

FINANCIAL STATEMENTS

AFRICARE

**FOR THE YEAR ENDED JUNE 30, 2010
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2009**

AFRICARE

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GELMAN, ROSENBERG & FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Africare
Washington, D.C.

We have audited the accompanying statement of financial position of Africare as of June 30, 2010, and the related statements of activities and change in net assets, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of Africare's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Africare's 2009 financial statements and, in our report dated March 30, 2010, we expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Africare's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Africare as of June 30, 2010, and its change in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Gelman Rosenberg & Freedman

March 21, 2011

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AFRICARE
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2010
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2009

ASSETS

	<u>2010</u>	<u>2009</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 28,916,520	\$ 9,613,844
Investments (Notes 2 and 10)	<u>3,262,999</u>	<u>2,733,678</u>
Total cash, cash equivalents and investments	<u>32,179,519</u>	<u>12,347,522</u>
Accounts, employee and other receivables:		
Accounts receivable, Combined Federal Campaign	39,516	38,630
Employee receivables and advances, net of allowance for doubtful accounts of \$10,000 in 2010 and 2009, respectively	40,439	27,774
Other receivables and advances, net of allowance for doubtful accounts of \$484,650 and \$480,000 in 2010 and 2009, respectively	<u>886,339</u>	<u>538,110</u>
Total accounts, employee and other receivables	<u>966,294</u>	<u>604,514</u>
Grants and support receivable:		
Federal grants receivable, net of allowance for doubtful accounts of \$197,000 and \$121,000, in 2010 and 2009, respectively	4,922,730	5,881,507
Foreign governments and international organizations, net of allowance for doubtful accounts of \$91,550 and \$228,000, in 2010 and 2009, respectively	449,078	386,210
Private and other, net of allowance for doubtful accounts of \$13,300 and \$0, in 2010 and 2009, respectively	<u>209,905</u>	<u>323,475</u>
Total grants and support receivable	<u>5,581,713</u>	<u>6,591,192</u>
Total current assets	<u>38,727,526</u>	<u>19,543,228</u>
PROPERTY AND EQUIPMENT		
Land	224,756	224,756
Buildings	2,274,663	2,266,872
Equipment (Note 3)	6,935,713	5,751,400
Donated artwork	<u>579,135</u>	<u>579,135</u>
Total cost of property and equipment	10,014,267	8,822,163
Less: Accumulated depreciation and amortization	<u>(5,822,383)</u>	<u>(4,827,991)</u>
Net property and equipment	<u>4,191,884</u>	<u>3,994,172</u>
OTHER ASSETS		
Investments, non-current (Notes 2 and 10)	3,018,063	3,018,063
Other assets	<u>1,690,196</u>	<u>2,766,714</u>
Total other assets	<u>4,708,259</u>	<u>5,784,777</u>
TOTAL ASSETS	<u>\$ 47,627,669</u>	<u>\$ 29,322,177</u>

See accompanying notes to financial statements.

LIABILITIES AND NET ASSETS

	<u>2010</u>	<u>2009</u>
CURRENT LIABILITIES		
Capital leases payable, current portion (Note 3)	\$ 79,825	\$ 74,827
Accounts payable	3,771,458	4,140,147
Accrued salaries and related expenses	1,211,826	1,044,238
Refundable advances:		
U.S. Federal Government	11,331,089	8,275,764
Foreign governments and international organizations	20,935,206	2,772,100
Private and other	1,283,027	1,446,045
Pension payable (Notes 8 and 10)	<u>2,320,599</u>	<u>2,312,550</u>
Total current liabilities	<u>40,933,030</u>	<u>20,065,671</u>
LONG-TERM LIABILITIES		
Capital leases payable, long-term portion (Note 3)	<u>178,071</u>	<u>165,119</u>
Total liabilities	<u>41,111,101</u>	<u>20,230,790</u>
NET ASSETS		
Unrestricted (Note 6)	2,715,208	5,586,931
Temporarily restricted (Note 4)	783,297	486,393
Permanently restricted (Note 6)	<u>3,018,063</u>	<u>3,018,063</u>
Total net assets	<u>6,516,568</u>	<u>9,091,387</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 47,627,669</u>	<u>\$ 29,322,177</u>

See accompanying notes to financial statements.

