# CONSOLIDATED FINANCIAL STATEMENTS

CARE USA and Subsidiaries
Year Ended June 30, 2013
With Report of Independent Auditors

Ernst & Young LLP

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# CARE USA and Subsidiaries

## Consolidated Financial Statements

Year Ended June 30, 2013

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# Report of Independent Auditors

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

We have audited the accompanying consolidated financial statements of the Cooperative for Assistance and Relief Everywhere, Inc. and Subsidiaries (CARE USA), which comprise the consolidated balance sheet as of June 30, 2013, 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.

## Management's Responsibility for the Financial Statements

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

## Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Access Africa Fund LLC, a wholly- owned subsidiary, which 2013 statements reflect total assets constituting 3%, total liabilities constituting 5%, net assets constituting 2% and total revenues constituting 1% 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 audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of CARE USA and subsidiaries at June 30, 2013, and the consolidated changes in their net assets and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

June 6, 2014

CARE USA and Subsidiaries

# Consolidated Balance Sheet

June 30, 2013
*(In thousands)*

| | | |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | **$** | **64,021** |
| Restricted cash | | **2,996** |
| Investments, at fair value | | **143,532** |
| Receivables, net | | **93,743** |
| Microfinance loans receivable, net | | **6,113** |
| Inventory | | **6,382** |
| Deposits and other assets | | **61,817** |
| Property and equipment, net | | **21,410** |
| Trusts held by third parties | | **114,761** |
| Total assets | **$** | **514,775** |
| Liabilities and net assets | | |
| Liabilities | | |
| Accounts payable and accrued expenses | **$** | **40,430** |
| Program advances | | **110,515** |
| Liability for split interest agreements | | **17,774** |
| Benefits accrued for employees | | **30,610** |
| Subsidiary loans payable | | **25,177** |
| Total liabilities | | **224,506** |
| Commitments and contingencies | | |
| Net assets | | |
| Unrestricted | | **62,430** |
| Temporarily restricted | | **95,086** |
| Permanently restricted | | **132,753** |
| Total net assets | | **290,269** |
| Total liabilities and net assets | **$** | **514,775** |

*See accompanying notes.*

# CARE USA and Subsidiaries

## Consolidated Statement of Activities

### Year Ended June 30, 2013
*(In Thousands)*

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Support | | | | |
| Private support | | | | |
| Contributions | $ 52,393 | $ 62,629 | $ 9 | $ 115,031 |
| CARE International | 147,247 | – | – | 147,247 |
| Total private support | 199,640 | 62,629 | 9 | 262,278 |
| Government and other support | | | | |
| U.S. government | 139,664 | – | – | 139,664 |
| Host governments | 11,951 | – | – | 11,951 |
| Others | 60,100 | – | – | 60,100 |
| Total government and other support | 211,715 | – | – | 211,715 |
| Other revenue | | | | |
| Interest and dividends, net | 9,535 | 1,531 | – | 11,066 |
| Rent and miscellaneous | 4,157 | 365 | – | 4,522 |
| Total other revenue | 13,692 | 1,896 | – | 15,588 |
| Net assets released from restrictions | | | | |
| Satisfaction of program restrictions | 62,350 | (62,350) | – | – |
| Total net assets released from restrictions | 62,350 | (62,350) | – | – |
| Total operating support and revenue | 487,397 | 2,175 | 9 | 489,581 |
| Expenses | | | | |
| Program | | | | |
| Emergency | 81,711 | | | 81,711 |
| Rehabilitation | 9,639 | | | 9,639 |
| Development | 362,685 | | | 362,685 |
| Public information | 4,744 | | | 4,744 |
| Supporting activities | | | | |
| Fund raising | 22,154 | | | 22,154 |
| Management and general | 33,155 | | | 33,155 |
| Total operating expenses | 514,088 | – | – | 514,088 |
| Operating support and revenue over (under) expenses | (26,691) | 2,175 | 9 | (24,507) |
| Other nonoperating changes in net assets | | | | |
| Minority interest in subsidiary income | 1,726 | – | – | 1,726 |
| Foreign exchange gain/(loss) | (3,757) | 126 | – | (3,631) |
| Actuarial gain/(loss) on annuity obligations | (1,263) | – | – | (1,263) |
| Actuarial gain/(loss) on split interest agreements | (23) | – | – | (23) |
| Net realized and unrealized gain/(loss) on investments | 4,167 | 4,673 | – | 8,840 |
| Increase/(decrease) in value of trusts held by third parties | – | – | 7,682 | 7,682 |
| Net change in pension liability | 349 | – | – | 349 |
| Total other nonoperating changes in net assets | 1,199 | 4,799 | 7,682 | 13,680 |
| Total changes in net assets | (25,492) | 6,974 | 7,691 | (10,827) |
| Net assets, beginning of year | 87,922 | 88,112 | 125,062 | 301,096 |
| Net assets, end of year | $ 62,430 | $ 95,086 | $ 132,753 | $ 290,269 |

