

CARE USA and Subsidiaries

Consolidated Financial Statements  
Years Ended June 30, 2016 and 2015  
With Report of Independent Auditors

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## Report of Independent Auditors

Management and the Board of Directors  
Cooperative for Assistance and Relief Everywhere, Inc.

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Cooperative for Assistance and Relief Everywhere, Inc. and subsidiaries (CARE USA) which comprise the consolidated balance sheets as of June 30, 2016 and 2015, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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 majority owned subsidiary which statements reflect total assets constituting 4% in 2016 and 2015, total liabilities constituting 8% in 2016 and 2015, net assets constituting 1% in 2016 and 2015 and total revenues constituting 1% in 2016 and 2015 of the related consolidated totals. 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 Fund LLC, is based solely 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of CARE USA and subsidiaries as of June 30, 2016 and 2015 and the consolidated changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

*Ernst & Young LLP*

December 16, 2016

CARE USA and Subsidiaries

Consolidated Balance Sheets  
(in thousands)

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 74,445	\$ 71,764
Restricted cash	576	196
Investments, at fair value	152,583	164,840
Receivables, net	69,775	81,271
Inventory	1,691	1,454
Deposits and other assets	38,956	43,761
Property and equipment, net	17,357	19,707
Trusts held by third parties	115,206	124,474
<b>Total assets</b>	<b><u>\$ 470,589</u></b>	<b><u>\$ 507,467</u></b>
<b>Liabilities and net assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 44,802	\$ 49,379
Program advances	67,775	77,777
Liability for split interest agreements	14,111	14,751
Accrued salaries and benefits	23,925	23,112
Subsidiary loans payable	18,051	18,900
Minority interest in subsidiary	442	516
<b>Total liabilities</b>	<b><u>169,106</u></b>	<b><u>184,435</u></b>
<b>Net assets</b>		
Unrestricted	69,507	77,908
Temporarily restricted	99,685	104,315
Permanently restricted	132,291	140,809
<b>Total net assets</b>	<b><u>301,483</u></b>	<b><u>323,032</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 470,589</u></b>	<b><u>\$ 507,467</u></b>

See accompanying notes.

CARE USA and Subsidiaries

Consolidated Statements of Activities  
For the Year Ended June 30, 2016  
(in thousands)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2016</u>
<b>Support</b>				
Private support				
Contributions	\$ 58,006	\$ 83,078	\$ 1,225	\$142,309
CARE International	154,419	-	-	154,419
Total private support	<b>212,425</b>	<b>83,078</b>	<b>1,225</b>	<b>296,728</b>
Government and other support				
United States government	144,738	-	-	144,738
Others	77,524	-	-	77,524
Total government and other support	<b>222,262</b>	<b>-</b>	<b>-</b>	<b>222,262</b>
Other revenue				
Interest and dividends, net	2,788	3,034	-	5,822
Rent and miscellaneous	5,615	78	-	5,693
Total other revenue	<b>8,403</b>	<b>3,112</b>	<b>-</b>	<b>11,515</b>
Net assets released from restrictions				
Satisfaction of program restrictions	89,701	(89,701)	-	-
Total net assets released from restrictions	<b>89,701</b>	<b>(89,701)</b>	<b>-</b>	<b>-</b>
<b>Total operating support and revenue</b>	<b>532,791</b>	<b>(3,511)</b>	<b>1,225</b>	<b>530,505</b>
<b>Expenses</b>				
Program				
Emergency	126,064	-	-	126,064
Development	355,406	-	-	355,406
Public information	6,000	-	-	6,000
Supporting activities				
Fund raising	24,820	-	-	24,820
Management and general	26,591	-	-	26,591
<b>Total operating expenses</b>	<b>538,881</b>	<b>-</b>	<b>-</b>	<b>538,881</b>
<b>Operating support and revenue over (under) expenses</b>	<b>(6,090)</b>	<b>(3,511)</b>	<b>1,225</b>	<b>(8,376)</b>
<b>Other nonoperating changes in net assets</b>				
Minority interest in subsidiary income	72	-	-	72
Foreign exchange loss	(2,298)	-	-	(2,298)
Actuarial loss on annuity obligations	(493)	-	-	(493)
Actuarial gain/(loss) on split interest agreements	(91)	68	-	(23)
Net realized and unrealized loss on investments	499	(1,187)	-	(688)
Decrease in value of trusts held by third parties	-	-	(9,743)	(9,743)
<b>Total other nonoperating changes in net assets</b>	<b>(2,311)</b>	<b>(1,119)</b>	<b>(9,743)</b>	<b>(13,173)</b>
Total changes in net assets	(8,401)	(4,630)	(8,518)	(21,549)
Net assets, beginning of year	77,908	104,315	140,809	323,032
<b>Net assets, end of year</b>	<b>\$ 69,507</b>	<b>\$ 99,685</b>	<b>\$132,291</b>	<b>\$301,483</b>

See accompanying notes.

CARE USA and Subsidiaries

**Consolidated Statements of Activities (continued)**

For the Year Ended June 30, 2015

(in thousands)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2015</u>
<b>Support</b>				
Private support				
Contributions	\$ 73,865	\$ 67,745	\$ 282	\$141,892
CARE International	167,600	–	–	167,600
Total private support	<b>241,465</b>	<b>67,745</b>	<b>282</b>	<b>309,492</b>
Government and other support				
United States government	126,460	–	–	126,460
Others	79,025	–	–	79,025
Total government and other support	<b>205,485</b>	<b>–</b>	<b>–</b>	<b>205,485</b>
Other revenue				
Interest and dividends, net	3,426	3,480	–	6,906
Rent and miscellaneous	8,714	–	–	8,714
Total other revenue	<b>12,140</b>	<b>3,480</b>	<b>–</b>	<b>15,620</b>
Net assets released from restrictions				
Satisfaction of program restrictions	78,658	(78,658)	–	–
Total net assets released from restrictions	<b>78,658</b>	<b>(78,658)</b>	<b>–</b>	<b>–</b>
<b>Total operating support and revenue</b>	<b>537,748</b>	<b>(7,433)</b>	<b>282</b>	<b>530,597</b>
<b>Expenses</b>				
Program				
Emergency	93,320	–	–	93,320
Development	373,902	–	–	373,902
Public information	6,791	–	–	6,791
Supporting activities				
Fund raising	25,788	–	–	25,788
Management and general	24,785	–	–	24,785
<b>Total operating expenses</b>	<b>524,586</b>	<b>–</b>	<b>–</b>	<b>524,586</b>
<b>Operating support and revenue over (under) expenses</b>	<b>13,162</b>	<b>(7,433)</b>	<b>282</b>	<b>6,011</b>
<b>Other nonoperating changes in net assets</b>				
Minority interest in subsidiary income	124	–	–	124
Foreign exchange loss	(7,687)	(131)	–	(7,818)
Actuarial gain on annuity obligations	398	–	–	398
Actuarial gain on split interest agreements	11	20	–	31
Net realized and unrealized losses on investments	(1,456)	(245)	–	(1,701)
Decrease in value of trusts held by third parties	–	–	(4,725)	(4,725)
<b>Total other nonoperating changes in net assets</b>	<b>(8,610)</b>	<b>(356)</b>	<b>(4,725)</b>	<b>(13,691)</b>
Total changes in net assets	4,552	(7,789)	(4,443)	(7,680)
Net assets, beginning of year	73,356	112,104	145,252	330,712
<b>Net assets, end of year</b>	<b>\$ 77,908</b>	<b>\$ 104,315</b>	<b>\$ 140,809</b>	<b>\$ 323,032</b>