AFRICARE

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2009**

	<u>2010</u>			<u>2009</u>	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Total</u>
REVENUE					
U.S. Government grants	\$ 33,699,425	\$ -	\$ -	\$ 33,699,425	\$ 32,645,378
Foreign government grants	2,130,639	-	-	2,130,639	935,096
Foundations and trusts	1,206,388	5,772	-	1,212,160	1,945,822
Contributions and other grants	11,992,509	172,920	-	12,165,429	9,658,849
Donated services and materials (Note 7)	10,882,481	-	-	10,882,481	6,275,992
Special events	624,884	-	-	624,884	959,840
Combined Federal Campaign	217,774	-	-	217,774	232,865
Investment income (Note 2)	134,817	65,088	-	199,905	237,108
Membership dues	14,285	-	-	14,285	7,740
Miscellaneous revenue	784,053	-	-	784,053	134,530
Net assets released from donor restrictions (Note 5)	<u>270,415</u>	<u>(270,415)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue	<u>61,957,670</u>	<u>(26,635)</u>	<u>-</u>	<u>61,931,035</u>	<u>53,033,220</u>
EXPENSES					
Program Services:					
Health and Water Resources Development	21,937,099	-	-	21,937,099	19,327,373
Food Security, Relief and Refugee Assistance	16,195,505	-	-	16,195,505	12,825,817
Agriculture and Small Scale Irrigation	7,915,793	-	-	7,915,793	5,200,112
Integrated Rural Development	8,759,743	-	-	8,759,743	6,187,317
Other Development Programs	<u>5,291,696</u>	<u>-</u>	<u>-</u>	<u>5,291,696</u>	<u>4,311,073</u>
Total program services	<u>60,099,836</u>	<u>-</u>	<u>-</u>	<u>60,099,836</u>	<u>47,851,692</u>
Supporting Services:					
Management and General	2,668,967	-	-	2,668,967	2,836,792
Fundraising	<u>1,099,219</u>	<u>-</u>	<u>-</u>	<u>1,099,219</u>	<u>1,220,940</u>
Total supporting services	<u>3,768,186</u>	<u>-</u>	<u>-</u>	<u>3,768,186</u>	<u>4,057,732</u>
Total expenses	<u>63,868,022</u>	<u>-</u>	<u>-</u>	<u>63,868,022</u>	<u>51,909,424</u>

See accompanying notes to financial statements.

AFRICARE

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2009

	2010			2009	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Total</u>
Change in net assets from operations	\$ (1,910,352)	\$ (26,635)	\$ -	\$ (1,936,987)	\$ 1,123,796
Non-operating minimum pension liability adjustment (Note 8)	(74,578)	-	-	(74,578)	(1,068,463)
Non-operating realized and unrealized gain (loss) on investments (Note 2)	296,676	323,539	-	620,215	(767,638)
Non-operating losses on foreign exchange (Note 2)	<u>(1,183,469)</u>	<u>-</u>	<u>-</u>	<u>(1,183,469)</u>	<u>(384,399)</u>
Change in net assets	(2,871,723)	296,904	-	(2,574,819)	(1,096,704)
Net assets at beginning of year	<u>5,586,931</u>	<u>486,393</u>	<u>3,018,063</u>	<u>9,091,387</u>	<u>10,188,091</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,715,208</u>	<u>\$ 783,297</u>	<u>\$ 3,018,063</u>	<u>\$ 6,516,568</u>	<u>\$ 9,091,387</u>

AFRICARE

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2010
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2009**

	2010			
	Program Services			
	Health and Water Resources Development	Food Security, Relief and Refugee Assistance	Agriculture and Small Scale Irrigation	Integrated Rural Development
Salaries, and fringe benefits (Note 8)	\$ 9,496,053	\$ 3,700,572	\$ 2,750,115	\$ 2,725,004
Freight	109,680	7,809,272	2,189	6,078
Travel, relocation and housing	1,267,278	507,699	308,531	263,898
Subcontracts and related services	2,034,079	1,130,827	875,772	1,582,527
Supplies and materials	2,979,038	1,329,089	2,102,168	2,653,839
Rent and occupancy charges	1,051,257	213,123	337,826	314,592
Conferences, conventions and meetings	1,912,732	297,751	325,448	216,434
Vehicle purchases, repair and maintenance	1,351,919	704,637	572,147	510,987
Professional and contractual services	337,504	99,430	83,870	32,830
Telephone, postage and delivery	423,337	130,573	143,814	103,568
Office equipment and furnishings	329,621	105,562	95,039	64,512
Insurance	111,994	33,952	47,696	31,740
Public and community relations	50,424	10,466	3,196	31,949
Office equipment rental	94,358	33,339	35,933	48,521
Legal and audit	29,906	3,666	7,453	3,643
Recruitment	47,132	4,616	8,021	2,957
Depreciation and amortization	218,011	52,449	180,552	154,664
Other	92,776	28,482	36,023	12,000
TOTAL	\$ 21,937,099	\$ 16,195,505	\$ 7,915,793	\$ 8,759,743

