

CARE USA  
Consolidated Financial Statements  
For the year ended  
June 30, 2008

**CARE USA**  
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**For the year ended June 30, 2008**

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## Report of Independent Auditors

The Board of Directors  
Cooperative for Assistance and Relief Everywhere USA

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

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

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

Beginning net assets have been restated as described in Note 22.

*Ernst & Young LLP*

January 19, 2009

**CARE USA**  
**Consolidated Balance Sheet**  
**As of June 30, 2008**

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*(in thousands)*

**Assets**

Cash and cash equivalents	\$ 111,100
Investments at fair value	204,980
Receivables, net	29,564
Microcredit loans receivable, net	170,298
Inventory	17,801
Deposits and other assets	68,514
Property and equipment, net	24,251
Trusts held by third parties	112,056

**Total Assets** \$ 738,564

**Liabilities and Net Assets**

Liabilities

Accounts payable and accrued expenses	\$ 60,150
Program advances by government and nongovernment agencies	122,871
Annuities payable, pooled income fund, charitable remainder trusts	22,362
Benefits accrued for employees	31,297
Subsidiary loans payable	132,220
Minority interest in subsidiary	6,996

**Total Liabilities** 375,896

Commitments and contingencies

Net Assets

Unrestricted	95,271
Temporarily restricted	135,305
Permanently restricted	132,092

**Total Net Assets** 362,668

**Total Liabilities and Net Assets** \$ 738,564

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

**CARE USA**  
**Consolidated Statement of Activities**  
**For the year ended June 30, 2008**

<i>(in thousands)</i>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Support</b>				
Public Support				
Contributions	\$ 74,964	64,970	\$ -	\$ 139,934
CARE International	147,643	-	-	147,643
Interest and dividends on restricted net assets	5,881	3,487	-	9,368
Satisfaction of restrictions	<u>47,499</u>	<u>(47,499)</u>	-	-
Total Public Support	275,987	20,958	-	296,945
Government and other support				
U.S. government	267,177	-	-	267,177
Host governments	25,008	-	-	25,008
Others	<u>105,318</u>	-	-	<u>105,318</u>
Total Government and Other Support	397,503	-	-	397,503
<b>Other Revenue</b>				
Interest and dividends on unrestricted net assets	7,957	-	-	7,957
Rent and miscellaneous	<u>5,421</u>	-	-	<u>5,421</u>
Total Other Revenue	<u>13,378</u>	-	-	<u>13,378</u>
<b>Total Operating Support and Revenue</b>	686,868	20,958	-	707,826
<b>Expenses</b>				
Program	608,629	-	-	608,629
Fund raising	28,023	-	-	28,023
Management and general	28,434	-	-	28,434
Public information	<u>8,519</u>	-	-	<u>8,519</u>
<b>Total Operating Expenses</b>	673,605	-	-	673,605
<b>Operating Support and Revenue over Expenses</b>	13,263	20,958	-	34,221
<b>Other Nonoperating Changes in Net Assets</b>				
Minority interest in subsidiary income	(4,725)	-	-	(4,725)
Foreign exchange gain	2,068	-	-	2,068
Interest and dividends on gift annuity investments	976	-	-	976
Actuarial loss on annuity obligations	(2,037)	-	-	(2,037)
Actuarial (loss)/gain on split interest agreements	10	(87)	-	(77)
Net realized and unrealized loss on investments	(7,506)	(5,649)	-	(13,155)
Decrease in value of trusts held by third parties	-	-	<u>(14,586)</u>	<u>(14,586)</u>
Total Changes in Net Assets before change in pension liability	2,049	15,222	(14,586)	2,685
Net change in pension liability	<u>413</u>	-	-	<u>413</u>
Change in net assets	2,462	15,222	(14,586)	3,098
Net Assets, beginning of year as previously reported	85,687	121,814	144,046	351,547
Correction of errors - Note 22	<u>7,122</u>	<u>(1,731)</u>	<u>2,632</u>	<u>8,023</u>
Net Assets, beginning of year as restated	92,809	120,083	146,678	359,570
Net Assets, end of year	<u>\$ 95,271</u>	<u>\$ 135,305</u>	<u>\$ 132,092</u>	<u>\$ 362,668</u>

