted net assets	5,431	1,354	-	6,785	5,967
Net assets released from restrictions	21,991	-	-	21,991	16,321
Satisfaction of program restrictions	-	(21,991)	-	(21,991)	(16,321)
<b>TOTAL PUBLIC SUPPORT</b>	<b>210,606</b>	<b>53,752</b>	<b>15</b>	<b>264,373</b>	<b>173,237</b>
Government and other support					
U.S. government	266,662	-	-	266,662	336,300
Host governments	28,551	-	-	28,551	18,375
Others	57,912	11	-	57,923	39,239
<b>TOTAL GOVERNMENT AND OTHER SUPPORT</b>	<b>353,125</b>	<b>11</b>	<b>-</b>	<b>353,136</b>	<b>393,914</b>
<b>Other Revenue</b>					
Interest and dividends on unrestricted net assets	2,714	-	-	2,714	2,093
Rent and miscellaneous	4,125	8	-	4,133	2,851
<b>TOTAL OTHER REVENUE</b>	<b>6,839</b>	<b>8</b>	<b>-</b>	<b>6,847</b>	<b>4,944</b>
<b>TOTAL OPERATING SUPPORT AND REVENUE</b>	<b>570,570</b>	<b>53,771</b>	<b>15</b>	<b>624,356</b>	<b>572,095</b>
<b>Expenses</b>					
Program	513,924	-	-	513,924	516,875
Fund raising	23,716	-	-	23,716	19,855
Management and general	21,408	-	-	21,408	20,395
Public information	4,304	-	-	4,304	3,308
Grants to CARE International	1,584	-	-	1,584	1,084
<b>TOTAL OPERATING EXPENSES</b>	<b>564,936</b>	<b>-</b>	<b>-</b>	<b>564,936</b>	<b>561,517</b>
<b>Operating Support and Revenue Over Expenses</b>	<b>5,634</b>	<b>53,771</b>	<b>15</b>	<b>59,420</b>	<b>10,578</b>
<b>Other Non-Operating Changes in Net Assets</b>					
Minority interest in subsidiary (loss)/income	(273)	-	-	(273)	528
Foreign exchange gain	108	-	-	108	915
Interest and dividends on gift annuity investments	1,114	-	-	1,114	1,201
Actuarial gain/(loss) on annuity obligations	40	-	-	40	(2,182)
Actuarial gain on split interest agreements	-	56	-	56	83
Realized and unrealized gain on investments	1,757	1,900	-	3,657	2,679
Increase in value of trust held by third party	-	-	2,007	2,007	11,801
<b>TOTAL CHANGE IN NET ASSETS</b>	<b>8,380</b>	<b>55,727</b>	<b>2,022</b>	<b>66,129</b>	<b>25,603</b>
NET ASSETS, BEGINNING OF YEAR	71,519	54,433	122,033	247,985	222,382
NET ASSETS, END OF YEAR	\$ 79,899	\$ 110,160	\$ 124,055	\$ 314,114	\$ 247,985

# Consolidated Statement of Functional Expenses

For the year ended June 30, 2005, with summarized financial information for 2004 (in thousands):