See accompanying notes to financial statements.

Supporting Services						2009
Other Development Programs	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses	Total Expenses
\$ 1,888,133	\$ 20,559,877	\$ 1,100,607	\$ 499,281	\$ 1,599,888	\$ 22,159,765	\$ 19,187,823
391	7,927,610	1,554	-	1,554	7,929,164	4,648,708
453,735	2,801,141	185,459	4,578	190,037	2,991,178	2,406,091
376,303	5,999,508	19,845	460,964	480,809	6,480,317	5,294,992
416,589	9,480,723	35,788	18,644	54,432	9,535,155	6,851,807
188,281	2,105,079	182,327	-	182,327	2,287,406	2,416,271
700,272	3,452,637	23,589	4,124	27,713	3,480,350	3,072,778
405,159	3,544,849	20,500	4,233	24,733	3,569,582	2,507,129
139,130	692,764	201,900	40,304	242,204	934,968	1,054,663
101,378	902,670	39,534	32,234	71,768	974,438	930,341
27,605	622,339	15,877	-	15,877	638,216	401,410
19,879	245,261	28,094	-	28,094	273,355	278,142
3,029	99,064	12,126	32,803	44,929	143,993	91,308
29,912	242,063	30,128	-	30,128	272,191	288,581
3,195	47,863	310,852	-	310,852	358,715	218,042
7,175	69,901	18,258	-	18,258	88,159	90,980
289,965	895,641	173,773	-	173,773	1,069,414	950,454
241,565	410,846	268,756	2,054	270,810	681,656	1,219,904
\$ 5,291,696	\$ 60,099,836	\$ 2,668,967	\$ 1,099,219	\$ 3,768,186	\$ 63,868,022	\$ 51,909,424

AFRICARE

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2009**

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (2,574,819)	\$ (1,096,704)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,069,414	950,454
Net realized and unrealized (gain) loss on investments	(620,215)	767,638
Provision for allowance for doubtful accounts	193,067	487,787
(Increase) decrease in:		
Accounts, employee and other receivables	(368,856)	(117,418)
Grants and support receivable	823,488	(1,102,400)
Other assets	1,076,518	(1,588,126)
Increase (decrease) in:		
Accounts payable	(368,689)	1,220,917
Accrued salaries and related expenses	167,588	(51,706)
Refundable advances	21,055,413	1,297,783
Pension payable	<u>8,049</u>	<u>892,138</u>
Net cash provided by operating activities	<u>20,460,958</u>	<u>1,660,363</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(1,174,566)	(1,361,010)
Purchase of investments	(7,147,400)	(1,082,585)
Sale of investments	<u>7,238,294</u>	<u>1,092,196</u>
Net cash used by investing activities	<u>(1,083,672)</u>	<u>(1,351,399)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital lease obligation	<u>(74,610)</u>	<u>(60,221)</u>
Net cash used by financing activities	<u>(74,610)</u>	<u>(60,221)</u>
Net increase in cash and cash equivalents	19,302,676	248,743
Cash and cash equivalents at beginning of year	<u>9,613,844</u>	<u>9,365,101</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 28,916,520</u>	<u>\$ 9,613,844</u>

See accompanying notes to financial statements.

