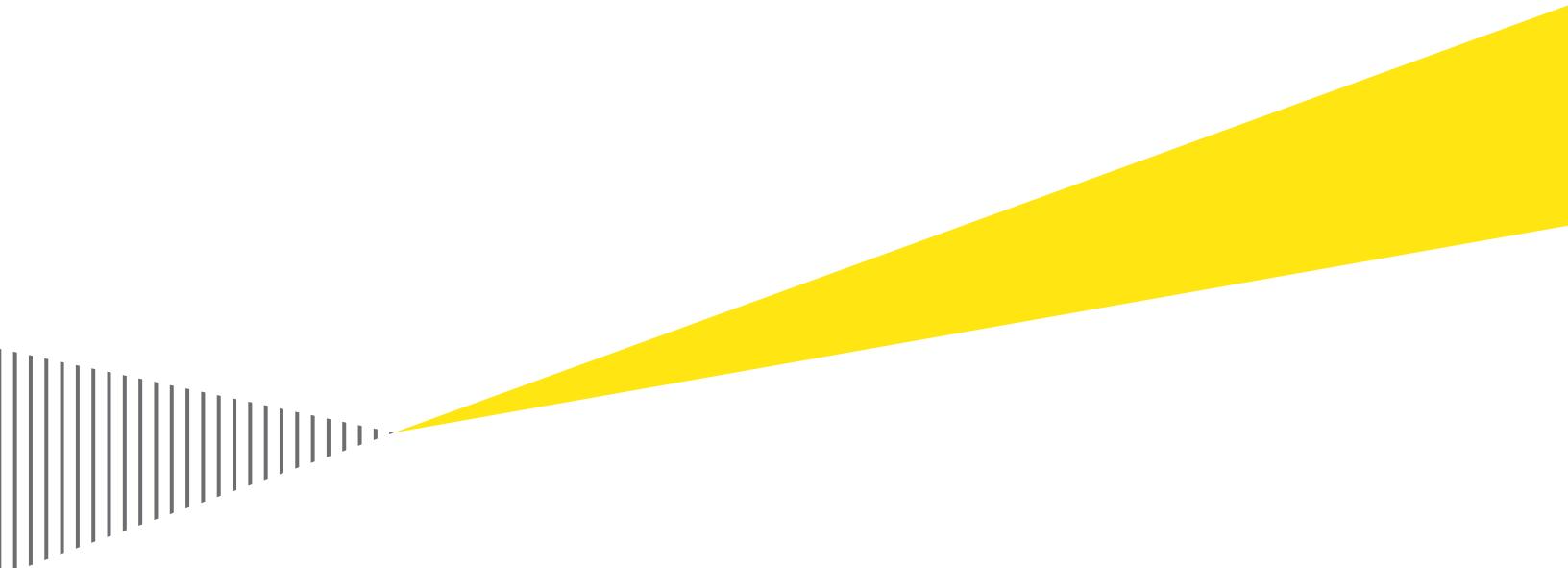


Consolidated Financial Statements and Supplementary Information;
And Reports and Schedule Related to Title 2 U.S. Code of Federal Regulations Part 200,
Uniform Administrative Requirements, Cost Principles and
Audit Requirements for Federal Awards (Uniform Guidance)

CARE USA and Subsidiaries
Year Ended June 30, 2017
With Report of Independent Auditors

Ernst & Young LLP



CARE USA and Subsidiaries
Consolidated Financial Statements and Supplementary Information
and Reports and Schedule Related to Uniform Guidance Audit
Year Ended June 30, 2017

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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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of 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. The financial statements of Access Africa Fund LLC were not audited in accordance with *Government Auditing Standards*.

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.



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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.

Supplementary information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Schedule of Expenditures of Federal Awards as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated November 16, 2017 on our consideration of CARE USA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CARE USA's internal control over financial reporting and compliance.