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

**CARE USA**  
**Consolidated Statement of Functional Expenses**  
**For the year ended June 30, 2008**

<i>(in thousands)</i>	<b>Program Activities</b>				<b>Public Information</b>	<b>Fund Raising</b>	<b>Management &amp; General</b>	<b>Total</b>
	<b>Emergency</b>	<b>Rehabilitation</b>	<b>Development</b>	<b>Total</b>				
Personnel costs	\$ 23,570	\$ 9,437	\$ 112,609	\$ 145,616	\$ 3,989	\$ 9,000	\$ 16,695	\$ 175,300
Professional services	2,285	665	16,204	19,154	2,239	2,253	4,621	28,267
Equipment	1,468	587	6,276	8,331	238	151	1,329	10,049
Materials and services	39,768	3,477	78,860	122,105	1,229	14,559	2,201	140,094
Travel and transportation	6,428	2,618	35,693	44,739	732	766	1,660	47,897
Occupancy	3,257	1,184	12,602	17,043	57	546	1,674	19,320
Financing/Depn/Misc.	377	(3,059)	50,546	47,864	23	739	118	48,744
Grants/Subgrants	9,859	3,031	115,789	128,679	2	1	121	128,803
AgCommodities/CIKs	19,248	-	55,850	75,098	10	8	15	75,131
<b>Total Operating Expenses</b>	<b>\$ 106,260</b>	<b>\$ 17,940</b>	<b>\$ 484,429</b>	<b>\$ 608,629</b>	<b>\$ 8,519</b>	<b>\$ 28,023</b>	<b>\$ 28,434</b>	<b>\$ 673,605</b>

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

**CARE USA**  
**Consolidated Statement of Cash Flow**  
**For the year ended June 30, 2008**

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(in thousands)

**CASH FLOWS FROM FOR OPERATING ACTIVITIES:**

Changes in net assets	\$ 3,098
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization	3,100
Provision for subsidiary microcredit loan losses	816
Net realized and unrealized loss on investments	13,155
Actuarial loss on annuity obligations	2,037
Actuarial loss on split interest agreements	77
Decrease in value of trusts held by third parties	14,586
Changes in assets and liabilities	
Decrease in receivables	(1,847)
Decrease in inventory	33,031
Increase in deposits and other assets	(7,348)
Increase in accounts payable and accrued expenses	14,007
Decrease in program advances	(9,594)
Increase in benefits accrued for employees	842
<b>Net cash provided by operating activities</b>	<u>65,960</u>

**CASH FLOWS USED FOR INVESTING ACTIVITIES:**

Purchases of investments	(212,097)
Proceeds from sales of investments	213,153
Purchases of property and equipment	(15,174)
Proceeds from sales of property and equipment	245
<b>Net cash used for investing activities</b>	<u>(13,873)</u>

**CASH FLOWS FROM FINANCING ACTIVITIES:**

Increase in microcredit loans receivable	(67,036)
Increase in subsidiary loans payable	42,360
Increase in minority interest in subsidiary	4,246
Net decrease in annuities payable, split interest agreements	(1,723)
<b>Net cash and cash equivalents used in financing activities</b>	<u>(22,153)</u>

**NET INCREASE IN CASH AND CASH EQUIVALENTS** 29,934

**CASH AND CASH EQUIVALENTS, beginning of year** 81,166  
**CASH AND CASH EQUIVALENTS, end of year** \$ 111,100

Noncash Contributions \$ 22,199

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

# **CARE USA**

## **Notes to Consolidated Financial Statements**

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### **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©(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 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**

CARE seeks 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; and
- 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 program activities into three major types: emergency relief, rehabilitation, and development. CARE USA also classifies program activities by technical sectors (refer to Note 17 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:

**1. Organization (continued)****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).

**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.

# CARE USA

## Notes to Consolidated Financial Statements

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### 1. Organization (continued)

#### 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.

### 2. Summary of Significant Accounting Policies

#### Principles of Consolidation

The consolidated financial statements include the accounts of CARE USA and its domestic and non-US subsidiaries that are consolidated in conformity with accounting principles general accepted in the United States of America (U.S. GAAP). All significant intercompany transactions have been eliminated. Consolidated subsidiaries are all micro-finance entities and include Financiera Edyficar, Anukul Foundation, SEED Finance and MOFAD. Edyficar and SEED Finance are for-profit entities and are located in Peru and Philippines, respectively. Anukul and MOFAD are not-for-profit entities and operate in Bangladesh and Afghanistan, respectively. Gains and losses from the translation of foreign currency financial statements are recorded in the consolidated statement of activities.

#### Use of Estimates

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

#### Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with a maturity of ninety days or less when purchased and can be readily converted to cash on demand without penalty, with the exception of cash held for reinvestment which is included as investments. Cash and cash equivalents held in the United States are insured according to FDIC regulations, but most of the cash is held in accounts with balances exceeding the insured limit. Cash amounts maintained overseas are largely uninsured. In addition, certain donors require cash be held in separate accounts. The fair value of cash and cash equivalents approximate their respective carrying amounts. Cash and cash equivalents held in the United States were \$26.4 million at June 30, 2008. Cash and cash equivalents held outside the United States was \$84.7 million (including \$20.3 million in subsidiaries) at June 30, 2008.

#### Investments

Investments with readily determinable values are stated at fair value.