*See accompanying notes.*

## CARE USA and Subsidiaries

## Consolidated Statement of Functional Expenses

Year Ended June 30, 2013
*(In Thousands)*

| | Program Activities | | | | | Supporting Activities | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Emergency | Rehabilitation | Development | Public Information | Program Total | Fund Raising | Management & General | Supporting Total | Total |
| Personnel costs | $ 17,531 | $ 4,534 | $ 104,384 | $ 2,870 | $ 129,319 | $ 6,390 | $ 15,356 | $ 21,746 | $ 151,065 |
| Professional services | 1,779 | 294 | 18,356 | 1,015 | 21,444 | 3,123 | 7,365 | 10,488 | 31,932 |
| Equipment | 1,786 | 75 | 4,715 | 294 | 6,870 | 246 | 1,240 | 1,486 | 8,356 |
| Materials and services | 17,016 | 2,802 | 50,763 | 219 | 70,800 | 10,996 | 2,282 | 13,278 | 84,078 |
| Travel and transportation | 6,429 | 839 | 31,000 | 195 | 38,463 | 553 | 1,881 | 2,434 | 40,897 |
| Occupancy | 2,097 | 644 | 10,640 | 85 | 13,466 | 375 | 2,563 | 2,938 | 16,404 |
| Financing/depreciation/miscellaneous | 844 | 196 | 14,488 | 45 | 15,573 | 455 | 1,590 | 2,045 | 17,618 |
| Grants/subgrants | 22,077 | 255 | 108,309 | 21 | 130,662 | 16 | 151 | 167 | 130,829 |
| Agricultural commodities/contributions in-kind | 12,152 | – | 20,030 | – | 32,182 | – | 727 | 727 | 32,909 |
| Total operating expenses | $ 81,711 | $ 9,639 | $ 362,685 | $ 4,744 | $ 458,779 | $ 22,154 | $ 33,155 | $ 55,309 | $ 514,088 |

*See accompanying notes.*

# CARE USA and Subsidiaries

## Consolidated Statement of Cash Flows

Year Ended June 30, 2013
(In Thousands)

| | | |
|---|---|---|
| **Operating activities** | | |
| Changes in net assets | **$** | **(10,827)** |
| Adjustments to reconcile change in net assets to net cash used in operating activities | | |
| Depreciation and amortization | | **5,954** |
| Provision for subsidiary microfinance loan losses | | **2,951** |
| Net realized and unrealized (gain) loss on investments | | **(8,840)** |
| Actuarial loss (gain) on annuity obligations | | **1,263** |
| Actuarial loss (gain) on split interest agreements | | **23** |
| Decrease (increase) in value of trusts held by third parties | | **(7,682)** |
| Changes in assets and liabilities | | |
| (Increase) decrease in receivables | | **(57,745)** |
| (Increase) decrease in inventory | | **17,251** |
| (Increase) decrease in deposits and other assets | | **(28,753)** |
| Increase (decrease) in accounts payable and accrued expenses | | **23,800** |
| Increase (decrease) in program advances | | **28,290** |
| Increase (decrease) in benefits accrued for employees | | **1,043** |
| Net cash used in operating activities | | **(33,272)** |
| **Investing activities** | | |
| Purchases of investments | | **(163,618)** |
| Proceeds from sales of investments | | **204,621** |
| (Increase) decrease in restricted cash | | **2,007** |
| Purchases of property and equipment | | **(2,912)** |
| Proceeds from sales of property and equipment | | **341** |
| Net cash provided by investing activities | | **40,439** |
| **Financing activities** | | |
| (Increase) decrease in microfinance loans receivable | | **6,616** |
| Increase (decrease) in subsidiary loans payable | | **4,074** |
| Increase (decrease) in minority interest in subsidiary | | **(1,010)** |
| Payments to gift annuitants | | **(2,119)** |
| Increase (decrease) in liability for split interest agreements | | **108** |
| Net cash provided by in financing activities | | **7,669** |
| Net change in cash and cash equivalents | | **14,836** |
| Cash and cash equivalents, beginning of year | | **49,185** |
| Cash and cash equivalents, end of year | **$** | **64,021** |
| Supplemental cash flow information: | | |
| Noncash contributions | **$** | **19,224** |
| Cash paid for interest | **$** | **1,488** |

*See accompanying notes.*

## 1. Organization

The Cooperative for Assistance and Relief Everywhere, Inc. ("CARE USA or the Organization") is a not-for-profit organization formed in 1945 under the laws of the District of Columbia. Its headquarters are located in Atlanta, Georgia. CARE USA operates programs in more than 50 countries throughout Africa, Asia, Europe, and Latin America. CARE USA's mission is to serve individuals and families in the poorest communities in the world. CARE USA promotes innovative solutions and is an advocate for global responsibility. CARE USA attempts to facilitate lasting change by:

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

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

CARE USA operates a variety of programs including:

**Agriculture and Food Security**

Activities include but are not limited to: production improvement; post-harvest management; land and productive property tenure; agro-forestry; irrigation; pesticide management; Integrated Conservation and Development (ICD); community land, watershed and resource management; and providing seeds and tools in emergencies.

**Governance and Civil Society Strengthening**

Activities include but are not limited to: projects or programs that organize or strengthen citizen collective actions, mobilize constituencies and promote democratic processes, work

**1. Organization (continued)**

with communities and public authorities to foster active citizenship and accountable government and strengthening municipal capacity to deliver services, use mass communication/media to increase awareness or educate the public about common issues, strengthen the capacity and mobilize local non-governmental organizations and community base organizations and facilitate linkages and connections between them and the private sector, and build capacity to engage in advocacy to change or develop public policy.

**Economic Development**

Activities include but are not limited to: projects or programs that promote finance-related services such as loans to individuals, loans to groups, savings programs, making markets work for the poor, value chain linkages, competitiveness programs, community economic development including infrastructure, micro, small and medium enterprise development, business management training and technical training.

