

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

USA CARES, INC.

JUNE 30, 2011 AND 2010

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
USA Cares, Inc.

We have audited the accompanying statements of financial position of USA Cares, Inc. (a not-for-profit organization) as of June 30, 2011 and 2010 and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of USA Cares, Inc. as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Anderson, Bryant, Lasky + Winslow, P.S.C.

Louisville, Kentucky
October 11, 2011

STATEMENTS OF FINANCIAL POSITION
USA CARES, INC.
JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash	\$ 168,743	\$ 847,891
Certificates of deposit	149,817	251,852
Miscellaneous receivables	-	15,009
Prepaid expenses	73,073	3,610
Inventory	2,500	5,722
Promises to give	-	82,200
Security deposits	13,100	13,084
Investments	92,535	76,945
Property and equipment, net	<u>35,231</u>	<u>60,465</u>
Total assets	<u>\$ 534,999</u>	<u>\$ 1,356,778</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 77,931	\$ 149,806
Capital lease	<u>2,039</u>	<u>6,959</u>
Total liabilities	<u>79,970</u>	<u>156,765</u>
 NET ASSETS		
Unrestricted	362,494	773,670
Temporarily restricted	11,507	345,315
Permanently restricted	<u>81,028</u>	<u>81,028</u>
Total net assets	<u>455,029</u>	<u>1,200,013</u>
Total liabilities and net assets	<u>\$ 534,999</u>	<u>\$ 1,356,778</u>

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

STATEMENTS OF ACTIVITIES
USA CARES, INC.
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011			2010				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support:								
Contributions	\$ 1,550,739	\$ -	\$ -	\$ 1,550,739	\$ 1,405,906	\$ 183,659	\$ 81,028	\$ 1,670,593
In-kind donations	20,971	-	-	20,971	111,968	-	-	111,968
Special event revenue	98,129	-	-	98,129	-	-	-	-
Special event direct costs	(51,241)	-	-	(51,241)	-	-	-	-
Sale of merchandise	1,423	-	-	1,423	15,863	-	-	15,863
Investment income	2,628	1,946	-	4,574	10,273	-	-	10,273
Unrealized gain (loss)	4,083	9,561	-	13,644	(5,403)	-	-	(5,403)
Total revenue and support	1,626,732	11,507	-	1,638,239	1,538,607	183,659	81,028	1,803,294
Net assets released from restrictions								
Satisfaction of restrictions	345,315	(345,315)	-	-	452,219	(452,219)	-	-
Total revenue, support and reclassifications	1,972,047	(333,808)	-	1,638,239	1,990,826	(268,560)	81,028	1,803,294
Expenses:								
Program services	1,928,765	-	-	1,928,765	2,333,753	-	-	2,333,753
Administrative and general	219,479	-	-	219,479	227,691	-	-	227,691
Fund raising	234,979	-	-	234,979	210,541	-	-	210,541
Total expenses	2,383,223	-	-	2,383,223	2,771,985	-	-	2,771,985
Increase (decrease) in net assets	(411,176)	(333,808)	-	(744,984)	(781,159)	(268,560)	81,028	(968,691)
Net assets at beginning of year	773,670	345,315	81,028	1,200,013	1,554,829	613,875	-	2,168,704
Net assets at end of year	\$ 362,494	\$ 11,507	\$ 81,028	\$ 455,029	\$ 773,670	\$ 345,315	\$ 81,028	\$ 1,200,013

