



CONSOLIDATED FINANCIAL STATEMENTS

CARE USA and Subsidiaries
Years Ended June 30, 2012 and 2011
With Report of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

CARE USA and Subsidiaries
Consolidated Financial Statements
Years Ended June 30, 2012 and 2011

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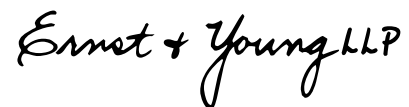
Report of Independent Auditors

To the Board of Directors
Cooperative for Assistance and Relief Everywhere USA

We have audited the accompanying consolidated balance sheets of Cooperative for Assistance and Relief Everywhere, Inc. (CARE USA) and subsidiaries as of June 30, 2012 and 2011, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of CARE USA's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Access Africa Fund LLC, a wholly owned subsidiary, which statements reflect total assets of 2% and 1% and total net assets of 3% and 1% of the consolidated totals for CARE USA as of and for the years ended June 30, 2012 and 2011, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Access Africa LLC, is solely based on the report of the other auditors.

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

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of CARE USA and subsidiaries as of June 30, 2012 and 2011, and the consolidated changes of their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.



January 31, 2013

CARE USA
Consolidated Balance Sheets

	June 30	
	2012	2011
	<i>(In Thousands)</i>	
Assets		
Cash and cash equivalents	\$ 49,185	\$ 71,995
Restricted cash	5,002	7,002
Investments, at fair value	175,689	199,036
Receivables, net	7,619	12,790
Loans receivable, net	15,680	14,942
Inventory	23,634	49,070
Deposits and other assets	33,064	46,330
Property and equipment, net	24,793	20,376
Trusts held by third parties	107,082	115,502
Total assets	\$ 441,748	\$ 537,043
Liabilities and net assets		
Liabilities		
Accounts payable and accrued expenses	\$ 16,630	\$ 29,772
Program advances	53,846	98,226
Liability for split interest agreements	18,499	19,352
Benefits accrued for employees	29,566	33,268
Subsidiary loans payable	21,102	14,462
Minority interest in subsidiary	1,009	870
Total liabilities	140,652	195,950
Commitments and contingencies		
Net assets		
Unrestricted	87,922	82,094
Temporarily restricted	88,112	125,517
Permanently restricted	125,062	133,482
Total net assets	301,096	341,093
Total liabilities and net assets	\$ 441,748	\$ 537,043

See accompanying notes.

CARE USA

Consolidated Statement of Activities

Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2012	Total 2011
<i>(In Thousands)</i>					
Support					
Private support					
Contributions	\$ 65,033	\$ 53,569	\$ -	\$ 118,602	\$ 120,741
In-kind contributions – PSA	1,829	-	-	1,829	10,704
CARE International	159,747	-	-	159,747	178,423
Total private support	226,609	53,569	-	280,178	309,868
Government and other support					
U.S. government	156,000	-	-	156,000	176,112
Host governments	16,462	-	-	16,462	23,396
Others	93,588	14	-	93,602	63,066
Total government and other support	266,050	14	-	266,064	262,574
Other revenue					
Interest and dividends	8,061	1,536	-	9,597	10,682
Rent and miscellaneous	5,152	404	-	5,556	6,541
Total other revenue	13,213	1,940	-	15,153	17,223
Net assets released from restrictions					
Satisfaction of program restrictions	74,339	(74,339)	-	-	-
Board appropriations	11,059	(11,059)	-	-	-
Adjustment of net assets	6,359	(6,359)	-	-	-
Total net assets released from restrictions	91,757	(91,757)	-	-	-
Total operating support and revenue	597,629	(36,234)	-	561,395	589,665
Expenses					
Program					
Emergency	103,825			103,825	124,652
Rehabilitation	21,575			21,575	16,873
Development	397,381			397,381	401,961
Public information	6,283			6,283	17,802
Supporting activities					
Fund raising	22,199			22,199	28,621
Management and general	34,296			34,296	35,898
Total operating expenses	585,559	-	-	585,559	625,807
Operating support and revenue over (under) expenses	12,070	(36,234)	-	(24,164)	(36,142)
Other nonoperating changes in net assets					
Minority interest in subsidiary income	(34)	-	-	(34)	(52)
Foreign exchange gain (loss)	(916)	(215)	-	(1,131)	2,714
Interest and dividends on gift annuity investments	730	-	-	730	772
Actuarial loss on annuity obligations	(1,173)	-	-	(1,173)	(1,147)
Actuarial gain on split interest agreements	17	69	-	86	235
Net realized and unrealized gain/(loss) on investments	(4,265)	(1,025)	-	(5,290)	25,419
Increase/(decrease) in value of trusts held by third parties	-	-	(8,420)	(8,420)	18,640
Total other nonoperating changes in net assets	(5,641)	(1,171)	(8,420)	(15,232)	46,581
Total changes in net assets before change in pension liability	6,429	(37,405)	(8,420)	(39,396)	10,439
Net change in pension liability	(601)	-	-	(601)	(231)
Changes in net assets	5,828	(37,405)	(8,420)	(39,997)	10,208
Net assets, beginning of year	82,094	125,517	133,482	341,093	330,885
Net assets, end of year	\$ 87,922	\$ 88,112	\$ 125,062	\$ 301,096	\$ 341,093

See accompanying notes.

CARE USA
Consolidated Statement of Activities

Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2011
<i>(In Thousands)</i>				
Support				
Private support				
Contributions	\$ 61,812	\$ 58,929	\$ –	\$ 120,741
In-kind contributions - PSA	10,704	–	–	10,704
CARE International	178,423	–	–	178,423
Total private support	250,939	58,929	–	309,868
Government and other support				
U.S. government	176,112	–	–	176,112
Host governments	23,396	–	–	23,396
Others	62,978	88	–	63,066
Total government and other support	262,486	88	–	262,574
Other revenue				
Interest and dividends	9,026	1,656	–	10,682
Rent and miscellaneous	6,234	307	–	6,541
Total other revenue	15,260	1,963	–	17,223
Net assets released from restrictions				
Satisfaction of program restrictions	73,364	(73,364)	–	–
Total operating support and revenue	602,049	(12,384)	–	589,665
Expenses				
Program				
Emergency	124,652			124,652
Rehabilitation	16,873			16,873
Development	401,961			401,961
Public information	17,802			17,802
Supporting Activities				
Fund raising	28,621			28,621
Management and general	35,898			35,898
Total operating expenses	625,807	–	–	625,807
Operating support and revenue under expenses	(23,758)	(12,384)	–	(36,142)
Other nonoperating changes in net assets				
Minority interest in subsidiary income	(52)	–	–	(52)
Foreign exchange gain	2,588	126	–	2,714
Interest and dividends on gift annuity investments	772	–	–	772
Actuarial loss on annuity obligations	(1,147)	–	–	(1,147)
Actuarial gain on split interest agreements	216	19	–	235
Net realized and unrealized gain on investments	15,656	9,763	–	25,419
Increase in value of trusts held by third parties	–	–	18,640	18,640
Total other nonoperating changes in net assets	18,033	9,908	18,640	46,581
Total changes in net assets before change in pension liability	(5,725)	(2,476)	18,640	10,439
Net change in pension liability	(231)	–	–	(231)
Changes in net assets	(5,956)	(2,476)	18,640	10,208
Net assets, beginning of year	88,050	127,993	114,842	330,885
Net assets, end of year	\$ 82,094	\$ 125,517	\$ 133,482	\$ 341,093

See accompanying notes.

