CARE USA and Subsidiaries

Consolidated Financial Statements
Years Ended June 30, 2017 and 2016
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, 2017 and 2016, and the related consolidated statements of activities, 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 consolidated 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 consolidated 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 consolidated 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 3% and 4% in 2017 and 2016, total liabilities constituting 7% and 8% in 2017 and 2016, net assets constituting 1% in 2017 and 2016 and total revenues constituting less than 1% in 2017 and 2016 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of CARE USA and subsidiaries as of June 30, 2017 and 2016, 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

November 16, 2017

CARE USA and Subsidiaries

Consolidated Statements of Activities

For the Year Ended June 30, 2017

(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2017
Support				
Private contributions	$ 56,905	$ 125,803	$ 638	$ 183,346
United States government	183,177	–	–	183,177
CARE International	159,072	–	–	159,072
Other grants and contracts	81,110	–	–	81,110
Other revenue	3,478	74	–	3,552
Satisfaction of program restrictions	87,827	(87,677)	(150)	–
Total support	571,569	38,200	488	610,257
Expenses				
Program activities	535,038	–	–	535,038
Supporting activities	52,557	–	–	52,557
Total expenses	587,595	–	–	587,595
Investment income and other gains and losses	9,024	5,358	6,830	21,212
Total changes in net assets	(7,002)	43,558	7,318	43,874
Net assets, beginning of year	69,507	99,685	132,291	301,483
Net assets, end of year	$ 62,505	$ 143,243	$ 139,609	$ 345,357

For the Year Ended June 30, 2016

(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2016
Support				
Private contributions	$ 58,006	$ 83,078	$ 1,225	$ 142,309
United States government	144,738	–	–	144,738
CARE International	154,419	–	–	154,419
Other grants and contracts	77,524	–	–	77,524
Other revenue	5,615	78	–	5,693
Satisfaction of program restrictions	89,701	(89,701)	–	–
Total support	530,003	(6,545)	1,225	524,683
Expenses				
Program activities	487,470	–	–	487,470
Supporting activities	51,411	–	–	51,411
Total expenses	538,881	–	–	538,881
Investment income and other gains and losses	477	1,915	(9,743)	(7,351)
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
Net assets, end of year	$ 69,507	$ 99,685	$ 132,291	$ 301,483

See accompanying notes.

CARE USA and Subsidiaries

Consolidated Statements of Functional Expenses
For the Year Ended June 30, 2017
(in thousands)

	Program Activities				Supporting Activities			
	Development	Humanitarian	Public Information	Total	Fund Raising	Management & General	Total	2017 Total
Personnel costs	$ 94,337	$ 37,264	$ 3,362	$ 134,963	$ 7,625	$ 15,629	$ 23,254	$ 158,217
Grants/subgrants	106,166	36,080	–	142,246	–	29	29	142,275
Materials and services	43,430	66,253	603	110,286	12,194	1,986	14,180	124,466
Travel and transportation	26,962	9,201	265	36,428	764	1,502	2,266	38,694
Professional services	21,994	6,105	2,149	30,248	4,263	2,621	6,884	37,132
Occupancy	8,990	3,518	319	12,827	751	2,405	3,156	15,983
Equipment	5,946	2,488	247	8,681	372	854	1,226	9,907
Financing/depreciation/miscellaneous	5,918	1,808	89	7,815	467	756	1,223	9,038
Agricultural commodities/contributions in-kind	16,042	32,506	2,996	51,544	255	84	339	51,883
Total expenses	$ 329,785	$ 195,223	$ 10,030	$ 535,038	$ 26,691	$ 25,866	$ 52,557	$ 587,595

See accompanying notes.

CARE USA and Subsidiaries

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

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

See accompanying notes.

