

FINANCIAL STATEMENTS

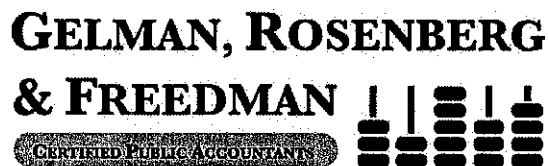


**FOR THE YEAR ENDED JUNE 30, 2012
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2011**

AFRICARE

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INDEPENDENT AUDITOR'S 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, 2012, 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 2011 financial statements and, in our report dated April 9, 2012, 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, 2012, and the change in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 8, 2013 on our consideration of Africare's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Bethesda, Maryland
July 8, 2013

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AFRICARE
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2012
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011

ASSETS

	<u>2012</u>	<u>2011</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 13,220,748	\$ 32,062,268
Investments (Notes 2 and 12)	<u>4,209,686</u>	<u>4,705,921</u>
Total cash, cash equivalents and current investments	<u>17,430,434</u>	<u>36,768,189</u>
Accounts, employee and other receivables:		
Accounts receivable, Combined Federal Campaign	32,922	47,723
Employee receivables and advances, net of allowance for doubtful accounts of \$18,000 in 2012 and \$10,000 in 2011	28,598	19,676
Other receivables and advances, net of allowance for doubtful accounts of \$27,000 in 2012 and \$783,500 in 2011	<u>426,818</u>	<u>985,851</u>
Total accounts, employee and other receivables	<u>488,338</u>	<u>1,053,250</u>
Grants and support receivable:		
Federal grants receivable, net of allowance for doubtful accounts of \$165,500 in 2012 and 2011	4,940,603	5,081,051
Foreign governments and international organizations, net of allowance for doubtful accounts of \$338,000 in 2012 and \$247,000 in 2011	3,652,401	2,454,687
Private and other, net of allowance for doubtful accounts of \$13,400 in 2012 and 2011	<u>1,347,887</u>	<u>72,173</u>
Total grants and support receivable	<u>9,940,891</u>	<u>7,607,911</u>
Other assets	<u>982,366</u>	<u>1,041,091</u>
Total current assets	<u>28,842,029</u>	<u>46,470,441</u>
PROPERTY AND EQUIPMENT		
Land	224,756	224,756
Buildings	2,274,663	2,274,663
Equipment (Note 3)	<u>6,762,330</u>	<u>7,545,128</u>
Total cost of property and equipment	9,261,749	10,044,547
Less: Accumulated depreciation and amortization	<u>(6,892,109)</u>	<u>(6,902,522)</u>
Net property and equipment	<u>2,369,640</u>	<u>3,142,025</u>
OTHER ASSETS		
Investments, non-current (Notes 2 and 12)	3,018,063	3,018,063
Donated artwork	<u>579,135</u>	<u>579,135</u>
Total other assets	<u>3,597,198</u>	<u>3,597,198</u>
TOTAL ASSETS	<u>\$ 34,808,867</u>	<u>\$ 53,209,664</u>

See accompanying notes to financial statements.

AFRICARE

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011**

	2012			2011	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
REVENUE					
U.S. Government grants	\$ 39,567,988	\$ -	\$ -	\$39,567,988	\$ 36,579,496
Foreign government grants	2,755,531	-	-	2,755,531	5,622,001
Foundations and trusts	2,252,640	5,901	-	2,258,541	1,668,597
Contributions and other grants	15,925,920	109,736	-	16,035,656	30,271,430
Donated services and materials (Note 7)	13,212,449	-	-	13,212,449	8,013,101
Special events	669,604	-	-	669,604	750,415
Combined Federal Campaign	190,956	-	-	190,956	188,015
Interest and dividends (Note 2)	329,972	88,889	-	418,861	327,367
Membership dues	6,900	-	-	6,900	6,190
Miscellaneous revenue	154,942	-	-	154,942	1,253,015
Net assets released from donor restrictions (Note 5)	<u>134,361</u>	<u>(134,361)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue	<u>75,201,263</u>	<u>70,165</u>	<u>-</u>	<u>75,271,428</u>	<u>84,679,627</u>
EXPENSES					
Program Services:					
Health and Water Resources Development	31,549,263	-	-	31,549,263	42,507,523
Food Security, Relief and Refugee Assistance	15,950,942	-	-	15,950,942	16,147,576
Agriculture and Small Scale Irrigation	12,830,359	-	-	12,830,359	7,945,557
Integrated Rural Development	4,773,191	-	-	4,773,191	5,906,126
Other Development Programs	<u>5,123,322</u>	<u>-</u>	<u>-</u>	<u>5,123,322</u>	<u>7,087,382</u>
Total program services	<u>70,227,077</u>	<u>-</u>	<u>-</u>	<u>70,227,077</u>	<u>79,594,164</u>
Supporting Services:					
Management and General	3,770,265	-	-	3,770,265	3,212,775
Fundraising	<u>898,830</u>	<u>-</u>	<u>-</u>	<u>898,830</u>	<u>1,086,073</u>
Total supporting services	<u>4,669,095</u>	<u>-</u>	<u>-</u>	<u>4,669,095</u>	<u>4,298,848</u>
Total expenses	<u>74,896,172</u>	<u>-</u>	<u>-</u>	<u>74,896,172</u>	<u>83,893,012</u>

