

Consolidated Financial Statements Together with
Report of Independent Certified Public Accountants

AMERICARES FOUNDATION, INC. AND AFFILIATE

June 30, 2012 and 2011

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 statement of financial position of AmeriCares Foundation, Inc. and Affiliate (collectively, “AmeriCares”) as of June 30, 2012, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These consolidated financial statements are the responsibility of AmeriCares’ management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the AmeriCares’ consolidated financial statements as of and for the year ended June 30, 2011 and, in our report dated December 21, 2011, we expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 Affiliate as of June 30, 2012, 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.



New York, New York
October 29, 2012

AMERICARES FOUNDATION, INC. AND AFFILIATE
Consolidated Statement of Financial Position
As of June 30, 2012, with summarized comparative totals for 2011

ASSETS	2012	2011
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,397,990	\$ 11,644,597
Investments	27,737,218	29,699,714
Contributions receivable, net	2,025,262	2,148,562
Interest and miscellaneous receivables	99,140	88,998
Inventory, net	121,180,185	104,734,790
Prepaid expenses	525,436	549,122
Total current assets	<u>156,965,231</u>	<u>148,865,783</u>
NONCURRENT ASSETS		
Other assets:		
Contributions receivable, net	-	1,177,433
Property held for investment	443,581	550,806
Beneficial interest in split-interest agreements-		
Perpetual assets held in trust	3,148,056	3,371,144
Trust agreements	92,614	1,504,757
Total other assets	<u>3,684,251</u>	<u>6,604,140</u>
Property and equipment-		
Buildings	808,271	725,077
Furniture and equipment	1,848,521	1,469,618
Leasehold improvements	2,936,969	2,934,629
Accumulated depreciation and amortization	<u>(2,619,189)</u>	<u>(2,216,308)</u>
Net property and equipment	<u>2,974,572</u>	<u>2,913,016</u>
Total noncurrent assets	<u>6,658,823</u>	<u>9,517,156</u>
Total assets	<u>\$ 163,624,054</u>	<u>\$ 158,382,939</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 4,190,986	\$ 4,821,747
Committed grants	2,889,723	1,259,593
Total current liabilities	<u>7,080,709</u>	<u>6,081,340</u>
NONCURRENT LIABILITIES		
Liabilities under split-interest agreements	1,887,627	1,250,788
Loan payable	300,000	291,143
Total noncurrent liabilities	<u>2,187,627</u>	<u>1,541,931</u>
Total liabilities	<u>9,268,336</u>	<u>7,623,271</u>
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Unrestricted	106,232,494	101,900,581
Temporarily restricted	43,748,942	44,261,717
Permanently restricted	4,374,282	4,597,370
Total net assets	<u>154,355,718</u>	<u>150,759,668</u>
Total liabilities and net assets	<u>\$ 163,624,054</u>	<u>\$ 158,382,939</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, 2012, with summarized comparative totals for 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
				<u>2012</u>	<u>2011</u>
SUPPORT AND REVENUE					
Public support -					
Cash contributions	\$ 19,560,368	\$ 3,656,698	\$ -	\$ 23,217,066	\$ 37,819,327
Securities contributions	814,491	8,989	-	823,480	597,290
Donated medical and disaster supplies	481,887,894	20,439,816	-	502,327,710	626,077,568
Contributed services, facilities and other	5,285,408	-	-	5,285,408	4,792,863
Net assets released from restrictions	23,198,917	(23,198,917)	-	-	-
Total public support	<u>530,747,078</u>	<u>906,586</u>	<u>-</u>	<u>531,653,664</u>	<u>669,287,048</u>
Revenue -					
Interest and dividend income	1,021,168	40,426	-	1,061,594	1,089,351
Net realized loss on investments	(65,479)	(11,202)	-	(76,681)	(642,944)
Net unrealized (loss) gain in fair value of investments	(378,724)	(75,866)	-	(454,590)	838,814
Other revenue	944,815	-	-	944,815	715,837
Change in value of split-interest agreements	(259,616)	(1,372,719)	(223,088)	(1,855,423)	329,519
Total revenue	<u>1,262,164</u>	<u>(1,419,361)</u>	<u>(223,088)</u>	<u>(380,285)</u>	<u>2,330,577</u>
Total support and revenue	<u>532,009,242</u>	<u>(512,775)</u>	<u>(223,088)</u>	<u>531,273,379</u>	<u>671,617,625</u>
EXPENSES					
Program services - grants, awards and program related expenses	<u>515,255,306</u>	<u>-</u>	<u>-</u>	<u>515,255,306</u>	<u>661,410,007</u>
Supporting services -					
Management and general	3,878,292	-	-	3,878,292	3,079,229
Fundraising	8,543,731	-	-	8,543,731	7,813,686
Total supporting services	<u>12,422,023</u>	<u>-</u>	<u>-</u>	<u>12,422,023</u>	<u>10,892,915</u>
Total expenses	<u>527,677,329</u>	<u>-</u>	<u>-</u>	<u>527,677,329</u>	<u>672,302,922</u>
Changes in net assets	4,331,913	(512,775)	(223,088)	3,596,050	(685,297)
Net assets, beginning of year	<u>101,900,581</u>	<u>44,261,717</u>	<u>4,597,370</u>	<u>150,759,668</u>	<u>151,444,965</u>
Net assets, end of year	<u>\$106,232,494</u>	<u>\$ 43,748,942</u>	<u>\$ 4,374,282</u>	<u>\$154,355,718</u>	<u>\$150,759,668</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, 2012, with summarized comparative totals for 2011