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

STATEMENTS OF FUNCTIONAL EXPENSES
USA CARES, INC.
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011			2010				
	Total	Program Services	Management and General	Fund Raising	Total	Program Services	Management and General	Fund Raising
Cost of goods sold	\$ -	\$ -	\$ -	\$ -	\$ 65,537	\$ 65,537	\$ -	\$ -
Assistance	878,192	878,192	-	-	1,085,788	1,085,788	-	-
Business development	143,234	51,985	1,735	89,514	27,075	4,940	1,182	20,953
Wages and benefits	966,258	742,086	150,736	73,436	1,067,776	852,299	129,425	86,052
Occupancy	61,166	46,975	9,542	4,649	58,770	46,910	7,124	4,736
Other expenses	17,054	1,781	7,675	7,598	27,737	4,341	12,034	11,362
Depreciation	27,634	21,223	4,311	2,100	39,785	31,757	4,822	3,206
Office supplies	9,289	7,458	952	879	11,055	9,202	712	1,141
Postage and shipping	16,927	10,648	1,793	4,486	11,554	6,995	1,716	2,843
Printing, media and publicity	33,895	28,954	1,545	3,396	43,568	29,706	5,251	8,611
Professional costs	98,552	48,300	21,200	29,052	104,892	31,313	32,194	41,385
Technology	40,623	31,199	6,337	3,087	115,003	91,795	13,940	9,268
Telecommunications	28,737	22,070	4,483	2,184	31,961	25,511	3,874	2,576
Training	3,379	89	761	2,529	2,420	197	2,022	201
Travel	55,649	36,885	6,695	12,069	62,897	38,997	9,917	13,983
Volunteer and board	2,634	920	1,714	-	16,167	8,465	3,478	4,224
Total expenses	\$ 2,383,223	\$ 1,928,765	\$ 219,479	\$ 234,979	\$ 2,771,985	\$ 2,333,753	\$ 227,691	\$ 210,541
Percent of total	100.00%	80.93%	9.21%	9.86%	100.00%	84.19%	8.21%	7.60%

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

STATEMENTS OF CASH FLOWS
USA CARES, INC.
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (744,984)	\$ (968,691)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	27,633	39,785
Unrealized (gain) loss	(13,644)	5,403
(Increase) decrease in operating assets:		
Receivables and prepaid expenses	(54,454)	244,333
Promises to give	82,200	917,800
Inventory	3,222	26,767
Security deposits	(16)	(2,970)
Increase (decrease) in operating liabilities:		
Permanently restricted contribution	-	(81,028)
Accounts payable and accrued liabilities	<u>(71,875)</u>	<u>60,311</u>
Net cash provided (used) by operating activities	<u>(771,918)</u>	<u>241,710</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(2,400)	(21,754)
Redemption (purchase) of certificates of deposit	100,090	(251,853)
Purchase of investments	<u>-</u>	<u>(82,348)</u>
Net cash provided (used) by investing activities	<u>97,690</u>	<u>(355,955)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on capital lease obligation	(4,920)	(4,690)
Permenently restricted contribution	<u>-</u>	<u>81,028</u>
Net cash provided (used) by financing activities	<u>(4,920)</u>	<u>76,338</u>
Net increase (decrease) in cash	(679,148)	(37,907)
Cash at beginning of year	<u>847,891</u>	<u>885,798</u>
Cash at end of year	<u>\$ 168,743</u>	<u>\$ 847,891</u>

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

NOTES TO FINANCIAL STATEMENTS
USA CARES, INC.
JUNE 30, 2011 AND 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

USA Cares, Inc. is a not-for-profit, tax-exempt organization formed to provide financial support to American military service members (both active service members and veterans that have been honorably discharged after September 11, 2001) and their families. These services are funded primarily by contributions. The Organization also locates additional resources for American military service members and their families. Management believes they located \$75,954 (unaudited) and \$55,652 (unaudited) of additional resources for the years ended June 30, 2011 and 2010, respectively.

Basis of Accounting

The financial statements of USA Cares, Inc. have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) with regards to financial statements of Not-for-Profit Organizations. Under this guidance, USA Cares, Inc. is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. A description of the three net assets categories follows:

Unrestricted Net Assets: include the portion of expendable funds that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets: include gifts for which donor-imposed restrictions have not been met.

Permanently Restricted Net Assets: include amounts which the donor has stipulated that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Cash

USA Cares, Inc. considers all cash in deposit accounts as cash for financial statement purposes.

Certificates of Deposit

Certificates of deposit are stated at cost because that approximates market value.

Miscellaneous Receivables

Miscellaneous receivables consist of donations made at the end of the fiscal year but not deposited, special event and auction revenues. There is no allowance for uncollectibles due to the Organization's position that all receivables will be collected. The Organization writes off uncollectible receivables after the exhaustion of all collection efforts.

