

Consolidated Financial Statements Together with  
Report of Independent Certified Public Accountants

**AMERICARES FOUNDATION, INC. AND AFFILIATE**

June 30, 2016 and 2015

# AMERICARES FOUNDATION, INC. AND AFFILIATE

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of  
**Americares Foundation, Inc.:**

We have audited the accompanying consolidated financial statements of Americares Foundation, Inc. and affiliate (collectively, "Americares"), which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities, 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Americares Foundation, Inc. and affiliate as of June 30, 2016, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter - Report on 2015 summarized comparative information**

We have previously audited Americares' consolidated financial statements (not presented herein), and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 30, 2015. In our opinion, the accompanying summarized comparative information as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

A handwritten signature in cursive script that reads "Grant Thornton LLP".

New York, New York  
October 28, 2016

**AMERICARES FOUNDATION, INC. AND AFFILIATE**  
**Consolidated Statement of Financial Position**  
**As of June 30, 2016, with summarized comparative totals for 2015**  
**(In thousands)**

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 8,149	\$ 11,194
Investments	16,767	18,689
Contributions receivable, net	3,472	1,956
Other receivables	308	1,033
Inventory, net	113,184	183,223
Prepaid expenses	817	720
Total current assets	<u>142,697</u>	<u>216,815</u>
<b>NONCURRENT ASSETS</b>		
Other assets:		
Contributions receivable, net	3,829	1,049
Property held for investment	3,749	445
Beneficial interest in split-interest agreements -		
Perpetual assets held in trust	2,949	3,213
Trust agreements	<u>92</u>	<u>93</u>
Total other assets	<u>10,619</u>	<u>4,800</u>
Property and equipment:		
Building and land	1,079	1,072
Furniture and equipment	3,836	3,230
Leasehold improvements	3,289	3,033
Accumulated depreciation and amortization	<u>(4,823)</u>	<u>(4,190)</u>
Net property and equipment	<u>3,381</u>	<u>3,145</u>
Total noncurrent assets	<u>14,000</u>	<u>7,945</u>
Total assets	<u>\$ 156,697</u>	<u>\$ 224,760</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 4,694	\$ 4,749
Committed grants	1,118	1,671
Deferred revenue	365	378
Loan payable	<u>300</u>	<u>-</u>
Total current liabilities	<u>6,477</u>	<u>6,798</u>
<b>NONCURRENT LIABILITIES</b>		
Liabilities under split-interest agreements	2,688	2,183
Loan payable and capital leases	<u>106</u>	<u>382</u>
Total noncurrent liabilities	<u>2,794</u>	<u>2,565</u>
Total liabilities	<u>9,271</u>	<u>9,363</u>
<b>NET ASSETS</b>		
Unrestricted	73,822	125,441
Temporarily restricted	69,429	85,517
Permanently restricted	<u>4,175</u>	<u>4,439</u>
Total net assets	<u>147,426</u>	<u>215,397</u>
Total liabilities and net assets	<u>\$ 156,697</u>	<u>\$ 224,760</u>