See accompanying notes to financial statements.

AFRICARE

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011

	2012			2011	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Change in net assets from operations	\$ 305,091	\$ 70,165	\$ -	\$ 375,256	\$ 786,615
Non-operating minimum pension liability adjustment (Note 9)	(916,511)	-	-	(916,511)	1,563,990
Non-operating realized and unrealized (loss) gain on investments (Note 2)	(228,184)	(151,728)	-	(379,912)	1,432,714
Non-operating (losses) gains on foreign currency exchange	<u>(1,283,940)</u>	<u>-</u>	<u>-</u>	<u>(1,283,940)</u>	<u>4,578,360</u>
Change in net assets	(2,123,544)	(81,563)	-	(2,205,107)	8,361,679
Net assets at beginning of year	<u>10,446,935</u>	<u>1,413,249</u>	<u>3,018,063</u>	<u>14,878,247</u>	<u>6,516,568</u>
NET ASSETS AT END OF YEAR	<u>\$ 8,323,391</u>	<u>\$ 1,331,686</u>	<u>\$ 3,018,063</u>	<u>\$12,673,140</u>	<u>\$14,878,247</u>

See accompanying notes to financial statements.

AFRICARE

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011**

	<u>2012</u>			
	<u>Program Services</u>			
	<u>Food</u>			
	<u>Health and</u>	<u>Security,</u>	<u>Agriculture</u>	<u>Integrated</u>
	<u>Water</u>	<u>Relief and</u>	<u>and Small</u>	<u>Rural</u>
	<u>Resources</u>	<u>Refugee</u>	<u>Scale</u>	<u>Development</u>
	<u>Development</u>	<u>Assistance</u>	<u>Irrigation</u>	
Salaries and fringe benefits (Note 9)	\$ 12,279,888	\$ 4,369,627	\$ 3,371,518	\$ 1,404,425
Professional and contractual services	765,200	120,517	151,997	29,061
Recruitment	61,896	590	7,509	1,057
Travel, relocation and housing	2,037,949	461,283	290,472	165,826
Rent and occupancy charges	1,658,790	290,387	239,367	178,943
Office equipment and furnishings	425,844	65,779	19,764	13,800
Office equipment and rental	103,235	15,921	39,635	20,462
Vehicle purchases, repair and maintenance	2,563,572	351,719	432,055	224,856
Freight	9,316	7,110,179	-	29
Supplies and materials	2,476,796	1,577,406	6,556,973	1,170,529
Conferences, conventions and meetings	2,057,249	341,158	405,331	161,911
Subcontracts and related services	5,318,355	963,974	920,767	1,153,981
Insurance	150,611	20,784	17,491	12,709
Legal and audit	42,574	595	5,949	3,012
Telephone, postage and delivery	473,672	111,578	144,254	59,133
Depreciation and amortization	284,467	96,705	100,357	125,496
Public and community relations	394,816	17,010	4,705	15,936
Other	445,033	35,730	122,215	32,025
TOTAL	\$ 31,549,263	\$ 15,950,942	\$ 12,830,359	\$ 4,773,191

See accompanying notes to financial statements.