CARE USA and Subsidiaries

Consolidated Statements of Cash Flows
For the Years Ended June 30, 2017 and 2016
(in thousands)

Operating activities	2017	2016
Changes in net assets	$ 43,874	$ (21,549)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	5,518	5,548
Provision (recovery) for subsidiary microfinance loan losses	(93)	313
Net realized and unrealized loss (gain) on investments	(5,554)	1,685
Gain on deconsolidation of subsidiary, net	(4,798)	–
(Increase) decrease in value of split interest agreements	(6,862)	10,259
Changes in assets and liabilities		
(Increase) decrease in receivables	(37,580)	11,496
Increase in inventory	(3,387)	(237)
Decrease in program advances and other assets	4,440	4,492
Increase in split interest agreements	(12,289)	(475)
Increase (decrease) in accounts payable and accrued expenses	1,319	(4,577)
Decrease in deferred revenue	(14,074)	(10,002)
Increase (decrease) in benefits accrued for employees	(1,382)	813
Net cash used for operating activities	(30,868)	(2,234)
Investing activities		
Purchases of investments	(128,145)	(85,627)
Proceeds from sales of investments	147,625	96,199
(Increase) decrease in restricted cash	380	(380)
Purchases of property and equipment	(3,862)	(3,225)
Proceeds from sales of property and equipment	975	27
Net cash provided by investing activities	16,973	6,994
Financing activities		
Decrease in subsidiary loans payable and minority interest in subsidiary	(4,583)	(923)
Payments to gift annuitants	(1,517)	(1,672)
Increase in liability for split interest agreements	269	516
Net cash used for financing activities	(5,831)	(2,079)
Net change in cash and cash equivalents	(19,726)	2,681
Cash and cash equivalents, beginning of year	74,445	71,764
Cash and cash equivalents, end of year	$ 54,719	$ 74,445
Supplemental cash flow information:		
Noncash contributions	$ 15,328	$ 11,469
Cash paid for interest	$ 557	$ 557

See accompanying notes.

CARE USA and Subsidiaries

Consolidated Balance Sheets
(in thousands)

	June 30, 2017	June 30, 2016
Assets		
Cash and cash equivalents	$ 54,719	$ 74,445
Restricted cash	196	576
Receivables, net	105,022	67,455
Program advances and other assets	39,686	40,647
Split interest agreements	136,646	117,526
Investments, at fair value	138,405	152,583
Property and equipment, net	14,669	17,357
Total assets	$ 489,343	$ 470,589
Liabilities and net assets		
Liabilities		
Accounts payable and accrued expenses	$ 44,211	$ 44,802
Deferred revenue	53,701	67,775
Accrued salaries and benefits	22,543	23,925
Liability for split interest agreements	12,831	14,111
Subsidiary loans payable and minority interest	10,700	18,493
Total liabilities	143,986	169,106
Net assets		
Unrestricted	62,505	69,507
Temporarily restricted	143,243	99,685
Permanently restricted	139,609	132,291
Total net assets	345,357	301,483
Total liabilities and net assets	$ 489,343	$ 470,589

See accompanying notes.

1. Organization Mission and Structure

Mission

The Cooperative for Assistance and Relief Everywhere, Inc. (CARE USA or the Organization) is an international humanitarian organization delivering emergency relief and long-term international development programs. CARE USA's mission is to work around the globe to save lives, defeat poverty and achieve social justice. CARE USA operates programs in more than 40 countries throughout Africa, Asia, Europe, and Latin America.

CARE USA's program activities were comprised of the following for the fiscal years ended June 30, 2017 and 2016:

- Development. CARE USA and partners provide innovative solutions for sustainable development through supporting new ways of supplying or strengthening essential service delivery, building capacity, building resilience for reducing risk, and empowering the most vulnerable, particularly women and girls. For the years ended June 30, 2017 and 2016 development work represented 62% and 73%, respectively, of total program expenses.

- Humanitarian. In times of conflict or disaster, 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. For the years ended June 30, 2017 and 2016 humanitarian work represented 36% and 26%, respectively, of total program expenses, reflecting the increase in conflicts and natural disasters in the countries that we operate.

- 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 based on the belief that poverty cannot be overcome until all people have equal rights and opportunities.