*The accompanying notes are an integral part of this consolidated statement.*

**AMERICARES FOUNDATION, INC. AND AFFILIATE**  
**Consolidated Statement of Activities**  
For the year ended June 30, 2016, with summarized comparative totals for 2015  
(In thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2016	2015
<b>SUPPORT AND REVENUE</b>					
Public support:					
Contributions	\$ 21,152	\$ 18,759	\$ -	\$ 39,911	\$ 39,495
Government grants	100	-	-	100	1,290
Donated medical and disaster supplies	453,268	423,124	-	876,392	701,110
Contributed services and facilities	8,054	-	-	8,054	7,502
Net assets released from restrictions	457,947	(457,947)	-	-	-
Total public support	<u>940,521</u>	<u>(16,064)</u>	<u>-</u>	<u>924,457</u>	<u>749,397</u>
Investment and fee revenue:					
Interest and dividend income	720	65	-	785	894
Net realized (loss) gain on investments	(287)	70	-	(217)	54
Net unrealized (loss) on investments	(86)	(165)	-	(251)	(520)
Other revenue	1,963	-	-	1,963	1,955
Change in value of split-interest agreements	(208)	6	(264)	(466)	(366)
Total revenue	<u>2,102</u>	<u>(24)</u>	<u>(264)</u>	<u>1,814</u>	<u>2,017</u>
Total support and revenue	<u>942,623</u>	<u>(16,088)</u>	<u>(264)</u>	<u>926,271</u>	<u>751,414</u>
<b>EXPENSES</b>					
Program services - grants, awards and program-related expenses	<u>978,144</u>	<u>-</u>	<u>-</u>	<u>978,144</u>	<u>636,373</u>
Supporting services					
Management and general	4,754	-	-	4,754	4,134
Fundraising	11,344	-	-	11,344	10,446
Total supporting services	<u>16,098</u>	<u>-</u>	<u>-</u>	<u>16,098</u>	<u>14,580</u>
Total expenses	<u>994,242</u>	<u>-</u>	<u>-</u>	<u>994,242</u>	<u>650,953</u>
Change in net assets	(51,619)	(16,088)	(264)	(67,971)	100,461
Net assets, beginning of year	<u>125,441</u>	<u>85,517</u>	<u>4,439</u>	<u>215,397</u>	<u>114,936</u>
Net assets, end of year	<u>\$ 73,822</u>	<u>\$ 69,429</u>	<u>\$ 4,175</u>	<u>\$ 147,426</u>	<u>\$ 215,397</u>

*The accompanying notes are an integral part of this consolidated statement.*

## AMERICARES FOUNDATION, INC. AND AFFILIATE

### Consolidated Statement of Functional Expenses

For the year ended June 30, 2016, with summarized comparative totals for 2015

(In thousands)

	Grants, Awards and Program- Related Expenses	Supporting Services		2016 Total	2015 Total
		Management and General	Fundraising		
FUNCTIONAL EXPENSES					
Salaries and related payroll expenses	\$ 8,742	\$ 2,817	\$ 3,576	\$ 15,135	\$ 14,007
Rent and other occupancy costs	1,728	450	346	2,524	2,110
Grants and awards, relief supplies	948,399	-	-	948,399	607,585
Grants to other agencies	3,234	-	-	3,234	4,414
Professional fees and contract services	9,078	548	1,992	11,618	9,345
Office supplies and equipment	397	279	687	1,363	890
Telephone	107	61	562	730	377
Postage, shipping and warehousing	4,126	3	1,472	5,601	6,314
Equipment and software rental	125	16	19	160	170
Promotional expenses	183	2	2,136	2,321	2,522
Travel	1,155	56	194	1,405	1,330
Insurance and miscellaneous	463	427	229	1,119	1,265
Depreciation and amortization	407	95	131	633	624
	<u>978,144</u>	<u>4,754</u>	<u>11,344</u>	<u>994,242</u>	
Total functional expenses 2016	\$ <u>978,144</u>	\$ <u>4,754</u>	\$ <u>11,344</u>	\$ <u>994,242</u>	
Total functional expenses 2015	\$ <u>636,373</u>	\$ <u>4,134</u>	\$ <u>10,446</u>		\$ <u>650,953</u>

The accompanying notes are an integral part of this consolidated statement.