	Program Activities			Fund Raising	Management & General	Public Information	CARE International	2005 Total	2004 Total
	Emergency	Rehabilitation	Development						
Personnel costs	\$ 20,586	\$ 10,317	\$101,526	\$ 6,840	\$ 12,666	\$ 2,701	\$ -	\$154,636	\$145,822
Professional services	2,080	834	16,103	2,309	2,248	646	-	24,220	19,565
Equipment	2,600	793	6,982	126	1,000	197	-	11,698	10,511
Materials and services	28,499	10,234	57,792	12,982	1,197	491	-	111,195	121,126
Travel and transportation	7,997	3,030	33,503	565	1,164	201	7	46,467	41,459
Occupancy	2,341	1,230	10,474	432	1,442	28	-	15,947	14,792
Financing/Depn/Misc.	256	183	21,468	411	1,606	4	-	23,928	19,063
Grants/Subgrants	9,435	12,742	76,258	-	-	9	1,577	100,021	84,396
AgCommodities/CIKs	28,943	6,373	41,345	51	85	27	-	76,824	104,783
<b>Total Operating Expenses for 2005</b>	<b>\$102,737</b>	<b>\$45,736</b>	<b>\$365,451</b>	<b>\$ 23,716</b>	<b>\$ 21,408</b>	<b>\$ 4,304</b>	<b>\$ 1,584</b>	<b>\$564,936</b>	
<b>Total Operating Expenses for 2004</b>	<b>\$139,658</b>	<b>\$64,856</b>	<b>\$312,361</b>	<b>\$ 19,855</b>	<b>\$ 20,395</b>	<b>\$ 3,308</b>	<b>\$ 1,084</b>		<b>\$561,517</b>

# Consolidated Statement Of Cash Flows

For the years ended June 30, 2005, with summarized financial information for 2004 (in thousands):

	2005	2004
<b>CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 66,129	\$ 25,603
Adjustments to reconcile change in net assets to cash flows		
Depreciation and amortization	2,149	2,181
Contributions restricted for investment in endowment	(15)	(7,642)
Realized and unrealized gain on investments	(3,657)	(2,679)
Actuarial (gain)/loss on annuity obligations	(40)	2,182
Actuarial gain on split interest agreements	(56)	(83)
Increase in value of perpetual trust held by third party	(2,007)	(11,801)
Changes in assets and liabilities		
(Increase)/decrease in receivables	(5,542)	19,895
Increase in deposits and other assets	(9,573)	(6,014)
Increase in accounts payable and accrued expenses	2,776	4,501
(Decrease)/increase in program advances	(13,421)	9,866
(Decrease)/increase in benefits accrued for overseas national employees	(333)	974
<b>Net cash and cash equivalents provided by operating activities</b>	<u>36,410</u>	<u>36,983</u>
<b>CASH FLOWS USED FOR INVESTING ACTIVITIES:</b>		
Purchases of investments	(94,234)	(94,216)
Proceeds from sales of investments	64,978	41,230
Purchases of property and equipment	(568)	(1,284)
Sales of property and equipment	22	130
<b>Net cash and cash equivalents used for investing activities</b>	<u>(29,802)</u>	<u>(54,140)</u>
<b>CASH FLOWS USED FOR FINANCING ACTIVITIES:</b>		
Proceeds from contributions restricted for investment in endowment	15	7,642
Increase in subsidiary microcredit loans receivable	(12,574)	(7,370)
Proceeds from loans in subsidiary	26,917	11,487
Gross loans repayment in subsidiary	(10,702)	(2,580)
Increase/(decrease) in minority interest in subsidiary	866	(85)
Principal payments on bonds payable	-	(2,835)
Net decrease in annuities payable, split interest agreements	(1,274)	(751)
<b>Net cash and cash equivalents used for financing activities</b>	<u>3,248</u>	<u>5,508</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	9,856	(11,649)
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	94,692	106,341
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 104,548</u>	<u>\$ 94,692</u>
Noncash Contributions	\$ 6,313	\$ 1,815

Cash paid for interest in fiscal years ended June 30, 2005 and 2004 respectively, was \$2,802 and \$1,832.

# 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 our 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 our program activities into three major types: emergency relief, rehabilitation, and development. CARE USA also classifies our 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 activities to increase production and incomes while protecting natural resources such as post-harvest practices (storage/processing), planting trees on private and community lands, and the supply of seeds and tools (usually in relief situations).