Within these broad areas, CARE USA has a special focus on food and nutrition security, water and sanitation, resilience to climate change, women's economic empowerment, and sexual and reproductive health and rights.

Structure and Related Parties

CARE USA is a member of CARE International, an organization that coordinates various agreed upon functions and activities common across the membership, including program activities in certain cases. In the regular course of its operations, CARE USA receives and provides funding through grants and other contributions to and from CARE International and member organizations. Support from CARE International members, as well as amounts due to and due from members, are disclosed in the accompanying consolidated financial statements.

The accompanying consolidated financial statements of CARE USA include the assets, liabilities, revenues and expenses of all wholly-owned subsidiaries, majority owned subsidiaries and related entities over which CARE USA exercises control. The general condition for control is ownership or a majority of the voting interests of an entity. All intercompany accounts and transactions have been eliminated from the consolidated financial statements.

Consolidated entities include:

- Access Africa Fund, LLC (AAF) is a majority owned subsidiary formed with dual investment objectives to enable sub-Saharan micro-finance institutions to expand financial services by making debt and equity investments. CARE USA owns 91% of the class A capital stock. On April 15, 2017, the board of managers of AAF agreed to the implementation of an active management strategy which will entail the gradual wind down of AAF.

- CARE Enterprises, Inc. is a for-profit subsidiary launched in 2013 that invests in for-profit, financially viable ventures that alleviate poverty by creating dignified employment and access to markets. For-benefit describes those business ventures that aim to earn a profit while delivering on a social mission.

- CARE Action Now (CAN) is a related non-profit entity operating exclusively for the purpose of educating the public, legislative, executive, and judiciary policy-makers on the appropriate and sustainable provision of development and humanitarian assistance to underprivileged people.

- SEEDFinance Corporation (SEED) was a for-profit majority owned subsidiary incorporated in the Philippines formed primarily to provide financial and technical assistance to local cooperatives, rural banks and microfinance non-government organizations. CARE USA owned 57% of SEED's common stock. SEED's application for voluntary liquidation was approved by the Philippine court on January 27, 2017 such that CARE USA no longer controls this entity. CARE USA deconsolidated SEED effective on the date of the liquidation order. The gain on deconsolidation of subsidiary of $4.8 million, included in other gain and losses of the accompanying consolidated statements of activities for the year ended June 30, 2017, is presented net of $511,000 of operating losses incurred by SEED for the period July 1, 2016 to January 27, 2017.

- 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.

- MOFAD is wholly owned non-profit subsidiary in Afghanistan that is currently non-operational.

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

2. Summary of Significant Accounting Policies

Basis of accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (US GAAP). Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

Net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, CARE USA's net assets and changes therein are classified and reported as follows:

- Permanently restricted assets – represent the historical dollar amount of gifts, including trusts, subject to donor imposed stipulations to be invested in perpetuity by the Organization unless action by the donor or courts removes the restriction. The income on permanently restricted net assets is available for the purpose specified by the donor.

- Temporarily restricted assets – represent gifts, including promises to give and trusts, as well as income and gains that can be expended, subject to donor stipulations that permit the Organization to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or actions of the Organization. Upon satisfying the requirements, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the consolidated statements of activities as satisfaction of program restrictions.

- Unrestricted net assets – all remaining net assets of the Organization and subsidiaries that are not subject to donor imposed stipulations. Unrestricted net assets include $2.5 million related to Access Africa.

Use of Estimates and Assumptions
The preparation of consolidated financial statements in conformity with US 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. Significant areas of estimates and judgement include (1) receivables and the allowance for doubtful accounts; (2) fair value of split interest agreements and investments; and (3) assessment of loss contingencies. Actual results may differ from those estimates.

Functional Allocation of Expenses
CARE USA allocates expenses on a functional basis among its various programs and supporting services. Expenses that can be identified with a specific program or support service are charged directly. Other expenses that are common to several functions are allocated by various statistical bases.

