

FINANCIAL STATEMENTS



**FOR THE YEAR ENDED JUNE 30, 2016
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2015**

AFRICARE

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Africare, which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and change in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 financial position of Africare as of June 30, 2016, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Report on Summarized Comparative Information

We have previously audited Africare's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 24, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Gelman Rosenberg & Freedman

April 28, 2017

AFRICARE
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2016
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015

ASSETS

	<u>2016</u>	<u>2015</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,334,825	\$ 8,256,293
Investments (Notes 2 and 15)	<u>57,637</u>	<u>55,870</u>
Total cash, cash equivalents and current investments	<u>5,392,462</u>	<u>8,312,163</u>
Accounts, employee and other receivables:		
Employee receivables and advances, net of allowance for doubtful accounts of \$21,543 in 2016 and \$3,000 in 2015	6,969	8,046
Other receivables and advances, net of allowance for doubtful accounts of \$67,496 in 2016 and \$145,000 in 2015	<u>44,696</u>	<u>480,290</u>
Total accounts, employee and other receivables	<u>51,665</u>	<u>488,336</u>
Grants and support receivable:		
Federal grants receivable, net of allowance for doubtful accounts of \$732,229 in 2016 and \$515,169 in 2015	4,832,071	5,177,069
Foreign governments and international organizations, net of allowance for doubtful accounts of \$265,725 in 2016 and \$420,641 in 2015	5,621,001	3,925,722
Private and other, net of allowance for doubtful accounts of \$54,728 in 2016 and \$70,022 in 2015	<u>1,517,381</u>	<u>867,860</u>
Total grants and support receivable	<u>11,970,453</u>	<u>9,970,651</u>
Other assets	<u>19,624</u>	<u>143,004</u>
Total current assets	<u>17,434,204</u>	<u>18,914,154</u>
PROPERTY AND EQUIPMENT		
Land	224,756	224,756
Buildings	2,274,663	2,274,663
Equipment (Note 3)	<u>6,074,042</u>	<u>6,497,234</u>
Total property and equipment	8,573,461	8,996,653
Less: Accumulated depreciation and amortization	<u>(7,040,173)</u>	<u>(7,476,776)</u>
Net property and equipment	<u>1,533,288</u>	<u>1,519,877</u>
OTHER ASSETS		
Investments, non-current (Notes 2 and 15)	2,564,581	2,691,459
Donated artwork	<u>579,135</u>	<u>579,135</u>
Total other assets	<u>3,143,716</u>	<u>3,270,594</u>
TOTAL ASSETS	<u>\$ 22,111,208</u>	<u>\$ 23,704,625</u>

See accompanying notes to financial statements.

AFRICARE

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2016
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015**

	<u>2016</u>			<u>2015</u>	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Total</u>
REVENUE					
U.S. Government grants	\$ 16,008,259	\$ -	\$ -	\$ 16,008,259	\$ 22,236,373
Foreign government grants	3,588,164	-	-	3,588,164	4,953,717
Foundations and trusts	5,125,527	5,050	-	5,130,577	2,726,966
Contributions and other grants	9,368,584	31,738	-	9,400,322	15,254,827
Donated goods and services (Note 9)	82,829	-	-	82,829	2,622,151
Special events	334,025	-	-	334,025	177,490
Combined Federal Campaign	62,516	-	-	62,516	71,888
Interest and dividends (Note 2)	30,786	94,081	-	124,867	219,330
Miscellaneous (loss) revenue	(8,886)	-	-	(8,886)	347,968
Net assets released from donor restrictions (Note 7)	<u>291,084</u>	<u>(291,084)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue	<u>34,882,888</u>	<u>(160,215)</u>	<u>-</u>	<u>34,722,673</u>	<u>48,610,710</u>
EXPENSES					
Program Services:					
Health and Water Resources Development	29,625,493	-	-	29,625,493	42,005,538
Food Security, Relief and Refugee Assistance	575,782	-	-	575,782	1,960,044
Agriculture and Small Scale Irrigation	1,855,411	-	-	1,855,411	2,216,499
Integrated Rural Development	442,316	-	-	442,316	590,375
Other Development Programs	<u>491,168</u>	<u>-</u>	<u>-</u>	<u>491,168</u>	<u>831,975</u>
Total program services	<u>32,990,170</u>	<u>-</u>	<u>-</u>	<u>32,990,170</u>	<u>47,604,431</u>
Supporting Services:					
Management and General	2,467,486	-	-	2,467,486	2,976,007
Fundraising	<u>684,745</u>	<u>-</u>	<u>-</u>	<u>684,745</u>	<u>1,119,205</u>
Total supporting services	<u>3,152,231</u>	<u>-</u>	<u>-</u>	<u>3,152,231</u>	<u>4,095,212</u>
Total expenses	<u>36,142,401</u>	<u>-</u>	<u>-</u>	<u>36,142,401</u>	<u>51,699,643</u>