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

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

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

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

### ***Reproductive Health***

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

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

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

### ***Integrated and Other Health***

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

### ***Nutritional Support***

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

# Notes to Consolidated Financial Statements

## ***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 83 percent 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. Significant Edyficar assets are \$10.4 million (of which \$8.9 million represents restricted compensating balances to secure outstanding loans payable) and \$4.3 million in cash as of June 30, 2005 and 2004, respectively, and \$43.0 million and \$30.5 million in microcredit loans receivable as of June 30, 2005 and 2004, respectively. Significant liabilities include \$43.9 million and \$27.7 million in loans payable to banking institutions as of June 30, 2005 and 2004, respectively. For the years ended June 30, 2005 and 2004, the Statement of Activities include \$15.1 million and \$11.8 million in revenue, and \$13.5 million and \$10.8 million in program expense from Edyficar microcredit operations, respectively.

## **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, 2004, 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 United States 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. Cash and cash equivalents held in the United States were \$47.4 million and \$30.2 million at June 30, 2005 and 2004, respectively. Cash held outside the United States were \$57.1 million (including \$10.4 million in Edyficar) and \$64.5 million at June 30, 2005 and 2004, respectively.

### **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 state-

# Notes to Consolidated Financial Statements

ments 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 nonprofit organizations (see Note 9). Income related to these investments results in an increase in liability to the other entity and is not reflected in the total return. The monetization proceeds pending distribution to other organizations were \$7.9 million and \$15.4 million as of June 30, 2005 and 2004, respectively.

See Note 4 for further information.

## 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 \$1.9 million and \$1.5 million as of June 30, 2005 and 2004, 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.

## Subsidiary Microcredit Loans Receivable

Subsidiary microcredit loans receivable represents microfinance loans outstanding (net of allowances) in Edyficar.

## Deposits and Other Assets

Deposits and other assets include project advances to partner organizations, commodities in transit not yet expensed and various other miscellaneous assets. The outstanding advances to partner organizations as of June 30, 2005 and 2004 were \$21.3 million and \$17.6 million, respectively.

## Property and Equipment

Property and equipment are recorded at cost if purchased or, if donated, at 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, five years for equipment and software, 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. Amortization expense for internal-use software amounted to \$1.0 and \$1.1 million for the years ended June 30, 2005 and 2004, 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.

## Unitrusts

CARE USA enters into agreements with donors in which the donor contributes assets to create trusts with CARE as trustee that 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

# Notes to Consolidated Financial Statements

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. Microvest, a limited partnership in which CARE USA owns a noncontrolling interest and accounts for the investments using the cost method, owns 50 percent of this minority interest.

## 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 nonprofit 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. Any commodities in transit from the United States to the distribution country are recorded as inventory on hand. Commodities for distribution received outside of the United States 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 nonprofit 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 2005 and 2004.)

# Notes to Consolidated Financial Statements

## Nonfood Contributions-in-Kind

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

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

## 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.

## Reclassifications

Certain amounts in the 2004 financial statements have been reclassified to conform to the 2005 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, 2005 and 2004, are listed below (*in thousands*):

	Unrestricted	Temporarily Restricted	Permanently Restricted	2005 Total	Unrestricted	Temporarily Restricted	Permanently Restricted	2004 Total
Operating Fund	\$ 34,614	\$ 17,786	\$ -	\$ 52,400	\$ 37,844	\$ 18,950	\$ -	\$ 56,794
Emergency Response Fund	5,000	55,071	1,006	61,077	5,000	1,090	1,006	7,096
CARE International Support Fund	2,804	-	-	2,804	3,812	-	-	3,812
Africa Fund	-	417	512	929	-	384	512	896
Program Operations and Country Office Evolution	2,449	-	-	2,449	200	-	-	200
HIV/AIDS	1,203	-	-	1,203	1,550	-	-	1,550
Population Trust Fund	4,364	1,847	-	6,211	4,364	1,186	-	5,550
Basic and Girls' Education Fund	-	31,271	-	31,271	-	29,176	-	29,176
Revolving Loan Fund	9,066	-	-	9,066	7,556	-	-	7,556
Revenue Development	10,546	-	-	10,546	250	-	-	250
CARE Academy	1,055	-	-	1,055	417	2	-	419
Donor Restricted Endowment Fund	-	3,768	122,537	126,305	-	3,645	120,515	124,160
Fixed Assets Fund	8,798	-	-	8,798	10,526	-	-	10,526
	\$ 79,899	\$ 110,160	\$ 124,055	\$ 314,114	\$ 71,519	\$ 54,433	\$ 122,033	\$ 247,985

