

CONSOLIDATED FINANCIAL STATEMENTS

CARE USA and Subsidiaries
Years Ended June 30, 2014 and 2013
With Report of Independent Auditors

Ernst & Young LLP



Building a better
working world

CARE USA and Subsidiaries

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Report of Independent Auditors

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 the Cooperative for Assistance and Relief Everywhere, Inc. and Subsidiaries (CARE USA), which comprise the consolidated balance sheets as of June 30, 2014 and 2013, 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 financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Access Africa Fund LLC, a wholly-owned subsidiary, which statements reflect total assets constituting 3% in 2014 and 3% in 2013, total liabilities constituting 6% in 2014 and 5% in 2013, net assets constituting 1% in 2014 and 2% in 2013 and total revenues constituting 1% in 2014 and 1% in 2013 of the related consolidated totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Access Africa Fund LLC, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of CARE USA as of June 30, 2014 and 2013, 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.

April 30, 2015

CARE USA and Subsidiaries

Consolidated Balance Sheets (In thousands)

	June 30	
	2014	2013
Assets		
Cash and cash equivalents	\$ 58,612	\$ 64,021
Restricted cash	2,191	2,996
Investments, at fair value	156,786	143,532
Receivables, net	113,879	93,743
Microfinance loans receivable, net	2,846	6,113
Inventory	6,343	6,382
Deposits and other assets	66,779	61,817
Property and equipment, net	21,609	21,410
Trusts held by third parties	129,511	114,761
Total assets	558,556	514,775
Liabilities and net assets		
Liabilities		
Accounts payable and accrued expenses	54,804	40,430
Program advances	109,072	110,515
Liability for split interest agreements	16,503	17,774
Benefits accrued for employees	25,789	30,610
Subsidiary loans payable	21,139	25,177
Minority interest in subsidiary	537	—
Total liabilities	227,844	224,506
Net assets		
Unrestricted	73,356	62,430
Temporarily restricted	112,104	95,086
Permanently restricted	145,252	132,753
Total net assets	330,712	290,269
Total liabilities and net assets	\$ 558,556	\$ 514,775

See accompanying notes.

CARE USA and Subsidiaries

Consolidated Statements of Activities

For the Year Ended June 30, 2014
(In Thousands)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2014</u>
Support				
Private support				
Contributions	\$ 71,160	\$ 78,342	\$ 1,015	\$ 150,517
CARE International	157,587	-	-	157,587
Total private support	<u>228,747</u>	<u>78,342</u>	<u>1,015</u>	<u>308,104</u>
Government and other support				
U.S. government	130,137	-	-	130,137
Host governments	9,099	-	-	9,099
Others	76,670	-	-	76,670
Total government and other support	<u>215,906</u>	<u>-</u>	<u>-</u>	<u>215,906</u>
Other revenue				
Interest and dividends, net	2,992	2,123	-	5,115
Rent and miscellaneous	4,149	10	-	4,159
Total other revenue	<u>7,141</u>	<u>2,133</u>	<u>-</u>	<u>9,274</u>
Net assets released from restrictions				
Satisfaction of program restrictions	69,652	(69,652)	-	-
Total net assets released from restrictions	<u>69,652</u>	<u>(69,652)</u>	<u>-</u>	<u>-</u>
Total operating support and revenue	521,446	10,823	1,015	533,284
Expenses				
Program				
Emergency	85,333			85,333
Rehabilitation	9,679			9,679
Development	363,532			363,532
Public information	5,792			5,792
Supporting activities				
Fund raising	26,259			26,259
Management and general	27,002			27,002
Total operating expenses	517,597			517,597
Operating support and revenue over expenses	3,849	10,823	1,015	15,687
Other nonoperating changes in net assets				
Minority interest in subsidiary income	395	-	-	395
Foreign exchange gain	708	11	-	719
Actuarial loss on annuity obligations	(145)	-	-	(145)
Actuarial gain/(loss) on split interest agreements	259	(265)	-	(6)
Net realized and unrealized gain on investments	4,160	6,449	-	10,609
Increase in value of trusts held by third parties	-	-	11,484	11,484
Net change in pension liability	1,700	-	-	1,700
Total other nonoperating changes in net assets	7,077	6,195	11,484	24,756
Total changes in net assets	10,926	17,018	12,499	40,443
Net assets, beginning of year	62,430	95,086	132,753	290,269
Net assets, end of year	\$ 73,356	\$ 112,104	\$ 145,252	\$ 330,712

See accompanying notes.

CARE USA and Subsidiaries

Consolidated Statements of Activities (continued)

For the 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 loss on annuity obligations	(1,263)	–	–	(1,263)
Actuarial loss on split interest agreements	(23)	–	–	(23)
Net realized and unrealized gain on investments	4,167	4,673	–	8,840
Increase 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 Statements of Functional Expenses

For the Year Ended June 30, 2014
(In Thousands)

	Program Activities					Supporting Activities			2014 Total
	Emergency	Rehabilitation	Development	Public Information	Total	Fund Raising	Management & General	Total	
Personnel costs	\$ 19,714	\$ 3,716	\$ 104,370	\$ 2,730	\$ 130,530	\$ 6,245	\$ 14,422	\$ 20,667	\$ 151,197
Professional services	2,423	177	21,403	1,294	25,297	2,433	4,381	6,814	32,111
Equipment	2,106	111	5,025	90	7,332	332	555	887	8,219
Materials and services	25,733	2,305	48,733	884	77,655	14,724	2,185	16,909	94,564
Travel and transportation	5,684	619	28,706	121	35,130	507	1,316	1,823	36,953
Occupancy	2,423	562	11,551	127	14,663	389	2,030	2,419	17,082
Financing/depreciation/miscellaneous	740	58	8,556	92	9,446	588	1,973	2,561	12,007
Grants/subgrants	14,273	2,131	112,205	20	128,629	14	101	115	128,744
Agricultural commodities/contributions in-kind	12,237	-	22,983	434	35,654	1,027	39	1,066	36,720
Total operating expenses	\$ 85,333	\$ 9,679	\$ 363,532	\$ 5,792	\$ 464,336	\$ 26,259	\$ 27,002	\$ 53,261	\$ 517,597

See accompanying notes.