CARE USA

Consolidated Statement of Functional Expenses

Year Ended June 30, 2012

	Program Activities				Supporting Activities				2012 Total	2011 Total
	Emergency	Rehabilitation	Development	Public Information	Program Total	Fund Raising	Management & General	Supporting Total		
Personnel costs	\$ 23,779	\$ 7,414	\$ 112,966	\$ 2,741	\$ 146,900	\$ 5,908	\$ 17,083	\$ 22,991	\$ 169,891	\$ 190,517
Professional services	1,972	334	17,940	927	21,173	2,781	8,799	11,580	32,753	31,377
Equipment	910	314	5,424	131	6,779	133	1,935	2,068	8,847	9,381
Materials and services	27,353	7,227	65,474	339	100,393	11,725	1,741	13,466	113,859	145,038
Travel and transportation	7,061	2,306	33,438	123	42,928	371	2,324	2,695	45,623	47,589
Occupancy	2,722	1,086	11,577	108	15,493	406	1,833	2,239	17,732	19,315
Financing/depn/misc.	398	319	10,066	65	10,848	690	576	1,266	12,114	12,847
Grants/subgrants	15,845	2,575	93,661	19	112,100	156	5	161	112,261	123,159
AgCommodities/CIKs	23,785	-	46,835	-	70,620	20	-	20	70,640	35,880
Contributed advertising-PSA	-	-	-	1,830	1,830	9	-	9	1,839	10,704
Total operating expenses	\$ 103,825	\$ 21,575	\$ 397,381	\$ 6,283	\$ 529,064	\$ 22,199	\$ 34,296	\$ 56,495	\$ 585,559	\$ 625,807

See accompanying notes.

CARE USA

Consolidated Statement of Functional Expenses

Year Ended June 30, 2011

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

See accompanying notes.

CARE USA

Consolidated Statements of Cash Flows

	Year Ended June 30	
	2012	2011
	<i>(In Thousands)</i>	
Operating activities		
Changes in net assets	\$ (39,997)	\$ 10,208
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	6,017	5,386
Provision for subsidiary microcredit loan losses	82	360
Net realized and unrealized (gain) loss on investments	5,290	(24,982)
Actuarial loss on annuity obligations	1,173	1,147
Actuarial gain on split interest agreements	(86)	(235)
Decrease (increase) in value of trusts held by third parties	8,420	(18,640)
Changes in assets and liabilities		
Decrease in receivables	5,171	14,388
(Increase) decrease in inventory	25,436	(39,069)
(Increase) decrease in deposits and other assets	13,266	(9,796)
Decrease in accounts payable and accrued expenses	(13,142)	(12,617)
Increase (decrease) in program advances	(44,380)	40,508
Increase (decrease) in benefits accrued for employees	(3,702)	2,330
Net cash used in operating activities	(36,452)	(31,012)
Investing activities		
Purchases of investments	(232,607)	(94,849)
Proceeds from sales of investments	250,664	114,412
Decrease in restricted cash	2,000	2,004
Purchases of property and equipment	(13,158)	(14,234)
Proceeds from sales of property and equipment	2,724	3,015
Net cash provided by investing activities	9,623	10,348
Financing activities		
Increase in loans receivable	(820)	(904)
Increase in subsidiary loans payable	6,640	4,911
Increase in minority interest in subsidiary	139	277
Payments to gift annuitants	(2,317)	(2,288)
Increase (decrease) in liability for split interest agreements	377	895
Net cash provided by in financing activities	4,019	2,891
Net change in cash and cash equivalents	(22,810)	(17,773)
Cash and cash equivalents, beginning of year	71,995	89,768
Cash and cash equivalents, end of year	\$ 49,185	\$ 71,995
Noncash contributions	\$ 50,442	\$ 23,136
Cash paid for interest	\$ 1,436	\$ 771

See accompanying notes.

CARE USA and Subsidiaries
Consolidated Financial Statements

Year Ended June 30, 2012

1. Organization

The Cooperative for Assistance and Relief Everywhere, Inc. (“CARE USA or the Organization”) is a not-for-profit organization formed in 1945 under the laws of the District of Columbia. Its headquarters are located in Atlanta, Georgia. CARE USA operates programs in nearly 60 countries throughout Africa, Asia, Europe and South America. CARE USA’s mission is to serve individuals and families in the poorest communities in the world. CARE USA promotes innovative solutions and is an advocate for global responsibility. CARE USA attempts to facilitate lasting change by:

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

CARE USA is a member of CARE International, an umbrella organization that coordinates the program activities of the CARE International member organizations. In the regular course of its operations, CARE USA makes certain grants to CARE International and its member organizations and receives certain funding from members of CARE International.

CARE USA operates a variety of projects including:

Agriculture and Natural Resources

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

Basic and Girls’ Education

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

CARE USA and Subsidiaries
Consolidated Financial Statements

1. Organization (continued)

Childrens' Health

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

Reproductive Health

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

HIV/AIDS

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

Water and Sanitation

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

Integrated and Other Health

Includes a combination of the above health sectors, with none predominant and/or other health interventions not covered above, such as prevention of chronic and infectious diseases (e.g. tuberculosis) or strengthening or reforming health systems.

Nutritional Support

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

Infrastructure

Includes roads, bridges, buildings, shelters and other construction or maintenance (commonly done through food-for-work or cash-for-work).

CARE USA and Subsidiaries

Consolidated Financial Statements

1. Organization (continued)

Small Economic Activity Development

Includes, but is not limited to: finance-related services such as loans to individuals, loans to solidarity or other community groups, savings programs, business development, business management training, technical training and marketing. Also induces market engagement work, with a particular focus on agriculture and livestock value chains.

Multi-Sector and Other

Multi-sector projects include activities related to three or more sectors, none of which is predominant. Other includes certain activities that cannot be classified in any of the sectors described above. Examples are logistical support not related to infrastructure or nutrition programs during emergencies, and land mine awareness and removal activities.

Certain information concerning CARE USA's affiliates and subsidiaries is as follows:

SEED Finance is a for-profit majority owned subsidiary located in the Philippines. It is primarily engaged in providing micro-credit loans to Filipino individuals and organizations.

MOFAD is non-profit affiliate in Afghanistan that is currently non-operational.

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

Access Africa Fund, LLC is a wholly owned subsidiary. The fund was formed with an investment objective to provide social impact and capital appreciation by making strategic equity investments in microfinance institutions located throughout sub-Saharan Africa to improve the lives of the entrepreneurial poor.

The Access Africa Fund LLC is considered an investment company and is therefore accounted for under Accounting Standards Codification (ASC) Topic 946, *Financial Services – Investments Companies*. The Organization has retained the specialized industry accounting principles of these investment products in its Consolidated Financial Statements. See Note 17 for additional details.

CARE Enterprises, LLC is a for-profit subsidiary with social enterprise subsidiaries operating globally and locally.

CARE USA and Subsidiaries

Consolidated Financial Statements

1. Organization (continued)

CARE Action Now is a non-profit affiliate operating exclusively for the purpose of educating the public, legislative, executive and judiciary policy-makers on the appropriate and sustainable provision of relief, rehabilitation and development to underprivileged people.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of CARE USA and its subsidiaries that are consolidated in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). All significant intercompany transactions have been eliminated. Consolidated subsidiaries include SEED Finance, MOFAD, CARE India Trust, Access Africa Fund, CARE Enterprises. Gains and losses from the translation of foreign currency are recorded in the consolidated statements of activities. CARE Action Now has no assets.

Reclassification

Certain prior year amounts have been reclassified to conform to current year financial statements presentation. These reclassifications had no impact on Total Net Assets.

Cash and Cash Equivalents

Cash and cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to cash on demand without penalty, and having maturities of three months or less, when purchased, with the exception of cash held for reinvestment which is included in investments.

Cash and cash equivalents held in the United States are insured according to FDIC regulations. The majority of cash and cash equivalents are held in accounts with balances exceeding the insured limit. Cash amounts maintained overseas are largely uninsured. Cash and cash equivalents held in the United States were approximately \$13.7 million and \$30.3 million, (including \$5 million and \$7 million of restricted cash held in escrow), respectively, for the years ended June 30, 2012 and 2011. Cash and cash equivalents held outside the United States were \$40.5 million and \$48.7 million, respectively, for the years ended June 30, 2012 and 2011.