### 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 \$26.5 million in support of the next fiscal year unrestricted expense budget. In addition, this amount includes specific board authorizations for \$2.25 million in operational improvements and systems review in fiscal years 2006 through 2008. The remaining amount is available for spending authorizations at the discretion of the board.

**Temporarily restricted** – CARE USA receives various donations for nonemergency 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.

# Notes to Consolidated Financial Statements

**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.

## **Program Operations and Country Office Evolution Fund**

Board-designated fund to support increased allocation to country offices and 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 Fund**

Board-designated fund 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 USA is financing our core reproductive health activities for 8-10 years, 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 2004 from a unitrust that is restricted for basic and girls' education activities to be used over a period of up to 20 years.

## **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.

## **Revenue Development**

A board-designated fund to be used for donor acquisition, 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.

# Notes to Consolidated Financial Statements

## Donor Restricted Endowment Fund (nonemergency, 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 \$111.1 million and \$109.1 million at June 30, 2005 and 2004, 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 percent 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 \$5 million for the years ended June 30, 2005 and 2004, 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 million and \$11.8 million for the years ended June 30, 2005 and 2004, 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, 2005 and 2004, are reported below (*in thousands*):

	2005	2004
Fixed Assets, net of depreciation (see Note 5)	\$ 7,516	\$ 9,119
Future capital expenditures authorized from net assets	1,282	1,407
	<u>\$ 8,798</u>	<u>\$ 10,526</u>

# Notes to Consolidated Financial Statements

## Note 4: Investments

Investments at June 30, 2005 and 2004 were comprised of the following (*in thousands*):

	2005		2004	
	Cost	Fair Value	Cost	Fair Value
U.S.Treasury obligations	\$ 8,433	\$ 9,024	\$ 24,326	\$ 24,643
Mutual funds	51,372	54,797	40,654	40,870
Marketable equity securities	32,313	34,517	40,765	42,989
Marketable debt securities	53,743	54,205	33,358	33,414
Money market funds	34,458	34,469	5,405	5,405
Overseas investments	8,349	8,349	15,020	15,020
	<u>\$ 188,668</u>	<u>\$ 195,361</u>	<u>\$ 159,528</u>	<u>\$ 162,341</u>

Total return on cash balances, investments and the trust held by a third party was as follows for the years ended June 30, 2005 and 2004 (*in thousands*):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2005	2004
Dividends and interest					
Unrestricted	\$ 2,714	\$ -	\$ -	\$ 2,714	\$ 2,093
Temporarily restricted	-	1,354	-	1,354	779
Unrestricted dividends and interest on restricted net assets	<u>5,431</u>	<u>-</u>	<u>-</u>	<u>5,431</u>	<u>5,188</u>
Investment income included in operating revenue	8,145	1,354	-	9,499	8,060
Interest and dividends on gift annuity investments	1,114	-	-	1,114	1,201
Net realized gains (losses)					
Unrestricted	364	-	-	364	(69)
Temporarily restricted	-	80	-	80	(5)
Change in net unrealized gains					
Unrestricted	1,393	-	-	1,393	1,758
Temporarily restricted	-	1,820	-	1,820	995
Net change in value of trust held by third party	<u>-</u>	<u>-</u>	<u>2,007</u>	<u>2,007</u>	<u>11,801</u>
Total return on cash balances, investments and trust held by third party	<u>\$ 11,016</u>	<u>\$ 3,254</u>	<u>\$ 2,007</u>	<u>\$ 16,277</u>	<u>\$ 23,741</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, 2005 and 2004 (*in thousands*):

	2005	2004
Land	\$ 1,342	\$ 1,342
Buildings and building improvements	8,277	8,272
Equipment and software	11,279	10,864
Leasehold improvements	405	303
Work in progress	20	-
Accumulated depreciation	<u>(13,807)</u>	<u>(11,662)</u>
	<u>\$ 7,516</u>	<u>\$ 9,119</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, 2005 and 2004.