See accompanying notes.

CARE USA and Subsidiaries

Consolidated Statements of Functional Expenses  
For the Year Ended June 30, 2016  
(in thousands)

	<b>Program Activities</b>				<b>Supporting Activities</b>			<b>2016 Total</b>
	<b>Emergency</b>	<b>Development</b>	<b>Public Information</b>	<b>Total</b>	<b>Fund Raising</b>	<b>Management &amp; General</b>	<b>Total</b>	
Personnel costs	\$ 24,797	\$ 98,382	\$ 3,094	\$ 126,273	\$ 5,964	\$ 14,323	\$ 20,287	\$ 146,560
Grants/subgrants	24,114	120,430	160	144,704	–	89	89	144,793
Materials and services	31,932	51,205	705	83,842	13,936	2,173	16,109	99,951
Travel and transportation	6,577	27,863	259	34,699	645	1,863	2,508	37,207
Professional services	4,447	20,414	1,257	26,118	2,686	4,837	7,523	33,641
Occupancy	2,695	10,333	309	13,337	629	1,170	1,799	15,136
Financing/depreciation/miscellaneous	1,056	8,650	59	9,765	321	1,463	1,784	11,549
Equipment	1,253	5,052	157	6,462	243	569	812	7,274
Agricultural commodities/contributions in-kind	29,193	13,077	–	42,270	396	104	500	42,770
<b>Total operating expenses</b>	<b>\$ 126,064</b>	<b>\$ 355,406</b>	<b>\$ 6,000</b>	<b>\$ 487,470</b>	<b>\$ 24,820</b>	<b>\$ 26,591</b>	<b>\$ 51,411</b>	<b>\$ 538,881</b>

See accompanying notes.

CARE USA and Subsidiaries

**Consolidated Statements of Functional Expenses (continued)**  
 For the Year Ended June 30, 2015  
 (in thousands)

	<b>Program Activities</b>				<b>Supporting Activities</b>			<b>2015 Total</b>
	<b>Emergency</b>	<b>Development</b>	<b>Public Information</b>	<b>Total</b>	<b>Fund Raising</b>	<b>Management &amp; General</b>	<b>Total</b>	
Personnel costs	\$ 24,239	\$ 106,282	\$ 2,838	\$ <b>133,359</b>	\$ 6,048	\$ 12,447	\$ <b>18,495</b>	\$ <b>151,854</b>
Grants/subgrants	19,636	119,795	503	<b>139,934</b>	13	4	<b>17</b>	<b>139,951</b>
Materials and services	27,178	57,165	689	<b>85,032</b>	14,486	2,178	<b>16,664</b>	<b>101,696</b>
Travel and transportation	6,263	29,445	157	<b>35,865</b>	619	1,311	<b>1,930</b>	<b>37,795</b>
Professional services	2,755	18,638	1,031	<b>22,424</b>	2,809	5,603	<b>8,412</b>	<b>30,836</b>
Occupancy	2,821	11,142	287	<b>14,250</b>	630	1,155	<b>1,785</b>	<b>16,035</b>
Financing/depreciation/miscellaneous	1,051	16,264	71	<b>17,386</b>	327	949	<b>1,276</b>	<b>18,662</b>
Equipment	1,131	5,469	123	<b>6,723</b>	265	982	<b>1,247</b>	<b>7,970</b>
Agricultural commodities/contributions in-kind	8,246	9,702	1,092	<b>19,040</b>	591	156	<b>747</b>	<b>19,787</b>
<b>Total operating expenses</b>	<b>\$ 93,320</b>	<b>\$ 373,902</b>	<b>\$ 6,791</b>	<b>\$ 474,013</b>	<b>\$ 25,788</b>	<b>\$ 24,785</b>	<b>\$ 50,573</b>	<b>\$ 524,586</b>

See accompanying notes.



CARE USA and Subsidiaries  
Consolidated Statements of Cash Flows  
For the Years Ended June 30, 2016 and 2015  
*(in thousands)*

<b>Operating activities</b>	<b>2016</b>	<b>2015</b>
Changes in net assets	\$ (21,549)	\$ (7,680)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	5,548	5,428
Provision for subsidiary microfinance loan losses	313	2,501
Net realized and unrealized loss on investments	1,685	1,701
Actuarial loss (gain) on annuity obligations	493	(398)
Actuarial loss (gain) on split interest agreements	23	(31)
Decrease in value of trusts held by third parties	9,743	4,725
Changes in assets and liabilities		
Decrease in receivables	11,496	32,608
(Increase) decrease in inventory	(237)	4,889
Decrease in deposits and other assets	4,492	23,363
(Increase) decrease in other trusts held by third parties	(475)	312
Decrease in accounts payable and accrued expenses	(4,577)	(5,425)
Decrease in program advances	(10,002)	(31,295)
Increase (decrease) in benefits accrued for employees	813	(2,677)
Net cash (used for) provided by operating activities	<u>(2,234)</u>	<u>28,021</u>
<b>Investing activities</b>		
Purchases of investments	(85,627)	(151,745)
Proceeds from sales of investments	96,199	141,990
(Increase) decrease in restricted cash	(380)	1,995
Purchases of property and equipment	(3,225)	(5,199)
Proceeds from sales of property and equipment	27	1,673
Net cash (used for) provided by investing activities	<u>6,994</u>	<u>(11,286)</u>
<b>Financing activities</b>		
Decrease in subsidiary loans payable	(849)	(2,239)
Decrease in minority interest in subsidiary	(74)	(21)
Payments to gift annuitants	(1,672)	(1,842)
Increase in liability for split interest agreements	516	519
Net cash used for financing activities	<u>(2,079)</u>	<u>(3,583)</u>
Net change in cash and cash equivalents	2,681	13,152
Cash and cash equivalents, beginning of year	71,764	58,612
Cash and cash equivalents, end of year	<u>\$ 74,445</u>	<u>\$ 71,764</u>
Supplemental cash flow information:		
Noncash contributions	<u>\$ 11,469</u>	<u>\$ 10,083</u>
Cash paid for interest	<u>\$ 557</u>	<u>\$ 612</u>

*See accompanying notes.*

## 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 more than 40 countries throughout Africa, Asia, Europe, and Latin America. CARE USA’s mission is to work around the globe to save lives, defeat poverty and achieve social justice.