CARE USA and Subsidiaries

Consolidated Statements of Functional Expenses (continued)

For the Year Ended June 30, 2013
(In Thousands)

	Program Activities					Supporting Activities			2013 Total
	Emergency	Rehabilitation	Development	Public Information	Total	Fund Raising	Management & General	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 Statements of Cash Flows
For the Years Ended June 30, 2014 and 2013
(In Thousands)

	<u>2014</u>	<u>2013</u>
Operating activities		
Changes in net assets	\$ 40,443	\$ (10,827)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	6,034	5,954
Provision for subsidiary microfinance loan losses	(1,473)	2,951
Net realized and unrealized gain on investments	(10,609)	(8,840)
Actuarial loss on annuity obligations	145	1,263
Actuarial loss on split interest agreements	6	23
Increase in value of trusts held by third parties	(11,484)	(7,682)
Changes in assets and liabilities		
Increase in receivables	(20,136)	(57,745)
Decrease in inventory	39	17,251
Increase in deposits and other assets	(4,962)	(28,753)
Increase in other trusts held by third parties	(3,266)	-
Increase in accounts payable and accrued expenses	14,374	23,800
Increase (decrease) in program advances	(1,443)	28,290
Increase (decrease) in benefits accrued for employees	(4,821)	1,043
Net cash provided by (used in) operating activities	<u>2,847</u>	<u>(33,272)</u>
Investing activities		
Purchases of investments	(177,326)	(163,618)
Proceeds from sales of investments	179,421	204,621
Decrease in restricted cash	805	2,007
Purchases of property and equipment	(6,798)	(2,912)
Proceeds from sales of property and equipment	565	341
Net cash (used in) provided by investing activities	<u>(3,333)</u>	<u>40,439</u>
Financing activities		
Decrease in microfinance loans receivable	-	6,616
Increase (decrease) in subsidiary loans payable	(4,038)	4,074
Increase (decrease) in minority interest in subsidiary	537	(1,010)
Payments to gift annuitants	(2,054)	(2,119)
Increase in liability for split interest agreements	632	108
Net cash (used in) provided by in financing activities	<u>(4,923)</u>	<u>7,669</u>
Net change in cash and cash equivalents	(5,409)	14,836
Cash and cash equivalents, beginning of year	64,021	49,185
Cash and cash equivalents, end of year	<u>\$ 58,612</u>	<u>\$ 64,021</u>
Supplemental cash flow information:		
Noncash contributions	<u>\$ 20,605</u>	<u>\$ 19,224</u>
Cash paid for interest	<u>\$ 909</u>	<u>\$ 1,488</u>

See accompanying notes.

CARE USA and Subsidiaries

Notes to Consolidated Financial Statements

Year Ended June 30, 2014

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 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-

CARE USA and Subsidiaries

Consolidated Financial Statements

1. Organization (continued)

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.

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

CARE USA and Subsidiaries

Consolidated Financial Statements

1. Organization (continued)

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 (SEED) 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 (CIT) 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 (AAF) 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 a social enterprise subsidiary (JITA) operating globally and locally.

CARE Action Now (CAN) 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 LLC, CARE Enterprises LLC and CARE Action Now. Gains and losses from the translation of foreign currency are recorded in the consolidated statements of activities.

CARE USA and Subsidiaries
Consolidated Financial Statements

2. Summary of Significant Accounting Policies (continued)

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 were approximately \$14.6 million and \$12.1 million, including \$2.2 million and \$3.0 million of restricted cash held in escrow, for the years ended June 30, 2014 and 2013, respectively. Cash and cash equivalents held outside the United States were \$46.2 million and \$54.9 million, for the years ended June 30, 2014 and 2013, respectively.

Certain donors require cash be held in separate accounts. Donor restricted cash accounts totaled \$10.0 million and \$14.8 million for the years ended June 30, 2014 and 2013, respectively.

Investments

Investments with readily determinable fair values are recorded at fair value. All other investments are recorded at fair value. Investment income and net appreciation (depreciation) on investments of donor restricted amounts are reported as follows:

- As increases in permanently restricted net assets if the terms of the gift or relevant state law require that they be added back to the principal of the permanently restricted contributions;
- As increases (decreases) in temporarily restricted net assets if the terms of the gift or state law impose restrictions on the use of the investment income or net appreciation (depreciation); and
- As increases (decreases) in unrestricted net assets in all other cases.

Charitable gift annuities are maintained in separate portfolios and are invested in accordance with applicable laws 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 totaled \$16.3 million and \$17.6 million at June 30, 2014 and 2013, respectively.

CARE USA's investments are diversified across strategies, managers and geography. There are no significant concentrations of market risk in as much as the investment portfolio is diversified among issuers. Management fees and expenses of \$545,000 and \$631,000 are netted against interest and dividend income for the years ended June 30, 2014 and 2013, respectively.

CARE USA and Subsidiaries
Consolidated Financial Statements

2. Summary of Significant Accounting Policies (continued)

Receivables

Receivables represent grants and contracts receivables, ocean freight receivable from the United States Agency for International Development (USAID) and legacy/bequests receivable. Grants and contracts receivable are expected to be collected within one year and are recorded at net realizable value. Ocean freight receivables and a corresponding liability due to the freight line are recorded when agricultural commodities are shipped to their destination port. These amounts are due from USAID. 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 sheets at their unpaid principal amounts adjusted for the net unamortized deferred loan origination costs and fees and allowance for possible losses. Interest income is accrued based on the outstanding principal amount and contractual terms of each individual loan. The accrual of interest is discontinued when, in management's judgment, it is determined that the collectability of interest or principal is doubtful.