## Note 6: Defined Contribution Plans

Effective January 1, 1992, CARE USA adopted a defined contribution plan for employees who meet the eligibility conditions. Within the various countries in which CARE USA operates outside the United States, most employees are citizens of the host country. These employees are generally not eligible for the CARE USA defined contribution plan, but they are eligible for local government or CARE USA-sponsored plans appropriate for that country. There are certain host country nationals who do meet the eligibility conditions for the CARE USA defined contribution plan. These employees participate in the CARE Retirement Savings Plan for Nonresident Alien Employees. Under both the resident and nonresident plan, CARE USA contributes to a participant's account an amount equal to 8 percent of the participant's gross salary and, if the participant qualifies, a supplemental contribution is also made. The plan allows employee after-tax contributions. The plan was amended, effective January 1, 1997, to also allow employee pre-tax contributions. All contributions by employees are invested in various funds within the plan. Employer contributions were \$2.6 million and \$2.5 million, and employee contributions were \$2.1 million and \$2.1 million for the years ended June 30, 2005 and 2004, respectively.

## Note 7: Postretirement Benefits

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

CARE USA accrues the cost of providing postretirement benefits, including medical and life insurance coverage, during the active service period of the employee. 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.

# Notes to Consolidated Financial Statements

The measurement date is June 30, 2005. 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, 2005 and 2004 (*in thousands*):

	Other Benefits	
	2005	2004
<b>Changes in benefit obligation</b>		
Benefit obligation at beginning of year	\$ 2,679	\$ 2,668
Service cost	85	82
Interest cost	162	155
Plan amendments	-	-
Actuarial loss	358	43
Benefits paid	(334)	(269)
Benefit obligation at end of year	<u>\$ 2,950</u>	<u>\$ 2,679</u>
<b>Changes in plan assets</b>		
Fair value of plan assets at beginning of year	\$ -	\$ -
Employer contributions	334	269
Participant contributions	151	144
Benefits paid	(485)	(413)
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
<b>Funded status</b>		
Accrued benefit cost at beginning of year	\$ (2,950)	\$ (2,680)
Unrecognized net actuarial loss/(gain)	328	(30)
Unrecognized prior service cost	(15)	(42)
Accrued benefit cost at end of year	<u>\$ (2,637)</u>	<u>\$ (2,752)</u>
<b>Weighted-average assumptions as of FYE used in determining obligations</b>		
Discount rate	5.50%	6.25%
First year health care cost trend	10.00%	11.00%
Ultimate health care cost trend	5.50%	5.50%
Year ultimate health care cost trend reached	2011	2011
<b>Weighted-average assumptions as of FYE used in determining net periodic benefit cost</b>		
Discount rate	6.25%	6.00%
<b>Components of net periodic benefit cost</b>		
Service cost	\$ 85	\$ 82
Interest cost	162	155
Amortization of prior service cost	(28)	(28)
Recognized net actuarial gain	-	(141)
Net periodic benefit cost	<u>\$ 219</u>	<u>\$ 68</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 (*in thousands*):

	2005	2004
<b>One-percentage point increase in trend impact</b>		
Effect on total of service and interest cost components	\$ 28	\$ 26
Effect on postretirement benefit obligation	328	270
<b>One-percentage point decrease in trend impact</b>		
Effect on total of service and interest cost components	\$ (24)	\$ (22)
Effect on postretirement benefit obligation	(286)	(237)
<b>Estimated Future Net Company Benefit Payments For Fiscal Year-End:</b>		
2006	\$ 187	\$ 170
2007	207	187
2008	212	207
2009	211	212
2010	231	211
2011 - 2015	1,307	1,256