November 16, 2017

CARE USA and Subsidiaries
 Consolidated Statements of Activities
 For the Year Ended June 30, 2017
(In thousands)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
				<u>2017</u>
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)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
				<u>2016</u>
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			2017 Total
	Development	Humanitarian	Public Information	Total	Fund Raising	Management & General	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 (continued)
 For the Year Ended June 30, 2016
(In thousands)

	Program Activities				Supporting Activities				2016 Total	
	Development	Humanitarian	Public Information	Total	Fund Raising	Management & General	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	<u>(30,868)</u>	<u>(2,234)</u>
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	<u>16,973</u>	<u>6,994</u>
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	<u>(5,831)</u>	<u>(2,079)</u>
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	<u>\$ 54,719</u>	<u>\$ 74,445</u>
Supplemental cash flow information:		
Noncash contributions	<u>\$ 15,328</u>	<u>\$ 11,469</u>
Cash paid for interest	<u>\$ 557</u>	<u>\$ 557</u>

See accompanying notes.

CARE USA and Subsidiaries
Consolidated Balance Sheets
(*In thousands*)

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
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.

CARE USA and Subsidiaries
Consolidated Financial Statements
June 30, 2017 and 2016

1. Organization

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.

CARE USA and Subsidiaries
Consolidated Financial Statements (continued)

1. Organization (continued)

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.
- SEED Finance 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 USA and Subsidiaries
Consolidated Financial Statements (continued)

1. Organization (continued)

- 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.

CARE USA and Subsidiaries
Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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.

CARE USA and Subsidiaries
Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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.

CARE USA and Subsidiaries
Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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.

CARE USA and Subsidiaries
Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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.

CARE USA and Subsidiaries
Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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.

CARE USA and Subsidiaries
Consolidated Financial Statements (continued)

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.

CARE USA and Subsidiaries
Consolidated Financial Statements (continued)

4. Investment Income and Other Gains and Losses

Investment income and other gains and losses was comprised of the following for the year 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
	<u>\$ 9,024</u>	<u>\$ 5,358</u>	<u>\$ 6,830</u>	<u>\$ 21,212</u>

Investment income and other gains and losses was comprised of the following for the year 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
	<u>\$ 477</u>	<u>\$ 1,915</u>	<u>\$ (9,743)</u>	<u>\$ (7,351)</u>

CARE USA and Subsidiaries
Consolidated Financial Statements (continued)

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
	<u>\$ 136,646</u>	<u>\$ 117,526</u>

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
	<u>\$ 12,831</u>	<u>\$ 14,111</u>

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 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.

CARE USA and Subsidiaries
Consolidated Financial Statements (continued)

5. Split Interest Agreements (continued)

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.

CARE USA and Subsidiaries
Consolidated Financial Statements (continued)

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.

CARE USA and Subsidiaries
Consolidated Financial Statements (continued)

6. Endowments (continued)

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)	<u>1,807</u>	<u>-</u>	<u>1,807</u>
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	<u>\$ 10,395</u>	<u>\$ 18,722</u>	<u>\$ 29,117</u>

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)	<u>(1,024)</u>	<u>-</u>	<u>(1,024)</u>
Total investment return	659	375	1,034
Appropriation of endowment assets for expenditure	(77)	-	(77)
Endowment net assets, end of year	<u>\$ 7,488</u>	<u>\$ 18,733</u>	<u>\$ 26,221</u>

CARE USA and Subsidiaries
Consolidated Financial Statements (continued)

6. Endowments (continued)

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	<u>\$ 10,395</u>	<u>\$ 7,488</u>
Permanently Restricted Net Assets:		
The portion of perpetual endowment funds required to be retained permanently either by explicit donor stipulation or by SPMIFA	<u>\$ 18,722</u>	<u>\$ 18,733</u>

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.

CARE USA and Subsidiaries
Consolidated Financial Statements (continued)

6. Endowments (continued)

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 and Subsidiaries
Consolidated Financial Statements (continued)

7. Fair Value Measurements (continued)

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.