In addition, certain donors require cash be held in separate accounts. Donor restricted cash accounts totaled \$9.7 million and \$21.1 million for the years ended June 30, 2012 and 2011, respectively.

CARE USA and Subsidiaries
Consolidated Financial Statements

2. Summary of Significant Accounting Policies (continued)

Investments

Investments are stated at fair value. Investment income and net appreciation (depreciation) on investments of donor restricted amounts are reported as follows:

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

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

CARE USA's investments are diversified across strategies, managers and geography. There are no significant concentrations of market risk in as much as the investment portfolio is diversified among issuers. Management fees and expenses of \$572,946 and \$511,186, respectively, for the years ending June 30, 2012 and 2011, are netted against investment income.

Receivables

Receivables represent grants and contracts receivables, ocean freight receivable from the United States Agency for International Development (USAID) and contributions receivable. Grants and contracts receivable are expected to be collected within one year and are recorded at net realizable value. Ocean freight receivables and a corresponding liability due to the freight line are recorded when agricultural commodities are shipped to their destination port. These amounts are due from the USAID. Contributions receivable that are expected to be collected within one year are recorded at net realizable value.

CARE USA and Subsidiaries
Consolidated Financial Statements

2. Summary of Significant Accounting Policies (continued)

Loans Receivable

Microcredit loans receivable are recorded in the consolidated balance sheets at their unpaid principal amounts adjusted for the net unamortized deferred loan origination costs and fees and allowance for possible losses. Interest income is accrued based on the outstanding principal amount and contractual terms of each individual loan. The accrual of interest is discontinued when, in management's judgment, it is determined that the collectability of interest or principal is doubtful.

Microcredit loans receivable represents credit services for rural and urban micro-enterprises. The allowance for loan losses is maintained at such level that in management's best judgment is sufficient to cover potential losses in the loan portfolio at the consolidated balance sheet dates. Management considers the loan loss factors as well as delinquencies over 60 days in determining the allowance. The allowance is based on assessments of certain factors, including historical loan loss experience of similar types of loans, CARE USA's loan loss experience, the amount of past due and nonperforming loans, specific known risks, and current and anticipated economic and interest rate conditions. Evaluation of these factors involves subjective estimates and judgments that may change. Additions to the allowance are provided through a reduction to net assets. Subsequent recoveries, if any, are credited to the allowance.

Inventory

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

CARE USA receives commodities from agencies of the U.S. government, the United Nations and others for the following: distribution via projects, monetization with the cash proceeds to be used in CARE USA projects, or monetization with the proceeds to be distributed to other nonprofit organizations. Inventory includes all commodities in which title has passed to CARE USA regardless of whether the commodities are in transit from the United States or held in storage in primary warehouses at the intended recipient country. For commodities to be distributed, revenue and expense are recognized when the commodities are distributed. For commodities to be monetized, revenue and expense are recognized when the proceeds are utilized for the related project activities or distributed to other nonprofit organizations.

CARE USA and Subsidiaries
Consolidated Financial Statements

2. Summary of Significant Accounting Policies (continued)

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

Deposits and Other Assets

Deposits and other assets include sub-grantee advances to partner organizations, project advances to project managers, receivables from CARE International members, equity investments, and other miscellaneous assets.

Sub-grantee advances are recorded when cash is forwarded to the partner organization. As the sub-grantee performs in accordance with the grant objectives and expense reports are submitted, the receivable is reduced and the related income and expense are recognized.

CARE USA owns a 45% non-controlling interest in MicroVest General Partner Holding Company. In addition, CARE USA has non-controlling interest in MicroVest I and II, Limited Partnerships of 24.36% and 23.32% respectively. The investments are accounted for using the equity method.

Property and Equipment

Property and equipment are recorded at cost if purchased. Contributions of long-lived assets are recorded at their estimated fair market value at the date of receipt and are recorded as unrestricted support unless the use of such contributed assets is restricted by a donor-imposed restriction. If donors contribute long-lived assets with stipulations as to how long the assets must be used or with any other restrictions, such contributions are recorded as temporarily restricted support.

CARE USA does not imply time restrictions on contributions of long-lived assets (or of other assets restricted to the purchase of long-lived assets) received without donor stipulations about how long the contributed assets must be used. As a result, contributions of cash and other assets restricted to the acquisition of long-lived assets are reported as temporarily restricted revenue that increases temporarily restricted net assets; those restrictions expire when the long-lived assets are placed in service.

CARE USA and Subsidiaries
Consolidated Financial Statements

2. Summary of Significant Accounting Policies (continued)

The costs of software licenses and associated consulting costs, installation costs and the payroll costs of employees directly associated with the project are capitalized. The costs of software maintenance, training and data conversion are expensed in the period incurred.

Depreciation is provided on the straight-line basis over the estimated useful lives of the assets. The estimated useful lives are twenty-five years for buildings, seven years for building improvements, three to five years for equipment, 10 years for an Enterprise Resource Planning software, and five years for leasehold improvements, or the life of the lease, if less than five years. Capitalized leases are amortized over the life of the lease or the estimated life of the asset, whichever is shorter.

Trusts Held by Third Parties

Trusts held by third parties include amounts related to both charitable remainder trusts and perpetual trusts. Accounting standards require that these instruments be recorded at their fair values.

Charitable Remainder Trusts

Donors have established and funded trusts with independent trustees under which specified distributions are to be made to a designated beneficiary or beneficiaries over the trust's term. Upon termination of the trust, CARE USA receives the assets remaining in the trust. Trusts are recorded at fair value. Revenue is determined based on contributions from split interest agreements at the fair value of the trust assets, less the present value of the estimated future payments to be made to other beneficiaries under the specific terms of the trust. The present value of the estimated future payments was discounted using an investment rate of return and a discount rate of 6.3% in 2012 and 2011.

Perpetual Trusts

CARE USA is the beneficiary of certain perpetual irrevocable trusts held and administered by independent trustees. Under the terms of the trusts, CARE USA has the irrevocable right to receive the income earned on the trust assets in perpetuity. The fair value is recognized as an asset and as a permanently restricted contribution at the date the trust is established. The estimate of fair value is based on fair value information received from the trustees. Gains and losses, which are not distributed by the trusts, are reflected as permanently restricted increase (decrease) in the value of trusts held by third parties in the consolidated statements of activities.

CARE USA and Subsidiaries
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2. Summary of Significant Accounting Policies (continued)

Charitable Gift Annuities

Donors have contributed assets to CARE USA in exchange for a promise by CARE USA to pay a fixed amount or percentage for a specified period of time to the donor or to individuals or organizations designated by the donor. Under the terms of such agreements, the assets received are recorded as assets and included in investments and the related annuity liability is an obligation of CARE USA. The liability is recorded at the present value of expected future payments based on Table 90 CM issued by the Internal Revenue Service. The obligations have been discounted at rates ranging from 0.41% to 11.30%.

Program Advances

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

Accounting for Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted for future periods or are restricted by the donor for specific purposes or in perpetuity are reported as temporarily restricted or permanently restricted support that increases those net asset classes. Gifts or contributions with restrictions that are met prior to fiscal year-end are classified as unrestricted net assets.

A donor restriction expires when a stipulated time restriction ends or when a purpose restriction is accomplished. Upon expiration, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the consolidated statements of activities as satisfaction of program restrictions.

Permanently restricted net assets reflect the principal amount of contributions accepted with the stipulation from the donor that the principal be maintained in perpetuity. The investment income may be expended for a purpose specified by the donor or other general purposes and is reflected as temporarily restricted revenue, unless the terms of the gift of relevant state law require that they be added back to the principal of the permanently restricted contribution.