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

## CARE USA

### Notes to Consolidated Financial Statements

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

Investments which are not publicly traded consist of investments in institutional commingled funds and are reflected at fair value. The underlying assets are principally reflected at fair value. Depending on the underlying asset, the fair value is determined through national exchange price for securities with a readily determinable value or by valuations and estimates typically determined by the underlying asset's manager. Although the majority of these investment values are determined through national exchanges, certain investment values may differ from the values that would have been used had a ready market for these investments existed and the differences could be material. The financial statements of these investments are audited annually (typically at December 31) by independent auditors.

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

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

Interest and dividend income is presented net of advisory fees.

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

CARE USA maintains certain investments on behalf of others, normally the result of monetizing commodities, with the proceeds going to other nonprofit organizations. 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 are recorded under program advances on the balance sheet and were \$1.8 million as of June 30, 2008. (See Note 12).

Investments in partially-owned affiliates are accounted for by the equity method when CARE's interest is between 20% and 50% and CARE does not have a controlling interest.

#### **Net Receivables**

Receivables represent contribution pledges not yet collected and program expenditures and ocean freight not yet reimbursed by donors. The receivables on the consolidated balance sheet are net of allowances of \$0.7 million as of June 30, 2008. All pledges are recorded at the estimated amount to be ultimately realized.

In the current presentation, the receivable position by donor has been reported on a net basis, offset by the related payable balance.

# CARE USA

## Notes to Consolidated Financial Statements

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

Ocean freight receivables are due from the United States Agency for International Development (USAID) and are recorded when agricultural commodities are shipped to their destination port with a corresponding liability due to the freight line. (See Note 5).

#### **Microcredit Loans Receivable, net**

Microcredit loans receivable represents credit services for rural and urban micro-enterprises. The balance is net of the allowance for doubtful accounts of \$3.7 million as of June 30, 2008. The allowance for loan losses is maintained at such level that in management's best judgment is sufficient to cover potential losses in the loan portfolio at the balance sheet date. Management considers the loan loss factors as well as delinquencies over 60 days in determining the allowance. (See Note 6).

Edyficar is a consolidated subsidiary of CARE USA and the largest financing entity. They are mainly engaged in obtaining resources to provide loans to micro-businesses within the scope of the general laws issued by the Peruvian banking regulator. Additionally, the transactions and services that Edyficar is allowed to enter into as a financial institution, among others, are:

- Providing direct loans with or without security;
- Providing guarantee, performance bonds and other types of security, even on behalf of other financial institutions;
- Accepting bills of exchange originated from trade transactions;
- Entering into transactions in foreign currency;
- Acquiring property, furniture and equipment; and
- Performing collections and transfers of funds as well as draft money orders against its own offices and or correspondent banks.

#### **Inventory**

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

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

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

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

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

# CARE USA

## Notes to Consolidated Financial Statements

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

#### **Deposits and Other Assets**

Deposits and other assets include subgrantee advances to partner organizations, project advances to project managers, receivables from CARE International members and various other miscellaneous assets. The outstanding advances to partner organizations as of June 30, 2008 were \$29.9 million.

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

In addition, CARE USA owns a noncontrolling interest (30%) in MicroVest, a limited partnership. The investment of \$5.1 million as of June 30, 2008, is accounted for using the equity method and is included in other assets. This amount is net of CARE USA's share of MicroVest's minority interest in Edyficar. (See Note 7).

#### **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 fifteen years for buildings, five to seven years for building improvements, three to five years for equipment and software, and five years for leasehold improvements, or the life of the lease, if less than five years. Capitalized leases are amortized over the life of the lease. (See Note 8).

#### **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.

#### **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.

# CARE USA

## Notes to Consolidated Financial Statements

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

#### **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.

#### **Charitable Remainder Trusts**

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 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 as these transactions are exchange transactions. A contract payable equivalent to the amount of the principal is set up to establish a revolving fund that will be made available for use in the project. This liability is converted to an unrestricted net asset if the donor releases all claims against the assets.

#### **Program Advances by Government and Nongovernmental Agencies**

Program advances relate to cash received directly from government and nongovernmental agencies, proceeds received from monetization, and inventory related to distribution and monetization commodities. (See Note 12).

In the current presentation, the payable position by donor has been reported on a net basis, offset by the related receivable balance.

#### **Accounting for Contributions**

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

# CARE USA

## Notes to Consolidated Financial Statements

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

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.

#### **Grants**

Grants are recognized as revenue in the period the grant objectives are met and the grant expenditures are incurred as these are exchange transactions. If grant funds are received in advance, CARE records the excess cash as deferred revenue. As the funds are spent, CARE will reduce the related deferred revenue.