Microcredit loans receivable represents credit services for rural and urban micro-enterprises. The allowance for loan losses is maintained at such level that in management's best judgment is sufficient to cover potential losses in the loan portfolio at the consolidated balance sheet dates. Management considers the loan loss factors as well as delinquencies over 60 days in determining the allowance. The allowance is based on assessments of certain factors, including historical loan loss experience of similar types of loans, 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.

Inventory

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

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

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Consolidated Financial Statements

2. Summary of Significant Accounting Policies (continued)

commodities to be monetized, revenue and expense are recognized when the proceeds are utilized for the related project activities.

Deposits and Other Assets

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

Sub-grantee advances are recorded when cash is forwarded 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 submitted, the receivable is reduced and the related income and expense are recognized.

CARE USA has 34.7% non-controlling interest in MicroVest General Partner Holding Company. In addition, CARE USA has non-controlling interest in MicroVest I Self-liquidating Trust and MicroVest II Limited Partnership of 24.4% and 8.3%, respectively. The investments are accounted for using the equity method.

Property and Equipment

Property and equipment are recorded at cost, if purchased. Contributions of 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 assets with stipulations as to how long the assets must be used or with any other restrictions, such contributions are recorded as temporarily restricted support.

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

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, three to 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.

CARE USA and Subsidiaries
Consolidated Financial Statements

2. Summary of Significant Accounting Policies (continued)

Trusts Held by Third Parties

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

Charitable Remainder Trusts

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

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 7.0% in 2014 and 6.6% in 2013.

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

Perpetual Trusts

CARE USA is the beneficiary of certain perpetual irrevocable trusts held and administered by independent trustees. Under the terms of the trusts, CARE USA has the irrevocable right to receive the income earned on the trust assets in perpetuity. The fair value is recognized as an asset and as permanently restricted contribution revenue at the date the trust is established. The estimate of fair value is based on fair value information received from the trustees. Perpetual trusts are initially recorded as permanently restricted contributions from split-interest agreements at fair value based on CARE's interest in the fair value of the underlying trust assets at the time of the gift. Subsequent changes to the trust's fair value are reported as permanently restricted increases (decreases) in value of trusts held by third parties in the consolidated statements of activities. Income received from these trusts is reported as temporarily restricted or unrestricted public support, depending on the existence or absence of donor-imposed restrictions.

As of June 30, 2014 and 2013, more than 85% of the value of the trust can be derived from market information. Less than 15% of the trust value is associated with alternative investments, estimates for which are provided by the fund managers retained by the trustees.

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2. Summary of Significant Accounting Policies (continued)

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.

Charitable Gift Annuities

Charitable gift annuities is included in liability for split interest agreements in the consolidated balance sheets. Donors have contributed assets to CARE USA in exchange for a promise by CARE USA to pay a fixed amount or percentage of assets contributed for a specified period of time to the donor or to individuals or organizations designated by the donor. Under the terms of such agreements, the assets received are recorded as assets and included in investments and the related annuity liability is an obligation of CARE USA. The liability is recorded at the present value of expected future payments based on Annuity 2000 table. The obligations have been discounted at rates ranging from 0.41% to 11.30% in 2014 and in 2013.

Program Advances

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

Accounting for Contributions

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

A donor restriction expires when a stipulated time restriction ends or when a purpose restriction is accomplished. Upon expiration, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the consolidated statements of activities as satisfaction of program restrictions.

Permanently restricted net assets reflect the principal amount of contributions accepted with the stipulation from the donor that the principal be maintained in perpetuity. The investment income may be expended for 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.

CARE USA and Subsidiaries
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2. Summary of Significant Accounting Policies (continued)

Contributions of non-financial assets consist of public service announcements and donated professional services. CARE recognized \$1.2 million of public service announcements for the year ended June 30, 2014.

Grant Revenue

Grant revenue on cost-reimbursement grants or contracts is recognized by CARE USA when the program expenditures have been incurred and is reflected as government and other support in the consolidated statements of activities. 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.

Nonfood Gifts-in-Kind

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

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

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

Operating and Non-operating Results

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

CARE USA and Subsidiaries

Consolidated Financial Statements

2. Summary of Significant Accounting Policies (continued)

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's 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.

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; and 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 of 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

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Consolidated Financial Statements

2. Summary of Significant Accounting Policies (continued)

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 was adopted for the year ended June 30, 2014. The adoption of ASU 2012-05 did not have a material impact on the consolidated financial statements.

In 2013, the 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 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 June 30, 2015. Management does not believe the adoption of ASU 2013-06 will have a material impact on the consolidated financial statements.

3. Description of Net Asset Designations and Restrictions

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

	2014		2013	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Agriculture and Food Security	\$ 4,007	\$ -	\$ 2,388	\$ -
Economic Development	8,038	-	4,684	-
Education	26,474	-	21,815	-
Health and HIV/AIDS	25,736	-	23,283	-
Humanitarian Intervention	11,198	1,006	8,099	1,006
Water and Sanitation	3,689	-	3,585	-
Multi-Sector and Other	30,649	512	29,706	512
Time Restricted	2,313	-	1,526	-
Unrestricted	-	143,734	-	131,235
Total	\$ 112,104	\$ 145,252	\$ 95,086	\$ 132,753

4. Endowments

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

CARE USA and Subsidiaries
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4. Endowments (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.