AFRICARE

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2016
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015

	2016			2015
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Change in net assets from operations	\$ (1,259,513)	\$ (160,215)	\$ -	\$ (1,419,728)
OTHER ITEMS				
Non-operating minimum pension liability adjustment (Note 11)	(1,282,282)	-	-	(1,282,282)
Non-operating realized and unrealized gain (loss) on investments (Note 2)	14,045	(129,839)	-	(115,794)
Non-operating losses on foreign currency exchange	(355,227)	-	-	(355,227)
Loss due to misappropriation of assets (Note 14)	(430,945)	-	-	(430,945)
Transfer of assets (Note 8)	<u>(146,540)</u>	<u>146,540</u>	<u>-</u>	<u>-</u>
Change in net assets	(3,460,462)	(143,514)	-	(3,603,976)
Net assets at beginning of year	<u>(1,422,034)</u>	<u>448,097</u>	<u>3,018,063</u>	<u>2,044,126</u>
NET ASSETS (DEFICIT) AT END OF YEAR	\$ <u>(4,882,496)</u>	\$ <u>304,583</u>	\$ <u>3,018,063</u>	\$ <u>(1,559,850)</u>
				\$ <u>2,044,126</u>

AFRICARE

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015**

	2016			
	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 11)	\$ 10,542,625	\$ 344,000	\$ 763,957	\$ 169,385
Construction, subcontracts and other services	5,001,489	-	143,183	-
Conferences, conventions and meetings	5,187,324	(69,249)	94,421	68,453
Supplies and materials	1,297,316	(15,327)	457,525	6,726
Vehicle purchases, repair and maintenance	2,206,007	(88,015)	140,381	26,259
Other	2,088,988	(5,307)	13,873	5,978
Rent and occupancy charges (Note 10)	1,241,856	(14,761)	45,950	13,992
Travel, relocation and housing	775,717	490,375	67,587	134,366
Professional and contractual services	440,290	(1,394)	23,118	2,978
Legal and audit	18,796	-	1,152	3,728
Telephone, postage and delivery	397,756	(29,350)	15,814	6,388
Insurance	151,106	(15,522)	6,530	1,162
Freight	110,006	(465)	56,143	-
Advertising and public relations	61,652	(1,250)	15,040	965
Depreciation and amortization	-	-	-	-
Office equipment and furnishings	101,652	(17,730)	9,815	1,936
Office equipment rental	-	-	-	-
Recruitment	2,913	(223)	922	-
	\$ 29,625,493	\$ 575,782	\$ 1,855,411	\$ 442,316

2015

Supporting Services							
Other Development Programs	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses	Total Expenses	
\$ 309,498	\$ 12,129,465	\$ 478,813	\$ 262,439	\$ 741,252	\$ 12,870,717	\$ 18,407,608	
34,172	5,178,844	9,362	333,477	342,839	5,521,683	9,256,212	
34,906	5,315,855	7,073	-	7,073	5,322,928	6,174,571	
7,623	1,753,863	37,805	4,042	41,847	1,795,710	4,569,178	
29,795	2,314,427	10,460	3,226	13,686	2,328,113	3,767,275	
10,695	2,114,227	513,035	23,823	536,858	2,651,085	2,296,182	
16,204	1,303,241	35,568	-	35,568	1,338,809	1,911,456	
14,225	1,482,270	26,372	4,016	30,388	1,512,658	1,501,610	
5,828	470,820	86,144	37,281	123,425	594,245	1,085,400	
2,779	26,455	971,659	1,063	972,722	999,177	893,644	
6,131	396,739	20,791	15,126	35,917	432,656	672,300	
1,281	144,557	14,185	-	14,185	158,742	277,596	
16,620	182,304	3	-	3	182,307	261,567	
488	76,895	1,464	252	1,716	78,611	238,202	
-	-	242,574	-	242,574	242,574	221,759	
923	96,596	(891)	-	(891)	95,705	145,792	
-	-	1,006	-	1,006	1,006	10,367	
-	3,612	12,063	-	12,063	15,675	8,924	
\$ 491,168	\$ 32,990,170	\$ 2,467,486	\$ 684,745	\$ 3,152,231	\$ 36,142,401	\$ 51,699,643	