#### **Bequests**

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

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

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

In countries where CARE USA operates, government and local communities supply labor, technical services, materials, transportation and storage facilities to the programs in which they participate. The value of these contributions is generally not recorded in the consolidated financial statements as they do not meet the criteria for revenue recognition. In addition, various media for public information and fundraising campaigns are provided at no charge to CARE USA. The value of these contributions is generally not recorded in the consolidated financial statements, as CARE USA would not purchase these services.

#### **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.

# CARE USA

## Notes to Consolidated Financial Statements

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

#### Foreign Exchange Contracts

CARE USA enters into foreign exchange contracts as a hedge against foreign accounts payable. Market gains and losses are recognized, and recorded as foreign exchange gains or losses. At June 30, 2008 CARE USA had contracts maturing April 15, 2009 to purchase \$4.3 million in foreign currency outstanding (2.8 million euros at the spot rate when purchased).

#### Operating and Nonoperating 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 Nonoperating Changes in Net Assets reflect activities not central to the organization's mission and actuarial changes in value and realized and unrealized gains and losses.

#### New Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 ("FIN 48"). FIN 48 prescribes a recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return when there is uncertainty about whether a tax position will ultimately be sustained upon examination. CARE USA will be required to adopt the recognition and disclosure provisions of FIN 48 for its fiscal year ending June 30, 2009. CARE USA is currently evaluating the effect that the adoption of FIN 48 will have on its financial position and changes in net assets.

In September 2006, the FASB issued Statement No. 157, Fair Value Measurements ("Statement 157"). Statement 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. CARE USA will be required to adopt the provisions of Statement 157 related to fair value measurements and related disclosures for its fiscal year ending June 30, 2009. CARE USA is currently evaluating the effect that the adoption of Statement 157 will have on its financial position and changes in net assets.

In February 2007, the FASB issued Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115 ("Statement 159"). Statement 159 permits entities to choose to measure many financial instruments and certain other items at fair value. CARE USA will be required to address the provisions of Statement 159 related to measuring financial instruments and other items at fair value and the related disclosures for its fiscal year ending June 30, 2009. CARE USA is currently evaluating the effect that the adoption of Statement 159 will have on its financial position and changes in net assets.

# CARE USA

## Notes to Consolidated Financial Statements

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

In August 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position (FSP) No. FAS 117-1, Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds ("FSP FAS 117-1"). FSP FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional funds Act of 2006 ("UPMIFA"). UPMIFA is a model act approved by the Uniform Law Commission that serves as a guideline for states to use in enacting legislation. FSP FAS 117-1 also enhances disclosures about an organization's endowment funds, whether or not the organization is subject to UPMIFA. This FSP will be effective for CARE USA's fiscal year ending June 30, 2009. CARE USA is currently evaluating the effect that the adoption of FSP FAS 117-1 will have on its financial position and changes in net assets.

### 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, 2008 are listed below (*in thousands*):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Fund	\$ 18,886	\$ 65,999	\$ -	\$ 84,885
Emergency Response Fund	5,000	31,930	1,006	37,936
CARE International Support Fund	2,100	-	-	2,100
Africa Fund	-	551	512	1,063
Signature Programs	3,335	-	-	3,335
Population Trust Fund	4,365	2,006	-	6,371
Basic and Girls' Education Fund	-	33,364	-	33,364
Revolving Loan Fund	31,200	-	-	31,200
Revenue Development	3,843	-	-	3,843
Donor Restricted Endowment Fund	-	1,455	130,574	132,029
Fixed Assets Fund	<u>26,542</u>	<u>-</u>	<u>-</u>	<u>26,542</u>
	<u>\$ 95,271</u>	<u>\$ 135,305</u>	<u>\$ 132,092</u>	<u>\$ 362,668</u>

## **CARE USA**

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

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#### **3. Description of Net Asset Designations and Restrictions (continued)**

##### **Operating Fund**

Unrestricted – A board-designated fund intended to facilitate day-to-day operations and to protect against short-term unrestricted revenue shortfalls.

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.

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.

##### **Signature Programs**

Board-designated funds to support CARE's strategic plan to empower women and girls to support themselves, their families and their communities.

##### **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, started in fiscal year 2004.

## **CARE USA**

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

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#### **3. Description of Net Asset Designations and Restrictions (continued)**

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 charitable remainder trust 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 and the production of a Public Service Announcements to generate public awareness and revenue.

##### **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. The income generated from permanently restricted donor endowment funds is unrestricted and is listed above under Operating Fund in the unrestricted column.

Williams Trust – A component of the permanently restricted donor endowment fund, which includes \$111.2 million at June 30, 2008, relates to a trust created under the will of Thomas Lyle Williams (the "Trust"). This amount represents 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 a distribution of \$5.9 million for the year ended June 30, 2008. This amount is included in the consolidated statement of activities as interest and dividends on restricted net assets. A fair value decrease of \$14.6 million for the year ended June 30, 2008 is reflected in the consolidated statement of activities under other changes in permanently restricted net assets. As of December 31, 2008, Williams Trust decreased in value by \$25.9 million or 23% from June 30, 2008.