AFRICARE

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2009

	<u>2010</u>	<u>2009</u>
SUPPLEMENTAL INFORMATION:		
Interest Paid	\$ <u>24,134</u>	\$ <u>15,049</u>
SCHEDULE OF NONCASH FINANCING TRANSACTIONS:		
Capital Lease Obligation Incurred for Use of Equipment	\$ <u>92,560</u>	\$ <u>146,175</u>

AFRICARE

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

Founded in 1970, Africare is a private, non profit organization, dedicated to improving the quality of life in Africa. Africare provides assistance in three principal areas: food security, agriculture and health. Africare's financial support comes from charitable foundations, corporations, the religious community, other private organizations, the U.S. Government, local agencies, foreign institutions, and individuals. Africare's headquarters is in Washington, D.C. During fiscal year 2010, Africare had operations in twenty-two African countries.

Africare has five core programs which are:

Health and Water Resources Development – includes activities to establish and strengthen rural health clinics and primary health services networks where basic medical care is limited or non existent and activities to increase water supplies, improve water distribution systems and water portability/sanitation throughout Africa. Specific work includes well construction and village level sanitation infrastructure.

Food Security, Relief and Refugee Assistance – includes activities that use a combination of food resources, aimed at improving food access, availability, and utilization to promote active and healthy lives. Refugee assistance involves providing emergency aid to victims of natural and man made disasters.

Agriculture and Small Scale Irrigation – includes services that focus on all aspects of food production and utilization, from improved cultivation of crops, livestock, agricultural irrigation and natural resource management, to farm infrastructure and farmer credit and training in agribusiness practices.

Integrated Rural Development – provides services to support rural areas needing help in water resources, irrigation, agriculture, and health clinics, to reduce shortages of essential food, water and services caused by drought and large influxes of immigrants.

Other Development Programs – includes activities such as literacy and vocational training, microenterprise, civil society development and governance and emergency humanitarian aid that are outside of and compliment Africare's principal program areas

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958, *Not-for-Profit Entities*.

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with Africare's financial statements for the year ended June 30, 2009, from which the summarized information was derived.

Cash and cash equivalents -

Africare considers all cash and other highly liquid investments, with initial maturities of three months or less, to be cash equivalents.

AFRICARE

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Cash and cash equivalents (continued) -

At times during the year, Africare maintains cash balances at financial institutions in excess of the Federal Deposit Insurance Corporation (FDIC) limits. Management believes the risk in these situations to be minimal. Africare maintains numerous bank accounts in foreign countries which are largely uninsured. Total cash and cash equivalents held overseas was \$26,869,011 as of June 30, 2010.

Investments -

Investments are recorded at their readily determinable fair value. Realized and unrealized gains and losses are included as non-operating activity in the Statement of Activities and Change in Net Assets. Investment income is reported as unrestricted revenue unless stipulated for a specific purpose by a donor.

Property and equipment -

Property and equipment in excess of \$5,000 are capitalized and stated at cost if purchased or, if donated, at the fair market value at the date of the gift. Property and equipment are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three years for furniture and equipment and vehicles, and fifty years for buildings. The cost of maintenance and repairs is recorded as expenses are incurred.

Agricultural commodities -

Africare receives agricultural commodities at no cost from agencies of the U.S. Government, for distribution under contracts related to specific relief programs, monetization with the cash proceeds to be used for Africare projects, or monetization with the proceeds distributed to other non-profit organization partners.

Commodities received for distribution are recorded at an amount approximating fair market value. Commodities held in inventory or in-transit are recorded as an asset and liability until distributed. Upon distribution, they are recorded as revenue and expense. Commodity inventories are included in other assets, with the related liability in accounts payable, totaling \$1,299,770 for 2010.

Commodities received that are to be sold (monetized), where the related proceeds are designated for Africare project activities, are recorded as deferred revenue when the cash proceeds are received. Revenue and expenses are recognized when the proceeds are utilized for project activities.

Commodities received that are to be sold (monetized), where the related proceeds are designated for other non-profit organizations, are recorded as a liability until the funds are distributed to those other organizations.

AFRICARE

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Net asset classification -

The net assets are reported in three self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of Africare and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of Africare and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Change in Net Assets as net assets released from restrictions.
- **Permanently restricted net assets** represent funds restricted by the donor to be maintained in-perpetuity by Africare. There are no restrictions placed on the use of investment earnings.

Contributions and grants -

Contributions are recorded as revenue in the year notification is received from the donor. Contributions are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Contributions received in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements.

Africare receives funding under grants and contracts from the U.S. and foreign governments, international organizations and other grantors for direct and indirect program costs. This funding is subject to contractual restrictions, which must be met through incurring qualifying expenses for particular programs. Accordingly, such grants are considered exchange transactions and are recorded as unrestricted income to the extent that related expenses are incurred in compliance with the criteria stipulated in the grant agreements.