AFRICARE

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015**

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (3,603,976)	\$ (4,492,737)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	242,574	221,759
Net realized and unrealized losses on investments	125,183	217,849
Change in allowance for doubtful accounts	(12,111)	186,718
Gain on disposal of fixed assets	(9,349)	-
Donated investments	-	(37,663)
(Increase) decrease in:		
Accounts, employee and other receivables	495,632	742,270
Grants and support receivable	(2,046,652)	(1,758,024)
Pension receivable	-	52,226
Other assets	123,380	(20,608)
Increase (decrease) in:		
Accounts payable and accrued liabilities	309,295	(343,360)
Accrued salaries and related expenses	(709,244)	(213,782)
Refundable advances	1,131,234	(817,579)
Interest payable on loan	45,568	-
Pension payable	<u>1,145,935</u>	<u>124,668</u>
Net cash used by operating activities	<u>(2,762,531)</u>	<u>(6,138,263)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(265,595)	(139,656)
Sale of investments	<u>265,523</u>	<u>4,528,235</u>
Net cash (used) provided by investing activities	<u>(72)</u>	<u>4,388,579</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital lease obligation	(158,865)	(94,012)
Proceeds from loan	-	3,050,000
Repayment on loan	<u>-</u>	<u>(3,324,780)</u>
Net cash used by financing activities	<u>(158,865)</u>	<u>(368,792)</u>
Net decrease in cash and cash equivalents	(2,921,468)	(2,118,476)
Cash and cash equivalents at beginning of year	<u>8,256,293</u>	<u>10,374,769</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 5,334,825</u>	<u>\$ 8,256,293</u>

AFRICARE

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015

	<u>2016</u>	<u>2015</u>
SUPPLEMENTAL INFORMATION		
Interest Paid	\$ <u>36,775</u>	\$ <u>70,052</u>
SCHEDULE OF NONCASH INVESTING AND FINANCING TRANSACTIONS		
Capital Lease Obligation Incurred for Use of Equipment	\$ <u>246,636</u>	\$ <u>-</u>

AFRICARE

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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. As of June 30, 2016, Africare had operations in thirteen African countries.

Africare has five core programs which are:

Health and Water Resources Development – includes activities to increase access to, use of and quality of services provided by rural health clinics and primary health services networks where basic medical care is limited or non-existent as well as activities to increase clean water supplies, improve water distribution systems and community-level sanitation and hygiene throughout Africa. Specific work includes well construction, sanitation education and community-led 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, sale and utilization, from improved cultivation of crops, livestock, agricultural irrigation and natural resource management, to post-harvest storage, farm infrastructure, farmer credit and training in farming as a business.

Integrated Rural Development – includes activities to support rural areas facing challenges in water resources, irrigation, agriculture, nutrition and health to strengthen community resilience to external shocks.

Other Development Programs – includes activities such as literacy, vocational and entrepreneurial 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, 2015, 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. 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

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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

Cash and cash equivalents (continued) -

Africare maintains numerous bank accounts in foreign countries, which are largely uninsured. Total cash and cash equivalents held overseas was \$3,905,706 as of June 30, 2016.

Accounts, grants, support and other receivables -

Accounts, grants, support and other receivables approximate fair value. The allowance for doubtful accounts is determined based upon an annual review of account balances, including the age of the balance and the historical experience with the donor or customer.

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 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, equipment and vehicles, and fifty years for buildings. The cost of maintenance and repairs is recorded as expenses are incurred. Depreciation and amortization expense for the year ended June 30, 2016 totaled \$242,574.