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 programs provide both life-saving relief through humanitarian action and promote innovative solutions through long term development programs to achieve lasting impact. Working with our partners, CARE USA uses effective models and approaches to support the most marginalized communities to overcome poverty, social injustice and humanitarian crises. CARE USA then uses and applies the evidence and learning of the programs to influence broader change and to scale up effective solutions.

- a. **Humanitarian action (“Emergency”).** In emergencies, CARE USA responds to save lives, with special attention to the needs of women and girls and the most marginalized. CARE USA’s humanitarian action includes preparedness and early action, emergency response and recovery, and encourages future resilience and equitable development.
- b. **Promoting lasting change and innovative solutions (“Development”).** CARE USA and partners trigger innovative solutions for sustainable development through supporting new ways of supplying or strengthening essential service delivery, building capacities, building resilience for reducing risk, and empowering the most vulnerable, particularly women and girls. They are based on a deep, historical understanding of the drivers of poverty and social injustice in a particular context and tailored to the needs of the most marginalized.
- c. **Public Information.** CARE USA aims to inform the public about poverty, the systematic discrimination and marginalization of women and girls around the world. CARE puts women and girls in the center because we know that we cannot overcome poverty until all people have equal rights and opportunities.

Within these broad areas, CARE USA has a special focus on Sexual and Reproductive Health and Rights, Food and Nutrition Security and Resilience to Climate Change, and Women’s Economic Empowerment.

All of CARE USA’s work seeks to impact in and beyond the communities in which we directly work. Together with our partners CARE USA uses the evidence, learning and innovation from our humanitarian action and long-term development programs to influence broader social change, at significant scale.

CARE USA and its subsidiaries have certain operations in developing foreign markets and may be subject to increased risks due to political and regulatory environments, and overall market and economic factors.

CARE USA and Subsidiaries  
Notes to Consolidated Financial Statements

CARE USA's subsidiaries include:

- Access Africa Fund, LLC (AAF) is a majority owned subsidiary. The fund was formed with dual investment objectives to enable sub-Saharan micro-finance institutions to expand financial services by making debt and equity investments. AAF 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. CARE USA owns 91% of the class A capital stock.
- CARE Enterprises, LLC is a for-profit subsidiary with a social enterprise subsidiary, JITA. CARE Enterprises owns 67% shares of JITA. CARE Enterprises is a business venture started by CARE to bridge the gap between demand and supply that exists between formal markets and many of the world's poorest communities. It identifies, develops and scales innovative platforms to efficiently distribute essential and high quality consumer products and services to consumers at the bottom of the pyramid.
- CARE Action Now (CAN) is a non-profit subsidiary 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.
- CARE India Trust (CIT) is a wholly owned non-profit subsidiary operating in India. It is primarily engaged in administering health and nutrition programs funded by the Indian government.
- SEEDFINANCE Corporation (SEED) is a for-profit majority owned subsidiary located in the Philippines. It was engaged in providing micro-credit loans. CARE USA owns 57% of SEED's common stock. SEED is no longer active with its lending operations and has filed for liquidation.
- MOFAD is wholly owned non-profit subsidiary in Afghanistan that is currently non-operational.

## 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, MOFAD, CIT, AAF, CARE Enterprises and CAN. Gains and losses from the translation of foreign currency are recorded in the Consolidated Statements of Activities.

### 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. The principal areas of judgement include (1) receivables, including the allowance for doubtful accounts; (2) fair value of investments; and (3) assessment of loss contingencies. Actual results could differ from those estimates.

CARE USA and Subsidiaries  
Notes to Consolidated Financial Statements

### **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. Restricted cash includes cash and cash equivalents pledged by AAF as collateral for hedging instruments and cash held for the purpose of serving as a debt service reserve for AAF's credit facility. Restricted cash is held at cost, which approximates fair value.

Cash and cash equivalents held in the United States were \$41.8 million and \$24.0 million, including \$576,000 and \$196,000 of restricted cash held in escrow, for the years ended June 30, 2016 and 2015, respectively. Cash and cash equivalents held outside the United States were \$33.2 million and \$48.0 million, for the years ended June 30, 2016 and 2015, respectively. Certain donors require cash be held in separate accounts. Donor restricted cash accounts totaled \$6.2 million and \$10.1 million for the years ended June 30, 2016 and 2015, respectively.

### **Investments**

Investments with readily determinable fair values are recorded at fair value. All other investments are recorded 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. CARE USA maintains assets sufficient to meet the annuity requirements stipulated by the various state laws. CARE USA is required to hold reserves related to the gift annuity program based on the laws of certain states, such reserves totaled \$14.0 million and \$14.6 million at June 30, 2016 and 2015, respectively.

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 \$211,000 and \$277,000 are netted against interest and dividend income for the years ended June 30, 2016 and 2015, respectively.

### **Receivables**

Receivables represent grants and contracts receivables, ocean freight receivable from the United States Agency for International Development (USAID), contributions receivable on split interest agreements and legacy/bequests 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 USAID.

CARE USA and Subsidiaries  
Notes to Consolidated Financial Statements

## **Inventory**

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

CARE USA receives agricultural 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 agricultural commodities in which title has passed to CARE USA regardless of whether the agricultural commodities are in transit from the United States or held in storage in primary warehouses at the intended recipient country. For agricultural commodities to be distributed, revenue and expense are recognized when the agricultural commodities are distributed or the title is transferred to a partner organization. For agricultural commodities to be monetized, revenue and expense are recognized when the proceeds are utilized for the related project activities.

## **Deposits and Other Assets**

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

Sub-grantee advances are recorded when cash is disbursed to the partner organization or CARE International member. As the sub-grantee performs its contractual obligations in accordance with the grant objectives and expense reports are received, the receivable is reduced and the related income and expense are recognized.