CARE USA and Subsidiaries
Consolidated Financial Statements (continued)

7. Fair Value Measurements (continued)

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

CARE USA and Subsidiaries
Consolidated Financial Statements (continued)

7. Fair Value Measurements (continued)

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
	<u>\$ 118,785</u>	<u>\$ 21,060</u>	<u>\$ 130,264</u>	<u>\$ 270,109</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*):

	Equity Securities	Debt Securities	Split Interest Agreements	Total
	\$ 2,874	\$ 11,859	\$ 124,474	\$ 139,207
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

CARE USA and Subsidiaries
Consolidated Financial Statements (continued)

7. Fair Value Measurements (continued)

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
	<u>105,922</u>	<u>68,453</u>
Allowance for uncollectible accounts	(900)	(998)
	<u>\$ 105,022</u>	<u>\$ 67,455</u>

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.

CARE USA and Subsidiaries
Consolidated Financial Statements (continued)

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
	<u>\$ 39,686</u>	<u>\$ 40,647</u>

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
	<u>68,825</u>	<u>71,759</u>
Accumulated depreciation and amortization	(54,156)	(54,402)
	<u>\$ 14,669</u>	<u>\$ 17,357</u>

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.

CARE USA and Subsidiaries
Consolidated Financial Statements (continued)

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
	<u>\$ 53,701</u>	<u>\$ 67,775</u>

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.

CARE USA and Subsidiaries
Consolidated Financial Statements (continued)

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
<u>\$ 12,386</u>	

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 and Subsidiaries
Consolidated Financial Statements (continued)

14. Commitments and Other Matters (continued)

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.