Revenue Recognition

Contributions
Contributions are recorded as revenue at fair value when an unconditional promise to give has been made. Conditional promises to give are not included as revenue until such time as the conditions are met. Contributions are recorded as unrestricted, temporarily restricted or permanently restricted, depending on the existence or absence of donor imposed restrictions.

During fiscal year 2017, CARE USA determined that promises to give previously determined to be conditional were now unconditional, as the possibility of not meeting administrative conditions was deemed remote. The impact of this change on existing promises to give gifts resulted in a one-time acceleration of $21.4 million of contribution revenue in fiscal 2017. CARE USA had $52.0 million of conditional pledges as of June 30, 2016.

Grant Revenue
Funds provided under grants or contracts are deemed to be earned and reported as revenue when the program expenditures have been incurred and is reflected as either US government, CARE International or other grants and contracts 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
Donated goods and services that meet the criteria for recognition are recorded at estimated fair value when received and recorded as expense when utilized. Contributions of non-financial assets consist of public service announcements and donated professional services. CARE USA recognized total contribution revenue of $3.7 million and $2.1 million for public service announcements and donated professional services for the years ended June 30, 2017 and 2016, respectively.

Receivables
Receivables represent grants and contracts receivables, ocean freight receivable, and amounts due on unconditional promises to give. Grants and contracts receivable are generally 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.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value based on the present value of their estimated future cash flows and discounted at an applicable rate in the year the pledge was made. The discount on those amounts is computed at the rate commensurate with the risks involved.

Cash and Cash Equivalents
Cash and cash equivalents consists of short-term, highly liquid investments with original maturities of three months or less when purchased. The carrying values of cash and cash equivalents approximate their fair value due to the short-term nature of these instruments. CARE USA maintains amounts on deposit with various financial institutions, which may, at times, exceed federally insured limits. Management periodically evaluates the credit-worthiness of those institutions, and has not experienced any losses on such deposits.

Cash amounts maintained overseas are largely uninsured. Cash and cash equivalents held in the United States were $15.7 million and $41.8 million, including $196,000 and $576,000 of restricted cash, as of June 30, 2017 and 2016, respectively. Cash and cash equivalents held outside the United States were $39.2 million and $33.2 million, as of June 30, 2017 and 2016, respectively. Certain donors require cash be held in separate accounts which is available for current use. Donor segregated cash accounts totaled $14.3 million and $6.2 million as of June 30, 2017 and 2016, respectively.

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.

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

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 for distribution via projects or monetization with the cash proceeds to be used in projects. 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.

As of June 30, 2017 and 2016, CARE USA had a 34.4% non-controlling interest in MicroVest General Partner Holding Company and 8.3% in MicroVest II Limited Partnership. The investments are accounted for using the equity method.

Split interest agreements

CARE USA is a beneficiary of various split interest agreements and bequests such as perpetual trusts, charitable lead trusts, charitable remainder trusts and charitable gift annuities. CARE USA recognizes contributions, assets and liabilities received under split interest agreements at fair value. Interest earned on split interest agreements is also recognized at fair value. Subsequent 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 the other beneficiaries under specified terms of the trust. The liability for split interest agreements is recorded at net present value which approximates fair value. The present value of the estimated future payments was discounted using an investment rate of return and a discount rate of 7.0% for the years ended June 30, 2017 and 2016.

Investments

Investments are stated at fair value. 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 $158,000 and $211,000 are netted against interest and dividend income for the years ended June 30, 2017 and 2016, respectively.

Property and equipment

Land, buildings and equipment are recorded at acquisition cost or estimated fair value on date of contribution. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets. The estimated useful lives by asset class are as follows:

Asset	Estimated Useful Life
Buildings	25 years
Building improvements	7 years
Software	3 to 10 years
Equipment	3 to 5 years
Leasehold improvements	Shorter of 5 years or life of the lease

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

Deferred revenue

Deferred revenue represents payments received in advance for services which have not performed or goods which have not yet been delivered.