	Grants, Awards and Program Related Expenses	Supporting Services		2012 Total	2011 Total
		Management and General	Fundraising		
FUNCTIONAL EXPENSES					
Salaries and related payroll expenses	\$ 6,821,989	\$ 2,317,887	\$ 3,522,884	\$ 12,662,760	\$ 11,265,160
Rent and other occupancy costs	1,571,119	261,546	319,042	2,151,707	2,084,148
Grants and awards, relief supplies	450,252,848	-	-	450,252,848	622,312,530
Grants to other agencies	7,468,994	-	-	7,468,994	1,704,967
Inventory write-off	37,463,661	-	-	37,463,661	18,230,548
Professional fees and contract services	5,519,036	514,565	1,301,261	7,334,862	5,588,643
Office supplies and equipment	142,888	196,901	208,955	548,744	448,146
Telephone	94,137	78,968	26,007	199,112	155,621
Postage, shipping and warehousing	4,369,122	6,884	873,547	5,249,553	6,791,172
Equipment and software rental	138,766	29,238	31,169	199,173	185,680
Promotional expenses	64,318	3,966	1,757,391	1,825,675	1,629,685
Travel	851,740	96,221	214,230	1,162,191	836,043
Insurance and miscellaneous	209,093	331,666	210,628	751,387	672,853
Depreciation and amortization	287,595	40,450	78,617	406,662	397,726
	<u>\$ 515,255,306</u>	<u>\$ 3,878,292</u>	<u>\$ 8,543,731</u>	<u>\$ 527,677,329</u>	
Total functional expenses 2012					
Total functional expenses 2011	<u>\$ 661,410,007</u>	<u>\$ 3,079,229</u>	<u>\$ 7,813,686</u>		<u>\$ 672,302,922</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, 2012, with summarized comparative totals for 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 3,596,050	\$ (685,297)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	406,662	397,726
Interest accretion on loan payable	8,857	11,936
Net realized loss in investments	76,681	642,944
Net unrealized loss (gain) in fair value of investments	454,590	(838,814)
Donated investments	(823,480)	(597,290)
Realized and unrealized loss (gain) on property held for investment	107,225	(1,116)
Decrease (increase) in beneficial interest in split-interest agreements	1,635,231	(425,751)
Donated property	-	(250,000)
Changes in assets and liabilities:		
Increase in interest and miscellaneous receivables	(10,142)	(48,552)
Decrease (increase) in contributions receivable	1,300,733	(2,458,300)
(Increase) decrease in inventory	(16,445,395)	12,796,983
Decrease in prepaid expenses	23,686	12,113
(Decrease) in accounts payable and accrued expenses	(630,761)	(595,099)
Increase (decrease) in committed grants and relief supplies	1,630,130	(2,377,903)
Increase in liabilities under split-interest agreements	<u>636,839</u>	<u>674,106</u>
Net cash (used in) provided by operating activities	<u>(8,033,094)</u>	<u>6,257,686</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(468,218)	(101,575)
Proceeds from sale of investments	5,367,549	27,914,546
Purchases of investments	<u>(3,112,844)</u>	<u>(29,161,954)</u>
Net cash provided by (used in) investing activities	<u>1,786,487</u>	<u>(1,348,983)</u>
Net (decrease) increase in cash and cash equivalents	(6,246,607)	4,908,703
Cash and cash equivalents, beginning of year	<u>11,644,597</u>	<u>6,735,894</u>
Cash and cash equivalents, end of year	<u>\$ 5,397,990</u>	<u>\$ 11,644,597</u>