Investments

The ASC establishes a framework for measuring fair value and expands disclosures required for fair value measurements. It also establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three levels. These levels, in order of lowest to highest priority are described as follows:

Level 1 – Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 – Observable inputs other than level 1 prices such as quoted prices for similar assets or liabilities; quoted prices for identical or similar assets or liabilities in inactive markets; or other inputs that are observable or can be corroborated by observable market data.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Level 3 – Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Level 3 includes values determined using pricing models, discounted cash flow methodologies, or similar techniques reflecting the organization’s own assumptions.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Inventory

Inventory consists of gift cards which are stated at the lower of cost or market. Costs are determined using the average cost method.

Promises To Give

Contributions are recognized when the donor makes a promise to give to USA Cares, Inc. that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Property and Equipment

Property and equipment are recorded at cost if purchased and fair market value if donated and are depreciated based on the straight-line method over the estimated useful life of the respective assets (5-40 years). The cost of property and equipment purchased in excess of \$5,000 is capitalized.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions.

In-kind Materials, Equipment, and Services

In-kind materials, equipment, and certain services are reflected as contributions and assets or expense in the accompanying statements at their estimated fair values on the date of contribution.

Advertising

USA Cares, Inc. uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed as incurred. Advertising costs were \$14,494 and \$17,161 for the years ended June 30, 2011 and 2010, respectively.

Expense Allocation

Expenses are allocated based on estimated time allocation to programs and supporting services.

Income Tax Status

USA Cares, Inc. is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. USA Cares, Inc. qualified for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Management has concluded that any tax positions that would not meet the more-likely-than-not criterion of FASB ASC 740-10 would be immaterial to the financial statements taken as a whole. Accordingly, the accompanying financial statements do not include any provision for uncertain tax positions, and no related interest or penalties have been recorded in the operating statement or accrued in the balance sheet. Federal and state tax returns of the entity are generally open to examination by the relevant taxing authorities for a period of three years from the date the returns are filed.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

Subsequent Events

Management has evaluated subsequent events for recognition or disclosure in the financial statements through October 11, 2011, which was the date at which the financial statements were available to be issued.

NOTE 2. CONCENTRATIONS OF CREDIT RISK

USA Cares, Inc. often has cash balances in financial institutions in excess of amounts federally insured. The risk is managed by maintaining all deposits in high quality financial institutions.

USA Cares, Inc. invests in common stocks and mutual funds. These investments are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with these investments, it is at least reasonably possible that changes in the values of investment securities will occur in the near term.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 3. PROMISES TO GIVE

Promises to give are pledged for future program use. The promises are unconditional and due the following year. Unconditional promises to give are as follows:

	<u>2011</u>	<u>2010</u>
Program expense	<u>\$ -</u>	<u>\$ 82,200</u>

NOTE 4. INVESTMENTS

Investments consist of mutual funds and are presented in the financial statements at fair value based on quoted market prices in active markets (all Level 1 measurements). Market risk could occur and is dependent on the future changes in market prices of the various investments held. Fair values and unrealized gain (loss) at June 30, 2011 and 2010 are as follows:

	<u>Cost Basis</u>	<u>Fair Value</u>	<u>Unrealized Gain (loss)</u>
<u>June 30, 2011</u>			
Cash and cash equivalents	\$ 1,440	\$ 1,440	\$ -
Mutual funds	<u>82,753</u>	<u>91,095</u>	<u>8,342</u>
	<u>\$ 84,193</u>	<u>\$ 92,535</u>	<u>\$ 8,342</u>
 <u>June 30, 2010</u>			
Cash and cash equivalents	\$ 1,607	\$ 1,607	\$ -
Mutual funds	<u>80,741</u>	<u>75,338</u>	<u>(5,403)</u>
	<u>\$ 82,348</u>	<u>\$ 76,945</u>	<u>\$ (5,403)</u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 5. PROPERTY AND EQUIPMENT

Depreciation is provided in amounts sufficient to relate the cost of depreciable assets to operations over the estimated useful lives on a straight-line basis. The cost and accumulated depreciation of such assets were as follows:

	<u>2011</u>	<u>2010</u>
Website	\$ 63,372	\$ 60,972
Equipment	115,707	115,707
Furniture and fixtures	<u>69,078</u>	<u>69,078</u>
	248,157	245,757
Less accumulated depreciation	<u>(212,926)</u>	<u>(185,292)</u>
Property and equipment, net	<u>\$ 35,231</u>	<u>\$ 60,465</u>
Depreciation expense	<u>\$ 27,633</u>	<u>\$ 39,785</u>

NOTE 6. LEASES

Operating - USA Cares, Inc. leases office space under a month to month operating lease agreement. Generally, USA Cares, Inc. is required to pay maintenance expenses and insurance. The lease amount is \$2,666.67 per month for a total of \$32,000 per year. USA Cares, Inc. has leased additional office space at the same location, from the same landlord. See note 9.