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

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**3. Description of Net Asset Designations and Restrictions (continued)**

**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, 2008 are reported below (*in thousands*):

	<b>2008</b>
Fixed Assets, net of depreciation (see Note 8)	\$ 24,251
Future capital expenditures authorized from net assets	2,291
	<u>\$ 26,542</u>

**4. Investments**

Investments at June 30, 2008 were comprised of the following (*in thousands*):

	<b>Cost</b>	<b>Fair Value</b>
U.S. Treasury obligations	\$ 29,993	\$ 30,506
Mutual funds	65,354	64,685
Marketable equity securities	51,072	51,374
Marketable debt securities	13,985	13,576
Money market funds	30,315	30,315
Marketable alternative funds	4,666	5,288
Overseas time deposits	9,236	9,236
	<u>\$ 204,621</u>	<u>\$ 204,980</u>

Due to the US financial crisis, investment values have dropped significantly. As of January 8, 2009, investments decreased by \$37million or a 19% decrease from June 30, 2008.

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

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**4. Investments (continued)**

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

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Dividends and interest included in operating revenue	\$ 13,838	\$ 3,487	\$ -	\$ 17,325
Dividends and interest on gift annuity investments	976	-	-	976
Net realized gains	4,794	1,049	-	5,843
Change in net unrealized gains	(12,300)	(6,698)	-	(18,998)
Net change in value of trusts held by third parties	<u>-</u>	<u>-</u>	<u>(14,586)</u>	<u>(14,586)</u>
Total return on cash balances, investments and trusts held by third parties	<u>\$ 7,308</u>	<u>\$ (2,162)</u>	<u>\$ (14,586)</u>	<u>\$ (9,440)</u>

**5. Receivables, net**

Receivables, net at June 30, 2008 were comprised of the following (*in thousands*):

Grants and Contracts Receivable	\$ 11,112
Ocean Freight Receivable from USAID	2,617
Contributions Receivable	16,576
Allowance for Uncollectible Accounts	<u>(741)</u>
	<u>\$ 29,564</u>

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

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**6. Microcredit Loans Receivable, net**

Microcredit loans receivable, net at June 30, 2008 were comprised of the following (*in thousands*):

Edyficar	\$ 157,461
Anukul Foundation	2,863
SEED Finance	3,224
MOFAD	2,475
CARE	<u>7,979</u>
	174,002
Less:	
Allowance for doubtful accounts	<u>(3,704)</u>
	<u>\$ 170,298</u>

Loans bear interest rates of 8% to 24%.

**7. Deposits and Other Assets**

Deposits and other assets at June 30, 2008 were comprised of the following (*in thousands*):

Subgrantee and project advances	\$ 29,852
Investment in MicroVest	5,122
Accrued interest/dividends	440
Receivable from CARE International Members	8,619
Other assets	<u>24,481</u>
	<u>\$ 68,514</u>

Other assets include prepaid expenses of \$4.8 million, travel advances of \$1.9 million, miscellaneous advances of \$4.0 million, and miscellaneous receivables of \$14.1 million as of June 30, 2008.

The investment in Microvest is net of CARE USA's share of MicroVest's minority interest in Edyficar.

## CARE USA

### Notes to Consolidated Financial Statements

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#### 8. Property and Equipment

The components of property and equipment, at cost, are as follows at June 30, 2008 (*in thousands*):

Land	\$ 3,235
Buildings and building improvements	10,656
Vehicles, equipment and software	28,000
Leasehold improvements	1,164
Work in progress	339
Accumulated depreciation/amortization	<u>(19,143)</u>
	<u>\$ 24,251</u>

Depreciation expense amounted to \$2.7 million for the year ended June 30, 2008.

CARE USA capitalized \$1.3 million of internal use software during the year ended June 30, 2008. Unamortized internal use software costs were \$2.4 million at June 30, 2008. Amortization expense for internal-use software amounted to \$0.4 million for the year ended June 30, 2008.

#### 9. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at June 30, 2008 were comprised of the following (*in thousands*):

Ocean freight payable	\$ 1,205
Accounts payable	47,627
Other accrued expenses	<u>11,318</u>
	<u>\$ 60,150</u>

#### 10. 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. These plans generally require payment to the employee at time of employment termination. The payments are calculated based on the number of years employed. There are certain host country nationals who do meet the eligibility conditions for the CARE USA defined contribution plan. These employees participate in the CARE 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,

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

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**10. Defined Contribution Plans (continued)**

1997, to also allow employee pre-tax contributions. All contributions by employees are invested in various funds within the plan. Employer contributions were \$3.1 million and employee contributions were \$2.6 million for the year ended June 30, 2008. CARE expects contributions to be equal to benefit payments for the year ending June 30, 2009.