**AMERICARES FOUNDATION, INC. AND AFFILIATE**  
**Consolidated Statement of Cash Flows**  
For the year ended June 30, 2016, with summarized comparative totals for 2015  
(In thousands)

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (67,971)	\$ 100,461
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	633	624
Net realized loss (gain) on investments	217	(54)
Net unrealized loss on fair value of investments	251	520
Donated real estate	(3,300)	-
Donated investments	(1,590)	(1,680)
Realized and unrealized loss on property held for investment and contributed stock	3	2
Changes in assets and liabilities:		
Decrease (increase) in other receivables	725	(955)
(Increase) decrease in contributions receivable	(4,296)	626
Decrease (increase) in inventory	70,039	(96,355)
(Increase) decrease in prepaid expenses	(97)	121
Decrease in beneficial interest in split-interest agreements	265	187
Decrease in accounts payable and accrued expenses	(55)	(574)
Decrease in committed grants	(553)	(669)
Decrease in deferred revenue	(13)	(62)
Increase (decrease) in liabilities under split-interest agreements	<u>505</u>	<u>(46)</u>
Net cash (used in) provided by operating activities	<u>(5,237)</u>	<u>2,146</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(827)	(371)
Proceeds from sale of investments	21,905	4,617
Purchases of investments	<u>(18,868)</u>	<u>(3,134)</u>
Net cash provided by investing activities	<u>2,210</u>	<u>1,112</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments of capital leases	<u>(18)</u>	<u>(16)</u>
Net cash used in financing activities	<u>(18)</u>	<u>(16)</u>
Net (decrease) increase in cash and cash equivalents	(3,045)	3,242
Cash and cash equivalents, beginning of year	<u>11,194</u>	<u>7,952</u>
Cash and cash equivalents, end of year	<u>\$ 8,149</u>	<u>\$ 11,194</u>

**SUPPLEMENTAL CASH FLOW INFORMATION**

Noncash items for fiscal years 2016 and 2015 included \$876.4 million and \$701.1 million of donated medical and disaster relief supplies, \$8.1 million and \$7.5 million of contributed services and facilities, respectively. Cash used in operating activities included payments for interest on gift annuities of \$0.3 million for both fiscal 2016 and 2015.

*The accompanying notes are an integral part of this consolidated statement.*



# AMERICARES FOUNDATION, INC. AND AFFILIATE

## Notes to Consolidated Financial Statements

June 30, 2016 and 2015

(Amounts in thousands)

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### 1. ORGANIZATION

Americares Foundation, Inc. is a not-for-profit organization established in 1979, which principally provides medicine, emergency medical supplies and other disaster relief aid to those in need throughout the world. In addition, Americares sponsors Americares Free Clinics, Inc. (the “Clinics”), an affiliated organization, which operates four free health clinics in Connecticut.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of Presentation**

The accompanying consolidated financial statements include Americares Foundation, Inc. and its affiliated organization (together “Americares”) as described in Note 1 and have been prepared in accordance with generally accepted accounting principles in the United States of America (“US GAAP”) using the accrual basis of accounting. All inter-company amounts have been eliminated in consolidation.

#### **Net Assets**

Net assets and related revenues and support are classified based upon the existence or absence of donor-imposed stipulations, as follows:

##### Unrestricted Net Assets

Includes all resources that are expendable for carrying on Americares’ general mission with no donor restrictions.

##### Temporarily Restricted Net Assets

Net assets whose use is limited by donor-imposed stipulations that either expire with the passage of time or are for expenditure on a specific program or in a specific geographic location. These donor-imposed stipulations can be fulfilled and removed by the actions of Americares pursuant to those stipulations.

##### Permanently Restricted Net Assets

Net assets whose use is limited by donor-imposed stipulations requiring such resources to be maintained in perpetuity and the income therefrom utilized for operating or other donor-restricted purposes.

Americares receives gifts of cash and other assets with donor stipulations that limit the use of donated assets. When the donor-restriction expires, that is when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated statement of activities as net assets released from restrictions.

#### **Cash and Cash Equivalents**

Americares classifies short-term highly liquid investments with original maturities of three months or less as cash equivalents.

**AMERICARES FOUNDATION, INC. AND AFFILIATE**  
**Notes to Consolidated Financial Statements**  
**June 30, 2016 and 2015**  
**(Amounts in thousands)**

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**Contributions**

Americares records contributions, including unconditional promises to give, in the period received or pledged. Contributions are recorded at the fair value of the assets received and are classified as either unrestricted, temporarily restricted or permanently restricted, depending on whether the donor has imposed a restriction on the use of such assets.