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 from these endowment funds.

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

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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

Contributions and grants (continued) -

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 equipment, artwork, professional services and materials -

Donated equipment, artwork, professional services and materials are recorded at their fair market value as of the date of the gift.

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 totaling \$355,227 for the year ended June 30, 2016, are reported as non-operating gains 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, 2016, 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.

AFRICARE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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

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 accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

New accounting pronouncement -

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958), intended to improve financial reporting for not-for-profit entities. The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the Statement of Activities and Change in Net Assets. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU is effective for years beginning after December 15, 2017. Early adoption is permitted. The ASU should be applied on a retrospective basis in the year the ASU is first applied. While the ASU will change the presentation of the Africare's financial statements, it is not expected to alter the Africare's reported financial position.

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, 2016:

Mutual funds - equities	\$ 2,619,208
Mutual funds - fixed income	<u>3,010</u>
TOTAL INVESTMENTS	<u>\$ 2,622,218</u>

AFRICARE

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

2. INVESTMENTS (Continued)

Included in investment returns are the following at June 30, 2016:

Interest and dividends available for operations	\$ 124,867
Non-operating realized and unrealized loss on investments	<u>(115,794)</u>
TOTAL INVESTMENT RETURNS	<u>\$ 9,073</u>

3. CAPITAL LEASES PAYABLE

Africare has capital lease obligations for equipment, which expire at various times through 2021. During 2016, Africare entered into two new separate capital leases (with the same vendor) for copying equipment, with a total cost of \$246,636. As of June 30, 2016, the cost and related accumulated depreciation of the equipment were \$820,940 and \$472,069, respectively.

Interest expense on the related capital leases totaled \$36,775 for the year ending June 30, 2016.

Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	
2017	\$ 118,347
2018	100,404
2019	71,511
2020	55,320
2021	<u>23,050</u>
Total minimum lease payments	368,632
Less: Interest	<u>(36,775)</u>
Total minimum lease principal payments	331,857
Less: Current portion	<u>(102,018)</u>
LONG-TERM PORTION	<u>\$ 229,839</u>

4. ENDOWMENT LOAN

On December 27, 2013, Africare was approved for a \$3,500,000 non-purpose loan against its endowment, which matures December 31, 2017. For the period ending June 30, 2016, the amounts borrowed under this agreement bear interest at the bank's prime rate (3.50%), in which interest expense totaled \$45,468. As of June 30, 2016, the outstanding balance on the loan was \$1,352,130.

5. UNRESTRICTED NET ASSETS (DEFICIT)

As of June 30, 2016, the unrestricted net assets were comprised of the following:

Undesignated deficit	\$ (4,449,803)
Board-designated endowment funds deficit (Note 8)	<u>(432,693)</u>
TOTAL UNRESTRICTED NET ASSETS DEFICIT	<u>\$ (4,882,496)</u>

AFRICARE

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at June 30, 2016:

Health and Water Resources Development	\$ 188,225
Food Security, Relief and Refugee Assistance	<u>116,358</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	<u>\$ 304,583</u>

7. 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:

Other Development Programs	\$ 180,302
Appropriation of endowment assets for expenditure	<u>110,782</u>
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	<u>\$ 291,084</u>

8. 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.

Permanently restricted net assets consists of the following as of June 30, 2016:

Cash	\$ 20,789
Investments	<u>2,564,581</u>
PERMANENTLY RESTRICTED NET ASSETS	<u>\$ 2,585,370</u>

AFRICARE

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

8. ENDOWMENT (Continued)

Endowment net asset composition by type of fund as of June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Funds	\$ -	\$ -	\$ 3,018,063	\$ 3,018,063
Board-Designated Endowment Funds	<u>(432,693)</u>	<u>-</u>	<u>-</u>	<u>(432,693)</u>
TOTAL FUNDS	<u>\$ (432,693)</u>	<u>\$ -</u>	<u>\$ 3,018,063</u>	<u>\$ 2,585,370</u>