CARE USA and Subsidiaries
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2. Summary of Significant Accounting Policies (continued)

Grant Revenue

Grant revenue on cost-reimbursement grants or contracts is recognized by CARE USA when the program expenditures have been incurred and is reflected as government and other support in the consolidated statements of activities. Certain direct support from government agencies is subject to independent audit under the Office of Management and Budget Circular A-133 and review by grantor agencies.

Management is aware of approximately \$9.7 million in uncleared questioned costs resulting from various audits out of which \$4.6 million is currently under appeal. USAID is reviewing supporting documentation submitted by management to clear these questioned costs. At June 30, 2012, CARE had accrued \$1.8 million as a liability for these questioned costs.

No estimate can be made of the possible range of loss, if any, related to these questioned costs. Based on prior experience, CARE USA believes that costs ultimately disallowed, if any, would not materially affect the consolidated financial position of CARE USA.

Nonfood Gifts-in-Kind

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

In countries where CARE USA operates, government and local communities supply labor to the programs in which they participate. The value of these gifts is generally not recorded in the consolidated financial statements as they do not meet the criteria for revenue recognition.

CARE USA uses a vendor to promote public service announcements (PSA) for public viewing. Free media outlets include television, radio, billboards and magazines. PSA are recorded at estimated fair value and \$1.8 million and \$10.7 million were recorded for the years ended June 30, 2012 and 2011, respectively.

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2. Summary of Significant Accounting Policies (continued)

Revolving Loan Fund

Revolving funds contributed by donors are expensed when initially loaned to project participants and revenue is recognized as these represent exchange transactions. A contract payable equivalent to the amount of the principal is set up to establish a revolving fund that will be made available for use in the project. This liability is converted to an unrestricted net asset if the donor releases all claims against the assets.

Foreign Currency Translation

The U.S. dollar (“dollars”) is the functional currency for CARE USA’s operations worldwide. Transactions in currencies other than dollars are translated into dollars at the rates of exchange in effect during the month of the transaction. Property and equipment purchased with non-U.S. currency are translated into US dollars at the exchange rate in effect at the time of purchase. Current assets and liabilities denominated in non-U.S. currency are translated into dollars at the exchange rate in effect at the date of the consolidated balance sheets. Net transaction and translation gains and losses are included in the accompanying consolidated statements of activities in the non-operating section as foreign exchange gains or losses.

Operating and Non-operating Results

Operating Support and Revenue and Operating Expenses reflect the normal income and expense from receiving and using resources for program activities and support functions.

Other Non-operating Changes in Net Assets reflect activities not central to the Organization’s mission including actuarial changes in value and realized and unrealized gains and losses on investments.

Fair Value of Financial Instruments

CARE USA financial instruments consist of cash and cash equivalents, restricted cash, investments, receivables, loans receivable, trusts held by third parties, accounts payable and accrued expenses, liability for split-interest agreements and subsidiary loans payable.

CARE USA and Subsidiaries

Consolidated Financial Statements

2. Summary of Significant Accounting Policies (continued)

Receivables are recorded at net realizable value which approximates fair value. Investments and trusts held by third parties are recorded at their fair values. Annuities and charitable remainder trusts are recorded at net present value which approximates fair value. All other financial instruments are stated at cost which approximates fair value.

Tax Status

CARE USA is a tax-exempt organization under Section 501(c) (3) of the U.S. Internal Revenue Code (“IRC”) and is therefore exempt from federal taxation under Section 501(a) of the IRC. In addition, under IRC Section 509(a) (1), CARE USA is a public charity and, thus, donations to CARE USA qualify for the maximum allowable charitable deduction. CARE USA’s subsidiaries MOFAD and CARE India Trust are tax-exempt in the countries they are incorporated. SEED Finance is taxable in the Philippines where it is incorporated. Access Africa Fund is taxable in the USA as a limited liability corporation, CARE Enterprises is taxable in the USA. CARE Action Now is tax exempt in the USA.

Use of Estimates

The preparation of consolidated 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 consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value Measurements

CARE reports in accordance with ASC Topic 820, *Fair Value Measurements and Disclosures*, which defines fair value, establishes a framework for measuring fair value under U.S. generally accepted accounting principles and expands disclosure about fair value measurements. In accordance with this accounting standard, fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. This standard establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

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2. Summary of Significant Accounting Policies (continued)

Level 1: Financial assets and liabilities whose values are based on quoted market prices for identical assets or liabilities to which an entity has access at measurement date.

Level 2: Financial assets and liabilities whose values are based on pricing inputs that are either directly observable or that can be delivered or supported from observable data at the measurement date. Level 2 inputs may include:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets in markets that are not active
- Observable inputs other than quoted prices for the asset or liability
- Inputs derived principally from, or corroborated by, observable market data by correlation or by other means.

Level 3: Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both significant to the fair value of the financial asset or liability and are generally less observable from objective sources. These inputs maybe used with internally developed methodologies that result in management’s best estimate of fair value.

Observable inputs reflect the assumptions market participants would use in pricing the asset or liability developed from sources independent of the reporting entity; and unobservable inputs reflect the reporting entity’s own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value.

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

United States government and government agency obligations and corporate bonds are valued on the basis of evaluated process provided by independent pricing services when such processes are believed to reflect the fair market value of such securities using the income approach.

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2. Summary of Significant Accounting Policies (continued)

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

Other equity securities are valued based on the market approach. Under the market approach, the subsidiary estimates the enterprise value of the portfolio companies in which it invests. There is not one methodology to estimate enterprise value. To estimate the enterprise value of a portfolio company, various factors are analyzed, including a portfolio company's historical financial results, anticipated future results, recent transactions, sovereign rating, and credit rating. Portfolio companies are required to provide annual audited and quarterly unaudited financial statements. Private companies are valued based on multiples of book value or revenues, taking into account factors indicating any perceived deterioration or improvement in financial position or operating results. Fair value of the equity investments is reviewed by the General Partner on at least an annual basis.

Other debt securities are valued based on the market approach. To estimate fair value, various factors are analyzed, including the portfolio company's historical financial results, payment history, debt exposure, sovereign rating, credit rating, remaining loan term, and loan position.

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3. Description of Net Asset Designations and Restriction

The donor-imposed restriction (listed under Temporarily Restricted and Permanently Restricted) of net assets as of June 30 are listed below (*in thousands*):

	Temporarily Restricted		Permanently Restricted	
	2012	2011	2012	2011
Africa	\$ 572	\$ 646	\$ 512	\$ 512
Agriculture and Natural Resources	6,394	3,421	—	—
Basic and Girls' Education	21,705	24,383	—	—
Emergency Response	12,356	18,556	1,006	1,006
Multi-Sector and Other	17,654	27,880	—	—
Reproductive Health	4,760	3,528	—	—
Rehabilitation	361	458	—	—
Signature Programs	15,796	14,578	—	—
Small Economic Activity Development	1,050	2,375	—	—
Water and Sanitation	7,345	6,730	—	—
Time Restricted	119	22,962	123,544	131,964
Total	\$ 88,112	\$ 125,517	\$ 125,062	\$ 133,482

CARE adjusted temporarily restricted net assets by \$6.3 million and increased unrestricted net assets in the June 30, 2012 consolidated statement of activities. This adjustment represents a prior year net assets classification error and is characterized as an adjustment of net assets on the June 30, 2012 consolidated statement of activities.

4. Endowment

CARE USA's endowment consists of approximately nine individual funds established for a variety of purposes. Its endowment only includes donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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4. Endowment (continued)

Interpretation of Relevant Law

CARE USA has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, CARE USA classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, CARE USA considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- Duration and preservation of the fund;
- Purposes of the organization and the donor-restricted endowment fund;
- General economic conditions;
- Possible effect of inflation and deflation;
- Expected total return from income and the appreciation and depreciation of investments;
- Other resources of CARE USA; and
- Investment policies of CARE USA.