**11. Postretirement Benefits**

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

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

CARE expects contributions to be equal to benefit payments for the year ending June 30, 2009.

The measurement date is June 30, 2008. 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, 2008 (*in thousands*):

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

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**11. Postretirement Benefits (continued)**

**Changes in benefit obligation**

<b>Benefit obligation at beginning of year</b>	<b>\$ 2,726</b>
Service cost	93
Interest cost	130
Participant contributions	164
Benefits paid	(546)
Actuarial gain	(420)
<b>Benefit obligation at end of year</b>	<b><u>\$ 2,147</u></b>

**Changes in plan assets**

<b>Fair value of plan assets at beginning of year</b>	<b>\$ -</b>
Employer contributions	382
Participant contributions	164
Benefits paid	(546)
<b>Fair value of plan assets at end of year</b>	<b><u>\$ -</u></b>

**Funded status**

Funded status at the end of the year	(2,147)
<b>Net amount recognized in the balance sheet</b>	<b><u>\$ (2,147)</u></b>

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

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**11. Postretirement Benefits (continued)**

**Amount not yet reflected in net periodic benefit cost and expected to be amortized in next year's net periodic benefit cost:**

Transition asset (obligation)	-
Prior service credit (cost)	(1)
Accumulated gain (loss)	-
	<u>(1)</u>

**Amounts recognized in the balance sheet consist of:**

Accrued benefit liability	\$ (2,147)
<b>Net amount recognized in the balance sheet</b>	<b><u>\$ (2,147)</u></b>

**Amounts not yet reflected in net periodic benefit cost and included in unrestricted net assets**

Prior service cost	(11)
Accumulated gain	221
<b>Change in unrestricted net assets</b>	<b>\$ 210</b>
Cumulative employer contributions in excess of net periodic benefit cost	(2,357)
<b>Net amount recognized in the consolidated balance sheet</b>	<b><u>\$ (2,147)</u></b>

**Components of net periodic benefit cost**

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

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

**Weighted-average assumptions as of FYE used in determining obligations**

Discount rate	6.75%
Measurement date	June 30
First year health care cost trend	7.50%
Ultimate health care cost trend	5.00%
Year ultimate health care cost trend reached	FY2016

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

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**11. Postretirement Benefits (continued)**

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

Discount rate	6.20%
First year health care cost trend	8.00%
Ultimate health care cost trend	5.00%
Year ultimate health care cost trend reached	FY2016

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*):

**One-percentage point increase in trend impact**

Effect on total of service and interest cost components	\$ 23
Effect on postretirement benefit obligation	\$ 182

**One-percentage point decrease in trend impact**

Effect on total of service and interest cost components	\$ (20)
Effect on postretirement benefit obligation	\$ (163)

**Estimated Future Benefit Payments**

2009	\$ 186
2010	\$ 197
2011	\$ 197
2012	\$ 189
2013	\$ 209
2014 - 2018	\$1,155

**12. Program Advances by Government and Nongovernment Agencies**

Program advances by government and nongovernment agencies at June 30, 2008 were comprised of the following (*in thousands*):

Monetization proceeds	\$ 1,826
Commodity grants	15,792
Grants and Contracts:	
U.S. government	52,081
CARE International	13,949
Host governments	5,922
Others	33,301
	<u>\$ 122,871</u>

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

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**13. Subsidiary Loans Payable**

Subsidiary loans payable at June 30, 2008 were comprised of the following (*in thousands*):

Edyficar	\$ 127,095
Anukul Foundation	10
SEED Finance	2,387
MOFAD	2,728
	<u>\$ 132,220</u>

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

For Edyficar, loans are collateralized with \$12.3 million in compensating cash balances held in financial institutions. In addition, Edyficar has secured certain borrowings with collateral comprising the loan portfolio assignment totaling \$44 million. Payment terms on these loans vary. Edyficar expects to repay all amounts due from the collection of its receivables. However, CARE USA does not guarantee the repayment of these loans.

Management believes that Edyficar's outstanding debt covenants, as of June 30, 2008, were in compliance with requirements.