# Notes to Consolidated Financial Statements

## Note 8: Sources of Support

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

Donor	Cash	Agricultural Commodities <small>See Note 9</small>	Nonfood In Kind	2005 Total	2004 Total
U.S. government	\$ 192,470	\$ 74,042	\$ 150	\$ 266,662	\$ 336,300
U.S. direct public support	143,336	-	1,388	144,724	75,091
CARE Australia	3,775	-	-	3,775	1,249
CARE Canada	12,589	-	-	12,589	13,701
CARE Danmark	7,728	-	-	7,728	6,325
CARE Deutschland	5,165	-	-	5,165	2,215
CARE France	7,840	-	-	7,840	5,070
CARE Japan	357	-	-	357	384
CARE Nederland	14,180	-	1	14,181	13,307
CARE Norge	8,215	-	-	8,215	7,222
CARE Österreich	6,248	-	-	6,248	3,438
CARE United Kingdom	53,551	-	-	53,551	45,235
Host governments	28,329	71	150	28,550	18,375
UNHCR	667	-	-	667	2,387
UNICEF	910	-	111	1,021	1,012
WFP	4,205	-	941	5,146	1,862
Other U.N. agencies	6,416	-	-	6,416	3,644
Luxemburg	503	-	-	503	676
Switzerland	16,527	-	-	16,527	3,773
World Bank	3,342	-	-	3,342	2,758
Others (grants, contracts)	24,118	-	184	24,302	23,127
Other revenue (interest, dividends, rents, etc.)	6,847	-	-	6,847	4,944
<b>Support and Revenue 2005</b>	<b>\$ 547,318</b>	<b>\$ 74,113</b>	<b>\$ 2,925</b>	<b>\$ 624,356</b>	
<b>Support and Revenue 2004</b>	<b>\$ 467,290</b>	<b>\$ 103,516</b>	<b>\$ 1,289</b>		<b>\$ 572,095</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		Dollar Value	
	Metric Tonnage		<i>(in thousands)</i>	
	2005	2004	2005	2004
Commodities received for distribution via CARE USA programs				
U.S. government	118,516	252,177	\$ 74,042	\$ 103,508
Others	106	54	71	8
See also Note 8 and 10	<u>118,622</u>	<u>252,231</u>	<u>74,113</u>	<u>103,516</u>
Commodities received for monetization with proceeds used by CARE USA				
U.S. government	<u>159,118</u>	<u>172,905</u>	<u>61,593</u>	<u>60,828</u>
Commodities received for monetization with proceeds going to other nonprofit organizations				
U.S. government	<u>21,114</u>	<u>26,029</u>	<u>7,462</u>	<u>18,584</u>
<b>Total agricultural commodities received during the fiscal year</b>	<u>298,854</u>	<u>451,165</u>	<u>\$ 143,168</u>	<u>\$ 182,928</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, 2005 and 2004 follows (*in thousands*):

	Cash	Agricultural Commodities	Nonfood In Kind	2005 Total	2004 Total
Africa (Sub-Saharan)	\$173,168	\$49,250	\$1,508	\$223,926	\$243,578
Asia	117,383	15,266	380	133,029	130,615
Latin America and the Caribbean	91,026	9,597	560	101,183	84,044
Europe and Middle East	30,649	-	-	30,649	40,409
Multi-Regional	25,037	-	100	25,137	18,229
<b>Program Expenses 2005</b>	<u>\$437,263</u>	<u>\$74,113</u>	<u>\$2,548</u>	<u>\$513,924</u>	
<b>Program Expenses 2004</b>	<u>\$412,316</u>	<u>\$103,516</u>	<u>\$1,043</u>		<u>\$516,875</u>