**Education**

Activities include but are not limited to: projects or programs that build human capacity, including formal and non-formal efforts in early childhood development, adult literacy, accelerated learning, primary or secondary school improvement, and vocational skill development. Projects may enhance school health, learning environments, school management, educational delivery, advocacy, or other efforts to improve education, especially for girls and other vulnerable populations.

**Health**

Activities include but are not limited to: projects or programs that empower communities to realize their right to health, promote healthy behaviors, improve health service delivery systems (e.g. staff capacity, supply chain, infrastructure). Interventions include: disease prevention and management (e.g. malaria, tuberculosis, pneumonia, diarrheal disease, sexually transmitted infections, including HIV), nutrition (e.g. infant and young child feeding, maternal nutrition, micronutrient and nutrition education) emerging infections (e.g. Avian Influenza), hygiene promotion, immunizations, family planning, sexual, reproductive, maternal and newborn health, and gender-based violence.

**Water and Sanitation**

Activities include but are not limited to: the planning, provision, and integrated management of: water supply, sanitation and associated hygiene education, irrigation, and water for livestock, surface water drainage, watershed management, and solid waste management, and small dams and ponds.

## 1. Organization (continued)

### Multi-Sector and Other

Multi-sector projects include activities related to three or more program areas mentioned above, none of which is predominant. Other includes certain activities that cannot be classified in any of the sectors described above. Activities include but are not limited to: responding to emergencies to save lives and reduce the impact of natural and man-made disasters, community development through improvements in infrastructure, housing and transportation, and projects supporting peace-building, reconciliation and rehabilitation in conflict-affected countries.

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

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

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

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

Access Africa Fund, LLC is a majority owned subsidiary. The fund was formed with an investment objective to provide social impact and capital appreciation by making strategic equity investments in microfinance institutions located throughout sub-Saharan Africa to improve the lives of the entrepreneurial poor. Access Africa Fund, LLC is considered an investment company and is therefore accounted for under Accounting Standards Codification (ASC) Topic 946, *Financial Services – Investments Companies*. The Organization has retained the specialized industry accounting principles of these investment products in its Consolidated Financial Statements.

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

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

## 2. Summary of Significant Accounting Policies

### Principles of Consolidation

The consolidated financial statements include the accounts of CARE USA, its affiliates and its subsidiaries that are consolidated in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). All significant intercompany transactions have been eliminated. Consolidated affiliates and subsidiaries include: SeedFinance, MOFAD, CARE India Trust, Access Africa Fund, CARE Enterprises and CARE Action Now. Gains and losses from the translation of foreign currency are recorded in the consolidated statement of activities.

### Cash and Cash Equivalents

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

Cash and cash equivalents held in the United States are insured according to FDIC regulations. The majority of cash and cash equivalents are held in accounts with balances exceeding the insured limit. Cash amounts maintained overseas are largely uninsured. Cash and cash equivalents held in the United States as of June 30, 2013 were approximately $12.1 million including $3 million of restricted cash held in escrow. Cash and cash equivalents held outside the United States were $54.9 million.

Certain donors require cash be held in separate accounts. Donor restricted cash accounts totaled $14.8 million at June 30, 2013.

### Investments

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

- As increases in permanently restricted net assets if the terms of the gift or relevant state law require that they be added back to the principal of the permanently restricted contributions;

- As increases (decreases) in temporarily restricted net assets if the terms of the gift or state law impose restrictions on the use of the investment income or net appreciation (depreciation); and

- As increases (decreases) in unrestricted net assets in all other cases.

**2. Summary of Significant Accounting Policies (continued)**

Charitable gift annuities are maintained in separate portfolios and are invested in accordance with applicable laws for such monies. CARE USA maintains assets sufficient to meet the annuity requirements stipulated by the various state laws. CARE USA is required to hold reserves related to the gift annuity program based on the laws of certain states, such reserves total $17,605,471 at June 30, 2013.

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 $631,244 are netted against interest and dividend income.

**Receivables**

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

**Loans Receivable**

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

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

## 2. Summary of Significant Accounting Policies (continued)

### Inventory

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

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

### Deposits and Other Assets

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

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

CARE USA owns a 34.7% non-controlling interest in MicroVest General Partner Holding Company. In addition, CARE USA has non-controlling interest in MicroVest I and II, Limited Partnerships of 24.4% and 23.4% respectively. The investments are accounted for using the equity method.

### Property and Equipment

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

**2. Summary of Significant Accounting Policies (continued)**

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.

The costs of software licenses and associated consulting costs, installation costs and the payroll costs of employees directly associated with the project are capitalized. The costs of software maintenance, training and data conversion are expensed in the period incurred. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets. The estimated useful lives are twenty-five years for buildings, seven years for building improvements, three to five years for equipment, ten years for software, and five years for leasehold improvements, or the life of the lease, if less than five years. Capitalized leases are amortized over the life of the lease or the estimated life of the asset, whichever is shorter.

**Trusts Held by Third Parties**

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

**Charitable Remainder Trusts**

Donors have established and funded trusts with independent trustees under which specified distributions are to be made to a designated beneficiary or beneficiaries over the trust’s term.