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4. Endowment (continued)

The changes in endowment assets for the year ended June 30, 2012, are as follows (*in thousands*):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ —	\$ 14,302	\$ 18,305	\$ 32,607
Investment income	—	684	—	684
Net depreciation: (realized and unrealized)	—	(593)	—	(593)
Total investment return	—	91	—	91
Appropriation of endowment assets for expenditure	—	(1,167)	—	(1,167)
Board appropriation	—	(11,059)	—	(11,059)
Other changes:	—	(206)	—	(206)
Endowment net assets, end of year	<u>\$ —</u>	<u>\$ 1,961</u>	<u>\$ 18,305</u>	<u>\$ 20,266</u>

CARE USA's Board of Director's approved in October 2011 a one-time spending appropriation of \$1.5 million. This appropriation supports the utilization of surplus earnings from permanently restricted endowments. The Board of Directors also approved in October 2011 a one-time appropriation of \$9.6 million of temporarily restricted net assets reclassified to unrestricted net assets.

This exception to the allocation policy in FY12 was to adjust for market and economic condition. Over the life of the General Endowment, realized earnings have accumulated to nearly double the amount of the historic gifts. Based on the intent of the fund to sustain the historical value and provide unrestricted funding to CARE on annual basis, the fund has grown disproportionate to the intent having added more to the principle than originally planned.

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4. Endowment (continued)

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

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

Description of amount classified as permanently restricted net assets and temporarily restricted net assets (Endowment only) at June 30 (*in thousands*):

	2012	2011
Permanently Restricted Net Assets:		
The portion of perpetual endowment funds required to be retained permanently either by explicit donor stipulation or by UPMIFA	<u>\$ 18,305</u>	<u>\$ 18,305</u>
Temporarily Restricted Net Assets:		
Term endowment funds		
The portion of perpetual endowment funds subject to time restriction under UPMIFA		
Without purpose restrictions	\$ -	\$ 5,018
With purpose restrictions	<u>1,961</u>	<u>9,284</u>
Total Endowment funds classified as Temporarily Restricted Net Assets	<u>\$ 1,961</u>	<u>\$ 14,302</u>

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4. Endowment (continued)

Investment Policy

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

The investment policy describes the objective for the fund and sets ranges for asset allocation. Asset allocations are determined in accordance with the purpose and restrictions of each specific fund. The objective of the Endowment Fund is to earn the highest possible total return consistent with a level of risk suitable for these assets. At a minimum, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of these assets and provide necessary capital to fund the spending policy.

Actual returns in any given year may vary. In light of this requirement, the portfolio is constructed using a total return approach with a significant portion of the funds invested to seek growth of principal over time. The assets are invested for the long term, and a higher short-term volatility in these assets is to be expected and accepted.

The following is a summary of the asset allocation guidelines, with allowable ranges for each asset type in 2012 and 2011.

Asset Category	2012			2011		
	Minimum	Maximum	Target	Minimum	Maximum	Target
Cash	0%	10%	0%	0%	10%	0%
Fixed Income	35%	50%	40%	35%	50%	40%
Equity	60%	66%	60%	40%	65%	60%

CARE USA utilized the spending policy authorized by the Board of Directors for disbursement of approximately \$1.1 million and \$1.0 million for the years ended June 30, 2012 and 2011, respectively, for CARE USA operations.

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5. Investments

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

	2012		2011
	FairValue		FairValue
U.S. treasury & agency obligations	\$ 27,426	\$	26,602
Mutual funds	65,796		79,519
Marketable equity securities	44,626		56,880
Marketable debt securities	20,511		19,635
Money market funds	7,399		9,956
Other debt securities	6,310		2,527
Other equity securities	1,596		
Overseas time deposits	2,025		3,917
	<u>\$ 175,689</u>	\$	<u>199,036</u>

Total return on cash balances, investments and the trusts held by third parties was as follows for the year ended June 30, 2012 (*in thousands*):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends included in operating revenue	\$ 8,061	\$ 1,536	\$ –	\$ 9,597
Interest and dividends on gift annuity investments	730	–	–	730
Net realized gains/(losses)	(1,997)	3,224	–	1,227
Net unrealized gains/(losses)	(2,268)	(4,249)	–	(6,517)
Net change in value of trusts held by third parties	–	–	(8,420)	(8,420)
Total return on cash balances, investments & trusts held by third parties	<u>\$ 4,526</u>	<u>\$ 511</u>	<u>\$ (8,420)</u>	<u>\$ (3,383)</u>

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5. Investments (continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends included in operating revenue	\$ 9,026	\$ 1,656	\$ –	\$ 10,682
Interest and dividends on gift annuity investments	772	–	–	772
Net realized gains	958	1,028	–	1,986
Net unrealized gains	14,698	8,735	–	23,433
Net change in value of trusts held by third parties	–	–	18,641	18,641
Total return on cash balances, investments & trusts held by third parties	<u>\$ 25,454</u>	<u>\$ 11,419</u>	<u>\$ 18,641</u>	<u>\$ 55,514</u>

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6. Fair Value Measurements

The following table presents the assets and liabilities measured at fair value on a recurring basis as of June 30, 2012 (*in thousands*):

	Level 1	Level 2	Level 3	Total
<u>Assets</u>				
Cash and cash equivalents	\$ 49,185	\$ —	\$ —	\$ 49,185
Restricted cash	5,002	—	—	5,002
Investments:				
Money market funds	7,399	—	—	7,399
Fixed income securities:				
US treasury obligations	10,771	—	—	10,771
Agency obligations:				
Fannie Mae	—	9,646	—	9,646
Federal home loan bank	—	1,824	—	1,824
Freddie Mac	—	5,177	—	5,177
Others	—	8	—	8
Total agency obligations	—	16,655	—	16,655
Corporate bonds	—	18,997	—	18,997
Collateralized Mortgage Obligations (CMO's)	—	1,514	—	1,514
Others	—	—	6,310	6,310
Equity securities:				
Corporate stocks	35,926	—	—	35,926
Exchange-traded funds	8,700	—	—	8,700
Others	—	—	1,596	1,596
Mutual funds:				
Fixed income funds	35,904	—	—	35,904
Equity funds	29,892	—	—	29,892
Overseas time deposits	—	2,025	—	2,025
Total investments	128,592	39,191	7,906	175,689
Trust held by third parties	—	—	107,082	107,082
Total assets	<u>\$ 182,779</u>	<u>\$ 39,191</u>	<u>\$ 114,988</u>	<u>\$ 336,958</u>

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6. Fair Value Measurement (continued)

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

	Level 1	Level 2	Level 3	Total
<u>Assets</u>				
Cash and cash equivalents	\$ 71,995	\$ —	\$ —	\$ 71,995
Restricted Cash	7,002	—	—	7,002
Investments:				
Money market funds	9,956	—	—	9,956
Fixed Income Securities:				
US treasury obligations	10,274	—	—	10,274
Agency obligations:				
Fannie Mae	—	9,183	—	9,183
Freddie Mac	—	4,337	—	4,337
Federal Home Loans	—	2,064	—	2,064
Others	—	744	—	744
Total Agency obligations	—	16,328	—	16,328
Corporate bonds	—	19,635	—	19,635
Others	—	—	2,527	2,527
Equity securities:				
Corporate stocks	44,453	—	—	44,453
Exchange-traded funds	12,427	—	—	12,427
Mutual Funds:				
Fixed income funds	24,278	—	—	24,278
Equity funds	55,241	—	—	55,241
Overseas time deposits	—	3,917	—	3,917
Total Investments	156,629	39,880	2,527	199,036
Trust held by third parties	—	115,177	325	115,502
Total Assets	\$ 235,626	\$ 155,057	\$ 2,852	\$ 393,535

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6. Fair Value Measurement (continued)

The changes in investments classified as Level 3 are as follows at June 30 (*in thousands*):

	<u>2012</u>	<u>2011</u>
Fair value as of July 1	\$ 2,852	\$ 939
Transfer in to Level 3	115,177	–
Purchases	7,143	3,218
Maturities or redemptions	(1,911)	(254)
Decrease in value of trusts held by third parties	(8,420)	(614)
Net realized and unrealized gain on investments	147	(437)
Fair value as of June 30	<u>\$ 114,988</u>	<u>\$ 2,852</u>

The transfers into Level 3 during fiscal year 2012 resulted from a change in the composition of the underlying assets in the trust held by third parties.