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, 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.

As of June 30, 2016 and 2015, CARE USA has a 34.4% and 34.7% non-controlling interest in MicroVest General Partner Holding Company, respectively. CARE USA has 8.3% in MicroVest II Limited Partnership as of June 30, 2016 and 2015. CARE USA also had a non-controlling interest of 24.4% in MicroVest I Self-liquidating Trust which was closed and final distribution made on December 31, 2015. The investments are accounted for using the equity method.

## Property and Equipment

Property and equipment are recorded at cost when purchased. Contributions of assets are recorded at their estimated fair 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 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 the 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.

Depreciation is provided on the straight-line basis over the estimated useful lives of the assets. The ranges of estimated useful lives are as follows:

<u>Asset</u>	<u>Estimated Useful Life</u>
Buildings	25 years
Building improvements	7 years
Software	3 to 10 years
Equipment	3 to 5 years
Leasehold improvements	5 years or life of the lease (if shorter)

## Trusts Held by Third Parties

Trusts held by third parties include amounts related to both charitable remainder trusts and perpetual trusts. These amounts are recorded at their fair values.

### Charitable Remainder Trusts

Charitable remainder trusts include trusts established by a donor that have independent trustees under which specified distributions are to be made to a designated beneficiary or beneficiaries over the trust's term.

Interest in charitable remainder trusts are recorded at fair value. Contributions from split interest agreements are recorded 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 7.0% in both years, 2016 and 2015.

Upon termination of the trust, CARE USA receives the assets remaining in the trust. Charitable remainder trusts are initially recognized as temporarily restricted contributions from split-interest agreements at fair value based on CARE USA's estimated future cash flows from the related trust. Any subsequent adjustments to these trusts are recorded as a change in the value of split-interest agreements.

### **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. Perpetual trusts are initially recorded as permanently restricted contributions from split-interest agreements at fair value based on CARE USA's interest in the fair value of the underlying trust assets at the time of the gift. Subsequent changes to the trust's fair value are reported as permanently restricted increases (decreases) in value of trusts held by third parties in the consolidated statements of activities. Income received from these trusts is reported as temporarily restricted or unrestricted public support, depending on the existence or absence of donor-imposed restrictions.

As of June 30, 2016 and 2015, more than 84% of the value of the trust can be derived from market information. Less than 16% of the trust value is associated with alternative investments, estimates for which are provided by the fund managers retained by the trustees.

The valuation methods for the alternative investments may produce a fair value calculation that may not be indicative of the net realizable value or reflective of future fair values. Furthermore, while CARE USA believes its valuation methodologies 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.

### **Charitable Gift Annuities**

Charitable gift annuities obligations are included in liability for split interest agreements in the Consolidated Balance Sheets. Donors have contributed assets to CARE USA in exchange for a promise by CARE USA to pay a fixed amount or percentage of assets contributed 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 Annuity 2000 table. 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 of agricultural 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.

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

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a purpose specified by the donor or other general purposes and is reflected as temporarily restricted revenue, unless the terms of the gift or relevant state law require that they be added back to the principal of the permanently restricted contribution.

Contributions of non-financial assets consist of public service announcements and donated professional services. CARE USA recognized total contribution revenue of \$0.9 million and \$2.1 million for public service announcements and donated professional services for the years ended June 30, 2016 and 2015, respectively.

### **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. Direct support from US government agencies is subject to independent audit under the Office of Management and Budget's Single Audit guidelines found in 2CFR200 and subject to review by grantor agencies.

These audits and reviews could result in the disallowance of expenditures under the terms of the grant or reductions of future grant funds. Based on prior experience, management believes that any costs ultimately disallowed would not materially affect CARE USA's consolidated financial position.

### **Nonfood Gifts-in-Kind**

Gifts-in-kind received 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.

### **Foreign Currency Translation**

The U.S. dollar is the functional currency for CARE USA's operations worldwide. Transactions in currencies other than dollars are translated into U.S. 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 U.S. 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 of split interest agreements and realized and unrealized gains and losses on investments.



### **Fair Value of Financial Instruments**

CARE USA's financial instruments consist of cash and cash equivalents, restricted cash, investments, receivables, trusts held by third parties, accounts payable and accrued expenses, liability for split-interest agreements and subsidiary loans payable. Receivables are recorded at net realizable value which approximates fair value. Investments and trusts held by third parties are recorded at their fair values. The liability for split interest agreements is 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 CIT are tax-exempt in the countries they are incorporated. SEED is taxable in the Philippines, where it is incorporated. AAF is a limited liability corporation treated as a partnership for federal income tax purposes in the USA; and CARE Enterprises is taxable in the USA. CAN is tax exempt in the USA under IRC Section 501(c)(4).

### **Subsequent Events**

Management has disclosed all subsequent events through December 16, 2016, the date the financial statements were issued. There were no subsequent events that required recognition in the consolidated financial statements.

### **Recently Issued Accounting Standards**

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which, when effective, will supersede the guidance in former ASC 605, *Revenue Recognition*. The new guidance requires entities to recognize revenue based on the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Application of the new standard may result in significant changes to current practice. In August 2015, the FASB issued ASU 2015-14 *Revenue from Contracts with Customers (Topic 606): Deferral of Effective Date*, which provides an optional one-year deferral of the effective date. Therefore, this standard is effective for the year ending June 30, 2019. We are currently evaluating the impact of the standard on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which when effective will require organizations that lease assets to recognize assets and liabilities for the rights and obligations created by the leases on balance sheet. A lessee will be required to recognize assets and liabilities for leases with terms that exceed twelve months. The standard will also require disclosures to help financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. The disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. The guidance is effective for the year ended June 30, 2019 and early adoption is permitted. We are currently evaluating the impact of this standard on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14—*Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which makes several improvements to current financial reporting for non-for-profits. This guidance is effective for annual financial statements issued for the year

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ended June 30, 2019 with early application permitted. The most significant provisions of this Update require two classes of net assets, rather than the currently required three classes. As this update is primarily related to changes in disclosure and presentation, adoption of this standard is not expected to have an impact on our consolidated financial position.