SUPPLEMENTAL CASH FLOW INFORMATION

Noncash items included approximately \$502 and \$626 million of donated medical and disaster relief supplies, and \$5 and \$4.5 million of contributed services and facilities in fiscal 2012 and 2011, respectively. Cash used in operating activities included payments for interest on gift annuities of approximately \$231 thousand and \$163 thousand in fiscal 2012 and 2011, respectively.

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

AMERICARES FOUNDATION, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements include AmeriCares Foundation, Inc. and its affiliated organization as described in Note 1 and have been prepared in accordance with accounting principles generally accepted 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

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 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.

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, 2012 and 2011

Contributions

AmeriCares records contributions, including unconditional promises to give, in the period received. 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.

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 fund-raising 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 Trustees. 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 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 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 on the date received at wholesale value, which approximates fair value, as estimated by AmeriCares 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 periodically reviews its basis for determining the fair value of donated medical and disaster supplies. Effective July 1, 2010, AmeriCares changed its basis for determining the fair value of certain donated pharmaceuticals, from the average wholesale price method ("AWP") to the wholesale acquisition cost method ("WAC"), as AmeriCares has determined the use of WAC to be a more appropriate estimate of the fair value of donated medical and disaster supplies.

AMERICARES FOUNDATION, INC. AND AFFILIATE
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

This change in estimate was not applied to items received prior to July 1, 2010.

AmeriCares operates a Patient Assistance Program through which it receives gifts in kind of donated medical supplies, which totaled approximately \$134 million and \$129.3 million for the years ended June 30, 2012 and 2011, respectively. Additionally, AmeriCares received gifts of cash to assist with the funding of program costs totaling approximately \$2.6 million and \$2.9 million for the years ended June 30, 2012 and 2011, 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, contributions receivable have been recorded for cash amounts pledged by donors to the program of approximately \$0.4 million and \$0.5 million at June 30, 2012 and 2011, respectively.

During fiscal years 2012 and 2011, AmeriCares received total cash of approximately \$8.7 million restricted for the Earthquake and Tsunami disaster relief in Japan. AmeriCares has incurred expenses for this disaster relief program, including shipments of unrestricted gifts in kind, of \$3.8 and \$1.0 million for the years end June 30, 2012 and 2011. At June 30, 2012 and 2011, AmeriCares had approximately \$4.5 million and \$7.6 million remaining in cash in this fund, respectively.