7. Receivables, net

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

	<u>2012</u>	<u>2011</u>
Grants and contracts receivable	\$ 8,374	\$ 11,574
Contributions receivable	304	2,209
Allowance for uncollectible accounts	(1,059)	(993)
	<u>\$ 7,619</u>	<u>\$ 12,790</u>

All receivables are due in one year or less at June 30, 2012 and 2011.

Conditional Pledges

Pledges are recognized as revenue when the donor makes a promise to give unconditionally and collection is reasonably assured. CARE USA had \$46.8 million and \$43.2 million of conditional pledges at June 30, 2012 and 2011, respectively. The future payments are conditional on meeting the milestones established the pledge agreement. These pledges are utilized for maternal health, HIV, agriculture, water and sanitation, education and emergency relief and efforts.

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8. Loans Receivable, net

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

	2012	2011
Microcredit loans	\$ 16,569	\$ 13,844
Loans due from Microvest	–	1,957
	16,569	15,801
Less allowance for doubtful accounts	(889)	(859)
	\$ 15,680	\$ 14,942

Microcredit loans are comprised of variable and fixed rate loans with individuals and other microcredit lending institutions. The loans bear interest at rates generally ranging from 5% to 17% per annum with original maturities ranging up to 5 years. There is no collateral for these loans.

In the event that an individual is unable to repay its loan according under the original schedule, CARE USA pursues collection and workout plans including interest only payments, reduced payments, and moratorium on payment, depending on the individual's circumstances.

It is CARE USA's preference not to provide any concession which reduces the loan's yield; however, there are some situations that warrant discontinuing interest payments for a certain period of time. Generally, CARE USA discontinues interest accrual for all loans on which collection of interest is not reasonably expected. Interest income on nonaccrual loans is recognized on a cash basis. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Activity in the allowance for possible loan losses on microcredit loans is as follows for the year ended June 30 (*in thousands*):

	2012	2011
Allowance for doubtful accounts beginning of year	\$ (859)	\$ (1,401)
Additions	(30)	(772)
Write-offs	–	1,314
Allowance for doubtful accounts end of year	\$ (889)	\$ (859)

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8. Loans Receivable (continued)

Under ASC Topic 310, *Accounting by Creditors for Impairment of a Loan*, a loan is considered impaired when, based on current information, it is probable that CARE USA will not receive all amounts due in accordance with the contractual terms of the underlying loan agreement. The fair value of the loan is then compared with the recorded investment in the loan to determine whether or not a specific reserve is necessary. CARE USA's recorded investment in loans that are considered to be impaired and the related allowance for credit losses for all impaired loans was \$889,000 and \$859,000 as of June 30, 2012 and 2011, respectively. CARE USA's average recorded investment in impaired loans was approximately \$874,000 during the year ended June 30, 2012, and approximately \$1.1 million during the year ended June 30, 2011.

9. Deposits and Other Assets

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

	<u>2012</u>	<u>2011</u>
Deposits:		
Sub-grantee and project advances	\$ 11,655	\$ 19,705
Other Assets:		
Prepaid expenses	4,498	3,388
Travel advances	1,152	1,026
Advances	1,529	1,013
Investment in MicroVest	4,073	6,505
Accrued interest/dividends	227	301
Receivable from CARE International Members	2,451	6,795
Other receivables	7,479	7,597
	<u>\$ 33,064</u>	<u>\$ 46,330</u>

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10. Property and Equipment, net

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

	2012	2011
Land	\$ 3,191	\$ 3,235
Buildings and building improvements	11,726	11,357
Vehicles, equipment and software	33,318	29,966
Enterprise Resource Planning (ERP) Software	11,347	5,529
Leasehold improvements	1,197	1,141
Construction in progress	–	200
Accumulated depreciation/amortization	(35,986)	(31,052)
	\$ 24,793	\$ 20,376

Depreciation expense was \$6.0 million and \$5.4 million, respectively, for the years ended June 30, 2012 and 2011. Unamortized internal use software costs were \$12.0 million and \$6.2 million, respectively, for the years ended June 30, 2012 and 2011. Amortization will commence in fiscal year 2013.

11. Defined Contribution Plans

Effective January 1, 1992, CARE USA adopted a defined contribution plan for employees who meet certain eligibility conditions. Within the various countries in which CARE USA operates outside the United States, most employees are citizens of the host country. These employees are generally not eligible for the CARE USA defined contribution plan, but they are eligible for local government or CARE USA-sponsored plans appropriate for that country.

These plans generally require payment to the employee at time of employment termination. The payments are calculated based on the number of years employed. There are certain host country nationals who do not meet the eligibility conditions for the CARE USA defined contribution plan. These employees participate in the CARE USA Retirement Savings Plan for Nonresident Alien Employees. Until a policy change on January 1, 2012, CARE USA contributed to a participant's account an amount equal to 8 percent of the participant's gross salary and, if the participant qualified, a supplemental contribution was also made. Effective January 1, 2012, CARE USA contributes to a participant's account an amount equal to 4 percent of the participant's gross salary and matches up to 4% of a participants contribution. In addition, if the participant qualified, a supplemental contribution is also made. The plan allows employee after-tax contributions.

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11. Defined Contribution Plans (continued)

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 \$2.9 million and \$3.2 million, respectively, for the years ended June 30, 2012 and 2011, and employee contributions were \$2.4 million and \$2.5 million, respectively, for the years ended June 30, 2012 and 2011.

12. Post-retirement 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 post-retirement benefits, including medical and life insurance coverage, during the active service period of the employee.

CARE USA expects contributions to be equal to benefit payments for the year ending June 30, 2012.

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12. Postretirement Benefits (continued)

The following table sets forth the postretirement benefit obligation reconciled to the accrued postretirement benefit cost recognized in CARE USA's consolidated balance sheets as of June 30, 2012 (*in thousands*):

	<u>2012</u>	<u>2011</u>
Changes in benefit obligation:		
Benefit obligation at beginning of year	\$ 2,687	\$ 2,787
Service cost	100	101
Interest cost	126	127
Participant contributions	223	178
Benefits paid	(622)	(764)
Actuarial loss	651	258
Benefit obligation at end of year	<u>3,165</u>	<u>2,687</u>
Changes in plan assets:		
Fair value of plan assets at beginning of year	-	-
Employer contributions	399	586
Participant contributions	223	178
Benefits paid	(622)	(764)
Fair value of plan assets at end of year	<u>-</u>	<u>-</u>
Funded status:		
Funded status at the end of the year	<u>(3,165)</u>	<u>(2,687)</u>
Net amount recognized in the consolidated balance sheets	<u>\$ (3,165)</u>	<u>\$ (2,687)</u>
Amount not yet reflected in net periodic benefit cost and expected to be amortized in next year's net periodic benefit cost:		
Prior service cost	\$ (1)	\$ (1)
Accumulated loss	(93)	(50)
	<u>\$ (94)</u>	<u>\$ (51)</u>

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12. Postretirement Benefits (continued)

	2012	2011
Amounts not yet reflected in net periodic benefit cost and included in unrestricted net assets:		
Prior service cost	\$ (5)	\$ (6)
Accumulated loss	<u>(1,574)</u>	<u>(973)</u>
Change in unrestricted net assets	(1,579)	(979)
Cumulative employer contributions in excess of net periodic benefit cost	<u>(1,586)</u>	<u>(1,708)</u>
Net amount recognized in the consolidated balance sheets	<u>\$ (3,165)</u>	<u>\$ (2,687)</u>

	2012	2011
Components of net periodic benefit cost:		
Service cost	\$ 100	\$ 101
Interest cost	126	127
Amortization of prior service cost	1	1
Net periodic benefit cost	<u>\$ 227</u>	<u>\$ 229</u>

	2012	2011
Weighted-average assumptions as of June 30 used in determining obligations:		
Discount rate	<u>3.30%</u>	<u>4.90%</u>

	2012	2011
Weighted-average assumptions as of June 30 used in determining net periodic benefit cost		
Discount rate	<u>4.90%</u>	<u>4.95%</u>

The assumed projected health care cost trend rate is 7.4 % declining to 4.5% in 2028.