### 3. Description of Net Assets Designation and Restriction

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

	2016		2015	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Food and Nutrition Security and Resilience to Climate Change	\$ 11,661	\$ -	\$ 14,012	\$ -
Women's Economic Empowerment	14,871	-	12,082	-
Sexual, Reproductive and Maternal Health and a Life Free from Violence	41,230	-	46,956	-
Humanitarian Intervention	16,759	1,006	10,747	1,006
Multi-Sector and Other	14,448	512	18,842	512
Time Restricted	716	-	1,676	-
Unrestricted	-	130,773	-	139,291
<b>Total</b>	<b>\$ 99,685</b>	<b>\$ 132,291</b>	<b>\$ 104,315</b>	<b>\$ 140,809</b>

### 4. Endowments

CARE USA's endowment consists of 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.

#### 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;

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- 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.

The changes in endowment assets for the year ended June 30, 2016, are as follows (*in thousands*):

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 6,906	\$ 18,358	\$ 25,264
Contributions received	-	-	375	375
Investment income	-	1,683	-	1,683
Net depreciation (realized and unrealized)	-	(1,024)	-	(1,024)
Total investment return	-	659	375	1,034
Appropriation of endowment assets for expenditure	-	(77)	-	(77)
<b>Endowment net assets, end of year</b>	<b>\$ -</b>	<b>\$ 7,488</b>	<b>\$ 18,733</b>	<b>\$ 26,221</b>

The changes in endowment assets for the year ended June 30, 2015, are as follows (*in thousands*):

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 7,544	\$ 18,325	\$ 25,869
Contributions received	-	-	33	33
Investment income	-	1,873	-	1,873
Net depreciation (realized and unrealized)	-	(1,283)	-	(1,283)
Total investment return	-	590	33	623
Appropriation of endowment assets for expenditure	-	(1,228)	-	(1,228)
<b>Endowment net assets, end of year</b>	<b>\$ -</b>	<b>\$ 6,906</b>	<b>\$ 18,358</b>	<b>\$ 25,264</b>

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

	<u>2016</u>	<u>2015</u>
<b>Temporarily Restricted Net Assets:</b>		
The portion of perpetual endowment funds subject to time restriction under SPMIFA:		
Without purpose restrictions	1,285	746
With purpose restrictions	6,203	6,160
Total Endowment funds classified as temporarily restricted net assets	<b>\$ 7,488</b>	<b>\$ 6,906</b>
<b>Permanently Restricted Net Assets:</b>		
The portion of perpetual endowment funds required to be retained permanently either by explicit donor stipulation or by SPMIFA	<b>\$ 18,733</b>	<b>\$ 18,358</b>

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**Endowment 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 and changes to the value of these assets.

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 2016 and 2015.

<b>Asset Category</b>	<b>2016</b>			<b>2015</b>		
	<b>Minimum</b>	<b>Maximum</b>	<b>Target</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Target</b>
Fixed Income	35%	50%	40%	35%	50%	40%
Equity	40%	65%	60%	40%	65%	60%

CARE spending policy is authorized by the board of directors. CARE appropriated approximately \$77,000 and \$1.2 million for the years ended June 30, 2016 and 2015, respectively.

**5. Investments**

The total return on cash balances and investments was as follows for the years ending June 30, 2016 (*in thousands*):

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Interest and dividends included in operating revenue	\$ 2,788	\$ 3,034	\$ -	\$ 5,822
Net realized and unrealized losses	499	(1,187)	-	(688)
<b>Total return on investments</b>	<b>\$ 3,287</b>	<b>\$ 1,847</b>	<b>\$ -</b>	<b>\$ 5,134</b>

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The total return on cash balances and investments was as follows for the years ending June 30, 2015 (*in thousands*):

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Interest and dividends included in operating revenue	\$ 3,426	\$ 3,480	\$ -	\$ 6,906
Net realized and unrealized losses	(1,456)	(245)	-	(1,701)
<b>Total return on investments</b>	<b>\$ 1,970</b>	<b>\$ 3,235</b>	<b>\$ -</b>	<b>\$ 5,205</b>

## 6. Fair Value Measurements

CARE USA reports certain assets at fair value in accordance with ASC Topic 820, *Fair Value Measurements and Disclosures*. 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. U.S. GAAP 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:

**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.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies from June 30, 2014.

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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 treasury and government agency obligations, collateralized mortgage obligations (CMOs) and corporate bonds are valued on the basis of evaluated prices provided by independent pricing services when such processes are believed to reflect the fair market value of such securities using the income approach.

Overseas time deposits are valued at amortized cost, which approximates fair value.

Corporate stocks, mutual funds and exchange traded 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.

Trusts held by third parties are valued using significant unobservable inputs (Level 3). The need to use unobservable inputs generally results from the lack of an active market or marketplace with respect to Trusts held by third parties. CARE USA's Level 3 interest in trusts held by third parties includes both perpetual and non-perpetual trusts.

Perpetual trusts are recorded at fair value based on a market approach of CARE USA's interest in the fair value of the underlying trust assets. Non-perpetual trusts are recorded at their estimated fair value based on the present value of CARE USA's estimated future cash flows from the related trust. Future cash flows are based on an income approach (present value techniques) using internally developed models. Assumptions are made regarding the expected rate of return on the investments in the trust, the discount rate, and expected mortality of the individual(s), if the termination of the agreement is dependent on life expectancy. An expected rate of return on the investments in the trusts is estimated using historical investment returns for various relevant market indices for the estimated asset allocation of these trusts.

Other investments include AAF promissory notes, senior loans and equity investments in ten low income financial institutions, which extend credit to small enterprises and low income populations in Sub-Saharan Africa. These are also classified as Level 3 investments. The original term of the debt investments ranges from 2 to 24 months, with a weighted-average original term of 15 months. The weighted-average remaining term was 5 months as of June 30, 2016. The promissory notes are unsecured notes bearing interest at rates ranging from 5.5% to 16.0%, with a weighted-average rate of 8.78%, and maturing at various dates through June 2017.

At June 30, 2015, AAF had a term deposit, promissory notes, senior loans and an equity investment in twelve LIFIs directly, which extend credit to small and micro enterprises and low-income populations in sub-Saharan Africa. The original term of the debt investments ranged from 3 to 24 months, with a weighted-average original term of 15 months. The weighted-average remaining term was 9 months as of June 30, 2015. The promissory notes were unsecured notes bearing interest at rates ranging from 5.5% to 21%, with a weighted-average rate of 12.27%.

To estimate fair value of AAF investments, various factors are analyzed to determine the appropriate discount yield rate, including, but not limited to, the portfolio company's historical financial results, payment history, borrowing exposures and capacity, sovereign rating and interest rates, credit rating, remaining loan term, and investment seniority position.