Pledged contributions not expected to be received within one year are recognized as temporarily restricted support and are discounted using a credit-adjusted discount rate assigned in the year the pledge originates. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution and nature of fundraising activity. Americares writes-off contributions receivable when they become uncollectible, and payments subsequently received are recorded as income in the period received.

Contributions that are permanently restricted by donors for use as endowments are invested in perpetuity. The income is used for operating purposes when expenditures satisfy the donors' restrictions and such amounts are appropriated for expenditure by the Board of Directors following their established endowment policy. Income amounts that exceed related expenditures during a fiscal period remain as temporarily restricted net assets.

Americares' policy is to report gifts of property, plant and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire assets are reported as temporarily restricted support. Absent explicit donor stipulations about how long such assets must be maintained, Americares reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

**Donated Medical Inventory and Disaster Supplies**

Upon receipt, Americares reports gifts of donated inventory and supplies as unrestricted support unless explicit donor stipulations specify how or where the donated supplies must be used. Gifts of donated inventory and supplies with explicit restrictions that specify how or where the assets are to be used are reported as temporarily restricted support. Donated inventory and medical supplies are recognized on the date received at wholesale acquisition cost ("WAC"), which approximates the exit price. Americares has determined that the WAC is the most appropriate estimate of the fair value for its donated medical inventory and supplies. Americares estimates the WAC by using published industry information, primarily Thomson Reuter's "Red Book," which is an industry recognized drug and pricing reference guide for pharmaceuticals in the United States. For products not available in the Red Book, the wholesale value is provided by the donor or estimated using publicly available pricing sources.

Americares operates a Patient Assistance Program ("PAP") through which it receives gifts in kind of donated medical supplies. This program totaled \$180.0 million and \$129.0 million for the years ended June 30, 2016 and 2015, respectively. Additionally, Americares received gifts of cash to assist with the funding of PAP costs totaling \$2.0 million and \$1.9 million for the years ended June 30, 2016 and 2015, respectively. These donations are used to provide drugs to needy patients in the United States of America that have met various eligibility criteria and who would not otherwise be able to afford them. In addition,

**AMERICARES FOUNDATION, INC. AND AFFILIATE**  
**Notes to Consolidated Financial Statements**  
**June 30, 2016 and 2015**  
**(Amounts in thousands)**

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contributions receivable have been recorded for cash amounts pledged by donors to the PAP program of \$0.5 million and \$0.4 million for the years ended June 30, 2016 and 2015, respectively.

During fiscal years 2016 and 2015, Americares received total donations of cash and gifts-in-kind of \$4.6 million that were restricted to the Fall 2015 Ebola emergency. For the two years ended June 30, 2016, Americares expenses for this disaster relief program aggregated to \$6.5 million. Americares has used both unrestricted and restricted cash and gifts-in-kind to cover these expenses. Americares completed its spending during fiscal year 2016.

During fiscal years 2016 and 2015, Americares also received total donations of cash and gifts in kind of \$22.0 million restricted to the April 2015 Nepal Earthquake emergency. For the two years ended June 30, 2016, Americares expenses for this disaster relief program aggregated to \$27.0 million. Americares has used both unrestricted and restricted cash and gifts in kind to cover these expenses. Americares had \$1.5 million remaining in cash in this fund as of June 30, 2016.

During fiscal year 2015, Americares completed the spending on the 2012 Hurricane Sandy relief, 2011 Japan Earthquake and Tsunami, and 2010 Haiti Earthquake relief funds.

**Inventory**

Purchased inventory is carried at cost. Donated inventory is valued at WAC, which approximates fair value, as determined on the date of receipt. Americares monitors its inventory throughout the year and writes-off amounts that have expired or records an allowance for items that may expire before distribution can be made or are known to have become damaged.