# Notes to Consolidated Financial Statements

## 11. Program Expenses by Sector and Type

A summary of program expenses by sector and type for the years ended June 30, 2005 and 2004 follows (*in thousands*):

	Types			Year Ended June 30	
	Emergency	Rehabilitation	Development	2005	2004
Agriculture and Natural Resources	\$ 1,805	\$ 22,687	\$ 27,346	\$ 51,838	\$ 69,084
Basic and Girls' Education	-	802	24,502	25,304	26,741
Children's Health	-	754	13,205	13,959	11,938
Reproductive Health	4,935	283	21,035	26,253	22,094
Water and Sanitation	1,425	1,127	15,317	17,869	13,494
Integrated and Other Health	3,061	749	15,765	19,575	20,565
Nutritional Support	29,986	-	43,222	73,208	87,842
Infrastructure	425	6,896	4,480	11,801	18,551
Small Economic Activity Development	386	415	29,507	30,308	24,903
Multi-Sector and Other	60,714	12,023	171,072	243,809	221,663
<b>Total Program Expenses by Type for 2005</b>	<b>\$102,737</b>	<b>\$45,736</b>	<b>\$365,451</b>	<b>\$513,924</b>	
<b>Total Program Expenses by Type for 2004</b>	<b>\$139,658</b>	<b>\$64,856</b>	<b>\$312,361</b>		<b>\$516,875</b>

# Notes to Consolidated Financial Statements

## 12. Commitments and Other Matters

As of June 30, 2005, CARE USA is obligated under non-cancelable operating lease agreements for warehousing, office space and staff housing at minimum rentals as follows (*in thousands*):

Year ending June 30:	
2006	\$ 4,936
2007	2,084
2008	1,173
2009	486
2010	295
2011 and thereafter	110
Total	<u>\$ 9,084</u>

Total rent expense was approximately \$10.5 million and \$10.2 million for the years ended June 30, 2005 and 2004, respectively.

CARE is committed to contribute \$1.25 million in additional funding to Microvest LLP (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 maintains a \$5 million letter of credit for miscellaneous cash needs. No amount was outstanding at June 30, 2005.

In addition, CARE USA is the guarantor on \$4.6 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 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 that obtained the donor funding is primarily liable for outstanding amounts, with the guarantees providing additional protection to the donors. The guarantees would only be exercised if the country offices failed to deliver project work and were unable to return the cash advances, and the CARE International member was also unable to repay the donor. CARE USA does not expect to expend any resources as a result of these guarantees as no expenditures have been required since this program has

been in effect. CARE USA'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, 2005.

A subsidiary of CARE USA has \$43.9 million in outstanding loans due to banking institutions. The loan proceeds are used to accomplish microfinance lending and are not collateralized although \$8.9 million in compensating cash balances are held on deposit to secure these loans payable. Interest rates on these outstanding loans depend on the sources of the loans and range from 3 percent 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.

## 13. Related Parties

CARE USA loaned funds to other CARE International members, and also loaned money to the CARE International Revolving Fund and the CARE International Capital Fund. These two funds are used by CARE International to loan money to other members. The direct loan to the CARE International Revolving Fund has a balance of \$1.6 million at June 30, 2005. The direct loan to the CARE International Capital Fund has a balance of \$0.8 million at June 30, 2005.

The direct loans to other CARE International members have been made to CARE United Kingdom, CARE Canada and CARE France for a cumulative total of \$1.4 million at June 30, 2005.

CARE USA has an outstanding loan to Edyficar, an 83 percent owned subsidiary, of \$1.5 million with a maturity date in fiscal year 2006.

In 2004, CARE USA invested in Microvest. The initial donation was cash and an in-kind contribution of stock in Edyficar, the Peruvian microfinancing entity majority owned by CARE USA. CARE USA also agreed to contribute additional annual contributions of \$0.625 million for the next three years, beginning in fiscal year 2005 (see Note 12). The investment in Microvest is currently valued at \$3.4 million as of June 30, 2005.