Foreign currency translation

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

Tax status

CARE USA is a tax-exempt organization under Section 501(c) (3) of the US 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 was taxable in the Philippines, where it was 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

Subsequent events have been evaluated through November 16, 2017, the date the financial statements were issued. There were no subsequent events that required recognition or disclosure 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, 2020. The impact of this standard on our consolidated financial statements is being evaluated.

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 ending June 30, 2021 and early adoption is permitted. The impact of this standard on our consolidated financial statements is being evaluated.

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 not-for-profits. This guidance is effective for annual financial statements issued for the year ending June 30, 2019 with early application permitted. The most significant provisions of this standard requires two classes of net assets, rather than the currently required three classes. As this standard is primarily related to changes in disclosure and presentation, adoption is not expected to have an impact on the 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)*:

	2017		2016	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Third party trusts and endowments	$ -	$ 117,702	$ -	$ 130,773
Sexual, reproductive and maternal health and a life free from violence	76,374	28	41,230	-
Humanitarian action	25,287	6,179	16,759	1,006
Food and nutrition security and resilience to climate change	16,543	438	11,661	-
Women's economic empowerment	16,057	3,185	14,871	-
Multi-sector and other	8,687	12,077	14,448	512
Time restricted	295	-	716	-
Total	$ 143,243	$ 139,609	$ 99,685	$ 132,291

Generally, income from third party trusts and endowments is available for unrestricted purposes.

4. Investment income and other gains and losses

Investment income and other gains and losses was comprised of the following for the years ended June 30, 2017 (*in thousands*):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Gain on deconsolidation of subsidiary, net	$ 4,798	$ -	$ -	$ 4,798
Interest and dividends, net	2,418	2,089	-	4,507
Net realized and unrealized gain on investments	2,373	3,378	-	5,751
Increase (decrease) in value of split interest agreements	141	(109)	6,830	6,862
Foreign exchange loss	(827)	-	-	(827)
Minority interest in subsidiary income	121	-	-	121
	$ 9,024	$ 5,358	$ 6,830	$ 21,212

Investment income and other gains and losses was comprised of the following for the years ended June 30, 2016 (*in thousands*):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends, net	$ 2,788	$ 3,034	$ -	$ 5,822
Net realized and unrealized gain (loss) on investments	499	(1,187)	-	(688)
Increase (decrease) in value of split interest agreements	(584)	68	(9,743)	(10,259)
Foreign exchange loss	(2,298)	-	-	(2,298)
Minority interest in subsidiary income	72	-	-	72
	$ 477	$ 1,915	$ (9,743)	$ (7,351)

5. Split interest agreements

Split interest agreements assets, recorded at fair value, were comprised of the following as of June 30 (*in thousands*):

	2017	2016
Perpetual trusts	$ 122,739	$ 115,088
Charitable lead trusts	10,968	118
Other	2,939	2,320
	$ 136,646	$ 117,526

Liability for split interest agreements, recorded at present value, were comprised of the following as of June 30 (*in thousands*):

	2017	2016
Charitable gift annuity payable	$ 11,117	$ 12,463
Other	1,714	1,648
	$ 12,831	$ 14,111

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 split interest agreements. 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, 2017 and 2016, more than 83% of the value of the trust can be derived from market information. Less than 17% 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 lead trusts

Charitable lead trusts provide income payments to at least one qualified charitable organization for a fixed term of years, the lives of one or more individuals, or a combination of the two, after which, trust assets are paid to either the grantor or one or more non-charitable beneficiaries named in the trust instrument. Temporarily or permanently restricted contributions revenue is recognized at the date each agreement is established, based on the terms, and net of the liability recorded for the present value of future payments to be made to donors and other beneficiaries. Changes in value resulting from changes in actuarial assumptions and accretion of the discount are reported as increases and decreases in the respective net assets class.

Other includes charitable remainder trusts, pooled income funds and bequests.

Charitable gift annuity payable

Charitable gift annuities obligations are included in liability for split interest agreements on 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 to the donor or individuals designated by the donor during the annuity recipient's lifetime. 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%.

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 $12.4 million and $14.0 million as of June 30, 2017 and 2016, respectively.