**Investments**

Investments are recorded at fair value based on the quoted market values of the securities; accordingly, the accompanying consolidated statement of activities reflects changes in fair value as increases or decreases in unrealized gain (loss) in fair value of investments. Dividend income is recorded on the ex-dividend date, and interest income is recorded as earned on the accrual basis. Security transactions are recorded on a trade date basis. The cost of marketable securities sold is determined by the specific identification method and realized gains (losses) are reflected in the accompanying consolidated statement of activities.

**Fair Value Measurements**

Americares follows the guidance that established a framework for measuring fair value and expanding its disclosures about fair value measurements. The standard provides a consistent definition of fair value, which focuses on an exit price between market participants in an orderly transaction. The standard also prioritizes, within the measurement of fair value, the use of market-based information over entity specific information and establishes a three level hierarchy for fair value measurements based on the transparency of information used in the valuation of the respective financial instrument.

The three levels are based on the transparency of inputs as follows:

- Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

**AMERICARES FOUNDATION, INC. AND AFFILIATE**  
**Notes to Consolidated Financial Statements**  
**June 30, 2016 and 2015**  
**(Amounts in thousands)**

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- Level 2 - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. The nature of these securities include investments for which quoted prices are available but trade less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed.
- Level 3 - Securities that have little to no pricing observability as of the report date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

The categorization of an investment within the fair value hierarchy is based upon the pricing transparency of the investment and does not necessarily correspond to Americares' perceived risk of that investment.

**Split-Interest Agreements**

Americares is the beneficiary of various irrevocable trusts held both by Americares and third party trustees. Receivables from split-interest agreements held by third party trustees represent the net present value of an estimate of the funds to be received. The net present value of these receivables was determined by using an estimate of the funds to be received from these trusts, the specified number of periods the funds will be received and a discount rate determined at the time of the gift.

Liabilities from split-interest agreements result from annuity contracts whereby donors receive life-time income in exchange for a payment to Americares that constitutes part charitable contribution and part purchase of an annuity. The liability is recorded at the present value of the payments to be made based on the donor's life expectancy. Actuarial gains and losses on the present value discount are reflected in the accompanying consolidated statement of activities as change in value of split-interest agreements.

**Perpetual Assets Held in Trust**

Donors have established and funded trusts which are administered by organizations other than Americares. Under the terms of these trusts, Americares has the irrevocable right to receive all or a portion of the income earned on the trust assets either in perpetuity or for the life of the trust. Americares does not control the assets held by outside trusts. Americares recognizes its interest in the trusts, based on the fair value of the assets contributed to the trusts, as permanently restricted contributions. Fluctuations in the fair value of these assets are recorded as changes in permanently restricted net assets in the accompanying consolidated statement of activities.

**Property and Equipment**

Property and equipment purchased for a value greater than \$5 and with depreciable lives greater than one year are recorded at cost; assets donated to Americares are recorded at fair value on the date of donation. Assets acquired under capital leases are stated at present value of future minimum lease payments at the inception of the lease and are amortized over the shorter period of the lease term or the estimated useful life of the asset of the equipment. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets. Furniture and equipment are depreciated over five years. Leasehold improvements are amortized over the lesser of the economic life of the assets or the terms of the related leases. Buildings are depreciated over 20 years.

**AMERICARES FOUNDATION, INC. AND AFFILIATE**  
**Notes to Consolidated Financial Statements**  
**June 30, 2016 and 2015**  
**(Amounts in thousands)**

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**Committed Grants**

Americares makes grants and awards to organizations that help in the rehabilitation, rebuilding and recovery efforts of areas suffering as a result of natural or manmade disasters, as well as complex humanitarian situations. A liability for cash grants is recorded when Americares has approved the grant and there are unconditional terms with the partner grantee. Committed grants beyond one year are recorded at net present value using a risk free rate of return. At June 30, 2016 and 2015, committed grants expected to be distributed in the next fiscal year aggregate to \$1.1 million and \$1.7 million, respectively.