Support Services							2011
Other Development Programs	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses	Total Expenses	
\$ 2,098,861	\$ 23,524,319	\$ 1,320,680	\$ 381,867	\$ 1,702,547	\$ 25,226,866	\$ 24,253,242	
313,860	1,380,635	151,214	53,857	205,071	1,585,706	1,600,264	
10,332	81,384	35,316	-	35,316	116,700	47,595	
523,401	3,478,931	180,383	5,627	186,010	3,664,941	4,036,411	
325,239	2,692,726	93,813	-	93,813	2,786,539	2,812,286	
63,317	588,504	9,191	-	9,191	597,695	603,088	
27,888	207,141	40,109	306	40,415	247,556	276,311	
412,839	3,985,041	26,390	3,687	30,077	4,015,118	4,329,039	
81	7,119,605	-	-	-	7,119,605	7,351,456	
413,985	12,195,689	54,178	28,624	82,802	12,278,491	22,947,970	
39,449	3,005,098	38,778	12,606	51,384	3,056,482	2,753,357	
405,194	8,762,271	15,660	373,076	388,736	9,151,007	8,511,744	
22,641	224,236	20,690	-	20,690	244,926	251,706	
15,156	67,286	254,206	-	254,206	321,492	299,283	
74,807	863,444	53,333	20,852	74,185	937,629	939,902	
176,935	783,960	189,563	-	189,563	973,523	1,273,842	
7,841	440,308	4,985	17,271	22,256	462,564	529,750	
191,496	826,499	1,281,776	1,057	1,282,833	2,109,332	1,075,766	
\$ 5,123,322	\$ 70,227,077	\$ 3,770,265	\$ 898,830	\$ 4,669,095	\$ 74,896,172	\$ 83,893,012	

See accompanying notes to financial statements.

AFRICARE

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011**

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (2,205,107)	\$ 8,361,679
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation and amortization	973,523	1,273,842
Net realized and unrealized loss (gain) on investments	379,912	(1,432,714)
Provision for allowance for doubtful accounts	(657,500)	588,863
Loss on disposal of equipment	194,237	60,197
(Increase) decrease in:		
Accounts, employee and other receivables	1,313,413	(388,187)
Grants and support receivable	(2,423,980)	(2,313,830)
Other assets	58,725	649,105
Increase (decrease) in:		
Accounts payable	(15,184,955)	14,278,625
Accrued salaries and related expenses	56,972	(54,536)
Refundable advances	(1,684,491)	(15,365,965)
Pension payable	<u>542,904</u>	<u>(1,557,999)</u>
Net cash (used) provided by operating activities	<u>(18,636,347)</u>	<u>4,099,080</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(235,967)	(863,315)
Purchase of investments	(351,258)	(298,818)
Sale of investments	<u>467,581</u>	<u>288,610</u>
Net cash used by investing activities	<u>(119,644)</u>	<u>(873,523)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital lease obligation	<u>(85,529)</u>	<u>(79,809)</u>
Net cash used by financing activities	<u>(85,529)</u>	<u>(79,809)</u>
Net (decrease) increase in cash and cash equivalents	(18,841,520)	3,145,748
Cash and cash equivalents at beginning of year	<u>32,062,268</u>	<u>28,916,520</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 13,220,748</u>	<u>\$ 32,062,268</u>
SUPPLEMENTAL INFORMATION:		
Interest Paid	<u>\$ 18,891</u>	<u>\$ 19,287</u>
SCHEDULE OF NONCASH FINANCING TRANSACTIONS		
Capital Lease Obligation Incurred for Use of Equipment	<u>\$ 159,406</u>	<u>\$ -</u>

See accompanying notes to financial statements.

AFRICARE

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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 2012, Africare had operations in twenty-three 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 complement 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, 2011, 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, 2012

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

Cash and cash equivalents (continued) -

Through December 31, 2012, the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") provided temporary unlimited deposit insurance coverage for non-interest bearing transaction accounts at all Federal Deposit Insurance Corporation (FDIC) insured depository institutions (the "Dodd-Frank Deposit Insurance Provision"). Africare maintained a portion of its cash balance at a financial institution in a non-interest bearing account; thereby, all of this cash balance was protected by the FDIC under this Act. Beginning January 1, 2013, funds deposited in non-interest bearing accounts will no longer receive unlimited deposit insurance coverage. Bank deposit accounts at one institution will be insured by the FDIC up to a limit of \$250,000. Management believes the risk in these situations to be minimal.

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 \$11,764,055 as of June 30, 2012.

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 \$817,941 for 2012.

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

AFRICARE

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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

Agricultural commodities (continued) -

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.