Contributions revenue from split interest agreements was $26.4 million and $14.4 million for the years ended June 30, 2017 and 2016. The change in value in split interest agreements was a $6.9 million increase in value and a $10.3 million decrease in value for the years ended June 30, 2017 and 2016, respectively.

6. Endowments

CARE USA's endowments consist of eleven individual funds established for a variety of purposes and include donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. As of June 30, 2017 and 2016, endowments of $29.4 million and $26.2 million, respectively, are included in Investments, at fair value on the consolidated balance sheets.

Interpretation of Relevant Law

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

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

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

The changes in endowment assets for the year ended June 30, 2017, are as follows (*in thousands*):

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 7,488	$ 18,733	$ 26,221
Contributions received	-	136	136
Investment income	1,246	-	1,246
Net depreciation (realized and unrealized)	1,807	-	1,807
Total investment return	3,053	136	3,189
Appropriation of endowment assets for expenditure			
for unrestricted purposes	(1,198)	-	(1,198)
For temporarily restricted purposes	(2,108)	(150)	(2,258)
Other changes	3,160	3	3,163
Endowment net assets, end of year	$ 10,395	$ 18,722	$ 29,117

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

	Temporarily Restricted	Permanently Restricted	Total
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)
Endowment net assets, end of year	$ 7,488	$ 18,733	$ 26,221

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

	2017	2016
Temporarily Restricted Net Assets:		
The portion of perpetual endowment funds subject to time restriction under SPMIFA:		
Without purpose restrictions	$ 1,265	$ 1,285
With purpose restrictions	9,130	6,203
Total Endowment funds classified as temporarily restricted net assets	$ 10,395	$ 7,488
Permanently Restricted Net Assets:		
The portion of perpetual endowment funds required to be retained permanently either by explicit donor stipulation or by SPMIFA	$ 18,722	$ 18,733

Endowment Investment Policy

CARE USA has a spending policy specific to endowments, which is authorized by the Board of Directors and monitored by the Finance Committee. The policy states that CARE USA will annually allocate five percent 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. CARE appropriated $3.1 million and $77,000 for the years ended June 30, 2017 and 2016, respectively.

If market value is less than its historical dollar value due to unfavorable market condition, CARE will not appropriate funds for spending until the investment accounts related to the endowment fund recover its losses. If a donor defines in the agreement that distributions should occur under the standard spending formula guidelines with no restrictions due to underwater amount, the donor's wishes will override CARE's spending policy and the full amount will be distributed.

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 2017 and 2016.

Asset Category	Minimum	Maximum	Target
Fixed Income	35%	50%	40%
Equity	55%	65%	60%

7. Fair Value Measurements

CARE USA applies the accounting standard ASC Topic 820, *Fair Value Measurements and Disclosures* that establishes a framework for measuring fair value. Fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) between market participants at the measurement date. The standard establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of the fair value hierarchy are as follows:

Level 1: Inputs that reflect unadjusted quoted market prices for identical assets or liabilities in active markets that are accessible at measurement date.

Level 2: Inputs other than quoted prices that are either directly or indirectly observable for the asset or liability, including inputs in markets that are not considered to be active. 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 and inputs derived principally from, or corroborated by, observable market data by correlation or by other means.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liability. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available.

CARE USA uses the following methods and significant assumptions to estimate fair value for its assets measured and carried at fair value. There have been no changes in the methodologies from June 30, 2015.

- 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. 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 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 fixed income 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 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 six and a half months as of June 30, 2017. The promissory notes are unsecured notes bearing interest at rates ranging from 6.0% to 7.0%, with a weighted-average rate of 6.25%, and maturing at various dates through June 2018. As of June 30, 2016, the weighted average term was 9 months and the promissory notes were bearing interest at rates ranging from 5.5% to 16.0%, with a weighted-average rate of 8.78%.

- To estimate the 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 and future financial and operating results, payment history, sovereign and credit rating.

