

CONSOLIDATED FINANCIAL STATEMENTS TOGETHER WITH
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

AMERICARES FOUNDATION, INC. AND AFFILIATES

For the year ended June 30, 2010



AmeriCares Foundation, Inc. and Affiliates
CONSOLIDATED FINANCIAL STATEMENTS

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To the Board of Directors of AmeriCares Foundation, Inc.:

We have audited the accompanying consolidated statement of financial position of AmeriCares Foundation, Inc. and Affiliates (collectively, "AmeriCares") as of June 30, 2010, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of AmeriCares' management. 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 as established by the American Institute of Certified Public Accountants. 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 AmeriCares' 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of AmeriCares Foundation, Inc. and Affiliates as of June 30, 2010, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

New York, New York
October 28, 2010

<u>ASSETS</u>	<u>2010</u>	<u>2009</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 6,735,894	\$ 4,943,012
Investments	27,659,146	13,459,815
Contributions receivable, net	791,892	1,509,634
Interest and miscellaneous receivables	40,446	224,904
Inventory	117,531,773	191,088,046
Prepaid expenses	561,235	702,266
Discontinued operations - assets	-	676,312
Total current assets	<u>153,320,386</u>	<u>212,603,989</u>
NONCURRENT ASSETS:		
Other assets-		
Contributions receivable, net	75,803	207,234
Property held for investment	299,690	420,234
Beneficial interest in-		
Perpetual assets held in trust	2,951,153	2,828,936
Trust agreements	1,498,997	1,493,616
Total other assets	<u>4,825,643</u>	<u>4,950,020</u>
Property and equipment-		
Buildings	700,267	700,267
Furniture and equipment	1,396,604	1,464,183
Leasehold improvements	2,932,067	2,904,977
Accumulated depreciation and amortization	<u>(1,819,771)</u>	<u>(1,489,278)</u>
Net property and equipment	<u>3,209,167</u>	<u>3,580,149</u>
Total noncurrent assets	<u>8,034,810</u>	<u>8,530,169</u>
Total assets	<u>\$ 161,355,196</u>	<u>\$ 221,134,158</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 5,416,846	\$ 4,534,146
Committed grants and relief supplies	3,637,496	5,754,455
Discontinued operations - liabilities	-	350,172
Total current liabilities	<u>9,054,342</u>	<u>10,638,773</u>
NONCURRENT LIABILITIES:		
Liabilities under split-interest agreements	576,682	584,204
Loan payable	279,207	267,760
Committed grants and relief supplies	-	948,359
Total noncurrent liabilities	<u>855,889</u>	<u>1,800,323</u>
Total liabilities	<u>9,910,231</u>	<u>12,439,096</u>
NET ASSETS:		
Unrestricted	85,525,149	164,519,441
Temporarily restricted	61,742,437	40,120,459
Permanently restricted	4,177,379	4,055,162
Total net assets	<u>151,444,965</u>	<u>208,695,062</u>
Total liabilities and net assets	<u>\$ 161,355,196</u>	<u>\$ 221,134,158</u>

The accompanying notes are an integral part of these consolidated statements.