The changes in endowment assets for the year ended June 30, 2014, are as follows (*in thousands*):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 3,949	\$ 18,323	\$ 22,272
Investment income	-	1,310	2	1,312
Net appreciation (realized and unrealized)	-	2,910	-	2,910
Total investment return	-	4,220	2	4,222
Appropriation of endowment assets for expenditure	-	(625)	-	(625)
Endowment net assets, end of year	\$ -	\$ 7,544	\$ 18,325	\$ 25,869

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4. Endowments (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 for endowments at June 30 (*in thousands*):

	2014	2013
Temporarily Restricted Net Assets:		
The portion of perpetual endowment funds subject to time restriction under SPMIFA:		
Without purpose restrictions	\$ 1,189	\$ 398
With purpose restrictions	6,355	3,551
Total Endowment funds classified as Temporarily Restricted Net Assets	\$ 7,544	3,949
Permanently Restricted Net Assets:		
The portion of perpetual endowment funds required to be retained permanently either by explicit donor stipulation or by SPMIFA	\$ 18,325	18,323

Investment Policy

CARE USA has a spending policy specific to the Endowment Fund, which is monitored by the Finance Committee of its Board of Directors. The policy states that CARE USA will annually allocate five percent (5%) of the three-year average of the fair market value from investment earnings to be spent on operations, unless otherwise specified by the donor. The objective of this policy is to maintain the purchasing power of the endowment funds held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. Endowment Fund assets include those assets of donor-restricted funds that CARE USA must hold in perpetuity and changes to the value of these assets.

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4. Endowments (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 2014 and 2013.

Asset Category	2014			2013		
	Minimum	Maximum	Target	Minimum	Maximum	Target
Fixed Income	35%	50%	40%	35%	50%	40%
Equity	40%	65%	60%	40%	65%	60%

5. Investments

The total return on cash balances and investments was as follows for the years ending June 30, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends included in operating revenue	\$ 2,992	\$ 2,123	\$ -	\$ 5,115
Net realized and unrealized gains	4,160	6,449	-	10,609
Total return on investments	\$ 7,152	\$ 8,572	\$ -	\$ 15,724

The total return on cash balances, investments and the trusts held by third parties was as follows for the years ending June 30, 2013:

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

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6. Fair Value Measurements

CARE reports fair value 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.

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

Other equity securities are valued based on the market approach. Under the market approach, CARE 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 is 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.

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

Trusts held by third parties are valued using significant unobservable inputs (Level 3). The need to use unobservable inputs generally results from the lack of an active market or marketplace with respect to Trusts held by third parties. CARE'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's interest in the fair value of the underlying trust assets. Non-perpetual trusts are recorded at their estimated fair value based on the present value of CARE'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

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6. Fair Value Measurements (continued)

trusts is estimated using historical investment returns for various relevant market indices for the estimated asset allocation of these trusts.

The following table presents the assets and liabilities measured at fair value on a recurring basis as of June 30, 2014 (*in thousands*):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value Measurement</u>
Investments				
Money market funds	\$ 15,400	\$ -	\$ -	\$ 15,400
Fixed Income Securities				
US treasury obligations	16,539	-	-	16,539
Agency obligations				
Fannie Mae	-	2,712	-	2,712
Freddie Mac	-	1,827	-	1,827
Federal home loan bank	-	1,963	-	1,963
Other Collateralized Mortgage Obligations (CMO)	-	2,180	-	2,180
Others	-	-	-	-
Total Agency obligations	-	8,682	-	8,682
Corporate bonds	-	10,245	-	10,245
CMO	-	47	-	47
Others	-	-	12,432	12,432
Equity securities				
Corporate stocks	17,942	-	-	17,942
Exchange Traded Fund	-	35,151	-	35,151
Others	-	-	3,487	3,487
Mutual Funds				
Fixed income funds	16,690	-	-	16,690
Equity funds	19,814	-	-	19,814
Overseas time deposits	-	357	-	357
Total Investments	86,385	54,482	15,919	156,786
Trusts held by third parties	-	-	129,511	129,511
Total	\$ 86,385	\$ 54,482	\$ 145,430	\$ 286,297

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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*):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value Measurement</u>
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
Other Collateralized Mortgage 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
Trusts held by third parties	-	-	114,761	114,761
Total	\$ 105,426	\$ 24,463	\$ 128,404	\$ 258,293

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6. Fair Value Measurements (continued)

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	Third Party Trusts	Total
Fair Value as of July 1, 2012	\$ 1,596	\$ 6,310	\$ 107,079	\$ 114,985
Additions				
Purchases or transfers	1,293	10,583	-	11,876
Maturities or redemptions	(800)	(3,514)	-	(4,314)
Write off of investments	-	(1,690)	-	(1,690)
Increase in value of trusts held by third parties	-	-	7,682	7,682
Net realized and unrealized gain on investments	35	(170)	-	(135)
Fair value as of June 30, 2013	\$ 2,124	\$ 11,519	\$ 114,761	\$ 128,404
Additions	-	-	3,266	3,266
Purchases or transfers	3,497	12,172	-	15,669
Maturities or redemptions	(2,150)	(10,454)	-	(12,604)
Write off of investments	-	-	-	-
Increase in value of trusts held by third parties	-	-	11,484	11,484
Net realized and unrealized gain on investments	16	(805)	-	(789)
Fair value as of June 30, 2014	\$ 3,487	\$ 12,432	\$ 129,511	\$ 145,430

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 as of June 30, 2014 and 2013 were \$789,000 and \$135,000, respectively.