Grants and support receivable represents amounts due from funding organizations for reimbursable expenses incurred in accordance with the grant agreements. Refundable advances represent grant funding in advance of incurring the related expenses.

Donated services, materials, furniture and equipment -

Donated services, materials, furniture and equipment are recorded at the fair value of the donated items.

Foreign currency -

The U.S. dollar is the functional currency of Africare. 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 purchases with non-U.S. currency are translated into dollars at the exchange rate in effect at the time of purchase. Assets and liabilities denominated in non-U.S. currency are translated into dollars at the exchange rate in effect at the date of the balance sheet. The net exchange losses from foreign currency of \$1,183,469 for the year ended June 30, 2010, are reported as a non-operating loss in the accompanying Statement of Activities and Change in Net Assets.

AFRICARE

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Income taxes -

Africare is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. Africare is not a private foundation.

Uncertain tax positions -

In June 2006, the Financial Accounting Standards Board (FASB) released FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes. For the year ended June 30, 2010, Africare has documented its consideration of FASB ASC 740-10 and determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

Use of estimates -

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Risks and uncertainties -

Africare invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

Fair value measurements -

Africare adopted the provisions of FASB ASC 820, *Fair Value Measurements and Disclosures*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. Africare accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. These reclassifications had no effect on the previously reported changes in net assets.

AFRICARE

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

2. INVESTMENTS

Investments are presented at market value and consisted of the following at June 30, 2010:

Mutual funds - equities	\$ 4,809,623
Mutual funds - fixed income	<u>1,471,439</u>
TOTAL INVESTMENTS	<u>\$ 6,281,062</u>

Included in investment returns are the following:

Interest and dividends available for operations	\$ 199,905
Non-operating realized and unrealized gain on investments	<u>620,215</u>
TOTAL INVESTMENT RETURNS	<u>\$ 820,120</u>

3. CAPITAL LEASES PAYABLE

Africare has capital lease obligations for equipment, which expire at various times through 2015. As of June 30, 2010, the cost and related accumulated depreciation of the equipment were \$356,796 and \$96,053, respectively. Future minimum lease payments are as follows:

<u>Year Ended June 30,</u>	
2011	\$ 96,708
2012	80,138
2013	57,009
2014	31,164
2015	<u>28,567</u>
Total minimum lease payments	293,586
Less: Interest	<u>(35,690)</u>
Present value of minimum lease payments	257,896
Less: Current portion	<u>(79,825)</u>
LONG-TERM PORTION	<u>\$ 178,071</u>

4. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at June 30, 2010:

Health and Water Resources Development	\$ 211,488
Food Security, Relief and Refugee Assistance	12,872
Agriculture and Small Scale Irrigation	150
Integrated Rural Development	26,030
Other Development Programs	45,002
Time restricted - accumulated endowment earnings	<u>487,755</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	<u>\$ 783,297</u>

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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

5. NET ASSETS RELEASED FROM RESTRICTIONS

The following temporarily restricted net assets were released from donor restrictions by incurring expenses, which satisfied the restricted purposes specified by the donors:

Health and Water Resources Development	\$ 134,187
Food Security, Relief and Refugee Assistance	13,073
Other Development Programs	11,600
Time restricted - appropriation of endowment assets for expenditure	<u>111,555</u>
TOTAL NET ASSETS RELEASED	\$ <u>270,415</u>

6. ENDOWMENT

Africare's endowment consists of donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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, Africare 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 UPMIFA. In accordance with UPMIFA, Africare considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purpose of the organization and the donor-restricted endowment fund;
- General economic conditions and the possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments; and
- Investment policies of the organization.