Debt maturities and interest rate range for the period ending June 30, 2008 are as follows (*in thousands*):

	<b>Interest Range</b>	<b>Rate</b>	<b>Debt Maturities</b>
2009	3.50% - 10.08%	\$	44,416
2010	4.50% - 10.00%		26,115
2011	6.00% - 10.50%		19,407
2012	5.00% - 9.65%		14,816
2013	5.50% - 10.50%		11,163
2014 and thereafter	5.50% - 9.00%		16,303
		<u>\$</u>	<u>132,220</u>

# CARE USA

## Notes to Consolidated Financial Statements

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### 14. Sources of Support

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

Donor	Cash	Agricultural Commodities	Nonfood In Kind	Total
U.S. government	\$ 195,619	\$ 71,443	\$ 115	\$ 267,177
U.S. direct public support	149,027	-	201	149,228
CARE Australia	8,494	-	-	8,494
CARE Canada	7,666	223	-	7,889
CARE Danmark	12,437	-	-	12,437
CARE Deutschland	7,043	-	-	7,043
CARE France	15,700	-	-	15,700
CARE Japan	673	-	-	673
CARE Nederland	26,845	-	-	26,845
CARE Norge	12,949	-	-	12,949
CARE Österreich	10,016	-	-	10,016
CARE United Kingdom	45,597	-	-	45,597
Host governments	25,008	-	-	25,008
UNHCR	419	-	-	419
UNICEF	3,117	-	-	3,117
WFP	3,509	3,048	-	6,557
Other U.N. agencies	4,981	-	-	4,981
Switzerland	21,699	-	-	21,699
World Bank	9,080	-	-	9,080
Others (grants, contracts)	58,811	-	378	59,189
Other revenue (interest, dividends, rents, etc.)	13,728	-	-	13,728
<b>Support and Revenue</b>	<b>\$ 632,418</b>	<b>\$ 74,714</b>	<b>\$ 694</b>	<b>\$ 707,826</b>

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

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**15. Agricultural Commodities**

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

Commodities received and distributed via CARE USA programs	
U.S. government	\$ 71,443
Others	<u>3,271</u>
Total	74,714
Commodities received for monetization with proceeds used by CARE USA	
U.S. government	<u>53,390</u>
Total agricultural commodities received during the fiscal year	<u><u>\$ 128,104</u></u>

**16. Geographic Information**

A summary of program expenses by geographic region for the year ended June 30, 2008 follows (*in thousands*):

	Cash	Agricultural Commodities	Nonfood In Kind	Total
Africa (Sub-Saharan)	\$ 214,814	\$ 61,912	\$ 118	\$276,844
Asia	132,285	11,225	168	143,678
Latin America and the Caribbean	105,360	1,577	-	106,937
Europe and Middle East	47,987	-	-	47,987
Multi-Regional	<u>33,086</u>	<u>-</u>	<u>97</u>	<u>33,183</u>
Program Expenses	<u><u>\$ 533,532</u></u>	<u><u>\$ 74,714</u></u>	<u><u>\$ 383</u></u>	<u><u>\$608,629</u></u>

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

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**17. Program Expenses by Sector and Type**

A summary of program expenses by sector and type for the year ended June 30, 2008 follows  
*(in thousands)*:

	Types			Total
	Emergency	Rehabilitation	Development	
Agriculture and Natural Resources	\$ 729	\$ 1,041	\$ 31,485	\$ 33,255
Basic and Girls' Education	-	700	24,346	25,046
Children's Health	67	217	10,083	10,367
Reproductive Health	11,719	1,245	27,553	40,517
Water and Sanitation	1,676	4,345	19,832	25,853
Integrated and Other Health	3,573	1,238	31,538	36,349
Nutritional Support	28,823	1	62,976	91,800
Infrastructure	2,360	5,388	287	8,035
Small Economic Activity Development	17	1,696	42,223	43,936
Multi-Sector and Other	57,296	2,069	234,106	293,471
	\$ 106,260	\$ 17,940	\$ 484,429	\$ 608,629
Total Program Expenses by Type				

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

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

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

	Edyficar	Anukul	SEED Finance	MOFAD	Total
<b>Assets</b>					
Cash and cash equivalents	\$ 18,821	\$ 754	\$ 309	\$ 423	\$ 20,307
Investments	-	2,326	-	-	2,326
Microcredit loans receivable, net	153,868	2,801	3,224	2,426	162,319
Other assets	2,719	14	296	-	3,029
Property and equipment, net	8,272	1	10	21	8,304
<b>Total Assets</b>	<u>\$ 183,680</u>	<u>\$ 5,896</u>	<u>\$ 3,839</u>	<u>\$ 2,870</u>	<u>\$ 196,285</u>
<b>Liabilities and Net Assets</b>					
Liabilities					
Accounts payable and other liabilities	\$ 23,768	\$ (19)	\$ 61	\$ 178	\$ 23,988
Loans payable	127,096	9	2,792	2,728	132,625
<b>Total Liabilities</b>	<u>150,864</u>	<u>(10)</u>	<u>2,853</u>	<u>2,906</u>	<u>156,613</u>
Commitments and contingencies					
Retained Earnings and Stockholders Equity					
Retained earnings and stockholders equity	25,304	5,906	772	(37)	31,945
Minority interest	7,512	-	214	1	7,727
<b>Total Retained Earnings and Stockholders Equity</b>	<u>32,816</u>	<u>5,906</u>	<u>986</u>	<u>(36)</u>	<u>39,672</u>
<b>Total Liabilities and Equity</b>	<u>\$ 183,680</u>	<u>\$ 5,896</u>	<u>\$ 3,839</u>	<u>\$ 2,870</u>	<u>\$ 196,285</u>