7. Receivables, net

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

	2014	2013
Grants and contracts receivable		
U.S. government agencies	\$ 30,057	\$ 40,106
CARE International members	40,721	31,389
Revolving funds	23	100
Host governments	2,816	3,702
Others	29,303	19,538
Legacy/Bequests receivable	12,497	61
Allowance for uncollectible accounts	(1,538)	(1,153)
	\$ 113,879	\$ 93,743

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7. Receivable, net (continued)

As of June 30, 2014, \$113.5 million of the total receivables are due within one year or less with \$386,000 due in greater than one year. As of June 30, 2013, \$93.7 million of the total receivables were due within one year or less.

Conditional Pledges

Pledges are recognized as revenue when the donor makes a promise to give unconditionally and collection is reasonably assured. CARE USA had \$101.4 million and \$50.4 million of conditional pledges at June 30, 2014 and 2013, respectively. 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 and efforts.

8. Microfinance Loans Receivable, net

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

	2014	2013
Microcredit loans	\$ 5,140	\$ 9,880
Less:		
Allowance for doubtful accounts	(2,294)	(3,767)
	\$ 2,846	\$ 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 to original schedule, CARE USA pursues collection and different payment arrangement 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 the 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.

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8. Microfinance Loans Receivable, net (continued)

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

	<u>2014</u>	<u>2013</u>
Allowance for doubtful accounts beginning of year	\$ (3,767)	\$ (889)
Additions	(1,999)	(2,878)
Write-offs	3,472	-
Allowance for doubtful accounts end of year	<u>\$ (2,294)</u>	<u>\$ (3,767)</u>

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 \$2.3 million and \$3.8 million as of June 30, 2014 and 2013, respectively.

9. Deposits and Other Assets

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

	<u>2014</u>	<u>2013</u>
Deposits		
Subgrantee and project advances	\$ 44,962	\$ 37,790
Other Assets		
Investment in MicroVest	5,521	4,575
Accrued interest/dividends	88	132
Receivable from CARE International Members	-	3,606
Prepaid expenses	6,698	6,894
Travel advances	942	1,128
Advances	4,892	3,082
Other receivables	3,676	4,610
	<u>\$ 66,779</u>	<u>\$ 61,817</u>

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10. Property and Equipment, net

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

	2014	2013
Land	\$ 3,078	\$ 3,191
Buildings and building improvements	11,990	11,947
Vehicles, equipment and software	51,367	45,574
Leasehold improvements	1,230	1,211
Accumulated depreciation/amortization	(46,056)	(40,513)
	<u>\$ 21,609</u>	<u>\$ 21,410</u>

Unamortized internal use software costs were \$10.9 million and \$10.8 million, respectively, for the years ended June 30, 2014 and 2013. Depreciation and amortization expense were \$6.0 million for the years ended June 30, 2014 and 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% 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.

Employer contributions for the years ended June 30, 2014 and 2013 were \$2.3 million.

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12. Postretirement Benefits

CARE has terminated all retiree health-care related benefits, including dental and vision, effective December 31, 2013. This change affects both current staff who will no longer be able to enroll in the benefit, as well as retirees whose coverage will be terminated as of the effective date. CARE made a onetime lump sum payout to the 55 eligible retirees for the amount of \$550,000. CARE will continue to offer life insurance benefits to eligible retirees. Life insurance premiums are paid entirely by the retiree.

The following represents 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	<u>(256)</u>
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	<u>(540)</u>
Fair value of plan assets at end of year	-
Funded status	
Funded status at the end of the year	<u>(2,835)</u>
Net amount recognized in the consolidated balance sheet	<u><u>\$ (2,835)</u></u>
 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	<u>(70)</u>
	<u><u>\$ (71)</u></u>

The assumed projected health care cost trend rate was 7.2% declining to 4.5% in 2028. Future changes in actual compensation and retirement could materially affect both the amount of the benefits ultimately paid as well as the period over which the related expense was recognized.

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12. Postretirement Benefits (continued)

Amounts not yet reflected in net periodic benefit cost and included in unrestricted net assets	
Prior service cost	\$ (4)
Accumulated loss	<u>(1,224)</u>
Change in unrestricted net assets	(1,228)
Cumulative employer contributions in excess of net periodic benefit cost	<u>(1,607)</u>
Net amount recognized in the consolidated balance sheet	<u><u>\$ (2,835)</u></u>
Components of net periodic benefit cost	
Service cost	\$ 89
Interest cost	100
Amortization of prior service cost	<u>1</u>
Net periodic benefit cost	<u><u>\$ 190</u></u>
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%

13. Program Advances

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

	<u>2014</u>	<u>2013</u>
Commodity grants	\$ 5,136	\$ 5,981
Grants and contracts		
U.S. government agencies	11,063	29,290
CARE International members	44,627	39,763
Revolving funds	686	625
Host governments	5,998	5,885
Others	<u>41,562</u>	<u>28,971</u>
	<u>\$ 109,072</u>	<u>\$ 110,515</u>

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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 as of June 30 are as follows (in thousands):

<u>Bank</u>	<u>2014</u>	<u>2013</u>	<u>Term Start</u>	<u>Term End</u>	<u>Interest Rate %</u>
SEEDFINANCE					
Small Business Corporation \$	804	\$ 1,904	12/31/2013	12/31/18	7%
Bank of the Philippines	1,878	1,782	2/17/2012	10/24/14	6-8%
Producers Bank	-	208	4/30/2013	07/30/13	6%
Symbiotics	508	501	4/17/2013	04/17/14	9%
Landbank	1,483	3,705	4/26/2013	09/12/14	4-5%
Banko	-	1,853	9/23/2012	10/24/14	7%
Incofin	-	1,002	3/9/2012	03/09/14	8%
Oiko	1,479	1,620	9/6/2012	03/25/14	8-10%
AUB	-	109	3/20/2013	06/24/13	6%
Access Africa Fund					
OPIC	13,500	11,000	12/16/2016	09/15/17	3-4%
MOFAD					
MISFA	1,487	1,493	Payable on Demand		5%
	<u>\$ 21,139</u>	<u>25,177</u>			