**Contributed Services and Facilities**

Americares receives services and supplies provided by a wide variety of organizations and professionals who receive no fees or salaries, except for reimbursement of certain travel and related expenses. Contributed services are recognized if the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Americares records the fair value of contributed services and supplies as revenue, with an equivalent amount recorded as expense.

**Allocation of Expenses**

Amounts for salaries, office supplies, occupancy and other similar items are allocated to program or supporting services based on allocation factors, which are representative of cost consumption and depend on the nature of the activity for which the expense was incurred.

**Concentration of Credit Risk**

Cash and investments are exposed to various risks, such as interest rate, market, and credit risks. To minimize such risks, Americares maintains its cash in various bank deposit accounts and in a diversified institutions and, accordingly, Americares does not expect nonperformance.

**Fair Value of Financial Instruments**

The carrying amounts of cash and cash equivalents, interest and miscellaneous receivables, prepaid expenses, and accounts payable and accrued expenses approximate fair value due to the short maturity of these financial instruments.

The carrying value of contributions receivable is believed to approximate the amounts which will ultimately be realized and is calculated at the net present value of anticipated future cash flows.

**Use of Estimates**

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include valuation reserves for inventories. While we believe that these estimates are reasonable, actual results could differ from such estimates.

# AMERICARES FOUNDATION, INC. AND AFFILIATE

## Notes to Consolidated Financial Statements

June 30, 2016 and 2015

(Amounts in thousands)

### Summarized Comparative Information

The consolidated 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 US GAAP. Accordingly, such information should be read in conjunction with Americares' audited consolidated financial statements as of and for the year ended June 30, 2015 from which the summarized information was derived.

### Reclassification

Certain reclassifications have been made to the fiscal 2015 consolidated financial statements to conform to the current year's presentation. Such reclassifications had no impact on total assets, liabilities, revenues, expenses or changes in net assets as reflected in the fiscal 2015 consolidated financial statements.

### Subsequent Events

Management evaluated events occurring subsequent to June 30, 2016 through October 28, 2016, the date the consolidated financial statements were available for issuance, and except as disclosed in footnote 6 is not aware of any subsequent events which would require recognition or disclosure in the consolidated financial statements.

## 3. INVESTMENTS

Investments, at fair value, consisted of and are classified as follows within the fair value hierarchy:

	2016			2015		
	Level 1	Level 3	Total	Level 1	Level 3	Total
Fixed income	\$ 10,526	\$ -	\$ 10,526	\$ 12,632	\$ -	\$ 12,632
Equity securities	6,060	5	6,065	5,813	7	5,820
Other	176	-	176	237	-	237
	<u>16,762</u>	<u>5</u>	<u>16,767</u>	<u>18,682</u>	<u>7</u>	<u>18,689</u>
Beneficial interest in split-interest agreements -						
Perpetual assets held in trust	-	2,949	2,949	-	3,213	3,213
Trust agreements	-	92	92	-	93	93
	<u>-</u>	<u>3,041</u>	<u>3,041</u>	<u>-</u>	<u>3,306</u>	<u>3,306</u>
Total	<u>\$ 16,762</u>	<u>\$ 3,046</u>	<u>\$ 19,808</u>	<u>\$ 18,682</u>	<u>\$ 3,313</u>	<u>\$ 21,995</u>

**AMERICARES FOUNDATION, INC. AND AFFILIATE**  
**Notes to Consolidated Financial Statements**  
June 30, 2016 and 2015  
(Amounts in thousands)

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The following table summarizes the changes in Level 3 investments for the years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
<b>Balance at beginning of year</b>	\$ 3,313	\$ 3,503
Net realized depreciation and unrealized loss	<u>(267)</u>	<u>(190)</u>
<b>Balance at end of year</b>	<u>\$ 3,046</u>	<u>\$ 3,313</u>