**Supplementary Information and
Reports and Schedule**

CARE USA
Schedule of Expenditures of Federal Awards
June 30, 2017

Federal Agency	Award Reference Number	CFDA	Pass-Through Entity	Pass-Through Entity Ref Number	Country	Cash Expenditures	Non Cash Expenditures	Total Expenditures	Payments to Subrecipients
USDA	12-CA-11132762-184	10.684 CFDA # 10.684 International Forestry Programs			Sierra Leone	\$ 133,497 \$ 133,497	\$ — \$ —	\$ 133,497 \$ 133,497	\$ — \$ 14,576
United States Department of Agriculture (USDA) Total						133,497	—	133,497	14,576
USDS	S-LMAQM-14-GR-1100	19.345 CFDA # 19.345 International Programs to Support Democracy, Human Rights and Labor			Bolivia	30,172 30,172	— —	30,172 30,172	
United States Department of Agriculture (USDA) Total						133,497	—	133,497	14,576
USDS BPRM	S-PRMCO-13-CA-1173	19.517			Kenya	3,570	—	3,570	
USDS BPRM	S-PRMCO-14-CA-1048	19.517			Chad	(7,384)	—	(7,384)	
USDS BPRM	S-PRMCO-14-CA-1271	19.517			Kenya	(6,186)	—	(6,186)	
USDS BPRM	S-PRMCO-15-CA-1090	19.517			Chad	334,034	—	334,034	
USDS BPRM	S-PRMCO-15-CA-1131	19.517			Kenya	(7,887)	—	(7,887)	
USDS BPRM	S-PRMCO-16-CA-1061	19.517			Egypt	274,920	—	274,920	
CFDA # 19.517 Overseas Refugee Assistance Programs for Africa						591,067	—	591,067	297,330
USDS BPRM	S-PRMCO-13-CA-1136	19.519			Jordan	(3,571)	—	(3,571)	
USDS BPRM	S-PRMCO-14-CA-1069	19.519			Jordan	(11,359)	—	(11,359)	
USDS BPRM	S-PRMCO-14-CA-1211	19.519			Jordan	(13,515)	—	(13,515)	
USDS BPRM	S-PRMCO-15-CA-1187	19.519			Lebanon	1,342,465	—	1,342,465	
USDS BPRM	S-PRMCO-15-CA-1212	19.519			Jordan	460,706	—	460,706	
USDS BPRM	S-PRMCO-15-CA-1213	19.519			Egypt	159,903	—	159,903	
USDS BPRM	S-PRMCO-16-CA-1189	19.519			Lebanon	1,692,362	—	1,692,362	
USDS BPRM	S-PRMCO-16-CA-1268	19.519			Jordan	1,381,811	—	1,381,811	
CFDA # 19.519 Overseas Refugee Assistance Program for Near East and South Asia						5,008,802	—	5,008,802	2,737,930
United States Department of State (USDS) Total						5,630,041	—	5,630,041	3,035,260
US Center for Disease Control	3U2GPS002787-04S1	93.067 International Rescue Committee		IRC/07-14/LF/231	Cote d'Ivoire	(2,580)	—	(2,580)	
US Center for Disease Control	5U2GPS001920-05	93.067			Zambia	3,102,987	—	3,102,987	
US Center for Disease Control	U2GGH000985	93.067 Elizabeth Glaser Pediatrics AIDS Fdn.		CG-02-9-900-04015-5- CFDA # 93.067 Global AIDS	Malawi	81,236 3,181,643	— —	81,236 3,181,643	2,693,620
United States Department of Health and Human Services Total						3,181,643	—	3,181,643	2,693,620
USAID	AID-367-A-13-00002	98.001			Nepal	148,194	—	148,194	
USAID	AID-486-A-13-00008	98.001			Myanmar	471,299	—	471,299	
USAID	AID-623-A-12-00005	98.001			Congo	2,952,011	—	2,952,011	
USAID	AID-624-A-14-00003	98.001			Cameroon	3,306,609	—	3,306,609	
USAID	AID-641-A-15-00002	98.001			Ghana	2,296,128	—	2,296,128	
USAID	AID-641-A-16-00004	98.001			Ghana	1,716,982	—	1,716,982	
USAID	AID-656-G-17-00002	98.001			Mozambique	48,908	—	48,908	
USAID	AID-663-A-12-00001	98.001			Ethiopia	2,224,016	—	2,224,016	
USAID	AID-663-A-17-00001	98.001			Ethiopia	1,522,101	—	1,522,101	
USAID	AID-687-G-15-00002	98.001			Madagascar	(615)	—	(615)	
USAID	AID-687-G-17-00001	98.001			Madagascar	99,937	—	99,937	
USAID	AID-688-A-13-00003	98.001			Mali	3,420,082	—	3,420,082	
USAID	AID-FPP-G-14-00014	98.001			Somalia	(29,089)	—	(29,089)	
USAID	AID-FPP-G-15-00074	98.001			Sierra Leone	2,156,305	—	2,156,305	
USAID	AID-FPP-G-15-00078	98.001			Somalia	98,912	—	98,912	
USAID	AID-FPP-G-16-00042	98.001			Haiti	5,289,761	—	5,289,761	
USAID	AID-FPP-G-16-00092	98.001			Mali	1,883,596	—	1,883,596	
USAID	AID-FPP-G-17-00003	98.001			Haiti	10,637,819	—	10,637,819	
USAID	AID-FPP-G-17-00033	98.001			Somalia	2,076,103	—	2,076,103	
USAID	AID-OAA-A-10-00035	98.001			Rwanda	(4,472)	—	(4,472)	
USAID	AID-OAA-A-12-00050	98.001			India	303,602	—	303,602	
USAID	AID-OAA-A-16-00078	98.001			Ecuador	933,740	—	933,740	
USAID	AID-OAA-F-16-00042	98.001			Peru	50,653	—	50,653	
USAID	AID-OFDA-A-13-00032	98.001			Turkey	(36,483)	—	(36,483)	

See accompanying notes to the Schedule of Expenditures of Federal Awards.