Debt maturities for the year ended June 30 are as follows (in thousands):

2015	\$ 6,835
2016	-
2017	7,000
2018	6,500
2019	804
	<u>\$ 21,139</u>

CARE USA and Subsidiaries
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15. Consolidating Financial Statements

The Balance Sheets for CARE USA and subsidiaries as of June 30, 2014 are as follows (*in thousands*):

	CARE	AAF	CAN	CIT	MOFAD	SEED	CARE Enterprises	Total 2014
Assets								
Cash and cash equivalents	\$ 55,270	\$ 1,834	\$ –	\$ 76	\$ –	\$ 1,064	\$ 368	\$ 58,612
Restricted cash	1,995	196	–	–	–	–	–	2,191
Investments, at fair value	140,866	15,920	–	–	–	–	–	156,786
Receivables, net	113,756	–	–	123	–	–	–	113,879
Microfinance loans receivable, net	217	–	–	–	–	2,629	–	2,846
Inventory	6,343	–	–	–	–	–	–	6,343
Deposits and other assets	66,448	166	–	11	–	(162)	316	66,779
Property and equipment, net	21,356	–	–	6	–	139	108	21,609
Trusts held by third parties	129,511	–	–	–	–	–	–	129,511
Total assets	535,762	18,116	–	216	–	3,670	792	558,556
Liabilities and net assets								
Liabilities								
Accounts payable and accrued expenses	54,148	116	–	–	–	448	92	54,804
Program advances	109,072	–	–	–	–	–	–	109,072
Liability for split interest agreements	16,503	–	–	–	–	–	–	16,503
Benefits accrued for employees	25,789	–	–	–	–	–	–	25,789
Subsidiary loans payable	–	13,500	–	–	1,487	6,152	–	21,139
Minority interest in subsidiary	–	585	–	–	–	(279)	231	537
Total liabilities	205,512	14,201	–	–	1,487	6,321	323	227,844
Net assets (deficit)								
Unrestricted (deficit)	72,894	3,915	–	216	(1,487)	(2,651)	469	73,356
Temporarily restricted	112,104	–	–	–	–	–	–	112,104
Permanently restricted	145,252	–	–	–	–	–	–	145,252
Total net assets (deficit)	330,250	3,915	–	216	(1,487)	(2,651)	469	330,712
Total liabilities and net assets	\$ 535,762	\$ 18,116	–	\$ 216	\$ –	\$ 3,670	\$ 792	\$ 558,556

CARE USA and Subsidiaries
Consolidated Financial Statements

15. Consolidating Financial Statements (continued)

The Balance Sheets for CARE USA and subsidiaries as of June 30, 2013 are as follows (*in thousands*):

	CARE	AAF	CAN	CIT	MOFAD	SEED	CARE Enterprises	Total 2013
Assets								
Cash and cash equivalents	\$ 55,634	\$ 3,126	\$ –	\$ 87	\$ –	\$ 4,596	\$ 578	\$ 64,021
Restricted cash	2,996	–	–	–	–	–	–	2,996
Investments, at fair value	129,889	13,643	–	–	–	–	–	143,532
Receivables, net	93,619	–	–	124	–	–	–	93,743
Microfinance loans receivable, net	113	–	–	–	–	6,000	–	6,113
Inventory	6,382	–	–	–	–	–	–	6,382
Deposits and other assets	61,390	224	–	11	–	93	99	61,817
Property and equipment, net	21,144	–	–	8	–	142	116	21,410
Trusts held by third parties	114,761	–	–	–	–	–	–	114,761
Total assets	485,928	16,993	–	230	–	10,831	793	514,775
Liabilities and net assets								
Liabilities								
Accounts payable and accrued expenses	39,704	131	–	1	–	544	50	40,430
Program advances	110,515	–	–	–	–	–	–	110,515
Liability for split interest agreements	17,774	–	–	–	–	–	–	17,774
Benefits accrued for employees	30,610	–	–	–	–	–	–	30,610
Subsidiary loans payable	–	11,000	–	–	1,493	12,684	–	25,177
Minority interest in subsidiary	–	709	–	–	–	(954)	245	–
Total liabilities	198,603	11,840	–	1	1,493	12,274	295	224,506
Net assets (deficit)								
Unrestricted (deficit)	59,486	5,153	–	229	(1,493)	(1,443)	498	62,430
Temporarily restricted	95,086	–	–	–	–	–	–	95,086
Permanently restricted	132,753	–	–	–	–	–	–	132,753
Total net assets (deficit)	287,325	5,153	–	229	(1,493)	(1,443)	498	290,269
Total liabilities and net assets	\$ 485,928	\$ 16,993	\$ –	\$ 230	\$ –	\$ 10,831	\$ 793	\$ 514,775

CARE USA and Subsidiaries
Consolidated Financial Statements

15. Consolidating Financial Statements (continued)

Statements of Activities for CARE USA and subsidiaries as of June 30, 2014 are as follows (*in thousands*):