Future changes in actual compensation and retirement dates can materially affect both the amount of the benefits ultimately paid and the period over which the related expense is recognized.

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12. Postretirement Benefits (continued)

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage point change in assumed health care cost trend rates would have the following effects (*in thousands*):

	<u>2012</u>	<u>2011</u>
One-percentage point increase in trend impact:		
Effect on total of service and interest cost components	\$ 26	\$ 26
Effect on postretirement benefit obligation	\$ 248	\$ 235
One-percentage point decrease in trend impact:		
Effect on total of service and interest cost components	\$ (23)	\$ 22
Effect on postretirement benefit obligation	\$ (220)	\$ 209

Estimated future benefit payments after fiscal year-end:

2013	\$ 286
2014	267
2015	262
2016	250
2017	250
Thereafter	1,216
	<u>\$ 2,531</u>

13. Program Advances

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

	<u>2012</u>	<u>2011</u>
Commodity grants	\$ 26,308	\$ 52,049
Grants and contracts:		
U.S. government	—	9,464
CARE International	11,038	12,386
Revolving funds	580	3,375
Host governments	3,602	3,363
Others	12,318	17,589
	<u>\$ 53,846</u>	<u>\$ 98,226</u>

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Consolidated Financial Statements

14. Subsidiary Loans Payable

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

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

Bank	2012	2011	Term	Interest Rate
SEED Finance:				
Small Business Corporation	\$ 2,826	\$ 1,644	10/2010-05/2014	7%-9%
Bank of the Philippines	3,363	2,666	07/2011-03/2013	6%-7%
Producers Bank	214	70	05/2012-07/2012	6.25%
Symbiotics	2,010	1,982	03/2012-03/2013	7%
DWN	1,005	1,000	11/2012-11/2013	8%
Landbank	3,803	1,840	01/2012-04/2013	5%-6%
Bangko	1,901	1,840	09/2011-06/2013	7%
Incofin	1,005	-	03/2012-03/2014	8%
Oiko	1,316	966	04/2010-09/2013	10%
Planet Finance	-	500	NA	NA
Access Africa:				
OPIC	2,000	-	12/2011-02/2019	3%
MOFAD:				
MISFA	1,659	1,954	Payable on demand	5%
	<u>\$ 21,102</u>	<u>\$ 14,462</u>		

Debt maturities for the year ended June 30, 2012 are as follows (in thousands):

2013	\$ 12,728
2014	6,374
2015	-
2016	-
2017	-
2017 and thereafter	2,000
	<u>\$ 21,102</u>

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15. Sources of Support

CARE USA receives support for its programs from charitable contributions and grants and contracts from government and nongovernment entities. The following describes CARE USA's sources of support and revenue for the years ended June 30 (*in thousands*):

Donor	Cash	Agricultural Commodities	Nonfood In Kind	Total 2012	Total 2011
<u>Contributions</u>					
U.S. private support	\$ 118,288	\$ —	\$ 314	\$ 118,602	\$ 120,741
Public Information – PSA	—	—	1,829	1,829	10,704
Total Contributions	118,288	—	2,143	120,431	131,445
<u>CARE International</u>					
CARE Australia	9,882	—	—	9,882	6,863
CARE Canada	19,826	—	31	19,857	20,020
CARE Denmark	9,610	—	—	9,610	12,636
CARE Deutschland	12,751	—	—	12,751	15,828
CARE France	7,933	—	4	7,937	13,009
CARE Japan	1,063	—	—	1,063	712
CARE Nederland	19,920	—	—	19,920	18,442
CARE Norge	18,051	—	—	18,051	15,310
CARE Österreich	11,057	—	—	11,057	17,035
CARE United Kingdom	48,769	—	—	48,769	57,472
CI Secretariat	850	—	—	850	1,096
Total CARE International	159,712	—	35	159,747	178,423
<u>Government and other support</u>					
U.S. government	119,340	36,468	192	156,000	176,112
Host governments	16,411	—	51	16,462	23,396
UNHCR	3,186	—	—	3,186	1,119
UNICEF	918	—	29	947	3,978
WFP	2,908	—	625	3,533	3,518
Other U.N. agencies	7,059	—	232	7,291	5,785
Switzerland	11,213	—	—	11,213	2,854
World Bank	253	—	—	253	1,556
Global Fund	12,299	—	32,945	45,244	21,305
Grants, contracts from Others, and Subsidiary	21,895	—	40	21,935	22,951
Total Government & other support	195,482	36,468	34,114	266,064	262,574
<u>Other revenue</u>					
Interest, dividends, rents, and miscellaneous	15,153	—	—	15,153	17,223
Support and Revenue	\$ 488,635	\$ 36,468	\$ 36,292	\$ 561,395	\$ 589,665

CARE USA and Subsidiaries
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16. Agricultural Commodities

A summary of agricultural commodity activity by CARE USA is as follows for the years ended June 30 (*in thousands*):

	<u>2012</u>	<u>2011</u>
Commodities distributed via CARE USA programs		
U.S. government	\$ 36,468	\$ 27,186
Others	—	48
Total	<u>36,468</u>	<u>27,234</u>
Commodities received for monetization with proceeds used by CARE USA from the U.S. government	<u>11,914</u>	<u>17,069</u>
Total agricultural commodities support	<u>\$ 48,382</u>	<u>\$ 44,303</u>

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

The balance sheets for CARE USA's subsidiary and related entities before consolidation as of June 30, 2012, are as follows (*in thousands*):

	SEED Finance	MOFAD	CARE India Trust	Access Africa Fund	CARE Enterprises	Total
Assets						
Cash and cash equivalents	\$ 5,577	\$	\$ 27	\$ 1,094	\$ 730	\$ 7,428
Grants receivable		-	220	-	-	220
Microcredit loans receivable, net	13,210	-	-	-	-	13,210
Other assets	1,029	-	10	75	23	1,137
Property and equipment, net	101	-	14	-	5	120
Investments	-	-	-	7,906	-	7,906
Total Assets	\$ 19,917	\$ -	\$ 271	\$ 9,075	\$ 758	\$ 30,021
Liabilities						
Accounts payable and other liabilities	\$ 101	\$ -	\$ 18	\$ 118	\$ 774	\$ 1,011
Loans payable	17,443	1,659	-	2,000	-	21,102
Total Liabilities	17,544	1,659	18	2,118	774	22,113
Commitments and contingencies						
Retained Earnings and Stockholders Equity						
Retained earnings and stockholders equity	1,358	(1,659)	253	2,652	(10)	2,594
Capital contribution	-	-	-	4,305	-	4,305
Minority interest	1,015	-	-	-	(6)	1,009
Total Retained Earnings and Stockholders Equity	2,373	(1,659)	253	6,957	(16)	7,908
Total Liability and Equity	\$ 19,917	\$ -	\$ 271	\$ 9,075	\$ 758	\$ 30,021