CARE USA
Schedule of Expenditures of Federal Awards (continued)
June 30, 2017

Federal Federal Agency	Award Reference Number	CFDA	Pass-Through Entity	Pass-Through Entity Ref Number	Country	Cash Expenditures	Non Cash Expenditures	Total Expenditures	Payments to Subrecipients
USAID	AID-OFDA-A-14-00032	98.001			Somalia	\$ 1,549,332	\$ -	\$ 1,549,332	\$ -
USAID	AID-OFDA-A-15-00048	98.001			Guatemala	281,286	-	281,286	
USAID	AID-OFDA-A-15-00057	98.001			Turkey	672,305	-	672,305	
USAID	AID-OFDA-A-16-00004	98.001			Syria	1,096,083	-	1,096,083	
USAID	AID-OFDA-A-16-00020	98.001			Turkey	4,283,559	-	4,283,559	
USAID	AID-OFDA-G-11-00133	98.001			United States	260,843	-	260,843	
USAID	AID-OFDA-G-12-00016	98.001			Zimbabwe	9,187	-	9,187	
USAID	AID-OFDA-G-12-00063	98.001			United States	984	-	984	
USAID	AID-OFDA-G-12-00190	98.001			Malawi	(15,645)	-	(15,645)	
USAID	AID-OFDA-G-12-00193	98.001			Zambia	1,626	-	1,626	
USAID	AID-OFDA-G-12-00201	98.001			Somalia	13,325	-	13,325	
USAID	AID-OFDA-G-13-00071	98.001			Chad	(7,822)	-	(7,822)	
USAID	AID-OFDA-G-13-00103	98.001			North Sudan	(19,263)	-	(19,263)	
USAID	AID-OFDA-G-13-00135	98.001			Somalia	(47,282)	-	(47,282)	
USAID	AID-OFDA-G-14-00056	98.001			South Sudan	(36,956)	-	(36,956)	
USAID	AID-OFDA-G-14-00066	98.001			Mali	(17,226)	-	(17,226)	
USAID	AID-OFDA-G-14-00138	98.001			Yemen	(10,128)	-	(10,128)	
USAID	AID-OFDA-G-14-00157	98.001			North Sudan	(30,957)	-	(30,957)	
USAID	AID-OFDA-G-15-00016	98.001			Liberia	(20,058)	-	(20,058)	
USAID	AID-OFDA-G-15-00107	98.001			Vanuatu	(3,026)	-	(3,026)	
USAID	AID-OFDA-G-15-00167	98.001			Nepal	(11,339)	-	(11,339)	
USAID	AID-OFDA-G-15-00181 [¶]	98.001			Niger	1,459,632	-	1,459,632	
USAID	AID-OFDA-G-15-00225	98.001			Mozambique	152,141	-	152,141	
USAID	AID-OFDA-G-15-00241	98.001			Somalia	1,350,043	-	1,350,043	
USAID	AID-OFDA-G-15-00248	98.001			North Sudan	177,378	-	177,378	
USAID	AID-OFDA-G-15-00273	98.001			Chad	344,194	-	344,194	
USAID	AID-OFDA-G-15-00292	98.001			Yemen	546,837	-	546,837	
USAID	AID-OFDA-G-15-00296	98.001			Madagascar	371,319	-	371,319	
USAID	AID-OFDA-G-16-00007	98.001			Vanuatu	736,266	-	736,266	
USAID	AID-OFDA-G-16-00124	98.001			Madagascar	469,424	-	469,424	
USAID	AID-OFDA-G-16-00179	98.001			Somalia	1,246,616	-	1,246,616	
USAID	AID-OFDA-G-16-00219	98.001			Zimbabwe	1,181,162	-	1,181,162	
USAID	AID-OFDA-G-16-00226	98.001			Somalia	752,551	-	752,551	
USAID	AID-OFDA-G-16-00234	98.001			Yemen	1,189,538	-	1,189,538	
USAID	AID-OFDA-G-16-00236	98.001			Guatemala	277,933	-	277,933	