Endowment net asset composition by type of fund as of June 30, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Funds	\$ -	\$ 487,755	\$ 3,018,063	\$ 3,505,818
Board-Designated Endowment Funds	<u>2,787,515</u>	<u>-</u>	<u>-</u>	<u>2,787,515</u>
TOTAL FUNDS	\$ <u>2,787,515</u>	\$ <u>487,755</u>	\$ <u>3,018,063</u>	\$ <u>6,293,333</u>

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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

6. ENDOWMENT (Continued)

Changes in endowment net assets for the year ended June 30, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ <u>2,535,411</u>	\$ <u>210,683</u>	\$ <u>3,018,063</u>	\$ <u>5,764,157</u>
Investment return:				
Investment income	59,223	65,088	-	124,311
Net appreciation (realized and unrealized)	<u>294,384</u>	<u>323,539</u>	<u>-</u>	<u>617,923</u>
Total investment return	<u>353,607</u>	<u>388,627</u>	<u>-</u>	<u>742,234</u>
Appropriation of endowment assets for expenditure	<u>(101,503)</u>	<u>(111,555)</u>	<u>-</u>	<u>(213,058)</u>
ENDOWMENT NET ASSETS, END OF YEAR	\$ <u>2,787,515</u>	\$ <u>487,755</u>	\$ <u>3,018,063</u>	\$ <u>6,293,333</u>

Funds with Deficiencies -

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the organization to retain as a fund of perpetual duration. As of June 30, 2010, there were no deficiencies in Africare's unrestricted net assets.

Return Objectives and Risk Parameters -

Africare has adopted and the Board of Directors has approved an Investment Policy Statement for the Endowment Fund. The policy identifies the appropriate risk exposure for the fund, provides asset allocation and rebalancing guidelines, and establishes criteria to monitor and evaluate the performance results of the fund managers. Africare's targeted nominal net of fee internal rate of return is 5% annually.

Strategies Employed for Achieving Objectives -

To satisfy its long-term rate-of-return objectives, Africare relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Spending Policy and How the Investment Objectives Relate to Spending Policy -

Africare makes distributions from income earned on the endowment fund for current operations using the total return method. The Board approved a spending rate of 4% for 2010.

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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

7. DONATED SERVICES AND MATERIALS

During the year ended June 30, 2010, Africare was the beneficiary of donated goods and services, which allow Africare to provide greater resources towards various programs. The following programs have benefited from these donated services:

Health and Water Resources Development	\$ 670,110
Food Security, Relief and Refugee Assistance	7,479,923
Agriculture and Small Scale Irrigation	2,355,250
Integrated Rural Development	<u>377,198</u>
TOTAL DONATED SERVICES AND MATERIALS	<u>\$10,882,481</u>

8. EMPLOYEE BENEFIT PLANS

Pension Plan:

Africare has a noncontributory defined benefit pension plan (the "Plan") that covers all employees after one year of employment. The benefits are based on years of service and the employees' average compensation during the three highest consecutive years of participation. Africare makes actuarially determined contributions to satisfy minimum funding requirements.

Africare's Investment Committee (the "Committee") monitors Plan assets to ensure that portfolio income and liquidity is adequate to meet Plan benefit payments and other costs. In addition, the Committee ensures adequate capital growth over an extended period of time while considering market risks and changes in the actuarial present value of the liability. The Plan assets are required to be diversified to ensure no disproportionate risks are taken with any single assets class or industry sector and to guard against inflation. The Plan asset allocation is reviewed periodically with current market assumptions to ensure that the long-term goals of the plan are met.

Plan assets were invested in the following asset classes at June 30, 2010:

Money market funds	1.0 %
Mutual funds - equities	75.7 %
Mutual funds - fixed income	<u>23.3 %</u>
TOTAL	<u>100.0 %</u>

The following table sets forth the Plan's funded status as of June 30, 2010:

Fair value of plan assets at end of year	\$ 6,458,490
Projected benefit obligation at end of year	<u>8,779,089</u>
Funded status	(2,320,599)
Unrecognized net loss	<u>2,985,023</u>
NET AMOUNT RECOGNIZED	<u>\$ 664,424</u>

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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

8. EMPLOYEE BENEFIT PLANS (Continued)

Pension Plan (continued):

Amount recognized consists of:	
Accrued pension liability	\$(2,320,599)
Accumulated other non-operating expense	<u>2,985,023</u>
NET AMOUNT RECOGNIZED	\$ <u>664,424</u>

At June 30, 2010, the accumulated benefit obligation exceeded the fair value of plan assets by \$2,320,599. Based on changes in actuarial assumptions and the Board's action to freeze accrual of benefits as of June 30, 2006, a minimum pension liability adjustment of \$74,578 was recorded. This adjustment was reported as a non-operating loss in the accompanying Statement of Activities and Change in Net Assets.