CARE USA and Subsidiaries
Consolidated Financial Statements

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

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

	SEED Finance	MOFAD	CARE India Trust	Access Africa Fund	Total
Assets					
Cash and cash equivalents	\$ 4,552	\$ –	\$ 1	\$ 291	\$ 4,844
Grants receivable	139	–	104	–	243
Microcredit loans receivable, net	9,390	–	–	17	9,407
Other assets	515	–	–	–	515
Property and equipment, net	101	–	19	–	120
Investments	–	–	11	2,527	2,538
Total Assets	\$ 14,697	\$ –	\$ 135	\$ 2,835	\$ 17,667
Liabilities and Net Assets					
Liabilities					
Accounts payable and other liabilities	\$ 219	\$ –	\$ 35	\$ 60	\$ 314
Loans payable	12,508	1,954	–	–	14,462
Total Liabilities	12,727	1,954	35	60	14,776
Commitments and contingencies					
Retained Earnings and Stockholders Equity					
Retained earnings and stockholders equity	1,100	(1,954)	100	2,775	2,021
Minority interest	870	–	–	–	870
Total Retained Earnings and Stockholders Equity	1,970	(1,954)	100	2,775	2,891
Total Liabilities and Equity	\$ 14,697	\$ –	\$ 135	\$ 2,835	\$ 17,667

CARE USA and Subsidiaries
Consolidated Financial Statements

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

The statements of activities for CARE USA's subsidiary and related entities before consolidation for the year ended June 30, 2012, are as follows (*in thousands*):

	SEED Finance	MOFAD	CARE India Trust	Access Africa Fund	CARE Enterprise	Total
Program Income						
Interest and other income	\$ 2,112	\$ –	\$ 605	\$ 621	\$ 65	\$ 3,403
Interest expense	(1,226)	–	–	(48)	–	(1,274)
Net interest income	886	–	605	573	65	2,129
Less: Provision for loan losses	82	–	–	–	–	82
Net interest income after provision for loan losses	804	–	605	573	65	2,047
Program Expense						
General and administrative expenses	428	–	443	671	74	1,616
Other expenses	67	–	7	–	8	82
Realized/unrealized loss (gain)	51	(295)	2	25	–	(217)
Total program expenses	546	(295)	452	696	82	1,481
Net Income (Loss)	\$ 258	\$ 295	\$ 153	\$ (123)	\$ (17)	\$ 566

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

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

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

Interest and other income are included in government and other support in the accompanying consolidated statements of activities. Interest expense is included in financing, depreciation and miscellaneous expenses in the accompanying consolidated statements of functional expenses. Program expenses are included in the appropriate natural classification in the accompanying consolidated statements of functional expenses.

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18. Commitments and Other Matters

As of June 30, 2012, CARE USA is obligated under noncancelable operating lease agreements for warehousing, office space and staff housing at minimum rentals as follows (*in thousands*):

	Amount
2013	\$ 5,405
2014	3,027
2015	2,050
2016	931
2017	702
2018-2023	2,113
	<u>\$ 14,228</u>

Total rent expense was approximately \$14.3 million and \$15.8 million, respectively, for the years ended June 30, 2012 and 2011.

Access Africa Fund, LLC (“the Fund”) entered into a seven-year, \$20,000,000 loan agreement with the Overseas Private Investment Corporation (“OPIC”), a division of the U.S. government, to fund new portfolio investments. The Fund may draw down on the credit facility quarterly over three years. Each draw is evidenced by a promissory note. Each note is a bullet (represents a significant payment or balloon note) loan and matures no later than five years after the draw; however, all notes must mature no later than seven years from the initial draw, or February 29, 2019 whichever comes first. As of June 30, 2012, the Fund had drawn \$2,000,000 under the credit facility in one draw on February 29, 2012. The promissory note matures on December 15, 2016 with a bullet principal payment, and bears current interest of 2.84% per annum payable quarterly and deferred interest of 0.25% per annum payable on maturity of the note.

CARE USA has committed to invest \$5 million in MicroVest II, LP, a wholly owned limited partner of MicroVest General Partners. Cumulative contributions were \$2,850,000 as of June 30, 2012, and \$1.4 million as of June 30, 2011.

CARE USA maintains a letter of credit totaling \$ 2.0 million that is only used to secure local guarantees as required by donors. At June 30, 2012, CARE had \$687,000 issued against the letter of credit.

CARE USA has committed to invest \$8 million to fund Access Africa Fund, LLC. As of June 30, 2012, \$8.0 million has been contributed. CARE USA owns 100% of the class A capital stock of Access Africa LLC.

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18. Commitments and Other Matters (continued)

Access Africa Fund, LLC has outstanding future commitments under foreign currency exchange contracts of \$2,943,000 at June 30, 2012.

CARE USA's portion of unfunded commitments for an alternative investment held in the third party trust that CARE is a beneficiary was \$1.9 million at June 30, 2012.

CARE USA has committed to provide funding to CARE Peru in the aggregate amount of \$24 million. This commitment is to be paid from fiscal years 2012 through 2034 in accordance with CARE USA and CARE Peru Frame work agreement payment terms. The commitment is conditional upon CARE Peru maintaining agreed-upon program expenditures.

In the normal course of business, CARE USA is party to various claims and assessments. In the opinion of management, these matters will not have a material effect on the consolidated financial position, consolidated changes in net assets or consolidated cash flows.

19. Related Parties

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

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

Each Board member is required to certify compliance with the conflict of interest policy on an annual basis and indicate whether the Organization does business with an entity in which a trustee has a material financial interest. When such relationships exist, measures are taken to mitigate any actual or perceived conflict, including requiring that such transactions be conducted at arm's length, for good and sufficient consideration, based on terms that are fair and reasonable to and for the benefit of the Organization, and in accordance with conflict of interest laws. No such associations are considered to be significant.

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19. Related Parties (continued)

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 had a balance of \$1.7 million at June 30, 2012, and \$2.0 million at June 30, 2011. CARE USA also loaned money to CARE International for use in humanitarian emergencies. The direct loan has a balance of \$1.6 million at June 30, 2012 and 2011.

20. Subsequent Events

Subsequent to year end, Access Africa Fund drew \$5,000,000 on September 7, 2012 and \$4,000,000 in December 2012 on the credit facility of \$20,000,000. The promissory note matures on June 15, 2017 with a bullet principal payment, and bears current interest of 2.71% per annum payable quarterly and deferred interest of 0.25% per annum payable on maturity of the note.

Subsequent to year end, CARE entered into a performance guarantee for \$2,374,124 on December 7, 2012 on behalf of CARE Netherlands to the European Commission Development and Cooperation Europe Aid. Expiration of the guarantee is contingent upon completion of the related grant.

CARE USA's \$25 million line of credit agreement expired on August 13, 2012. It was collateralized with a portion of CARE's unrestricted investment portfolio. There was a commitment fee of 20 basis points per year on the unused portion of the facility.

As of December 12, 2012, CARE liquidated \$26 million of unrestricted investments to support operational and programmatic needs.

On October 22, 2012, the investors in MicroVest II, LP agreed to extend the investment period by twelve months to December 31, 2013.

Management has disclosed all subsequent events through January 31, 2013, the date the financial statements were available to be issued.

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21. Contingencies

The Government of Bolivia has served CARE USA with tax claims of approximately \$21.8 million for the commercial sale and distribution of commodities during the calendar years 2002 – 2007. CARE USA has filed lawsuits in Bolivia contesting the validity of these claims. A lower court recently ruled in our favor on two lawsuits, which the Government of Bolivia has appealed; the majority of the lawsuits are still pending. Although the outcome of this matter is currently not determinable, management is monitoring the situation closely; should there be any knowledge of the probable effect on CARE USA's consolidated financial position, the contingent liability will be adequately accrued.

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