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.

Contributions and grants -

Contributions are recorded as revenue in the year notification is received from the donor. Temporarily restricted 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. Such 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.

AFRICARE

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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

Foreign currency (continued) -

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 \$1,283,940 for the year ended June 30, 2012, are reported as a non-operating loss in the accompanying Statement of Activities and Change in Net Assets.

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 -

For the year ended June 30, 2012, 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.

The Federal Form 990, *Return of Organization Exempt from Income Tax*, is subject to examination by the Internal Revenue Service, generally for three years after it is filed.

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 measurement -

Africare adopted the provisions of FASB ASC 820, *Fair Value Measurement*. 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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

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

Fair value measurement (continued) -

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

2. INVESTMENTS

Investments are presented at fair value and consisted of the following at June 30, 2012:

Mutual funds - equities	\$ 5,391,043
Mutual funds - fixed income	<u>1,836,706</u>
TOTAL INVESTMENTS	<u>\$ 7,227,749</u>

Included in investment returns are the following:

Interest and dividends available for operations	\$ 418,861
Non-operating realized and unrealized loss on investments	<u>(379,912)</u>
TOTAL INVESTMENT RETURNS	<u>\$ 38,949</u>

3. CAPITAL LEASES PAYABLE

Africare has capital lease obligations for equipment, which expire at various times through 2017. During 2012, Africare entered into another capital lease for scanning equipment, with a total cost of \$159,406. As of June 30, 2012, the cost and related accumulated depreciation of the equipment were \$516,202 and \$262,014, respectively. Interest expense on the related capital leases totaled \$16,467 for the period ending June 30, 2012. Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	
2013	\$ 94,541
2014	68,664
2015	66,067
2016	37,500
2017	<u>15,625</u>
Total minimum lease payments	282,397
Less: Interest	<u>(30,434)</u>
Present value of minimum lease payments	251,963
Less: Current portion	<u>(81,027)</u>
LONG-TERM PORTION	<u>\$ 170,936</u>

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

4. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at June 30, 2012:

Health and Water Resources Development	\$ 191,782
Food Security, Relief and Refugee Assistance	56,772
Agriculture and Small Scale Irrigation	150
Integrated Rural Development	26,030
Other Development Programs	48,423
Time restricted - accumulated endowment earnings	<u>1,008,529</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	<u>\$ 1,331,686</u>

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	\$ 62,326
Passage of time - appropriation of endowment assets for expenditure	<u>72,035</u>
TOTAL NET ASSETS RELEASED	<u>\$ 134,361</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.

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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

6. ENDOWMENT (Continued)

Endowment net asset composition by type of fund as of June 30, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Funds	\$ -	\$ 1,008,529	\$ 3,018,063	\$ 4,026,592
Board-Designated Endowment Funds	<u>3,291,573</u>	<u>-</u>	<u>-</u>	<u>3,291,573</u>
TOTAL FUNDS	<u>\$ 3,291,573</u>	<u>\$ 1,008,529</u>	<u>\$ 3,018,063</u>	<u>\$ 7,318,165</u>

Changes in endowment net assets for the year ended June 30, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ <u>3,499,038</u>	\$ <u>1,143,403</u>	\$ <u>3,018,063</u>	\$ <u>7,660,504</u>
Investment return:				
Investment income	136,731	88,889	-	225,620
Net appreciation (realized and unrealized)	<u>(233,391)</u>	<u>(151,728)</u>	<u>-</u>	<u>(385,119)</u>
Total investment return	<u>(96,660)</u>	<u>(62,839)</u>	<u>-</u>	<u>(159,499)</u>
Appropriation of endowment assets for expenditure	<u>(110,805)</u>	<u>(72,035)</u>	<u>-</u>	<u>(182,840)</u>
ENDOWMENT NET ASSETS, END OF YEAR	<u>\$ 3,291,573</u>	<u>\$ 1,008,529</u>	<u>\$ 3,018,063</u>	<u>\$ 7,318,165</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, 2012, 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).

AFRICARE

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

6. ENDOWMENT (Continued)

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 3.5% for 2012.