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AAF investments were \$13.7 million and \$14.7 million for the years ended 2016 and 2015, respectively. All AAF investments are reported as Level 3 in 2015, but \$921,000 are reported as Level 2 in 2016, since those are investments in Barak Structured Trade Finance Segregated Portfolio, whose fair value is estimated using the practical expedient of reported NAV.

The following table presents the assets and liabilities measured at fair value on a recurring basis as of June 30, 2016 (*in thousands*):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value Measurement</u>
<b>Investments</b>				
<b>Money market funds</b>	\$ 10,924	\$ -	\$ -	\$ 10,924
<b>Fixed income securities</b>				
US treasury obligations	16,236	-	-	16,236
<b>Agency obligations</b>				
Fannie Mae	-	3,048	-	3,048
Freddie Mac	-	1,809	-	1,809
Federal home loan bank	-	1,345	-	1,345
Other collateralized mortgage obligations (CMO)	-	18	-	18
<b>Total agency obligations</b>	-	<b>6,220</b>	-	<b>6,220</b>
<b>Corporate bonds</b>	-	12,864	-	12,864
<b>Other fixed income securities</b>	-	248	9,525	9,773
<b>Exchange traded funds</b>	45,199	-	-	45,199
<b>Other equity securities</b>	-	1,340	3,213	4,553
<b>Mutual funds</b>				
Fixed income funds	11,739	-	-	11,739
Equity funds	34,687	39	-	34,726
<b>Overseas time deposits</b>	-	349	-	349
<b>Total investments</b>	<b>118,785</b>	<b>21,060</b>	<b>12,738</b>	<b>152,583</b>
<b>Trusts held by third parties</b>	-	-	115,206	115,206
	<b>\$ 118,785</b>	<b>\$ 21,060</b>	<b>\$ 127,944</b>	<b>\$ 267,789</b>

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The following table presents the assets and liabilities measured at fair value on a recurring basis as of June 30, 2015 (*in thousands*):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value Measurement</u>
<b>Investments</b>				
<b>Money market funds</b>	\$ 17,970	\$ -	\$ -	\$ 17,970
<b>Fixed income securities</b>				
US treasury obligations	16,251	-	-	16,251
<b>Agency obligations</b>				
Fannie Mae	-	2,620	-	2,620
Freddie Mac	-	1,787	-	1,787
Federal home loan bank	-	1,374	-	1,374
Other collateralized mortgage obligations (CMO)	-	696	-	696
<b>Total Agency obligations</b>	<u>-</u>	<u>6,477</u>	<u>-</u>	<u>6,477</u>
<b>Corporate bonds</b>	-	14,586	-	14,586
<b>Other fixed income securities</b>	-	-	11,859	11,859
<b>Exchange traded funds</b>	46,955	-	-	46,955
<b>Other equity securities</b>	-	-	2,874	2,874
<b>Mutual funds</b>				
Fixed income funds	12,133	-	-	12,133
Equity funds	35,385	-	-	35,385
<b>Overseas time deposits</b>	-	350	-	350
<b>Total investments</b>	<u>128,694</u>	<u>21,413</u>	<u>14,733</u>	<u>164,840</u>
<b>Trusts held by third parties</b>	-	-	124,474	124,474
	<u>\$ 128,694</u>	<u>\$ 21,413</u>	<u>\$ 139,207</u>	<u>\$ 289,314</u>

The changes in investments measured at fair value for which Level 3 inputs were used to determine the fair value are as follows (*in thousands*):

	<u>Equity Securities</u>	<u>Debt Securities</u>	<u>Third Party Trusts</u>	<u>Total</u>
<b>Fair value as of June 30, 2014</b>	\$ 3,487	\$ 12,432	\$ 129,511	\$ 145,430
Additions	-	-	312	312
Purchases or transfers	190	16,677	(123)	16,744
Maturities or redemptions	(900)	(16,292)	(501)	(17,693)
Decrease in value of trusts held by third parties	-	-	(4,725)	(4,725)
Net realized and unrealized gain (loss) on investments	97	(958)	-	(861)
<b>Fair value as of June 30, 2015</b>	<u>\$ 2,874</u>	<u>\$ 11,859</u>	<u>\$ 124,474</u>	<u>\$ 139,207</u>
Additions	-	-	513	513
Purchases or transfers	-	6,800	-	6,800
Maturities or redemptions	(22)	(10,267)	(38)	(10,327)
Increase/(decrease) in value of trusts held by third parties	-	-	(9,743)	(9,743)
Net realized and unrealized gain on investments	361	1,133	-	1,494
<b>Fair value as of June 30, 2016</b>	<u>\$ 3,213</u>	<u>\$ 9,525</u>	<u>\$ 115,206</u>	<u>\$ 127,944</u>



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The amount of gain or loss for the period included in the change in net assets and attributed to the change in unrealized gains and losses are included in net realized and unrealized gains and losses on investments in the Consolidated Statements of Activities.

**7. Receivables, net**

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

	<b>2016</b>	<b>2015</b>
Grants and contracts receivable		
U.S. government agencies	\$ 24,435	\$ 27,681
CARE International members	28,202	33,268
Others	12,557	17,536
Contributions receivable	5,579	3,903
	<b>\$ 70,773</b>	<b>\$ 82,388</b>
Allowance for uncollectible accounts	(998)	(1,117)
	<b>\$ 69,775</b>	<b>\$ 81,271</b>

As of June 30, 2016, \$70.0 million of the total receivables are due within one year or less with \$800,000 due in more than one year. As of June 30, 2015, \$80.9 million of the total receivables are due within one year or less with \$1.5 million due in more than one year.

**Conditional Pledges**

Pledges are recognized as revenue when the donor makes a promise to give unconditionally. CARE USA had \$52.0 million and \$51.3 million of conditional pledges at June 30, 2016 and 2015, respectively. The future payments are conditional on meeting the milestones established in the pledge agreement. These pledges are utilized for sexual, reproductive and maternal health, food and nutrition security and resilience against climate change, women's economic empowerment and emergency relief efforts.