Upon termination of the trust, CARE USA receives the assets remaining in the trust. Trusts are recorded at fair value. Revenue is determined based on contributions from split interest agreements at the fair value of the trust assets, less the present value of the estimated future payments to be made to other beneficiaries under the specific terms of the trust. The present value of the estimated future payments was discounted using an investment rate of return and a discount rate of 6.6% in 2013.

**Perpetual Trusts**

CARE USA is the beneficiary of certain perpetual irrevocable trusts held and administered by independent trustees. Under the terms of the trusts, CARE USA has the irrevocable right to receive the income earned on the trust assets in perpetuity. The fair value is recognized as an asset and as a permanently restricted contribution at the date the trust is established. The estimate of fair value is based on fair value information received from the trustees. More than 85% of the

**2. Summary of Significant Accounting Policies (continued)**

value of the trust can be derived from market information. Less than 15% of the trust 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 assumption to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Gains and losses, which are not distributed by the trusts, are reflected as permanently restricted increase (decrease) in the value of trusts held by third parties in the consolidated statement of activities.

**Charitable Gift Annuities**

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

**Program Advances**

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

**Accounting for Contributions**

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted for future periods or are restricted by the donor for specific purposes or in perpetuity are reported as temporarily restricted or permanently restricted support that increases those net asset classes.

A donor restriction expires when a stipulated time restriction ends or when a purpose restriction is accomplished. Upon expiration, temporarily restricted net assets are reclassified to unrestricted

**2. Summary of Significant Accounting Policies (continued)**

net assets and are reported in the consolidated statement of activities as satisfaction of program restrictions.

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

**Grant Revenue**

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

Management is aware of approximately $8.5 million in questioned costs resulting from various audits out of which $5.1 million is currently under appeal. US Agency for International Development (USAID) is reviewing supporting documentation submitted by management to clear these questioned costs. At June 30, 2013, CARE had accrued $2.6 million as a liability for these questioned costs. Subsequent to year end, CARE received the Final Decision from the USAID on the appeal of questioned costs identified during the FY2005 OMB A-133 audit and paid $1,005,557 to USAID.

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

**Nonfood Gifts-in-Kind**

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

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

## 2. Summary of Significant Accounting Policies (continued)

### Revolving Loan Fund

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

### Foreign Currency Translation

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

### Operating and Non-operating Results

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

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

### Fair Value of Financial Instruments

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

Receivables are recorded at net realizable value which approximates fair value. Investments and trusts held by third parties are recorded at their fair values. The liability for split interest agreements is recorded at net present value which approximates fair value. All other financial instruments are stated at cost which approximates fair value.

**2. Summary of Significant Accounting Policies (continued)**

**Tax Status**

CARE USA is a tax-exempt organization under Section 501(c) (3) of the U.S. Internal Revenue Code (“IRC”) and is therefore exempt from federal taxation under Section 501(a) of the IRC. In addition, under IRC Section 509(a) (1), CARE USA is a public charity and, thus, donations to CARE USA qualify for the maximum allowable charitable deduction. CARE USA’s subsidiaries

MOFAD and CARE India Trust are tax-exempt in the countries they are incorporated. SeedFinance is taxable in the Philippines where it is incorporated. Access Africa Fund is a limited liability corporation treated as a partnership for federal income tax purposes in the USA; CARE Enterprises is taxable in the USA. CARE Action Now is tax exempt in the USA.

**Use of Estimates**

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Impact New Accounting Pronouncements**

In 2012, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2012-05, *Statement of Cash Flows (Topic 230): Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows.* This ASU requires not for profit organizations to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any NFP-imposed limitations for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts should be classified as cash flows from financing activities. Otherwise, cash receipts from the sale of donated financial assets should be classified as cash flows from investing activities by the NFP. ASU 2012-05 is effective for the year ended June 30, 2014. Management does not believe the adoption 2012-05 will have a material impact on the consolidated financial statements.

In 2013, FASB issued ASU 2013-06, *Not-for-Profit Entities (Topic 958): Services Received from Personnel of an Affiliate.* This ASU requires a recipient not-for-profit entity to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit

**2. Summary of Significant Accounting Policies (continued)**

entity. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. However, if measuring a service received from personnel of an affiliate at cost will significantly overstate or understate the value of the service received, the recipient not-for-profit entity may elect to recognize that service received at either (1) the cost recognized by the affiliate for the personnel providing that service or (2) the fair value of that service. ASU 2013-06 is effective for the year ended September 30, 2015. Management does not believe the adoption 2013-06 will have a material impact on the consolidated financial statements.

**3. Description of Net Asset Designations and Restriction**

The donor-imposed restrictions (listed under Temporarily Restricted and Permanently Restricted) of net assets as of June 30, 2013 are listed below *(in thousands)*:

| | Temporarily Restricted | Permanently Restricted |
|---|---|---|
| Agriculture and Food Security | $ 2,388 | $ - |
| Economic Development | 4,684 | - |
| Education | 21,815 | - |
| Health and HIV/AIDS | 23,283 | - |
| Humanitarian Intervention | 8,099 | 1,006 |
| Water and Sanitation | 3,585 | - |
| Multi-Sector and Other | 29,706 | 512 |
| Time Restricted | 1,526 | - |
| Unrestricted | - | 131,235 |
| Total | $ 95,086 | $ 132,753 |

**4. Endowment**

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

**4. Endowment (continued)**

**Interpretation of Relevant Law**

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

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

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

**4. Endowment (continued)**

The changes in endowment assets for the year ended June 30, 2013, are as follows (*in thousands*):