Capital - USA Cares, Inc. leases a copier under a capital lease agreement expiring March 2012. Future minimum lease payments under the non-cancelable capital lease are as follows:

June 30, 2012	<u>\$ 2,039</u>
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NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2011</u>	<u>2010</u>
Assistance to Military	\$ -	\$ 257,610
Endowment income	11,507	-
Salary for Outreach Programs	-	5,505
	<u>-</u>	<u>82,200</u>
	<u>\$ 11,507</u>	<u>\$ 345,315</u>

NOTE 8. PERMANENTLY RESTRICTED NET ASSETS

During the year ended June 30, 2010, the Organization followed the Kentucky Uniform Management of Institutional Funds Act (UMIFA), as contained within KRS 273.510 through 273.590. UMIFA required the historical dollar amount of a donor-restricted endowment fund to be preserved and earnings (including appreciation and income) on such funds were reflected as unrestricted, unless otherwise donor restricted. Effective July 1, 2010, Kentucky passed the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA eliminates the requirement to maintain the historic dollar value of donor restricted endowments and instead focuses on donor intent and spending practices that are prudent for the uses, benefits, purposes and duration for which the endowment fund is established. UPMIFA also places a time restriction on the earnings retained in the endowment fund. The Organization has adopted FASB ASC 958-205 for the year ending June 30, 2011, which provides guidance and additional disclosures on the net asset classification of endowment funds.

USA Cares, Inc.'s endowment fund consists of donor restricted endowment funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors for USA Cares, Inc. has interpreted the UPMIFA 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, USA Cares, Inc. classifies as permanently restricted net assets (a) the original value of gifts to the permanent endowment, (b) the original value of subsequent gifts to the permanent

NOTES TO FINANCIAL STATEMENTS – CONTINUED

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. In accordance with UPMIFA, USA Cares, Inc. considered the following factors: (1) the duration and preservation of the fund, (2) the purposes of the organization and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the organization, and (7) the investment policies of the organization.

Endowment net asset composition by type at June 30, 2011 and 2010 are as follows:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment funds	\$ -	\$ -	\$ 81,028	\$ 81,028
Balance, June 30, 2010	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 81,028</u>	<u>\$ 81,028</u>
Endowment funds	\$ -	\$ 11,507	\$ 81,028	\$ 92,535
Balance, June 30, 2011	<u>\$ -</u>	<u>\$ 11,507</u>	<u>\$ 81,028</u>	<u>\$ 92,535</u>

Changes in endowment net assets for the years ended June 30, 2011 and 2010 are as follows:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Balance, June 30, 2009	\$ -	\$ -	\$ -	\$ -
Contributions	-	-	81,028	81,028
Balance, June 30, 2010	-	-	81,028	81,028
Endowment income	-	11,507	-	11,507
Balance, June 30, 2011	<u>\$ -</u>	<u>\$ 11,507</u>	<u>\$ 81,028</u>	<u>\$ 92,535</u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 9. RELATED PARTY TRANSACTIONS

USA Cares, Inc. leases office space from a board member on a month to month lease agreement. USA Cares, Inc. pays \$32,000 a year under this agreement. USA Cares, Inc. also paid \$13,905 and \$11,058 to this related party for additional office space for years ending June 30, 2011 and 2010, respectively.

NOTE 10. IN-KIND DONATIONS

During the years ending June 30, 2011 and 2010, the organization recognized \$28,378 and \$0, respectively, in contributed services from outside individuals and businesses for advertising services. The organization also recognized \$6,000 and \$111,968, respectively, for years ending June 30, 2011 and 2010, for contributions of tangible assets.