USAID	AID-OFDA-G-16-00246	98.001			North Sudan	1,544,744	-	1,544,744	
USAID	AID-OFDA-G-16-00264	98.001			Mozambique	3,379,124	-	3,379,124	
USAID	AID-OFDA-G-16-00266	98.001			Malawi	1,130,933	-	1,130,933	
USAID	AID-OFDA-G-17-00075	98.001			Ethiopia	5,103	-	5,103	
USAID	AID-522-A-11-00003	98.001 (AIR) American Institute for Research		00853-03090	Honduras	(8,222)	-	(8,222)	
USAID	AID-OAA-A-15-00019	98.001 Catholic Relief Services		MW.15.SUBAGR.8281.08	Malawi	2,702,534	-	2,702,534	
USAID	AID-388-A-13-00001	98.001 Dhaka Ahsania Mission		DAM/EDS/1737.1/2013	Bangladesh	791,378	-	791,378	
USAID	AID-OAA-L-16-00002	98.001 Digital Green Foundation		DG_CNTR_2016-17_40	Malawi	57,628	-	57,628	
USAID	AID-OAA-A-10-00040	98.001 Family Health International		1292	Mali	6,815	-	6,815	
USAID	AID-612-LA-12-00001	98.001 Family Health International (FHI 360)		AID-612-LA-12-00001	Malawi	(788)	-	(788)	
USAID	AID-656-A-16-00010	98.001 Family Health International (FHI 360)		102248.001.002.005	Mozambique	611,149	-	611,149	
USAID	AID-OAA-LA-13-00006	98.001 Family Health International (FHI 360)		3569-022-CARE-LOA	Congo	55,734	-	55,734	
USAID	AID-OAA-A-10-00066	98.001 George Town University		RX 4270-269-CB	Benin	70,094	-	70,094	
USAID	AID-367-A-16-00006	98.001 Helen Keller International		1854-16-520X-01	Nepal	936,574	-	936,574	
USAID	AID-294-A-16-00001	98.001 International Medical Corps		103049.100.51	West Bank Gaza	718,328	-	718,328	
USAID	AID-663-A-11-00012	98.001 International Rescue Committee		AID-663-A-11-00012	Ethiopia	(25,407)	-	(25,407)	
USAID	AID-OFDA-A-12-00016	98.001 International Rescue Committee		AID-OFDA-A-12-00016	Ethiopia	(2,816)	-	(2,816)	
USAID	AID-OFDA-G-15-00237	98.001 International Rescue Committee		AID-OFDA-G-15-00237	Sierra Leone	24,390	-	24,390	
USAID	AID-OFDA-G-16-00036	98.001 International Rescue Committee		AID-OFDA-G-16-00036	Sierra Leone	155,431	-	155,431	
USAID	AID-612-A-11-00003	98.001 Jhpiego Corporation		AID-612-A-11-00003	Malawi	839,084	-	839,084	
USAID	AID-OAA-A-12-00047	98.001 JSI Research & Training Institute, Inc.		APC-GM-0077 [¶]	United States	22,239	-	22,239	
USAID	AID-623-A-11-00034	98.001 Mercy Corps		32039S001	Somalia	301,273	-	301,273	
USAID	AID-663-A-12-00014 [¶]	98.001 Mercy Corps		32206S001	Ethiopia	1,665,111	-	1,665,111	
USAID	AID-FFP-G-13-00053	98.001 Mercy Corps		CARE FFP 32360S0001	Yemen	273,210	-	273,210	
USAID	AID-FFP-G-16-00070	98.001 Mercy Corps		CARE YEFA 32902S001	Yemen	1,320,540	-	1,320,540	