AmeriCares Foundation, Inc.
and Affiliates

**CONSOLIDATED STATEMENTS
OF FINANCIAL POSITION**

As of June 30

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2010	2009
SUPPORT AND REVENUE:					
Public support-					
Cash contributions	\$ 18,188,586	\$ 22,506,793	\$ -	\$ 40,695,379	\$ 20,868,353
Securities contributions	365,530	97,007	-	462,537	263,941
Contributions from split-interest agreements	-	-	-	-	1,439,071
Donated medical and disaster supplies	357,185,273	397,882,812	-	755,068,085	1,173,038,163
Contributed services, facilities and other	4,817,760	-	-	4,817,760	5,115,884
Net assets released from restrictions	398,877,132	(398,877,132)	-	-	-
Total public support	<u>779,434,281</u>	<u>21,609,480</u>	<u>-</u>	<u>801,043,761</u>	<u>1,200,725,412</u>
Revenue-					
Interest and dividend income	707,762	-	-	707,762	1,370,141
Net realized loss on investments	(624,630)	-	-	(624,630)	(3,452,825)
Net unrealized gain (loss) in fair value of investments	2,357,107	-	-	2,357,107	(1,215,329)
Other revenue	681,738	-	-	681,738	679,253
Change in value of split-interest agreements	(93,628)	28,498	122,217	57,087	(667,894)
Total revenue	<u>3,028,349</u>	<u>28,498</u>	<u>122,217</u>	<u>3,179,064</u>	<u>(3,286,654)</u>
Total support and revenue	<u>782,462,630</u>	<u>21,637,978</u>	<u>122,217</u>	<u>804,222,825</u>	<u>1,197,438,758</u>
EXPENSES:					
Program services - grants, awards and program related expenses	850,430,414	-	-	850,430,414	1,150,198,680
Supporting services-					
Management and general	3,530,918	-	-	3,530,918	4,036,818
Fundraising	7,185,450	-	-	7,185,450	7,407,431
Total supporting services	<u>10,716,368</u>	<u>-</u>	<u>-</u>	<u>10,716,368</u>	<u>11,444,249</u>
Total expenses	<u>861,146,782</u>	<u>-</u>	<u>-</u>	<u>861,146,782</u>	<u>1,161,642,929</u>
(Decrease) increase in net assets from operations	(78,684,152)	21,637,978	122,217	(56,923,957)	35,795,829
Discontinued operations	(310,140)	(16,000)	-	(326,140)	(309,456)
Change in net assets	(78,994,292)	21,621,978	122,217	(57,250,097)	35,486,373
Net assets, beginning of year	164,519,441	40,120,459	4,055,162	208,695,062	173,208,689
Net assets, end of year	<u>\$ 85,525,149</u>	<u>\$ 61,742,437</u>	<u>\$ 4,177,379</u>	<u>\$ 151,444,965</u>	<u>\$ 208,695,062</u>

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

AmeriCares Foundation, Inc.
and Affiliates

CONSOLIDATED STATEMENT OF ACTIVITIES

For the year ended June 30, 2010,
with summarized comparative
totals for 2009

AmeriCares Foundation, Inc.
and Affiliates

**CONSOLIDATED STATEMENT
OF FUNCTIONAL EXPENSES**

For the year ended June 30, 2010,
with summarized comparative
totals for 2009

	Grants, Awards and Program Related Expenses	Supporting Services		2010 Total	2009 Total
		Management and General	Fundraising		
FUNCTIONAL EXPENSES:					
Salaries and related payroll expenses	\$ 4,907,363	\$ 1,744,463	\$ 2,498,447	\$ 9,150,273	\$ 11,860,940
Rent and other occupancy costs	1,564,272	176,012	314,307	2,054,591	1,967,704
Grants and awards, relief supplies	808,133,247	-	-	808,133,247	1,086,415,247
Grants to other agencies	1,674,263	-	-	1,674,263	1,038,629
Inventory write-off	22,654,636	-	-	22,654,636	42,740,092
Professional fees and contract services	4,396,300	385,203	1,417,879	6,199,382	5,862,427
Office supplies and equipment	46,817	87,090	235,449	369,356	421,594
Telephone	84,598	44,087	22,212	150,897	163,930
Postage, shipping and warehousing	5,940,436	10,231	854,651	6,805,318	7,641,604
Equipment and software rental	172,583	23,234	38,048	233,865	178,500
Promotional expenses	94,808	3,773	1,485,804	1,584,385	1,551,778
Travel	301,156	36,488	53,145	390,789	617,209
Insurance and miscellaneous	197,112	960,529	193,597	1,351,238	796,366
Depreciation and amortization	262,823	59,808	71,911	394,542	386,909
Total functional expenses 2010	<u>\$ 850,430,414</u>	<u>\$ 3,530,918</u>	<u>\$ 7,185,450</u>	<u>\$ 861,146,782</u>	
Total functional expenses 2009	<u>\$1,150,198,680</u>	<u>\$ 4,036,818</u>	<u>\$ 7,407,431</u>		<u>\$ 1,161,642,929</u>