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## 8. Deposits and Other Assets

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

	<u>2016</u>	<u>2015</u>
Deposits:		
Subgrantee and project advances	\$ 18,661	\$ 21,258
Other Assets:		
Investment in MicroVest	5,648	5,103
Microfinance loans and interest receivable, net	48	344
Receivable from CARE International members	3,225	1,684
Prepaid expenses	4,642	5,910
Travel advances	402	705
Advances	3,176	4,918
Other receivables	3,154	3,839
	<u>\$ 38,956</u>	<u>\$ 43,761</u>

## 9. Property and Equipment, net

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

	<u>2016</u>	<u>2015</u>
Land	\$ 3,067	\$ 3,078
Buildings and building improvements	12,167	12,122
Vehicles, equipment and software	54,824	52,540
Leasehold improvements	1,701	1,374
	<u>\$ 71,759</u>	<u>\$ 69,114</u>
Accumulated depreciation/amortization	(54,402)	(49,407)
	<u>\$ 17,357</u>	<u>\$ 19,707</u>

Unamortized internal use software costs were \$7.1 million and \$8.8 million, respectively, for the years ended June 30, 2016 and 2015. Depreciation and amortization expense was \$5.5 million and \$5.4 million for the years ended June 30, 2016 and 2015, respectively.

## 10. Defined Contribution Plans

Effective January 1, 1992, CARE USA adopted a defined contribution plan for employees who meet certain eligibility conditions. CARE USA contributes to a participant's account an amount equal to 4% of the participant's gross salary and matches up to 4% of a participant's contribution. The plan allows employee after-tax contributions. Employer contributions for the years ended June 30, 2016 and 2015 were \$2.3 million.

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

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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.

### 11. Program Advances

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

	<u>2016</u>	<u>2015</u>
Commodity grants	\$ 7,760	\$ 998
Grants and contracts		
U.S. government agencies	3,860	8,049
CARE International members	33,427	40,054
Others	22,728	28,676
	<u>\$ 67,775</u>	<u>\$ 77,777</u>

### 12. Subsidiary Loans Payable

Loan proceeds are used primarily for lending to microfinance institutions.

On December 16, 2011 AAF entered into a seven-year \$20.0 million Loan Agreement with the Overseas Private Investment Corporation (“OPIC”), a division of the U.S. Government to fund new portfolio debt investments. AAF may draw on the credit facility quarterly over three years. On November 17, 2015, AAF renegotiated the terms of the credit facility, effectively extending the maturity of each note by one year. Each note is a bullet loan.

As of June 30, 2016 and 2015, AAF had drawn \$13.5 million under the credit facility. The promissory notes mature between December 2017 and June 2019, and bear current interest between 1.67% and 2.52% per annum payable.

AAF debt maturities total \$13.5 million and are \$7 million and \$6.5 million for the years ended June 30, 2018 and 2019, respectively.

For the years ended June 30, 2016 and 2015, interest expense and fees related to the credit facility and draws were \$346,000 and \$474,000, respectively. For the years ended June 30, 2016 and 2015, AAF obtained a waiver from its lender to cure its noncompliance with two financial ratio covenants.

Total debt obligations for SEED were \$3.4 million and \$4.1 million for the years ended June 30, 2016 and 2015, respectively. This debt bears interest rates ranging from 4.00% to 10.00%. SEED has filed for liquidation.

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MOFAD's total outstanding obligations associated with the Microfinance Investment and Support Facility in Afghanistan (MISFA) were \$1.2 million and \$1.3 million for the years ended June 30, 2016 and 2015, respectively. This loan is payable on demand and carries interest rate of 5.00%.

### 13. Commitments and Other Matters

As of June 30, 2016, CARE USA is obligated under non-cancelable operating lease agreements for warehousing, office space and staff housing at minimum rentals as follows (*in thousands*):

<u>Year</u>	<u>Amount</u>
2017	5,531
2018	2,962
2019	2,201
2020	1,345
2021	563
2022-2023	439
	<u><u>\$ 13,041</u></u>

Total rent expense was \$11.7 million and \$13.2 million, respectively, for the years ended June 30, 2016 and 2015.

AAF has outstanding future commitments under foreign currency exchange contracts of \$6.3 million and \$7.9 million at June 30, 2016 and June 30, 2015, respectively.

CARE USA maintained performance guarantees totaling \$11.4 million and \$4.0 million for the years ended June 30, 2016 and 2015, respectively, on behalf of CARE Netherlands to the European Commission Development and Cooperation Europe Aid, also on behalf of CARE Country offices to other CI members or various restricted grants. All guarantees are foreign currency denominated and therefore subject to fluctuations in USD equivalent value. Expiration or cancellation of each guarantee is contingent upon fulfilment of the underlying terms associated with the guarantee.

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 framework agreement payment terms. The commitment is conditional upon CARE Peru meeting agreed-upon program expenditures, which has not occurred to date. CARE USA made cumulative contributions of \$5.8 million and \$4.7 million respectively, as of June 30, 2016 and 2015.

CARE USA loaned money to the CARE International Revolving Fund. It is used by CARE International to advance money to other members. The direct loan to the CARE International Revolving Fund was \$1.5 million as of June 30, 2016 and \$1.8 million as of June 30, 2015.

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.

#### **14. 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.

#### **15. Contingencies**

Management is aware of approximately \$3.9 million in questioned costs resulting from various audits, of which \$3.4 million is currently under appeal. The US Agency for International Development (USAID) is reviewing supporting documentation submitted by management to clear these questioned costs. CARE USA has \$2.5 million and \$3.7 million accrued for questioned and disallowed costs as of June 30, 2016 and 2015, respectively. Based on prior experience, CARE USA believes that costs ultimately disallowed, if any, would not materially affect its consolidated financial position.

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 ruled in CARE USA's favor on two lawsuits, and the Supreme Court in Bolivia affirmed one of the lower court decisions in July, 2016. Although the outcome of this matter is currently not determinable, management is monitoring the situation closely. No estimate can be made of the possible range of loss, if any.

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**16. Financial Statements of Subsidiaries**

The balance sheets for CARE USA subsidiaries as of June 30, 2016 are as follows *(in thousands)*:

	<u>AAF</u>	<u>CAN</u>	<u>CIT</u>	<u>MOFAD</u>	<u>SEED</u>	<u>CARE Enterprises</u>
<b>Assets</b>						
Cash and cash equivalents	\$ 3,121	\$ 3	\$ 68	\$ –	\$ 30	\$ 158
Restricted cash	576	–	–	–	–	–
Investments, at fair value	13,659	–	–	–	–	–
Receivables, net	–	–	110	–	–	–
Inventory	–	–	–	–	–	1
Deposits and other assets	347	369	–	–	–	592
Property and equipment, net	–	–	4	–	62	50
<b>Total assets</b>	<b>17,703</b>	<b>372</b>	<b>182</b>	<b>–</b>	<b>92</b>	<b>801</b>
<b>Liabilities and net assets</b>						
<b>Liabilities</b>						
Accounts payable and accrued expenses	365	–	–	–	1,728	166
Subsidiary loans payable	13,500	–	–	1,181	3,370	–
Minority interest in subsidiary	349	–	–	–	–	93
<b>Total liabilities</b>	<b>14,214</b>	<b>–</b>	<b>–</b>	<b>1,181</b>	<b>5,098</b>	<b>259</b>
<b>Net assets (deficit)</b>						
Unrestricted (deficit)	3,489	372	182	(1,181)	(5,006)	542
<b>Total net assets (deficit)</b>	<b>3,489</b>	<b>372</b>	<b>182</b>	<b>(1,181)</b>	<b>(5,006)</b>	<b>542</b>
<b>Total liabilities and net assets</b>	<b>\$ 17,703</b>	<b>\$ 372</b>	<b>\$ 182</b>	<b>\$ –</b>	<b>\$ 92</b>	<b>\$ 801</b>