See accompanying notes to the Schedule of Expenditures of Federal Awards.

CARE USA
Schedule of Expenditures of Federal Awards (continued)
June 30, 2017

Federal Federal Agency	Award Reference Number	CFDA	Pass-Through Entity	Pass-Through Entity Ref Number	Country	Cash Expenditures	Non Cash Expenditures	Total Expenditures	Payments to Subrecipients				
USAID	623-A-13-00005	98.001	Millennium Water Alliance (MWA)	28-01-01	United States	\$ (72)	\$ (72)	\$ (72)	\$ -				
USAID	AID-615-A-15-00008	98.001	Millennium Water Alliance (MWA)	# 41-01-01	Kenya	262,579	-	262,579					
USAID	AID-623-A-12-00018	98.001	Save the Children Federation	AID-623-A-12-00018#	Congo	58,085	-	58,085					
USAID	663-G-00-09-00420	98.001	The International Potato Center	2643-000-00-CARE-01	Ethiopia	107,692	-	107,692					
USAID	AID-596-A-13-00002	98.001	The Tropical Agricultural Research CATIE	AID-596-A-13-00002	Guatemala	286,259	-	286,259					
USAID	AID-611-A-12-00002	98.001	Women and Law in Southern Africa	AID-611-A-12-00002	Zambia	931	-	931					
USAID	AID-0AA-A-12-00031	98.001	World Vision International (WVI)	AID-OAA-A-12-00031	Ethiopia	171,797	-	171,797					
USAID	AID-367-A-11-00003	98.001	World Wildlife Fund	AID-367-A-11-00003	Nepal	1,062,407	-	1,062,407					
USAID	AID-367-A-16-00008	98.001	World Wildlife Fund	Agreement #CV10	Nepal	601,890	-	601,890					
USAID	AID-OAA-A-11-00022	98.001	World Wildlife Fund	Agreement # FV27	Peru	(6,733)	-	(6,733)					
USAID	EEM-A-00-09-00006-00	98.001	World Wildlife Fund	USAID/EM-A-OO-09-0000	Mozambique	(1,562)	-	(1,562)					
USAID	AID-611-A-13-00003	98.001	Zambia Centre for Communication Program	ZCCP-GBV 2013/03	Zambia	49,937	-	49,937					
		CFDA # 98.001 USAID Foreign Assistance for Programs Overseas				78,937,354	-	78,937,354	24,661,467				
USAID	OAA-A-10-00006	98.005	Save the Children Federation	FAA-999001221	United States	46,595	-	46,595					
		CFDA # 98.005 Institutional Capacity Building				46,595	-	46,595					
USAID	AID-FFP-A-10-00010	98.007			Bangladesh	(209,281)	-	(209,281)					
USAID	AID-FFP-A-13-00005	98.007			Haiti	19,585,679	1,779,083	21,364,762					
USAID	AID-FFP-A-15-00009	98.007			Bangladesh	11,758,231	1,441,099	13,199,330					
USAID	AID-FFP-A-15-00013	98.007			Mali	6,031,833	-	6,031,833					
USAID	AID-FFP-G-14-00010	98.007			Haiti	-	570,027	570,027					
USAID	AID-FFP-G-16-00034	98.007			Bangladesh	-	4,320,570	4,320,570					
USAID	AID-FFP-A-13-00003	98.007	World Vision International (WVI)	AIDFFPA1300003-CARE	Zimbabwe	4,131,076	4,638,129	8,769,205					
USAID	AID-FFP-A-14-00006	98.007	Catholic Relief Services	MW.15.SUBAGR.8267.00	Malawi	462,268	1,210,344	1,672,612					
USAID	AID-FFP-A-14-00008	98.007	Catholic Relief Services	MG.16.SUBAGR.8266.P0	Madagascar	35,328	134,427	169,755					
USAID	AID-FFP-A-16-00008	98.007	World Vision International (WVI)	AIDFFPA1600008-CARE	Ethiopia	1,374,179	1,209,930	2,584,109					
USAID	AID-OAA-A-15-00002	98.007	Save the Children Federation	AID-OAA-A-15-00002	Nepal	1,580,910	-	1,580,910					
		CFDA # 98.007 Food for Peace Development Assistance Program (DAP)				44,750,223	15,303,609	60,053,832	31,669,449				
USAID	AID-FFP-A-12-00009	98.008	Catholic Relief Services	AID-FFP-A-12-00009	Ethiopia	4,676,378	25,649,168	30,325,546					
		CFDA # 98.008 Food for Peace Emergency Program (EP)				4,676,378	25,649,168	30,325,546					
		Total Foreign Food Aid Donation Cluster				49,426,601	40,952,777	90,379,378	31,669,449				
United States Agency for International Development (USAID) Total						128,410,550	40,952,777	169,363,327	56,330,916				
GRAND TOTAL													
\$ 137,355,731 \$ 40,952,777 \$ 178,308,508 \$ 62,074,372													

See accompanying notes to the Schedule of Expenditures of Federal Awards.