- AAF investments were $11.0 million and $13.7 million as of June 30, 2017 and 2016, respectively. $9.3 million and $12.7 million of the AAF investments were reported as Level 3, and $1.5 million and $921,000 were reported as Level 2 as of June 30, 2017 and 2016, respectively, as these investments include the MicroVest Short Duration Fund, LP, for which fair value is estimated using the practical expedient of reported net assets value.

The following table presents the assets measured at fair value on a recurring basis as of June 30, 2017 *(in thousands):*

	Level 1	Level 2	Level 3	Fair Value Measurement
Investments				
Money market funds	$ 6,169	$ -	$ -	$ 6,169
Fixed income securities				
US treasury obligations	16,507	1,660	-	18,167
Agency obligations	-	2,714	-	2,714
Corporate bonds	-	13,736	-	13,736
Other fixed income securities	-	-	6,777	6,777
Exchange traded funds	42,422	-	-	42,422
Other equity securities	-	-	2,547	2,547
Mutual funds				
Fixed income funds	11,285	-	-	11,285
Equity funds	34,588	-	-	34,588
Total investments	110,971	18,110	9,324	138,405
Split interest agreements	-	-	136,646	136,646
	$ 110,971	$ 18,110	$ 145,970	$ 275,051

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

	Level 1	Level 2	Level 3	Fair Value Measurement
Investments				
Money market funds	$ 10,924	$ -	$ -	$ 10,924
Fixed income securities				
US treasury obligations	16,236	-	-	16,236
Agency obligations	-	6,220	-	6,220
Corporate bonds	-	12,864	-	12,864
Other fixed income securities	-	248	9,525	9,773
Exchange traded funds	45,199	-	-	45,199
Other equity securities	-	1,340	3,213	4,553
Mutual funds				
Fixed income funds	11,739	-	-	11,739
Equity funds	34,687	39	-	34,726
Overseas time deposits	-	349	-	349
Total investments	118,785	21,060	12,738	152,583
Split interest agreements	-	-	117,526	117,526
	$ 118,785	$ 21,060	$ 130,264	$ 270,109

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)*:

	Equity Securities	Debt Securities	Split Interest Agreements	Total
Fair value as of June 30, 2015	$ 2,874	$ 11,859	$ 124,474	$ 139,207
Additions	-	-	2,833	2,833
Purchases or transfers	-	6,800	-	6,800
Maturities or redemptions	(22)	(10,267)	(38)	(10,327)
Decrease in value of split interest agreements	-	-	(9,743)	(9,743)
Net realized and unrealized gain on investments	361	1,133	-	1,494
Fair value as of June 30, 2016	$ 3,213	$ 9,525	$ 117,526	$ 130,264
Additions	-	-	15,578	15,578
Purchases or transfers	-	5,502	-	5,502
Maturities or redemptions	-	(8,037)	(3,179)	(11,216)
Increase in value of split interest agreements	-	-	6,721	6,721
Net realized and unrealized loss on investments	(666)	(213)	-	(879)
Fair value as of June 30, 2017	$ 2,547	$ 6,777	$ 136,646	$ 145,970

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.

8. Receivables, net

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

	2017	2016
Grants and contracts receivable:		
US government agencies	$ 28,577	$ 24,435
CARE International members	21,021	28,202
Other grants and contracts	12,160	12,557
Contributions receivable:		
Promises to give	43,817	-
Other	347	3,259
	105,922	68,453
Allowance for uncollectible accounts	(900)	(998)
	$ 105,022	$ 67,455

As of June 30, 2017, $91.9 million of the total receivables are due within one year or less and $14.0 million of receivables are due in more than one year but less than five years. As of June 30, 2016, $67.6 million of the total receivables are due within one year or less and $800,000 due in more than one year.