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, beginning of year | $ - | $ 1,961 | $ 18,305 | $ 20,266 |
| Investment income | - | 853 | - | 853 |
| Net appreciation (realized and unrealized) | - | 2,382 | - | 2,382 |
| Total investment return | - | 3,235 | - | 3,235 |
| Appropriation of endowment assets for expenditure | - | (1,247) | - | (1,247) |
| Other changes | - | - | 18 | 18 |
| **Endowment net assets, end of year** | **$ -** | **$ 3,949** | **$ 18,323** | **$ 22,272** |

Description of amount classified as permanently restricted net assets and temporarily restricted net assets (Endowment only) at June 30, 2013 *(in thousands)*:

| | |
|---|---|
| **Permanently Restricted Net Assets:** | |
| The portion of perpetual endowment funds required to be retained permanently either by explicit donor stipulation or by SPMIFA | $ 18,323 |
| **Temporarily Restricted Net Assets:** | |
| The portion of perpetual endowment funds subject to time restriction under SPMIFA | |
| Without purpose restrictions | $ 398 |
| With purpose restrictions | 3,551 |
| Total Endowment funds classified as Temporarily Restricted Net Assets | **$ 3,949** |

**Investment Policy**

CARE USA has a spending policy specific to the Endowment Fund, which is monitored by the Finance Committee of its Board of Directors. The policy states that CARE USA will annually allocate five percent (5%) of the three-year average of the fair market value of the endowment funds 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.

**4. Endowment (continued)**

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 2013.

| | | 2013 | |
|---|---|---|---|
| **Asset Category** | **Minimum** | **Maximum** | **Target** |
| Fixed Income | 35% | 50% | 40% |
| Equity | 40% | 65% | 60% |

CARE USA utilized the spending policy authorized by the Board of Directors for disbursement of approximately $1.2 million for the year ended June 30, 2013 for CARE USA operations.

**5. Investments**

Total return on cash balances, investments and the trusts held by third parties was as follows for the year ended June 30, 2013 *(in thousands)*:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Interest and dividends included in operating revenue | $ 9,535 | $ 1,531 | $ - | $ 11,066 |
| Net realized and unrealized gains/(losses) | 4,167 | 4,673 | - | 8,840 |
| Total return on investments | $ 13,702 | $ 6,204 | $ - | $ 19,906 |

## 6. Fair Value Measurements

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

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

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

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

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

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

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies from June 30, 2012.

**6. Fair Value Measurements (Continued)**

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

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

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

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

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

## 6. Fair Value Measurements (Continued)

The following table presents the assets and liabilities measured at fair value on a recurring basis as of June 30, 2013 *(in thousands):*

| | Level 1 | Level 2 | Level 3 | Fair Value Measurement |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | $ 64,021 | $ - | - | $ 64,021 |
| Restricted cash | 2,996 | - | - | 2,996 |
| Investments: | | | | |
| Money market funds | 10,631 | - | - | 10,631 |
| Fixed Income Securities | | | | |
| US treasury obligations | 10,806 | - | - | 10,806 |
| Agency obligations: | | | | |
| Fannie Mae | - | 6,012 | - | 6,012 |
| Freddie Mac | - | 5,012 | - | 5,012 |
| Federal home loan bank | - | 1,153 | - | 1,153 |
| Collateralized Mortgate Obligations (CMO) | - | 70 | - | 70 |
| Others | - | 259 | - | 259 |
| Total Agency obligations | - | 12,506 | - | 12,506 |
| Corporate bonds | - | 11,103 | | 11,103 |
| CMO | - | 477 | - | 477 |
| Others | - | - | 11,519 | 11,519 |
| Equity securities: | | | | |
| Corporate stocks | 36,022 | - | - | 36,022 |
| Others | - | - | 2,124 | 2,124 |
| Mutual Funds: | | | | |
| Fixed income funds | 15,060 | - | - | 15,060 |
| Equity funds | 32,907 | - | - | 32,907 |
| Overseas time deposits | - | 377 | - | 377 |
| Total Investments | 105,426 | 24,463 | 13,643 | 143,532 |
| Trust held by third parties | - | - | 114,761 | 114,761 |
| Total Assets | $ 172,443 | $ 24,463 | $ 128,404 | $ 325,310 |

**6. Fair Value Measurements (Continued)**

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

| | |
|---|---|
| Fair Value as of July 1, 2012 | $ 114,988 |
| Purchases | 11,874 |
| Maturities or redemptions | (4,315) |
| Write off of investments | (1,690) |
| Increase in value of trusts held by third parties | 7,682 |
| Net realized and unrealized gain on investments | (135) |
| Fair value as of June 30 | $ 128,404 |

The amount of total gains for the period included in the change in net assets attributed to the change in unrealized gains related to assets still held at June 30, 2013 is $135,324.

**7. Receivables, net**

Receivables, net were comprised of the following at June 30, 2013 *(in thousands)*:

| | |
|---|---|
| Grants and contracts receivable | |
| U.S. government agencies | $ 40,106 |
| CARE International members | 31,389 |
| Revolving funds | 100 |
| Host governments | 3,702 |
| Others | 19,538 |
| Contributions receivable | 61 |
| Allowance for uncollectible accounts | (1,153) |
| | $ 93,743 |

All receivables are due in one year or less at June 30, 2013.