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

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
(Decrease) increase in net assets from operations	\$ (56,923,957)	\$ 35,795,829
Discontinued operations	(326,140)	(309,456)
	<hr/>	<hr/>
Change in net assets	(57,250,097)	35,486,373
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	394,542	386,909
Interest accretion on loan payable	11,447	10,976
Net realized loss in investments	624,630	3,452,825
Net unrealized (gain) loss in fair value of investments	(2,357,107)	1,215,329
Realized and unrealized loss on property held for investment	4,150	98,030
(Increase) in beneficial interest in trusts	(127,598)	(872,809)
Property held for investment	-	(175,000)
Changes in assets and liabilities:		
Decrease (increase) in interest and miscellaneous receivables	184,458	(119,834)
Decrease in contributions receivable	849,173	961,361
(Increase) decrease in inventory	73,556,273	(45,399,526)
(Increase) decrease in prepaid expenses	141,031	(261,105)
(Increase) decrease in discontinued operations - assets	676,312	(10,130)
Increase in accounts payable and accrued expenses	882,700	60,456
Decrease in committed grants and relief supplies	(3,065,318)	(7,419,893)
(Decrease) increase in liabilities under split-interest agreements	(7,522)	265,664
(Decrease) increase in discontinued operations - liabilities	(350,172)	319,586
Net cash provided by (used in) operating activities	<u>14,166,902</u>	<u>(12,000,788)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	(75,010)	(1,245,180)
Disposal of fixed assets	51,450	55,978
Proceeds from sale of investments	22,460,926	15,122,107
Purchases of investments	(34,927,780)	(785,745)
Proceeds from sale of property held for investment	116,394	-
Net cash (used in) provided by investing activities	<u>(12,374,020)</u>	<u>13,147,160</u>
Net increase in cash and cash equivalents	1,792,882	1,146,372
Cash and cash equivalents, beginning of year	<u>4,943,012</u>	<u>3,796,640</u>
Cash and cash equivalents, end of year	<u>\$ 6,735,894</u>	<u>\$ 4,943,012</u>

Supplemental cash flow information:

Noncash items included approximately \$755 and \$1,173 million of donated medical and disaster relief supplies, and \$4.8 million and \$5.1 million of contributed services and facilities in fiscal 2010 and 2009, respectively. Cash used in operating activities included payments for interest on gift annuities of approximately \$123 thousand and \$119 thousand in fiscal 2010 and 2009, respectively.

The accompanying notes are an integral part of these consolidated statements.

AmeriCares Foundation, Inc.
and Affiliates

**CONSOLIDATED STATEMENTS
OF CASH FLOWS**

For the years ended June 30, 2010
and 2009

AmeriCares Foundation, Inc. and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010

1. ORGANIZATION

AmeriCares Foundation, Inc. (“AmeriCares”), a not-for-profit organization, which was established in 1979, 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., an affiliated organization, which operates three free health clinics in Connecticut. Effective June 30, 2009, AmeriCares discontinued its sponsorship of AmeriCares HomeFront, Inc., an affiliated organization, which mobilizes volunteers and solicits donated goods to perform repair services for needy homeowners and community centers. Effective September 30, 2009, AmeriCares discontinued its sponsorship of Camp AmeriKids, Inc., an affiliated organization, which operates a summer camp in New York for children affected by or infected with HIV/AIDS.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements include AmeriCares Foundation, Inc. and its affiliated organizations as described in Note 1 and have been prepared in accordance with accounting principles generally accepted in the United States of America using the accrual basis of accounting. All inter-company amounts have been eliminated in consolidation.

Net Asset Accounting

AmeriCares’ 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 of AmeriCares that are expendable for carrying on AmeriCares’ mission.

Temporarily Restricted Net Assets

Net assets whose use by AmeriCares is limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by the actions of AmeriCares pursuant to those stipulations.

Permanently Restricted Net Assets

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

AmeriCares Foundation, Inc. and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010

AmeriCares receives gifts of cash and other assets with donor stipulations that limit the use of the donated assets. For those donor-restricted cash contributions whose restrictions are met in the same fiscal year as the receipts, the contributions are reported as unrestricted contributions. Donor-restricted contributions not met in the same fiscal year are recorded as temporarily restricted. 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.

Contributions

Unconditional promises to give are included in the accompanying consolidated financial statements as contributions receivable and revenue in the appropriate net asset category in the period received. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in greater than one year are recorded at net present value using an appropriate discount rate.

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.

Donated Medical 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 supplies with explicit restrictions that specify how or where the assets are to be used are reported as temporarily restricted support. Donated supplies are recognized at wholesale value, which approximates fair value, as provided by the donor or, in the absence of donors' valuations, at wholesale values estimated by AmeriCares using published industry information. Unrestricted donated supplies not yet distributed had approximate wholesale values of \$78.1 million and \$161.5 million at June 30, 2010 and 2009, respectively. Restricted donated supplies not yet distributed had approximate wholesale values of \$39.4 million and \$29.6 million at June 30, 2010 and 2009, respectively. AmeriCares monitors its inventory throughout the year and writes-off amounts that have expired or are known to have become damaged.