**4. CONTRIBUTIONS RECEIVABLE**

Contributions expected to be collected after one year have been discounted using a discount rate of 1.5% and 2.5% for the years ended June 30, 2016 and 2015, respectively, and are reflected on the accompanying consolidated financial statements at net present value. Contributions receivable, net at June 30, 2016 and 2015, are due as follows:

	<u>2016</u>	<u>2015</u>
Less than one year	\$ 3,472	\$ 1,956
One to five years	<u>3,955</u>	<u>1,085</u>
Total contributions receivable	7,427	3,041
Less: discount to present value	<u>(126)</u>	<u>(36)</u>
Total contributions receivable, net	<u>\$ 7,301</u>	<u>\$ 3,005</u>

**5. INVENTORY**

Inventory balances as of June 30, 2016 and 2015, were composed of the following:

	<u>2016</u>	<u>2015</u>
Medicines	\$ 127,373	\$ 185,801
Medical devices and consumables	5,149	5,655
Other assorted	<u>4,662</u>	<u>2,267</u>
Total inventory	137,184	193,723
Less: allowance for obsolescence	<u>(24,000)</u>	<u>(10,500)</u>
Total inventory, net	<u>\$ 113,184</u>	<u>\$ 183,223</u>

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Medical inventory decreased substantially in fiscal year 2016 due to the shipment of fiscal year 2015 fourth quarter donations of various assorted generic pharmaceuticals in excess of \$120.0 million, the majority of which were high valued diabetic agents.

### 6. DONATED REAL ESTATE, CONTRIBUTED SERVICES AND FACILITIES

In fiscal year 2016, Americares received a contribution of real estate valued at \$3,300, which is included in property held for investment on the accompanying consolidated statement of financial position as of June 30, 2016. Americares signed a sales agreement in August, 2016 to sell the property for \$3,300 which represents the value of this contribution. With the signing of the agreement Americares received cash of \$1,320 with the balance of the sale price to be received no later than March 1, 2017.

For the year ended June 30, 2016 and 2015, contributed services and facilities included the following:

	<u>2016</u>	<u>2015</u>
Professional services	\$ 7,275	\$ 5,851
Other contributed services and facilities	558	591
No-charge freight	<u>221</u>	<u>1,060</u>
	<u>\$ 8,054</u>	<u>\$ 7,502</u>

### 7. ENDOWMENTS

Americares has received donor-restricted endowment contributions of perpetual duration and classified these funds as permanently restricted net assets, with the appreciation available for the general purposes of Americares. Americares' investment policy requires that endowment funds be invested in Level 1 assets and provides management with an asset allocation guideline, which provides flexibility for management of the portfolio to achieve long term growth, without excessive risk. Americares follows guidance which, among other things, addresses the net asset classification of donor-restricted endowment funds for organizations subject to an enacted version of the 2006 Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). A key component of this guidance is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. This standard requires new disclosures about an organization's donor-restricted and board-designated (quasi) endowment funds. During 2008, Connecticut enacted UPMIFA into law. Management of Americares has interpreted the Connecticut law 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, Americares would classify 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 Americares in a manner consistent with the



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standard of prudence prescribed by UPMIFA. At June 30, 2016 and 2015, Americares did not maintain any board-designated (quasi) endowment funds. Changes in endowment net assets for the years ended June 30, 2016 and 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Endowment assets, June 30, 2014</b>	\$ -	\$ 476	\$ 1,226	\$ 1,702
Investment return:				
Investment income	-	139	-	139
Unrealized loss in fair value of investments	-	(90)	-	(90)
<b>Endowment assets, June 30, 2015</b>	-	525	1,226	1,751
Investment return:				
Investment income	-	65	-	65
Realized gain on sales	-	70	-	70
Unrealized loss in fair value of investments	-	(165)	-	(165)
Withdrawal	-	(300)	-	(300)
<b>Endowment assets, June 30, 2016</b>	<u>\$ -</u>	<u>\$ 195</u>	<u>\$ 1,226</u>	<u>\$ 1,421</u>

As of June 30, 2016 and 2015, perpetual assets held in trusts totaling \$2.9 million and \$3.2 million, respectively, have been excluded from the above permanently restricted endowment assets. During fiscal year 2016, Americares appropriated \$400 (of which \$300 was withdrawn) from its endowment for expenditures to support the reconfiguration of its Distribution Center in Stamford, Connecticut.