The accumulated benefit obligation for the Plan was \$8,779,089 as of June 30, 2010.

The net periodic pension cost for the year ended June 30, 2010 included the following components:

Interest cost	\$ 479,605
Expected return on plan assets	(393,805)
Net amortization of prior service cost	<u>237,671</u>
NET PERIODIC PENSION COST	\$ <u>323,471</u>

Assumptions used in the pension accounting for June 30, 2010 were as follows:

Weighted-average assumptions used to determine benefit obligations:	
Discount rate	5.45%
Rate of compensation increase	0.00%
Weighted-average assumptions used to determine net periodic benefit cost:	
Discount rate	6.20%
Expected return on plan assets	7.00%
Rate of compensation increase	0.00%

Employer contributions to the Plan during the year ended June 30, 2010 totaled \$390,000. Africare expects to contribute approximately \$338,600 to the Plan for the year ended June 30, 2011. During the year ended June 30, 2010, benefits of \$324,476 were paid to eligible participants.

On December 2, 2005, the Board of Directors approved an amendment to freeze the accrual of benefits under the Plan as of June 30, 2006. This plan curtailment does not affect the benefits of current retirees or terminated vested participants in the Plan.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

8. EMPLOYEE BENEFIT PLANS (Continued)

Pension Plan (continued):

Considering the Plan curtailment described above, the following benefit payments, reflecting past service, are expected to be paid as of June 30, 2010:

<u>Year Ended June 30,</u>	
2011	\$ 445,166
2012	497,734
2013	503,629
2014	494,499
2015	503,334
Thereafter	<u>2,697,957</u>
TOTAL BENEFIT PAYMENTS	<u>\$ 5,142,319</u>

Savings Plan:

Africare participates in the Africare, Inc. 401(k) Savings Plan (the "Savings Plan"), a defined contribution plan, which was adopted on July 1, 2006. Employees are eligible to participate after six months of service and are fully vested in amounts attributable to salary deferrals and non-elective contributions.

For discretionary employer contributions, vesting occurs in 20% increments up to six years of service when 100% vesting occurs. There are eighteen investment options that employees can choose from. Africare made non-elective contributions to the Savings Plan of \$182,309, during the year ended June 30, 2010.

9. CONTINGENCY

Africare receives grants from various agencies of the United States Government. Such grants are subject to audit under the provisions of OMB Circular A-133. The ultimate determination of amounts received under the United States Government grants is based upon the allowance of costs reported to and accepted by the United States Government as a result of the audits. Audits in accordance with the provisions of OMB Circular A-133 have been completed for all required fiscal years through 2010. Until such audits have been accepted by the United States Government, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

10. FAIR VALUE MEASUREMENTS

In accordance with FASB ASC 820, *Fair Value Measurements and Disclosures*, Africare has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

10. FAIR VALUE MEASUREMENTS (Continued)

If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Investments recorded in the Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market Africare has the ability to access.

Level 2. These are investments where values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. These are investments where values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect assumptions of management about assumptions market participants would use in pricing the investments. These investments include non-readily marketable securities that do not have an active market.

Financial assets recorded in the Statement of Financial Position are categorized based on the inputs to the valuation technique as follows for the year ended June 30, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Asset Category:				
Investments	\$ 6,281,062	\$ -	\$ -	\$ 6,281,062
Liability Category:				
Pension Payable	<u>-</u>	<u>-</u>	<u>2,320,599</u>	<u>2,320,599</u>
TOTAL	<u>\$ 6,281,062</u>	<u>\$ -</u>	<u>\$ 2,320,599</u>	<u>\$ 8,601,661</u>

Level 3 Financial Liability

The following table provides a summary of changes in fair value of Africare's level 3 financial liabilities for the year ended June 30, 2010:

	<u>Pension Payable</u>
Beginning balance as of July 1, 2009	\$ 2,312,550
Less: Pension contributions	(390,000)
Add: Net periodic pension costs	323,471
Add: Additional minimum pension liability	<u>74,578</u>
BALANCE AS OF JUNE 30, 2010	<u>\$ 2,320,599</u>

11. SUBSEQUENT EVENTS

In preparing these financial statements, Africare has evaluated events and transactions for potential recognition or disclosure through March 21, 2011, the date the financial statements were issued.