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The balance sheets for CARE USA subsidiaries as of June 30, 2015 are as follows (*in thousands*):

	AAF	CAN	CIT	MOFAD	SEED	CARE Enterprises
<b>Assets</b>						
Cash and cash equivalents	\$ 2,122	\$ –	\$ 62	\$ –	\$ 130	\$ 201
Restricted cash	196	–	–	–	–	–
Investments, at fair value	14,733	–	–	–	–	–
Receivables, net	–	–	116	–	–	–
Inventory	–	–	–	–	–	5
Deposits and other assets	754	537	8	–	142	237
Property and equipment, net	–	–	5	–	79	81
<b>Total assets</b>	<b>17,805</b>	<b>537</b>	<b>191</b>	<b>–</b>	<b>351</b>	<b>524</b>
<b>Liabilities and net assets</b>						
<b>Liabilities</b>						
Accounts payable and accrued expenses	157	37	1	–	708	103
Subsidiary loans payable	13,500	–	–	1,328	4,072	–
Minority interest in subsidiary	377	–	–	–	–	139
<b>Total liabilities</b>	<b>14,034</b>	<b>37</b>	<b>1</b>	<b>1,328</b>	<b>4,780</b>	<b>242</b>
<b>Net assets (deficit)</b>						
Unrestricted (deficit)	3,771	500	190	(1,328)	(4,429)	282
<b>Total net assets (deficit)</b>	<b>3,771</b>	<b>500</b>	<b>190</b>	<b>(1,328)</b>	<b>(4,429)</b>	<b>282</b>
<b>Total liabilities and net assets</b>	<b>\$ 17,805</b>	<b>\$ 537</b>	<b>\$ 191</b>	<b>\$ –</b>	<b>\$ 351</b>	<b>\$ 524</b>

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Statements of Activities for CARE USA subsidiaries for the year ended June 30, 2016 are as follows. Interest and other income are included in government and other support in the accompanying consolidated statements of activities. *(in thousands)*

	AAF	CAN	CIT	MOFAD	SEED	CARE Enterprises
<b>Support</b>						
Contributions	\$ -	\$ 163	\$ -	\$ -	\$ -	\$ -
Interest and dividends	1,256	-	6	-	-	12
Rent and miscellaneous	-	258	-	-	3	426
<b>Total Support</b>	<b>1,256</b>	<b>421</b>	<b>6</b>	<b>-</b>	<b>3</b>	<b>438</b>
<b>Expenses</b>						
Program						
Development	947	549	2	-	505	816
<b>Total Operating Expenses</b>	<b>947</b>	<b>549</b>	<b>2</b>	<b>-</b>	<b>505</b>	<b>816</b>
<b>Operating Support and Revenue over (under) Expenses</b>	<b>309</b>	<b>(128)</b>	<b>4</b>	<b>-</b>	<b>(502)</b>	<b>(378)</b>
<b>Other Nonoperating Changes in Net Assets</b>						
Minority interest in subsidiary income	28	-	-	-	-	44
Foreign exchange gain/(loss)	(132)	-	(12)	147	(75)	(6)
Net realized and unrealized loss on investments	(487)	-	-	-	-	-
Capital contribution to CARE Enterprises	-	-	-	-	-	600
<b>Total Nonoperating Changes in Net Assets</b>	<b>(591)</b>	<b>-</b>	<b>(12)</b>	<b>147</b>	<b>(75)</b>	<b>638</b>
Total Changes in Net Assets	(282)	(128)	(8)	147	(577)	260
Net Assets (deficit), beginning of year	3,771	500	190	(1,328)	(4,429)	282
<b>Net Assets (deficit), end of year</b>	<b>\$ 3,489</b>	<b>\$ 372</b>	<b>\$ 182</b>	<b>\$ (1,181)</b>	<b>\$ (5,006)</b>	<b>\$ 542</b>

Statements of Activities for CARE USA subsidiaries for the year ended June 30, 2015 are as follows *(in thousands)*:

	AAF	CAN	CIT	MOFAD	SEED	CARE Enterprises
<b>Support</b>						
Contributions	\$ -	\$ 500	\$ -	\$ -	\$ -	\$ -
Interest and dividends	2,203	-	3	-	-	9
Rent and miscellaneous	176	230	(13)	159	(166)	478
<b>Total Support</b>	<b>2,379</b>	<b>730</b>	<b>(10)</b>	<b>159</b>	<b>(166)</b>	<b>487</b>
<b>Expenses</b>						
Program						
Development	1,288	230	16	-	1,606	766
<b>Total Operating Expenses</b>	<b>1,288</b>	<b>230</b>	<b>16</b>	<b>-</b>	<b>1,606</b>	<b>766</b>
<b>Operating Support and Revenue over (under) Expenses</b>	<b>1,091</b>	<b>500</b>	<b>(26)</b>	<b>159</b>	<b>(1,772)</b>	<b>(279)</b>
<b>Other Nonoperating Changes in Net Assets</b>						
Minority interest in subsidiary income	32	-	-	-	-	92
Foreign exchange loss	(743)	-	-	-	(6)	-
Net realized and unrealized loss on investments	(524)	-	-	-	-	-
<b>Total Nonoperating Changes in Net Assets</b>	<b>(1,235)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(6)</b>	<b>92</b>
Total Changes in Net Assets	(144)	500	(26)	159	(1,778)	(187)
Net Assets (deficit), beginning of year	3,915	-	216	(1,487)	(2,651)	469
<b>Net Assets (deficit), end of year</b>	<b>\$ 3,771</b>	<b>\$ 500</b>	<b>\$ 190</b>	<b>\$ (1,328)</b>	<b>\$ (4,429)</b>	<b>\$ 282</b>