### 8. LOAN PAYABLE

In March 2012, Americares Free Clinics, Inc. renewed a \$300 five-year uncollateralized loan from Royal Bank of Scotland at an annual interest rate of 2%. The purpose of the loan was to provide funds toward the renovation of space in the Wheeler Community Center in Bridgeport, Connecticut for a free medical clinic for uninsured low and moderate income individuals. Interest expense of \$6 has been reflected in insurance and miscellaneous expense on the accompanying consolidated statement of activities for both years ended June 30, 2016 and 2015. Payment is due in full in March 2017. Americares is currently renegotiating this loan.

### 9. INCOME TAXES

Americares and the Clinics follow guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is “more-likely-than-not” to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

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Both Americares and the Clinics are exempt from federal income tax under IRC section 501(c)(3), though they are subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. Americares has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it was nexus; and to identify and evaluate other matters that may be considered tax positions. The tax years ended June 30, 2013, 2014, 2015 and 2016 are still open to audit for both federal and state purposes. Americares has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements

### 10. SIGNIFICANT DONORS

Most of Americares' medical, food and other disaster relief supplies ("merchandise") contributions are received from companies in the pharmaceutical industry. For years ended June 30, 2016 and 2015, the largest contributor accounted for 11% and 25%, respectively, of total merchandise contributions. The three largest contributors accounted for 32% and 50% of total merchandise contributions for the years ended June 30, 2016 and 2015, respectively.

### 11. EMPLOYEE BENEFITS

Americares established a defined contribution plan for all eligible employees effective January 1, 1992. As of December 31, 2002, Americares modified the plan to include a company matching program in which Americares would match each employee's contribution to the 401(k) savings plan up to a maximum of 6% of each employee's salary. Employees enrolling in the 401(k) savings plan after January 1, 2003 become 50% vested in the company match after one year of service and 100% vested after two years. Americares' contributions for both years ended June 30, 2016 and 2015 was \$0.5 million.

During fiscal year 2015, Americares established a Non-Qualified Deferred Compensation Plan that is designed in accordance with Section 457 (b) and (f) of the IRS Code covering the CEO of Americares. At June 30, 2015, the plan was unfunded and Americares accrued \$24 of expense. During fiscal year 2016, the funds were deposited in a rabbi trust fund which was established for the purpose of paying the future benefits. In fiscal year 2016, no additional funds were allocated to this Plan.

### 12. LEASE COMMITMENTS

Americares leases real estate and certain equipment under operating leases. The leases for office and warehouse space provide for rent escalations. Future minimum lease commitments under non-cancelable operating leases are as follows:

<u>Fiscal Year Ending</u>	<u>Commitments</u>
2017	\$ 1,635
2018	1,633
2019	1,581
2020	1,588
2021	1,605
2022 and beyond	3,926
Total lease commitments	<u>\$ 11,968</u>

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Rent expense for the years ended June 30, 2016 and 2015 was \$1.5 and 1.6 million, respectively.

**13. TEMPORARILY RESTRICTED NET ASSETS**

Americares' temporarily restricted net assets are available for the following purposes as of June 30:

	<u>2016</u>	<u>2015</u>
Purpose restricted:		
Disaster relief:		
Donated inventory	\$ 51,078	\$ 67,044
Donated cash and pledges	15,447	14,886
Clinics	<u>1,035</u>	<u>1,547</u>
	<u>67,560</u>	<u>83,477</u>
 Time restricted	 <u>1,869</u>	 <u>2,040</u>
Total	<u>\$ 69,429</u>	<u>\$ 85,517</u>