AmeriCares operates a Patient Assistance Program through which it receives gifts in kind of donated medical supplies, which totaled approximately \$207.1 million and \$161.8 million for the years ended June 30, 2010 and 2009, respectively. Additionally, AmeriCares received gifts of cash to assist with the funding of program costs totaling approximately \$3.9 million for both years ended June 30, 2010 and 2009. 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, contributions receivable have been recorded for cash amounts pledged by donors to the program of approximately \$0.6 million and \$0.9 million at June 30, 2010 and 2009, respectively.

AmeriCares Foundation, Inc. and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010

In fiscal year 2010, AmeriCares received total cash and gifts in kind of approximately \$31 million restricted for the Earthquake disaster in Haiti in January, 2010. AmeriCares has incurred expenses for this disaster relief program, including shipments of restricted and unrestricted gifts in kind, in excess of \$32.2 million for the year end June 30, 2010. At June 30, 2010, AmeriCares had approximately \$14.9 million remaining in cash and restricted gifts in kind.

For the period from August 30, 2005 through June 30, 2010, AmeriCares received total cash and gifts in kind in excess of \$14.1 million restricted to the Hurricane Katrina disaster relief. AmeriCares completed its effort for this disaster relief program in fiscal year 2010 after incurring total expenses, including shipments of gifts in kind, of \$14.1 million. For the years ended June 30, 2010 and 2009, AmeriCares incurred expenses of \$0.1 million and \$0.25 million, respectively.

For the period from December 27, 2004 through June 30, 2010, AmeriCares received total cash and gifts in kind of approximately \$46.5 million restricted to the December 26, 2004 South East Asia tsunami disaster relief. AmeriCares has incurred total expenses for this disaster relief program, including shipments of gifts in kind, in excess of \$45.5 million including approximately \$0.9 million for the year ended June 30, 2009. At both June 30, 2010 and 2009, AmeriCares had approximately \$1.0 million remaining uncommitted in the fund.

Committed Grants and Relief Supplies

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 or grants of both cash and materials is recorded when AmeriCares has approved the grant. Committed grants beyond one year are recorded at net present value using a risk free rate of return. At June 30, 2010 and 2009, AmeriCares had outstanding liabilities for these purposes of approximately \$3.6 million and \$6.7 million, respectively.

Split-Interest Agreements

Receivables from split-interest agreements represent the net present value of an estimate of the funds to be received from various irrevocable lead trusts held by third party trustees. 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 that constitutes part charitable contribution and part purchase of an annuity. Under the terms of the agreements, the assets associated with these investments are restricted. 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.

AmeriCares Foundation, Inc. and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010

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.

Contributed Services, Facilities and Other

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. AmeriCares records as revenue the fair value of the contributed services and supplies, with an equivalent amount recorded as expense. These gifts include the following:

	<u>2010</u>	<u>2009</u>
Professional services	\$ 4,168,789	\$ 3,575,955
Other contributed services	101,274	198,397
No-charge freight	<u>547,697</u>	<u>1,166,532</u>
	<u>\$ 4,817,760</u>	<u>\$ 4,940,884</u>

AmeriCares received properties valued at approximately \$0.2 million during fiscal 2009, which is also included as revenue as part of contributed services, facilities and other, with an equivalent amount capitalized and included within property held for investment, but not reflected in the above table.

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. Program services include expenses incurred to provide medicines, emergency medical supplies and other disaster relief aid to those in need throughout the world and operate free health clinics.

AmeriCares Foundation, Inc. and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010

Cash and Cash Equivalents

AmeriCares classifies short-term highly liquid investments with original maturities of three months or less as cash equivalents. Cash and cash equivalents are carried at cost, which approximates fair value.

Investments

Investments are recorded at fair value; accordingly, the accompanying consolidated statement of activities reflects changes in fair value as increases or decreases in unrealized appreciation (depreciation) 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.

Property and Equipment

Property and equipment is recorded at cost for assets purchased and at fair value on the date of donation for assets donated to AmeriCares. 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.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, interest and miscellaneous receivable, 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.

The fair values of investments are based on the quoted market values of the underlying securities.

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 which, at times, may exceed federally insured limits, and in a diversified investment portfolio. AmeriCares' cash and investments were placed with high credit quality financial institutions and, accordingly, AmeriCares does not expect nonperformance.