**7. Receivables, net (continued)**

**Conditional Pledges**

Pledges are recognized as revenue when the donor makes a promise to give unconditionally and collection is reasonably assured. CARE USA had $50.4 million of conditional pledges at June 30, 2013. The future payments are conditional on meeting the milestones established the pledge agreement. These pledges are utilized for maternal health, HIV, agriculture, water and sanitation, education, nutrition security and emergency relief efforts.

**8. Microfinance Loans Receivable, net**

Loans receivable, net status at June 30, 2013 *(in thousands)*:

| | | |
|---|---|---|
| Microfinance loans | $ | 9,880 |
| Less: | | |
| Allowance for doubtful accounts | | (3,767) |
| | $ | 6,113 |

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

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

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

**8. Microfinance Loans Receivable (continued)**

Activity in the allowance for possible loan losses on microcredit loans is as follows for the year ended June 30, 2013 (*in thousands*):

| | | |
|---|---|---|
| Allowance for doubtful accounts beginning of year | $ | (889) |
| Additions | | (2,878) |
| Allowance for doubtful accounts end of year | $ | (3,767) |

Under ASC Topic 310, *Accounting by Creditors for Impairment of a Loan*, a loan is considered impaired when, based on current information, it is probable that CARE USA will not receive all amounts due in accordance with the contractual terms of the underlying loan agreement.

The fair value of the loan is then compared with the recorded investment in the loan to determine whether or not a specific reserve is necessary. CARE USA's recorded investment in loans that are considered to be impaired and the related allowance for credit losses for all impaired loans was $3,767,000 as of June 30, 2013.

**9. Deposits and Other Assets**

Deposits and other assets were comprised of the following at June 30, 2013 *(in thousands)*:

| | | |
|---|---|---|
| Deposits: | | |
| Subgrantee and project advances | $ | 37,790 |
| Other Assets: | | |
| Investment in MicroVest | | 4,575 |
| Accrued interest/dividends | | 132 |
| Receivable from CARE International Members | | 3,606 |
| Prepaid expenses | | 6,894 |
| Travel advances | | 1,128 |
| Advances | | 3,082 |
| Other receivables | | 4,610 |
| | $ | 61,817 |

**10. Property and Equipment, net**

Property and equipment are as follows at June 30, 2013 *(in thousands)*:

| | | |
|---|---|---|
| Land | $ | 3,191 |
| Buildings and building improvements | | 11,947 |
| Vehicles, equipment and software | | 45,574 |
| Leasehold improvements | | 1,211 |
| Accumulated depreciation/amortization | | (40,513) |
| | $ | 21,410 |

Depreciation and amortization expense and unamortized internal use software costs were $6.0 million and $10.8 million, respectively, for the year ended June 30, 2013.

**11. Defined Contribution Plans**

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

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

All contributions by employees are invested in various funds within the plan. Employer and employees contributions for the year ended June 30, 2013 were $2.3 million.

**12. Postretirement Benefits**

CARE USA provides certain health care and life insurance benefits to eligible retired employees. CARE USA provides Medicare supplemental coverage to eligible retirees who have reached age 65. In addition, CARE USA provides retirees under age 65 with the option to continue medical coverage until age 65, if the retiree contributes a portion of the premium. Generally, the medical plans pay a percentage of most medical expenses reduced for a deductible and payments made by government programs. The plans are funded on a pay-as-you-go basis.

CARE USA accrues the cost of providing post-retirement benefits, including medical and life insurance coverage, during the active service period of the employee. CARE USA expects contributions to be equal to benefit payments for the year ending June 30, 2013.

**12. Postretirement Benefits (continued)**

The following table sets forth the postretirement benefit obligation reconciled to the accrued postretirement benefit cost recognized in CARE USA's consolidated balance sheet as of June 30, 2013 *(in thousands)*:

| | |
|---|---|
| **Changes in benefit obligation** | |
| **Benefit obligation at beginning of year** | $ 3,165 |
| Service cost | 89 |
| Interest cost | 100 |
| Participant contributions | 278 |
| Benefits paid | (541) |
| Actuarial (gain)/loss | (256) |
| **Benefit obligation at end of year** | 2,835 |
| **Changes in plan assets** | |
| **Fair value of plan assets at beginning of year** | - |
| Employer contributions | 262 |
| Participant contributions | 278 |
| Benefits paid | (540) |
| **Fair value of plan assets at end of year** | - |
| | |
| **Funded status** | |
| Funded status at the end of the year | (2,835) |
| **Net amount recognized in the consolidated balance sheet** | $ (2,835) |

| | |
|---|---|
| **Amount not yet reflected in net periodic benefit cost and expected to be amortized in next year's net periodic benefit cost:** | |
| Prior service cost | $ (1) |
| Accumulated loss | (70) |
| | $ (71) |

The assumed projected health care cost trend rate is 7.2 % declining to 4.5% in 2028.