CARE USA and Subsidiaries
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) summarizes the federal expenditures of CARE USA under programs of the federal government for the year ended June 30, 2017. Because the Schedule presents only a selected portion of the operations of CARE USA, it is not intended to and does not present the financial position, results of operations, or cash flows of CARE USA.

For purposes of the Schedule, federal awards include all grants entered into directly, and via pass-through, between CARE USA and agencies and departments of the federal government.

2. Summary of Significant Accounting Policies

For the purpose of the Schedule of Expenditures of Federal Awards, expenditures for federal award programs are recognized on the accrual basis of accounting. Negative amounts on the Schedule are adjustments to expenditures reported in the prior year.

Agricultural and other commodities are recorded as inventory when shipped to a CARE USA country office or held in storage in the destination country prior to distribution. Revenue and expense (program activity) are recognized when the commodities are distributed, on a first-in, first-out basis. Freight expense is recognized as expense when incurred. Agricultural and other commodities are recorded at an ascribed amount representing the market valuation placed thereon by the Commodity Credit Corporation (as an agency of the United States government). Donated ocean freight is recorded based on the carrier's bill of lading.

In FY17, the non-cash expenses provided to sub-recipients have been added to the Payments to Sub-recipients. The non-cash expense includes agricultural commodities and ocean freight.

3. Indirect Cost Rate

CARE did not elect to use the 10% de minimis cost rate permitted by the Uniform Guidance.

**Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

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

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Cooperative for Assistance and Relief Everywhere, Inc. and subsidiaries (CARE USA), which comprise the consolidated balance sheet as of June 30, 2017, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 16, 2017. Our report includes a reference to other auditors who audited the financial statements of Access Africa Fund LLC, a majority owned subsidiary, as described in our report on CARE USA's consolidated financial statements. The financial statements of Access Africa Fund LLC were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered CARE USA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CARE USA's internal control. Accordingly, we do not express an opinion on the effectiveness of CARE USA's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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Compliance and Other Matters

As part of obtaining reasonable assurance about whether CARE USA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst & Young LLP

November 16, 2017

Report of Independent Auditors on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

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

Report on Compliance for Each Major Federal Program

We have audited Cooperative for Assistance and Relief Everywhere USA's (CARE USA) compliance with the types of compliance requirements described in the US Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on CARE USA's major federal program for the year ended June 30, 2017. CARE USA's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for CARE USA's major federal program based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about CARE USA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of CARE's compliance.



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Opinion on Each Major Federal Program

In our opinion, CARE USA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of CARE USA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered CARE USA's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of CARE USA's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Ernst & Young LLP

December 8, 2017

CARE USA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

Section I—Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP (*unmodified, qualified, adverse or disclaimer*):

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/> X	No
Significant deficiency(ies) identified?	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/> X	None reported
Noncompliance material to financial statements noted?	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/> X	No

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/> X	No
Significant deficiency(ies) identified?	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/> X	None reported

Type of auditor's report issued on compliance for major federal programs (*unmodified, qualified, adverse or disclaimer*):

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

Yes X No

CARE USA
Schedule of Findings and Questioned Costs (continued)

Identification of major federal programs:	
<u>CFDA number(s)</u>	<u>Name of federal program or cluster</u>
98.007/98.008	Foreign Food Aid Donation Cluster

Dollar threshold used to distinguish between Type A
and Type B programs:

\$3,000,000

Auditee qualified as low-risk auditee?

Yes No

Section II—Financial Statement Findings

This section should identify the significant deficiencies, material weaknesses, fraud, noncompliance with provisions of laws, regulations, and contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* requires reporting.

Findings: None noted

Section III—Federal Award Findings and Questioned Costs

This section should identify the audit findings required to be reported by the 2 CFR 200.516(a) (for example, significant deficiencies, material weaknesses, material instances of noncompliance, including questioned costs, and material abuse).

Findings: None noted

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