AmeriCares Foundation, Inc. and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010

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 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. Actual results could differ from those estimates.

Summarized Comparative Information

The consolidated statement of activities and functional expenses 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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with AmeriCares' audited consolidated financial statements as of and for the year ended June 30, 2009, from which the summarized information was derived.

Reclassification

Certain 2009 balances have been reclassified to conform to the 2010 presentation.

3. INVESTMENTS

As of July 1, 2008, AmeriCares adopted guidance related to Fair Value Measurements that 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.

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.

AmeriCares Foundation, Inc. and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2010

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.

AmeriCares' investment, are classified as follows within the fair value hierarchy:

	2010			2009		
	Level 1	Level 3	Total	Level 1	Level 3	Total
Fixed income	\$26,888,131	\$ -	\$26,888,131	\$10,953,344	\$ -	\$10,953,344
Equity securities	771,015	-	771,015	2,506,471	-	2,506,471
	<u>27,659,146</u>	<u>-</u>	<u>27,659,146</u>	<u>13,459,815</u>	<u>-</u>	<u>13,459,815</u>
Beneficial interest in Perpetual assets held in trust	-	2,951,153	2,951,153	-	2,828,936	2,828,936
Trust agreements	-	1,498,997	1,498,997	-	1,493,616	1,493,616
	<u>-</u>	<u>4,450,150</u>	<u>4,450,150</u>	<u>-</u>	<u>4,322,552</u>	<u>4,322,552</u>
Total	<u>\$27,659,146</u>	<u>\$ 4,450,150</u>	<u>\$32,109,296</u>	<u>\$13,459,815</u>	<u>\$ 4,322,552</u>	<u>\$17,782,367</u>

The following table summarizes the changes in the AmeriCares' Level 3 investments for the year ended June 30, 2010 and 2009:

	2010	2009
Balance at beginning of year	\$ 4,322,552	\$ 3,449,743
Net unrealized appreciation (depreciation)	127,598	(566,262)
Contributions	-	1,439,071
Balance at end of year	<u>\$ 4,450,150</u>	<u>\$ 4,322,552</u>

AmeriCares Foundation, Inc. and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2010

4. CONTRIBUTIONS RECEIVABLE

Contributions expected to be collected after one year have been discounted using discount rates between 2.8% and 4.68% and are reflected in the accompanying consolidated financial statements at net present value. Contributions receivable, net at June 30, 2010 and 2009, are due as follows:

	<u>2010</u>	<u>2009</u>
Less than one year	\$ 857,892	\$1,542,634
One to five years	80,000	220,000
Total contributions receivable	937,892	1,762,634
Less: allowance for doubtful accounts	(66,000)	(33,000)
Less: discount to present value	(4,197)	(12,766)
Total contributions receivable, net	<u>\$ 867,695</u>	<u>\$1,716,868</u>

Discounts on contributions will be recognized as contribution income in fiscal years 2011 and 2012 as the discount is amortized over the duration of the pledges.

5. ENDOWMENTS

During the years ended June 30, 2007 and 2006, AmeriCares 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. At June 30, 2010, the asset allocation of the endowment was: 50% in fixed income (of which 4% was in high yield), 37 % in equities (of which 10% was in international equities) and 13% in cash and cash equivalents.

In August 2008, the FASB issued Endowments of Not-for-Profit Organizations which, among other things, addressed 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 FSP 117-1 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

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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 standard of prudence prescribed by UPMIFA. At June 30, 2010 and 2009, AmeriCares did not maintain any board-designated (quasi) endowment funds.

The fair value of assets associated with donor-restricted endowment funds may fall below the level that UPMIFA requires to retain as a fund of perpetual duration. In accordance with US GAAP, deficiencies of this nature that are reported in unrestricted net assets were approximately \$50 thousand and \$ 0.2 million as of June 30, 2010 and 2009, respectively.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment assets, July 1, 2008	\$ (29,971)	\$ -	\$1,226,226	\$1,196,255
Investment return:				
Investment income	-	48,919	-	48,919
Unrealized depreciation in fair value of investments	<u>(167,989)</u>	<u>(48,919)</u>	<u>-</u>	<u>(216,908)</u>
Endowment assets, June 30, 2009	(197,960)	-	1,226,226	1,028,266
Investment return:				
Investment income	26,873	-	-	26,873
Unrealized appreciation in fair value of investments	<u>122,098</u>	<u>-</u>	<u>-</u>	<u>122,098</u>
Endowment assets, June 30, 2010	<u>\$ (48,989)</u>	<u>\$ -</u>	<u>\$1,226,226</u>	<u>\$1,177,237</u>