**12. Postretirement Benefits (continued)**

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

| | | |
|---|---|---|
| **Amounts not yet reflected in net periodic benefit cost and included in unrestricted net assets** | | |
| Prior service cost | $ | (4) |
| Accumulated gain (loss) | | (1,224) |
| Change in unrestricted net assets | | (1,228) |
| | | |
| Cumulative employer contributions in excess of net periodic benefit cost | | (1,607) |
| Net amount recognized in the consolidated balance sheet | $ | (2,835) |
| | | |
| **Components of net periodic benefit cost** | | |
| Service cost | $ | 89 |
| Interest cost | | 100 |
| Amortization of prior service cost | | 1 |
| Net periodic benefit cost | $ | 190 |
| | | |
| **Weighted-average assumptions as of June 30 used in determining obligations** | | |
| Discount rate | | 4.30% |
| | | |
| **Weighted-average assumptions as of June 30 used in determining net periodic benefit cost** | | |
| Discount rate | | 3.30% |

**12. Postretirement Benefits (continued)**

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

| | | |
|---|---|---|
| **One-percentage point increase in trend impact** | | |
| Effect on total of service and interest cost components | $ | 21 |
| Effect on postretirement benefit obligation | $ | 237 |
| **One-percentage point decrease in trend impact** | | |
| Effect on total of service and interest cost components | $ | (18) |
| Effect on postretirement benefit obligation | $ | (211) |

Subsequent to year end, CARE has terminated all retiree health-care related benefits, including dental and vision, effective December 31, 2013. This change will affect both current staff who will no longer be able to enroll in the benefit, as well as retirees whose coverage will be terminated on the effective date. CARE will make onetime lump sum payouts to the eligible retirees in the amount not to exceed $700,000.

**13. Program Advances**

Program advances by government and nongovernment agencies for the years ended June 30, 2013 were comprised of the following *(in thousands)*:

| | | |
|---|---|---|
| Commodity grants | $ | 5,981 |
| Grants and contracts: | | |
| U.S. government agencies | | 29,290 |
| CARE International members | | 39,763 |
| Revolving funds | | 625 |
| Host governments | | 5,885 |
| Others | | 28,971 |
| | $ | 110,515 |

## 14. Subsidiary Loans Payable

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

Debt maturities by institution at June 30, 2013 are as follows (in thousands):

| Bank | | Amount | Term | Interest Rate |
|---|---|---|---|---|
| SEED Finance: | | | | |
| Small Business Corporation | $ | 1,904 | 7/28/2011 to 2/11/2015 | 8-9% |
| Bank of the Philippines | | 1,782 | 3/1/2012 - 07/25/2014 | 6-7% |
| Producers Bank | | 208 | 4/30/2013 - 07/30/2013 | 6% |
| Symbiotics | | 501 | 4/17/2013 - 04/17/2014 | 9% |
| Landbank | | 3,705 | 7/9/2012 - 05/16/2014 | 5-6% |
| Banko | | 1,853 | 9/23/2012 - 10/24/2014 | 7% |
| Incofin | | 1,002 | 3/9/2012 - 03/09/2014 | 8% |
| Oiko | | 1,620 | 9/6/2011 - 10/16/2014 | 10% |
| AUB | | 109 | 3/20/2013 - 06/24/2013 | 6% |
| Access Africa: | | | | |
| OPIC | | 11,000 | 12/16/2011 - 09/15/2017 | 3% |
| MOFAD: | | | | |
| MISFA | | 1,493 | Payable on Demand | 5% |
| | $ | 25,177 | | |

Debt maturities at June 30, 2013 are as follows *(in thousands)*:

| | | |
|---|---|---|
| 2014 | $ | 7,018 |
| 2015 | | 7,159 |
| 2016 | | - |
| 2017 | | 7,000 |
| 2018 | | 4,000 |
| 2019 and thereafter | | - |
| | $ | 25,177 |

## 15. Subsidiary and Related Entities Balance Sheets and Statements of Activities

The balance sheets for CARE USA's subsidiary and related entities before consolidation as of June 30, 2013, are as follows *(in thousands)*:

| | Seed Finance | MOFAD | CARE India Trust | Access Africa Fund | CARE Enterprise | CARE Action Now | Total |
|---|---|---|---|---|---|---|---|
| Assets | | | | | | | |
| Cash and cash equivalents | $ 4,596 | $ - | $ 87 | $ 3,126 | $ 578 | $ - | $ 8,387 |
| Investments | - | - | 0 | 13,643 | - | - | 13,643 |
| Grants receivable | - | - | 124 | - | - | - | 124 |
| Microcredit loans receivable, net | 6,000 | - | - | - | - | - | 6,000 |
| Other assets | 93 | - | 11 | 224 | 99 | - | 427 |
| Property and equipment, net | 142 | - | 8 | - | 116 | - | 266 |
| Total assets | $ 10,831 | $ - | $ 230 | $ 16,993 | $ 793 | $ - | $ 28,847 |
| Liabilities | | | | | | | |
| Accounts payable and other liabilities | $ 544 | $ - | $ 1 | $ 131 | $ 50 | $ - | $ 726 |
| Loans payable | 12,684 | 1,493 | - | 11,000 | - | - | 25,177 |
| Total liabilities | 13,228 | 1,493 | 1 | 11,131 | 50 | - | 25,903 |
| Commitments and contingencies | | | | | | | |
| Retained earnings (deficit) and stockholders equity | | | | | | | |
| Retained earnings (deficit) and stockholders | (1,443) | (1,493) | 229 | 5,153 | 498 | - | 2,944 |
| Capital contribution | - | - | - | - | - | - | - |
| Minority interest | (954) | - | - | 709 | 245 | - | - |
| Total retained earnings (deficit) and equity | (2,397) | (1,493) | 229 | 5,862 | 743 | - | 2,944 |
| Total liabilities and equity | $ 10,831 | $ - | $ 230 | $ 16,993 | $ 793 | $ - | $ 28,847 |