9. Program Advances and Other Assets

Program advances and other assets were comprised of the following as of June 30 *(in thousands)*:

	2017	2016
Subgrantee and program advances	$ 15,787	$ 18,661
Inventory	5,077	1,691
Investment in MicroVest	4,504	5,648
Receivable from CARE International Members	2,950	3,225
Prepaid and deposits	3,687	4,642
Vendor and other advances	4,984	3,578
Other assets	2,697	3,202
	$ 39,686	$ 40,647

10. Property and Equipment, net

Property and equipment was comprised of the following as of June 30 *(in thousands)*:

	2017	2016
Land	$ 3,067	$ 3,067
Buildings and building improvements	9,940	12,167
Vehicles, equipment and software	53,816	54,824
Leasehold improvements	2,002	1,701
	68,825	71,759
Accumulated depreciation and amortization	(54,156)	(54,402)
	$ 14,669	$ 17,357

Depreciation and amortization expenses were $5.5 million for both years ended June 30, 2017 and 2016. Unamortized internal use software costs were $6.0 million and $7.1 million, respectively, for the years ended June 30, 2017 and 2016, respectively.

11. Deferred Revenue

Deferred revenue was comprised of the following as of June 30 *(in thousands)*:

	2017	2016
Commodity grants	$ 4,641	$ 7,760
Grants and contracts		
US government agencies	10,219	3,860
CARE International members	21,963	33,427
Other grants and contracts	16,878	22,728
	$ 53,701	$ 67,775

12. Subsidiary Loans Payable and Minority Interest

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 US Government to fund new portfolio debt investments. AAF had outstanding balances of $9.2 million and $13.5 million under the credit facility as of June 30, 2017 and 2016, respectively. The promissory notes bear current interest between 1.67% and 2.52% per annum payable, with the principal payment due in full by June 30, 2018. For the year ended June 30, 2017 AAF obtained a waiver from its lender to cure noncompliance with three financial ratio covenants.

MOFAD's total outstanding obligations associated with the Microfinance Investment and Support Facility in Afghanistan (MISFA) were $1.2 million for the years ended June 30, 2017 and 2016. This loan is payable on demand and carries interest rate of 5.00%.

Debt obligations for SEED were $3.4 million as of June 30, 2016.

Minority interest in subsidiaries was $319,000 and $442,000 for the years ended June 30, 2017 and 2016, respectively.

13. Defined Contribution Plans

CARE USA has a defined contribution plan under Internal Revenue Code Section 401(k) for employees that meet 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, 2017 and 2016 were $2.5 million and $2.3 million, respectively.

Within the various countries in which CARE USA operates outside the United States, most employees are citizens of the host country. These employees are generally not eligible for the CARE USA defined contribution plan, but they are eligible for local government or CARE USA-sponsored plans appropriate for that country.

14. Commitments and Other Matters

As of June 30, 2017, CARE USA is obligated under non-cancelable operating lease agreements for warehousing, office space and staff housing at minimum rentals as follows *(in thousands)*:

Year	Amount
2018	$ 5,988
2019	3,186
2020	1,697
2021	863
2022-2023	652
	$ 12,386

Total rent expense was $12.9 million and $11.7 million, respectively, for the years ended June 30, 2017 and 2016.

AAF has outstanding future commitments under foreign currency exchange contracts of $6.1 million and $6.3 million as of June 30, 2017 and 2016, respectively.

CARE USA maintained performance guarantees totaling $11.7 million and $11.4 million for the years ended June 30, 2017 and 2016, respectively, on behalf of CARE Country offices, 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 was 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 $6.9 million and $5.8 million respectively, as of June 30, 2017 and 2016.

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, 2017 and 2016.

15. Contingencies

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.

Management is aware of approximately $2.2 million in disallowed costs as of June 30, 2017 resulting from various audits for the periods 2004 to 2008, of which $1.7 million is currently under appeal. USAID is reviewing supporting documentation submitted by management to clear these questioned costs. CARE USA had $743,000 and $2.5 million accrued for questioned and disallowed costs as of June 30, 2017 and 2016, 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. The Supreme Court in Bolivia, the highest court, affirmed one of the lower court decisions in July 2016 and sent the other case back to the lower court. Although CARE USA no longer has operations in Bolivia, the outcome of this matter is currently not determinable, and management is monitoring the situation closely. No definitive estimate can be made of the potential liability.