For the period from January, 2010 through June 30, 2012, AmeriCares received total cash and gifts in kind of approximately \$35.7 million restricted for the Earthquake disaster relief in Haiti. AmeriCares has incurred expenses for this disaster relief program, including shipments of restricted and unrestricted gifts in kind in excess of \$64.2 million, including \$12.7 million and \$19.3 million for the years end June 30, 2012 and 2011, respectively. At June 30, 2012 and 2011, AmeriCares had approximately \$8.2 million and \$10.6 million remaining in cash and restricted gifts in kind in the fund, respectively.

For the period from December 27, 2004 through June 30, 2011, 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. At June 30, 2011, AmeriCares had approximately \$1 million remaining uncommitted in the fund. During fiscal year 2012 AmeriCares completed its designation of these funds in response to this disaster relief program.

Inventory

Purchased inventory is carried at cost. Donated inventory is carried at wholesale value, which approximates fair value, as determined on the date of receipt. Inventory balances as of June 30, 2012 and 2011, were composed of the following:

	<u>2012</u>	<u>2011</u>
Unrestricted	\$ 114,107,840	\$ 95,585,103
Restricted	24,072,345	14,149,687
Total inventory	<u>138,180,185</u>	<u>109,734,790</u>
Less: allowance for obsolescence	<u>17,000,000</u>	<u>5,000,000</u>
Total inventory, net	<u>\$ 121,180,185</u>	<u>\$ 104,734,790</u>

AMERICARES FOUNDATION, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

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; 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.
- 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. Also included in Level 2 are investments measured using a net asset value (“NAV”) per share, or its equivalent, that may be redeemed at that NAV at the date of the statement of financial position or in the near term, which AmeriCares has generally considered to be within 90 days.
- 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. Also included in Level 3 are investments measured using a NAV per share, or its equivalent, that can never be redeemed at NAV or for which redemption at NAV is uncertain due to lockup periods or other investment restrictions.

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 FOUNDATION, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

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. 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.

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 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.

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. Committed grants beyond one year are recorded at net present value using a risk free rate of return. At June 30, 2012 and 2011, AmeriCares had outstanding liabilities for these purposes of approximately \$2.9 million and \$1.3 million, respectively, expected to be distributed in the next fiscal year.

AMERICARES FOUNDATION, INC. AND AFFILIATE
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

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>2012</u>	<u>2011</u>
Professional services	\$ 4,700,551	\$ 3,747,441
Other contributed services	492,200	195,514
No-charge freight	<u>92,657</u>	<u>599,908</u>
	<u>\$ 5,285,408</u>	<u>\$ 4,542,863</u>

Additionally, during fiscal 2011, AmeriCares received a property valued at \$250,000, 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.

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.

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.

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

AMERICARES FOUNDATION, INC. AND AFFILIATE
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

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, 2011 from which the summarized information was derived.

3. INVESTMENTS

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

	2012			2011		
	Level 1	Level 3	Total	Level 1	Level 3	Total
Fixed income	\$ 22,938,112	\$ -	\$ 22,938,112	\$ 24,801,261	\$ -	\$ 24,801,261
Equity securities	4,450,896	23,837	4,474,733	4,377,273	25,820	4,403,093
Other	324,373	-	324,373	495,360	-	495,360
	<u>27,713,381</u>	<u>23,837</u>	<u>27,737,218</u>	<u>29,673,894</u>	<u>25,820</u>	<u>29,699,714</u>
Beneficial interest in split-interest agreements-						
Perpetual assets held in tr	-	3,148,056	3,148,056	-	3,371,144	3,371,144
Trust agreements	-	92,614	92,614	-	1,504,757	1,504,757
	<u>-</u>	<u>3,240,670</u>	<u>3,240,670</u>	<u>-</u>	<u>4,875,901</u>	<u>4,875,901</u>
Total	<u>\$ 27,713,381</u>	<u>\$ 3,264,507</u>	<u>\$ 30,977,888</u>	<u>\$ 29,673,894</u>	<u>\$ 4,901,721</u>	<u>\$ 34,575,615</u>