	CARE	AAF	CAN	CIT	MOFAD	SEED	CARE Enterprises	Total 2014
Support								
Private Support								
Contributions	\$ 150,517	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 150,517
CARE International	157,587	-	-	-	-	-	-	157,587
Total Private Support	308,104	-	-	-	-	-	-	308,104
Government and other support								
U.S. government	130,137	-	-	-	-	-	-	130,137
Host governments	9,099	-	-	-	-	-	-	9,099
Others	76,670	-	-	-	-	-	-	76,670
Total Government and Other Support	215,906	-	-	-	-	-	-	215,906
Other Revenue								
Interest and dividends	3,282	1,805	-	5	-	-	23	5,115
Rent and miscellaneous	4,149	-	247	(3)	6	(883)	643	4,159
Total Other Revenue	7,431	1,805	247	2	6	(883)	666	9,274
Total Operating Support and Revenue	531,441	1,805	247	2	6	(883)	666	533,284
Expenses								
Program								
Emergency	85,333	-	-	-	-	-	-	85,333
Rehabilitation	9,679	-	-	-	-	-	-	9,679
Development	360,707	1,306	247	15	-	551	706	363,532
Public Information	5,792	-	-	-	-	-	-	5,792
Supporting Activities								
Fundraising	26,259	-	-	-	-	-	-	26,259
Management and general	27,002	-	-	-	-	-	-	27,002
Total Operating Expenses	514,772	1,306	247	15	-	551	706	517,597
Operating Support and Revenue over Expenses	16,669	499	-	(13)	6	(1,434)	(40)	15,687
Other Nonoperating Changes in Net Assets								
Minority interest in subsidiary income	(1)	124	-	-	-	261	11	395
Foreign exchange gain (loss)	1,988	(1,234)	-	-	-	(35)	-	719
Actuarial loss on annuity obligations	(145)	-	-	-	-	-	-	(145)
Actuarial loss on split interest agreements	(6)	-	-	-	-	-	-	(6)
Net realized and unrealized gain/(loss) on investments	11,236	(627)	-	-	-	-	-	10,609
Increase in value of trusts held by third parties	11,484	-	-	-	-	-	-	11,484
Net change in pension liability	1,700	-	-	-	-	-	-	1,700
Total Nonoperating Changes in Net Assets	26,256	(1,737)	-	-	-	226	11	24,756
Total Changes in Net Assets	42,925	(1,238)	-	(13)	6	(1,208)	(29)	40,443
Net Assets, beginning of year	287,325	5,153	-	229	(1,493)	(1,443)	498	290,269
Net Assets, end of year	\$ 330,250	\$ 3,915	\$ -	\$ 216	\$ (1,487)	\$ (2,651)	\$ 469	\$ 330,712

CARE USA and Subsidiaries
Consolidated Financial Statements

15. Consolidating Financial Statements (continued)

Statements of Activities for CARE USA and subsidiaries as of June 30, 2013 are as follows (*in thousands*):

	CARE	AAF	CAN	CIT	MOFAD	SEED	CARE Enterprises	Total 2013
Support								
Private Support								
Contributions	\$ 115,031	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 115,031
CARE International	147,247	-	-	-	-	-	-	147,247
Total Private Support	<u>262,278</u>	-	-	-	-	-	-	<u>262,278</u>
Government and other support								
U.S. government	139,664	-	-	-	-	-	-	139,664
Host governments	11,951	-	-	-	-	-	-	11,951
Others	59,852	-	-	248	-	-	-	60,100
Total Government and Other Support	<u>211,467</u>	-	-	<u>248</u>	-	-	-	<u>211,715</u>
Other Revenue								
Interest and dividends	9,559	1,339	-	2	-	112	54	11,066
Rent and miscellaneous	2,616	-	210	-	-	1,285	411	4,522
Total Other Revenue	<u>12,175</u>	<u>1,339</u>	<u>210</u>	<u>2</u>	-	<u>1,397</u>	<u>465</u>	<u>15,588</u>
Total Operating Support and Revenue	485,920	1,339	210	250	-	1,397	465	489,581
Expenses								
Program								
Emergency	81,711	-	-	-	-	-	-	81,711
Rehabilitation	9,639	-	-	-	-	-	-	9,639
Development	355,337	1,066	210	242	-	5,320	510	362,685
Public Information	4,744	-	-	-	-	-	-	4,744
Supporting Activities								
Fundraising	22,154	-	-	-	-	-	-	22,154
Management and general	33,155	-	-	-	-	-	-	33,155
Total Operating Expenses	506,740	1,066	210	242	-	5,320	510	514,088
Operating Support and Revenue over Expenses	(20,820)	273	-	8	-	(3,923)	(45)	(24,507)
Other Nonoperating Changes in Net Assets								
Minority interest in subsidiary income	-	91	-	-	-	1,620	15	1,726
Foreign exchange gain (loss)	(3,038)	(735)	-	-	166	(23)	(1)	(3,631)
Actuarial loss on annuity obligations	(1,263)	-	-	-	-	-	-	(1,263)
Actuarial loss on split interest agreements	(23)	-	-	-	-	-	-	(23)
Net realized and unrealized gain (loss) on investments	10,272	(1,432)	-	-	-	-	-	8,840
Increase in value of trusts held by third parties	7,682	-	-	-	-	-	-	7,682
Net change in pension liability	349	-	-	-	-	-	-	349
Total Nonoperating Changes in Net Assets	13,979	(2,076)	-	-	166	1,597	14	13,680
Total Changes in Net Assets	(6,841)	(1,803)	-	8	166	(2,326)	(31)	(10,827)
Net Assets, beginning of year	294,166	6,956	-	221	(1,659)	883	529	301,096
Net Assets, end of year	\$ 287,325	\$ 5,153	\$ -	\$ 229	\$ (1,493)	\$ (1,443)	\$ 498	\$ 290,269

CARE USA and Subsidiaries
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15. Consolidating Financial Statements (continued)

Statements of Functional Expenses for CARE USA and subsidiaries as of June 30, 2014 and 2013 are as follows (*in thousands*):