7. DONATED SERVICES AND MATERIALS

During the year ended June 30, 2012, 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:

Food Security, Relief and Refugee Assistance	\$ 6,918,556
Agriculture and Small Scale Irrigation	6,250,939
Integrated Rural Development	9,944
Other Development Programs	<u>33,010</u>
TOTAL DONATED SERVICES AND MATERIALS	<u>\$ 13,212,449</u>

8. LEASE COMMITMENT

Africare leases office space and guest houses in numerous foreign countries under short-term lease agreements. Total rent expense under short-term lease agreements for the year ended June 30, 2012 was \$2,786,539.

9. 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, 2012:

Money market funds	1.0 %
Mutual funds - equities	77.4 %
Mutual funds - fixed income	<u>21.6 %</u>
TOTAL	<u>100.0 %</u>

AFRICARE

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

9. EMPLOYEE BENEFIT PLANS (Continued)

Pension Plan (continued):

The following table sets forth the Plan's funded status as of June 30, 2012:

Fair value of plan assets at end of year	\$ 7,822,787
Projected benefit obligation at end of year	<u>9,128,291</u>
Funded status	(1,305,504)
Unrecognized net loss	<u>2,337,544</u>
NET AMOUNT RECOGNIZED	<u>\$ 1,032,040</u>
Amount recognized consists of:	
Accrued pension liability	\$ (1,305,504)
Accumulated other non-operating expense	<u>2,337,544</u>
NET AMOUNT RECOGNIZED	<u>\$ 1,032,040</u>

At June 30, 2012, the accumulated benefit obligation exceeded the fair value of plan assets by \$1,305,504. 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 \$916,511 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 \$9,128,291 as of June 30, 2012.

Assumptions used in the pension accounting for June 30, 2012 were as follows:

Weighted-average assumptions used to determine benefit obligations:	
Discount rate	5.50%
Rate of compensation increase	0.00%
Weighted-average assumptions used to determine net periodic benefit cost:	
Discount rate	5.67%
Expected return on plan assets	7.00%
Rate of compensation increase	0.00%

Employer contributions to the Plan during the year ended June 30, 2012 totaled \$377,500. Africare expects to contribute approximately \$370,500 to the Plan for the year ended June 30, 2013. During the year ended June 30, 2012, benefits of \$447,932 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, 2012**

9. 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, 2012:

<u>Year Ending June 30,</u>	
2013	\$ 546,906
2014	541,653
2015	554,864
2016	570,268
2017	578,894
Thereafter	<u>3,216,736</u>
TOTAL BENEFIT PAYMENTS	<u>\$ 6,009,321</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 \$143,136, during the year ended June 30, 2012.

10. 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 2012. 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.

11. LITIGATION

As of June 30, 2012, Africare is the defendant in a number of legal actions. The lawsuits were filed against Africare for failure to properly abide by laws for payroll and other fringe benefits compensation required to be paid to local employees in various African countries. Africare has accrued \$163,816 for those lawsuits that are considered to be a probable loss and estimable. While the final outcome cannot be determined at this time, management is of the opinion that the ultimate liability, if any, from the final resolution of these matters will not have a material effect on Africare's financial statements.

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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

12. FAIR VALUE MEASUREMENT

In accordance with FASB ASC 820, *Fair Value Measurement*, 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). 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 for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used at June 30, 2012.

- *Mutual funds* - The fair value is equal to the reported net asset value of the fund, which is the price at which additional shares can be obtained.

The table below summarizes, by level within the fair value hierarchy, Africare's investments as of June 30, 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Asset Class:				
Mutual Funds - Equities	\$ 5,391,043	\$ -	\$ -	\$ 5,391,043
Mutual Funds - Fixed Income	<u>1,836,706</u>	<u>-</u>	<u>-</u>	<u>1,836,706</u>
TOTAL ASSETS	<u>\$ 7,227,749</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,227,749</u>
Liability Category:				
Pension Payable	\$ -	\$ -	<u>\$ 1,305,504</u>	<u>\$ 1,305,504</u>
TOTAL LIABILITIES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,305,504</u>	<u>\$ 1,305,504</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, 2012:

	<u>Pension Payable</u>
Beginning balance as of June 30, 2011	\$ 762,600
Less: Pension contributions	(377,500)
Add: minimum pension liability loss	916,511
Add: Additional minimum pension liability	<u>3,893</u>
BALANCE AS OF JUNE 30, 2012	<u>\$ 1,305,504</u>

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

13. SUBSEQUENT EVENTS

In preparing these financial statements, Africare has evaluated events and transactions for potential recognition or disclosure through July 8, 2013, the date the financial statements were issued.