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

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

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

	Edyficar	Anukul	SEED Finance	MOFAD	Total
<b>Program Income</b>					
Interest and other income	\$ 46,866	\$ 679	\$ 564	\$ 204	\$ 48,313
Interest expense	<u>9,408</u>	<u>-</u>	<u>284</u>	<u>-</u>	<u>9,692</u>
Net interest income	37,458	679	280	204	38,621
Less: Provision for loan losses	<u>697</u>	<u>62</u>	<u>25</u>	<u>32</u>	<u>816</u>
Net interest income after provision for loan losses	36,761	617	255	172	37,805
<b>Program Expense</b>					
General and administrative expenses	20,347	335	189	287	21,158
Other expenses	<u>5,309</u>	<u>-</u>	<u>32</u>	<u>-</u>	<u>5,341</u>
Total program expenses	<u>25,656</u>	<u>335</u>	<u>221</u>	<u>287</u>	<u>26,499</u>
<b>Net Income</b>	<u>\$ 11,105</u>	<u>\$ 282</u>	<u>\$ 34</u>	<u>\$ (115)</u>	<u>\$ 11,306</u>

**19. Commitments and Other Matters**

As of June 30, 2008, CARE USA is obligated under noncancelable operating lease agreements for warehousing, office space and staff housing at minimum rentals as follows (*in thousands*):

<b>Year ending June 30:</b>	
2009	\$ 6,773
2010	3,462
2011	1,721
2012	1,040
2013	747
2014 and thereafter	<u>3,545</u>
Total	<u>\$ 17,288</u>

Total rent expense was approximately \$14.1 million for the year ended June 30, 2008.

CARE USA has a \$562,500 revolving loan agreement with MicroVest Capital Management, LLC (MVCVM) through June 2010. MVCVM is a wholly-owned fund manager of MicroVest General Partners. No amount was outstanding at June 30, 2008.

CARE USA has a \$1.9 million line of credit used for funding microcredit loans in Honduras. At June 30, 2008, the outstanding balance owed is \$1.8 million and it is secured by \$3.4 million of microcredit loans receivable. The interest rate is 16%.

**19. Commitments and Other Matters (continued)**

CARE USA maintains a \$15 million line of credit for miscellaneous cash needs. No amount was outstanding at June 30, 2008.

In addition, CARE USA is the guarantor on \$5.1million 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 October 2011. These guarantees are released upon the final expenditure of funds on the associated projects in accordance with the terms and conditions of the contract. The CARE International member that obtained the donor funding is primarily liable for outstanding amounts, with the guarantees providing additional protection to the donors. The guarantees would only be exercised if the country offices failed to deliver project work and were unable to return the cash advances, and the CARE International member was also unable to repay the donor. CARE USA does not expect to expend any resources as a result of these guarantees as no expenditures have been required since this program has been in effect. 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, 2008.

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.

**20. Related Parties**

CARE USA loaned money to the CARE International Revolving Fund. This is used by CARE International to loan money to other members. The direct loan to the CARE International Revolving Fund has a balance of \$2.1 million at June 30, 2008. No interest is charged on these loans.

At times, CARE USA benefits from donations from board members which provide CARE with access to resources (e.g., software, services) at no cost or discounted rate.

**21. Subsequent Events**

CARE USA Board approved, on October 29, 2008, a commitment to invest \$5 million in MicroVest II LP (MVII) through fiscal year 2009. MVII will target market opportunities for profitable, commercial equity investing in large, mature, "top-tier" microfinance institutions in emerging economies.

On November 14, 2008, SEED Finance received its secondary license by the Republic of the Philippines, to operate fully as a financing company. In addition, MicroVest I LP has approved the conversion of a \$1,250,000 loan to equity in SEED Finance.

At the Edyficar's General Shareholders' Meeting on June 30, 2008, the decision was made to approve the increase in capital by capitalization of retained earnings up to \$4 million through issuance of bonds.

## **CARE USA**

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

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#### **22. Correction of Prior Period Errors**

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

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

CARE USA did not properly classify an endowment trust totaling \$2 million as permanently restricted at June 30, 2007. CARE also overstated temporarily restricted net assets and understated unrestricted net assets by \$0.9 million at June 30, 2007. The consolidated financial statements have been restated to properly reflect these amounts. The effect of the prior period error is an increase in permanently restricted net assets by \$2 million, a decrease in temporarily restricted net assets by \$2.9 million and an increase in unrestricted net assets by \$0.9 million at June 30, 2007.

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