	CARE	AAF	CAN	CIT	MOFAD	SEED	CARE Enterprises	Total 2014
Personnel costs	\$ 150,615	\$ –	\$ 94	\$ –	\$ –	\$ 66	\$ 422	\$ 151,197
Professional services	32,041	–	26	15	–	25	4	32,111
Equipment	8,205	–	14	–	–	–	–	8,219
Materials and services	94,467	–	27	–	–	9	61	94,564
Travel and transportation	36,868	–	14	–	–	11	60	36,953
Occupancy	16,910	–	71	–	–	44	57	17,082
Financing/depreciation/miscellaneous	10,202	1,306	1	–	–	396	102	12,007
Grants/subgrants	128,744	–	–	–	–	–	–	128,744
Agricultural commodities/Contributions in-kind	36,720	–	–	–	–	–	–	36,720
Total operating expenses	\$ 514,772	\$ 1,306	\$ 247	\$ 15	\$ -	\$ 551	\$ 706	\$ 517,597

	CARE	AAF	CAN	CIT	MOFAD	SEED	CARE Enterprises	Total 2013
Personnel costs	\$ 150,493	\$ –	\$ 53	\$ 8	\$ –	\$ 186	\$ 325	\$ 151,065
Professional services	31,749	–	–	169	–	11	3	31,932
Equipment	8,354	–	2	–	–	–	–	8,356
Materials and services	83,962	–	19	–	–	48	49	84,078
Travel and transportation	40,686	–	47	44	–	62	58	40,897
Occupancy	16,156	–	89	13	–	95	51	16,404
Financing/depreciation/miscellaneous	11,602	1,066	–	8	–	4,918	24	17,618
Grants/subgrants	130,829	–	–	–	–	–	–	130,829
Agricultural commodities/Contributions in-kind	32,909	–	–	–	–	–	–	32,909
Total operating expenses	\$ 506,740	\$ 1,066	\$ 210	\$ 242	\$ -	\$ 5,320	\$ 510	\$ 514,088

CARE USA and Subsidiaries
Consolidated Financial Statements

15. Consolidating Financial Statements (continued)

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 statements of functional expenses. Program expenses are included in the appropriate natural classification in the accompanying consolidated statements of functional expense.

16. Commitments and Other Matters

As of June 30, 2014, CARE USA is obligated under non-cancelable operating lease agreements for warehousing, office space and staff housing at minimum rentals as follows (*in thousands*):

<u>Year</u>	<u>Amount</u>
2015	\$ 7,267
2016	3,347
2017	2,015
2018	1,335
2019	1,004
2020-2023	1,436
	<u>\$ 16,404</u>

Total rent expense was approximately \$13.4 million and \$12.1 million, respectively, for the years ended June 30, 2014 and 2013.

Access Africa Fund, LLC entered into a seven-year, \$20.0 million Loan Agreement with the Overseas Private Investment Corporation (“OPIC”), a division of the U.S. Government to fund new portfolio debt investments. 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, 2014 and 2013, the Fund had drawn \$13.5 million and \$11.0 million, respectively, under the credit facility. The promissory notes mature between December 2016 and September 2017, and bear current interest between 2.67% and 3.52% 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 \$2.9 million and \$3.4 million at June 30, 2014 and June 30, 2013, respectively.

As of June 30, 2014, CARE USA has invested \$8.0 million to fund Access Africa Fund, LLC. CARE USA owns 91% of the class A capital stock of Access Africa LLC.

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16. Commitments and Other Matters (continued)

CARE USA entered into performance guarantees for \$4.8 million and \$4.7 million for the years ended June 30, 2014 and 2013, respectively, 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 \$239,000 that is used only to secure local guarantees as required by donors. At June 30, 2014, CARE had drawn \$0 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. Contributions made to CARE Peru as of June 30, 2014 and 2013 are \$3.6 million and \$2.4 million, respectively.

CARE USA has committed to invest \$5 million in MicroVest II, LLP, a wholly owned limited partner of MicroVest General Partners. Cumulative contributions were \$4.8 million as of June 30, 2014 and \$3.6 million as of June 30, 2013.

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 \$1.9 million as of June 30, 2014 and \$1.8 million as of June 30, 2013.

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.

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.

CARE USA and Subsidiaries
Consolidated Financial Statements

17. Related Parties (continued)

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. Contingencies

Management is aware of approximately \$7.4 million in questioned costs resulting from various audits, of which \$3.5 million is currently under appeal. The US Agency for International Development (USAID) is reviewing supporting documentation submitted by management to clear these questioned costs. CARE had accrued \$2.3 million and \$2.6 million as a liability for these questioned costs for the years ended June 30, 2014 and 2013, respectively.

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.

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's favor on two lawsuits. The Government of Bolivia appealed both of those decisions. The highest court in Bolivia ruled favorably on one of those cases and sent the case back to the lower court. The other case is still on appeal. The majority of the lawsuits are still pending at the lowest court level. Although the outcome of this matter is currently not determinable, management is monitoring the situation closely. No estimate can be made of the possible range of loss, if any.

19. Subsequent Events

Subsequent to year end, SEEDFINANCE Corporation completed negotiations to evaluate its outstanding obligations. The negotiations resulted in the transfer of the subsidiary notes payable, as well as the application of hold-out deposits and partial cash payments to creditors of SEEDFINANCE, although SEEDFINANCE was not released of its obligations from some of its creditors as of the date of issuance of CARE's consolidated financial statements.

CARE USA and Subsidiaries
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19. Subsequent Events (continued)

Management is monitoring the situation closely and does not believe it will have a material impact on the consolidated financial statements.

Subsequent to year end, \$2.0 million of restricted cash held in escrow was released.

Subsequent to year end, CARE received the final confirmation from USAID to clear \$3.4 million of questioned costs related to the Consortium for Development Relief in Angola (CDRA) audit.

Management has disclosed all subsequent events through April 30, 2015, the date the financial statements were issued. There were no subsequent events that required recognition in the consolidated financial statements.

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