The following table summarizes the changes in the AmeriCares' Level 3 investments for the year ended June 30, 2012 and 2011:

	2012	2011
Balance at beginning of year	\$ 4,901,721	\$ 4,450,150
Realized depreciation	(1,414,126)	-
Net unrealized (loss) gain	(223,088)	425,751
Contributions	-	25,820
Balance at end of year	<u>\$ 3,264,507</u>	<u>\$ 4,901,721</u>

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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, 2012 and 2011, are due as follows:

	<u>2012</u>	<u>2011</u>
Less than one year	\$ 2,025,262	\$ 2,214,562
One to five years	<u>-</u>	<u>1,221,297</u>
Total contributions receivable	2,025,262	3,435,859
Less: allowance for doubtful accounts	-	(66,000)
Less: discount to present value	<u>-</u>	<u>(43,864)</u>
Total contributions receivable, net	<u>\$ 2,025,262</u>	<u>\$ 3,325,995</u>

5. 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 standard of prudence prescribed by UPMIFA. At June 30, 2012 and 2011, AmeriCares did not maintain any board-designated (quasi) endowment funds.

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	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment assets, July 1, 2010	\$ (48,989)	\$ -	\$ 1,226,226	\$ 1,177,237
Investment return:				
Unrealized gain in fair value of investments	<u>48,989</u>	<u>113,950</u>	<u>-</u>	<u>162,939</u>
Endowment assets, June 30, 2011	-	113,950	1,226,226	1,340,176
Investment return:				
Investment income	-	40,426	-	40,426
Realized loss on sales	-	(11,202)	-	(11,202)
Unrealized gain in fair value of investments	<u>-</u>	<u>(75,866)</u>	<u>-</u>	<u>(75,866)</u>
Endowment assets, June 30, 2012	<u>\$ -</u>	<u>\$ 67,308</u>	<u>\$ 1,226,226</u>	<u>\$ 1,293,534</u>

As of June 30, 2012 and 2011, perpetual assets held in trusts totaling \$3,148,056 and \$3,371,144, respectively, have been excluded from the above permanently restricted endowment assets.

6. LOAN PAYABLE

In March 2012, AmeriCares renewed a \$300,000 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 approximately \$15 thousand and \$17 thousand has been reflected in the accompanying consolidated statement of activities for the years ended June 30, 2012 and 2011, respectively. Payment is due in full in March 2017.

7. INCOME TAXES

AmeriCares recognize a tax position based on a “more likely than not” threshold. This applies to positions taken or expected to be taken in a tax return. During fiscal 2012 and 2011, AmeriCares evaluated its tax positions and concluded that it does not have any uncertain tax positions that meet the criteria under this standard. The tax years ending 2009, 2010, 2011 and 2012 are still open to audit for both federal and state purposes.

AmeriCares Foundation, Inc. and AmeriCares Free Clinics, 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.

8. 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, 2012 and 2011, the largest contributor accounted for 23% and 19%, respectively, of total merchandise contributions. The three largest contributors accounted for 38% and 45% of total merchandise contributions for the years ended June 30, 2012 and 2011, respectively.

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9. 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. Effective January 1, 2010, AmeriCares matched 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%). Effective January 1, 2011 AmeriCares matched employees' contribution to the 401(k) 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 the years ended June 30, 2012 and 2011 were \$0.4 million and \$0.2 million, respectively.

10. LEASE COMMITMENTS

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

Fiscal Year Ending	Minimum Lease Commitments
2013	\$ 1,343,000
2014	1,364,000
2015	1,376,000
2016	1,382,000
2017	1,494,000
2018 and beyond	9,910,000
Total lease commitments	<u>\$ 16,869,000</u>

Rent expense for both the years ended June 30, 2012 and 2011 approximated \$1.5 million.

11. SUBSEQUENT EVENTS

AmeriCares evaluated its June 30, 2012 consolidated financial statements for subsequent events through October 29, 2012, 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.