Changes in endowment net assets for the year ended June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ <u>(300,803)</u>	\$ <u>-</u>	\$ <u>3,018,063</u>	\$ <u>2,717,260</u>
Investment return:				
Investment income	(9,405)	94,081	-	84,676
Net appreciation (realized and unrealized)	<u>12,980</u>	<u>(129,839)</u>	<u>-</u>	<u>(116,859)</u>
Total investment return	<u>3,575</u>	<u>(35,758)</u>	<u>-</u>	<u>(32,183)</u>
Appropriation of endowment assets for expenditure	<u>11,075</u>	<u>(110,782)</u>	<u>-</u>	<u>(99,707)</u>
Other changes:				
Transfers of net assets	<u>(146,540)</u>	<u>146,540</u>	<u>-</u>	<u>-</u>
ENDOWMENT NET ASSETS, END OF YEAR	<u>\$ (432,693)</u>	<u>\$ -</u>	<u>\$ 3,018,063</u>	<u>\$ 2,585,370</u>

Funds with Deficiencies -

In December 2014, approximately \$4,300,000 was withdrawn from the unrestricted and temporarily restricted endowment funds to pay off the non-purpose endowment loan. Additionally, 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 Africare to retain into perpetuity. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$432,693. These deficiencies resulted from unfavorable market fluctuations occurring after the investment of permanently restricted contributions and the appropriation for certain programs that were deemed prudent by the Board of Directors.

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.

AFRICARE

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

8. ENDOWMENT (Continued)

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 spending amounts for future years was to be determined using a banded inflation adjusted approach (increased by the rate of inflation (CPI) experienced during the previous twelve month). The Board approved a spending rate from 3% to maximum rate of 5% for 2017.

9. DONATED GOODS AND SERVICES

During the year ended June 30, 2016, 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 donations:

Health and Water Resources Development	\$ 80,429
Other Development Programs	<u>2,400</u>
TOTAL DONATED SERVICES AND MATERIALS	<u>\$ 82,829</u>

10. LEASE COMMITMENTS

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, 2016 was \$1,338,809.

11. 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.

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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

11. EMPLOYEE BENEFIT PLANS (Continued)

Pension Plan (continued):

Plan assets were invested in the following asset classes at June 30, 2016:

Money market funds	0.7 %
Mutual funds - equities	94.6 %
Mutual funds - fixed income	<u>4.7 %</u>
TOTAL	<u>100.0 %</u>

The following table sets forth the Plan's funded status as of June 30, 2016:

Fair value of plan assets at end of year	\$ 9,721,572
Projected benefit obligation at end of year	<u>10,992,175</u>
FUNDED STATUS - UNDER FUNDED	<u>\$ (1,270,603)</u>

At June 30, 2016, the accumulated benefit obligation exceeded the fair value of plan assets by \$1,270,603. 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 \$1,282,282 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 \$10,992,175 as of June 30, 2016.

Actuarial Cost method: Projected Unit Credit Measurement Date: June 30, 2016

Assumptions used in the pension accounting for June 30, 2016 were as follows:

Discount rate	3.61%
Expected return on plan assets	7.00%
Rate of compensation increase	0.00%

Employer contributions to the Plan during the year ended June 30, 2016 totaled \$259,090. Africare expects to contribute approximately \$405,425 to the Plan for the year ended June 30, 2017. During the year ended June 30, 2016, benefits of \$588,085 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, which means the Plan is not accepting any new participants. This Plan curtailment does not affect the benefits of current retirees or terminated vested participants in the Plan.

Considering the Plan curtailment described above, the following benefit payments, reflecting past service, are expected to be paid as of June 30, 2016:

Year Ending June 30,

2017	\$ 594,763
2018	625,026
2019	643,029
2020	634,161
2021	650,962
Thereafter	<u>3,443,750</u>
TOTAL BENEFIT PAYMENTS	<u>\$ 6,591,691</u>

AFRICARE

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

11. EMPLOYEE BENEFIT PLANS (Continued)

Savings Plan:

Africare, Inc. 401(k) Savings Plan (the "Savings Plan"), a defined contribution plan, which was adopted on July 1, 2006, and amended on July 1, 2015. US employees have an option to participate in the defined contribution plan and Third Country Nationals contracted out of the US have the option to participate in the TCN Savings Plan Account. Africare employees are eligible to join and defer their compensation immediately, however, Africare will make Safe Harbor basic matching contributions after ninety days of employment. All salary deferrals and safe harbor matches from the employer are 100% vested immediately. For Employer nonelective discretionary profit sharing contributions, vesting occurs in 20% increments up to six years of service when 100% vesting occurs.