6. LOAN PAYABLE

In March 2007, AmeriCares received a \$300,000 five-year loan from Royal Bank of Scotland at a below market 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. The contribution inherent in the loan has been recorded at fair value, based on an imputed interest rate of 6.2%, which was AmeriCares' assumed bank borrowing rate in 2007. Interest expense of approximately \$17 thousand and \$16 thousand has been reflected in the accompanying consolidated statement of activities for the years ended June 30, 2010 and 2009, respectively.

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7. DISCONTINUED OPERATIONS

In June 2009, in an effort to focus more closely on its core work of medical and disaster relief aid, AmeriCares decided to discontinue its sponsorship of two affiliates - AmeriCares HomeFront, Inc. and Camp AmeriKids, Inc. AmeriCares continued its sponsorship of Camp AmeriKids, Inc. through the 2009 summer camp season and incurred \$0.3 million of expenses to support these activities. No significant proceeds or expenses in fiscal 2010 were incurred in connection with the discontinued sponsorship of AmeriCares HomeFront, Inc.

8. INCOME TAXES

Accounting for Uncertainty in Income Taxes requires that a tax position be recognized or derecognized based on a “more likely than not” threshold. This applies to positions taken or expected to be taken in a tax return. During fiscal 2009, AmeriCares evaluated its tax positions and concluded that it does not have any uncertain tax positions that meet the criteria under this standard. Accordingly, implementation of this standard did not have any impact on AmeriCares’ accompanying consolidated financial statements.

AmeriCares Foundation, Inc., AmeriCares Free Clinics, Inc., Camp AmeriKids, Inc. and AmeriCares HomeFront, Inc. qualify as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code (“IRC”) and are not subject to federal income taxes. Donors of money and/or property are entitled to a charitable contribution deduction as defined in the IRC. Continued qualification of tax exempt status is contingent upon compliance with the requirements of the IRC.

9. SIGNIFICANT DONORS

Most of AmeriCares’ medical, food and other disaster relief supplies (“merchandise”) contributions are received from companies in the pharmaceutical industry. For both years ended June 30, 2010 and 2009, the largest contributor accounted for 23% of total merchandise contributions. The three largest contributors accounted for 49% and 42% of total merchandise contributions for the years ended June 30, 2010 and 2009, respectively.

10. 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, on a quarterly basis, each employee’s contribution to the 401(k) savings plan up to a maximum of 6% of each employee’s salary. During the first half of fiscal 2009, AmeriCares provided this match. Effective January 1, 2009, after modifying the plan, AmeriCares suspended its quarterly match of the employees’ contribution to the 401(k) plan. Effective January 1, 2010, AmeriCares restored its match of the employees’ contribution to the 401(k) plan up to a 50% employer match up to 6% of each employee’s salary (maximum AmeriCares contribution of 3%). 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 the years ended June 30, 2010 and 2009 were \$0.1 million and \$0.2 million, respectively.

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11. LEASE COMMITMENTS

Future minimum lease commitments under various noncancelable operating leases, primarily for office and warehouse space occupied, are as follows:

<u>Fiscal Year Ending</u>	<u>Minimum Lease Commitments</u>
2011	\$ 1,379,000
2012	1,442,000
2013	1,445,000
2014	1,468,000
2015	1,505,000
2016 and beyond	<u>12,950,000</u>
Total lease commitments	<u>\$20,189,000</u>

Rent expense in each of the years ended June 30, 2010 and 2009 approximated \$1.6 million.

12. SUBSEQUENT EVENTS

In May 2009, the Financial Accounting Standards Board (“FASB”) issued Subsequent Events to incorporate the accounting and disclosure requirements for subsequent events into U.S. generally accepted accounting principles. This standard introduces new terminology, defines a date through which management must evaluate subsequent events, and lists the circumstances under which an entity must recognize and disclose events or transactions occurring after the statement of financial position date. AmeriCares adopted this standard as of June 30, 2009, which was the required effective date.

AmeriCares evaluated its June 30, 2010 consolidated financial statements for subsequent events through October 28, 2010, the date the consolidated financial statements were available to be issued. AmeriCares is not aware of any subsequent events, which would require recognition or disclosure in the consolidated financial statements.



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