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

The statement of activities for CARE USA's subsidiary and related entities before consolidation for the year ending June 30, 2013, are as follows *(in thousands)*:

| | Seed Finance | MOFAD | CARE India Trust | Access Africa Fund | CARE Enterprise | CARE Action Now | Total |
|---|---|---|---|---|---|---|---|
| Program income | | | | | | | |
| Interest and other income | $ 3,017 | $ - | $ 250 | $ 1,430 | 480 | 210 | $ 5,387 |
| Interest expense | (1,052) | - | - | (306) | - | - | (1,358) |
| Net interest income | 1,965 | - | 250 | 1,124 | 480 | 210 | 4,029 |
| Less: provision for loan losses | 2,950 | - | - | - | 1 | - | 2,951 |
| Net interest income after provision for loan losses | (985) | - | 250 | 1,124 | 479 | 210 | 1,078 |
| Program expense | | | | | | | |
| General and administrative expenses | 402 | - | 234 | - | 486 | 210 | 1,332 |
| Other expenses | 916 | - | 8 | 760 | 23 | - | 1,707 |
| Realized/unrealized loss (gain) | 23 | (166) | - | 2,167 | 1 | - | 2,025 |
| Total program expenses | 1,341 | (166) | 242 | 2,927 | 510 | 210 | 5,064 |
| Net Income (Loss) | $ (2,326) | $ 166 | $ 8 | (1,803) | (31) | - | $ (3,986) |

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

## 16. Commitments and Other Matters

As of June 30, 2013, CARE USA is obligated under non-cancelable operating lease agreements for warehousing, office space, and staff housing at minimum rentals as follows *(in thousands)*:

| | |
|---|---|
| 2014 | $ 7,001 |
| 2015 | 3,601 |
| 2016 | 1,694 |
| 2017 | 743 |
| 2018 | 575 |
| 2019-2023 | 1,491 |
| | $ 15,105 |

**16. Commitments and Other Matters (continued)**

Total rent expense was approximately $12.1 million for the year ended June 30, 2013.

Access Africa Fund, LLC (the Fund) entered into a seven-year, $20,000,000 Loan Agreement with the Overseas Private Investment Corporation ("OPIC"), a division of the U.S. Government to fund new portfolio debt investments. The Fund may draw on the credit facility quarterly over three years. Each draw is evidenced by a promissory note. Each note is a bullet loan and matures no later than five years after the draw; however, all notes must mature no later than seven years from the initial draw, or February 29, 2019.

As of June 30, 2013 the Fund had drawn $11,000,000 under the credit facility. The promissory notes mature between December 2016 and September 2017, and bear current interest between 2.67% and 2.84% per annum payable quarterly and deferred interest of 0.25% per annum payable on maturity of the note.

Access Africa Fund, LLC has outstanding future commitments under foreign currency exchange contracts of $3,421,226 at June 30, 2013.

CARE entered into a performance guarantee for $4,730,490 on behalf of CARE Netherlands to the European Commission Development and Cooperation Europe Aid. Expiration of the guarantee is contingent upon completion of the related grant.

CARE USA maintains a letter of credit totaling $2.0 million that is only used to secure local guarantees as required by donors. At June 30, 2013, CARE had $480,000 issued against the letter of credit.

CARE USA has committed to provide funding to CARE Peru in the aggregate amount of $24 million. This commitment is to be paid from fiscal years 2012 through 2034 in accordance with CARE USA and CARE Peru Framework agreement payment terms. The commitment is conditional upon CARE Peru maintaining agreed-upon program expenditures. Subsequent to year end, CARE USA made a payment of $1.2 million as per the payment terms of the agreement.

CARE USA has committed to invest $5 million in MicroVest II, LP, a wholly owned limited partner of MicroVest General Partners. Cumulative contributions as of June 30, 2013 were $3.6 million. Subsequent to year end, CARE USA made additional contributions of $1.2 million in November and December, 2013.

In the normal course of business, CARE USA is subject 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.

## 16. Commitments and Other Matters (continued)

CARE USA loaned money to the CARE International Revolving Fund. This is used by CARE International to loan money to other members. The direct loan to the CARE International Revolving Fund was approximately $1.8 million at June 30, 2013.

## 17. Related Parties

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

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

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

## 18. Subsequent Events

Subsequent to year end, Access Africa Fund drew $2,500,000 on the credit facility on September 12, 2013. The promissory note matures on June 15, 2018 with a bullet principal payment and bears current interest of 3.52% per annum payable quarterly and deferred interest of 0.25% per annum payable on maturity of the note.

Subsequent to year end, Seedfinance Corporation began negotiations to evaluate its outstanding obligations. Although the outcome of this matter is currently not determinable, management is monitoring the situation closely and does not believe it will have material impact on the consolidated financial statements.

**18. Subsequent Events (continued)**

Management has disclosed all subsequent events through June 6, 2014, the date the financial statements were issued. There were no subsequent events that required recognition in the consolidated financial statements.

**19. Contingencies**

The Government of Bolivia has served CARE USA with tax claims of approximately $21.8 million for the commercial sale and distribution of commodities during the calendar years 2002 – 2007. CARE USA has filed lawsuits in Bolivia contesting the validity of these claims. A lower court recently ruled in CARE's favor on two lawsuits, which the Government of Bolivia has appealed; the majority of the lawsuits are still pending. Although the outcome of this matter is currently not determinable, management is monitoring the situation closely.

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