Contributions to the plan during the year ended June 30, 2016 totaled \$94,297, and is included in salaries and fringe benefits in the accompanying statement of functional expenses.

12. CONTINGENCY

Africare receives grants from various agencies of the United States Government. For fiscal years through December 31, 2014, such grants were subject to audit under the provisions of OMB Circular A-133. Beginning for fiscal year ended December 31, 2015, such grants are subject to audit under the provisions of *Title 2 U.S. Code of Federal Regulations (CFR) Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. 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 applicable provisions have been completed for all required fiscal years through 2015.

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.

On October 17, 2016, Africare received a letter from the United States Agency for International Development (USAID) claiming approximately \$1,262,423 is due back to the agency for questioned costs resulting from Africare's 2015 fiscal year compliance audit. Management of Africare is actively working to obtain the supporting documentation from the field offices to clear the questioned cost from the 2015 compliance audit. Accordingly, the \$1,262,423 has been recorded in the June 30, 2016 financial statements.

The ability of Africare to continue as a going concern is dependent on the success of Africare's Board and management in raising unrestricted funding during the coming fiscal year and subsequent years to ensure that expenditures do not continue to exceed available funds. The financial statements have been prepared assuming that Africare will continue as a going concern. The ability of the Africare to continue as a going concern is dependent on the success of Africare's plans to raise unrestricted funds in the future, identify viable strategic and operational alternatives, and minimize unfunded expenditures.

During the year under audit, USAID hired an independent certified public accounting firm to perform a compliance audit for the period July 1, 2015 through June 30, 2016, and on January 13, 2017, issued a report noting deficiencies related to internal control policies and procedures of Africare and compliance with USAID rules and regulations. Management has responded in detail to USAID refuting many of the deficiencies cited in the audit report. The final outcome of this review was still pending at the date of issuance of the accompanying financial statements. Management is of the opinion that no material liability adjustment will result from such audit.

AFRICARE

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

13. LITIGATION

As of June 30, 2016, Africare is the defendant in a number of legal actions in various countries. These lawsuits were filed in previous years against Africare for failure to properly abide by laws in the country for payroll and other fringe compensations entitled to local employees. Africare has accrued \$358,000 for those lawsuits that are considered to be 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.

14. LOSS DUE TO MISAPPROPRIATION OF ASSETS

The Africare Tanzania program had a former finance employee deliberately reroute twelve payments totaling 751,802,879 Tanzania Shillings (equivalent \$349,676) that were initially scheduled to be made to the Tanzania Revenue Authority. These payments were made to a fictitious company created by the former finance employee. In addition, Africare owes the Tanzania Revenue Authority interest and fees due to nonpayment of taxes totaling 174,557,608 Tanzania Shillings (equivalent \$81,269). The authorities were immediately contacted and the former employee has been apprehended. Legal matters have been initiated by Africare against the former employee. Africare has recorded the loss due to misappropriation of assets for the amounts as an other item on the Statement of Activities and Changes in Net Assets.

15. 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, 2016.

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.

AFRICARE

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

15. FAIR VALUE MEASUREMENT (Continued)

The table below summarizes, by level within the fair value hierarchy, Africare's investments as of June 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Asset Class - Investments:				
Mutual funds - equities	\$ 2,619,208	\$ -	\$ -	\$ 2,619,208
Mutual funds - fixed income	<u>3,010</u>	<u>-</u>	<u>-</u>	<u>3,010</u>
TOTAL INVESTMENTS	<u>\$ 2,622,218</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,622,218</u>

16. SUBSEQUENT EVENTS

In preparing these financial statements, Africare has evaluated events and transactions for potential recognition or disclosure through April 28, 2017, the date the financial statements were issued.

Subsequent to year end, Africare and Accordia Global Health Foundation (Accordia), a District of Columbia Nonprofit corporation, merged. Under this agreement, effective July 16, 2016, Africare acquired staff, a portfolio of programs, cash and liabilities for Accordia's existing programs.