Consolidated Financial Statements Together with
Report of Independent Certified Public Accountants

AMERICARES FOUNDATION, INC. AND AFFILIATE

June 30, 2017 and 2016

AMERICARES FOUNDATION, INC. AND AFFILIATE

TABLE OF CONTENTS

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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 statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated 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 audits. We conducted our audits 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, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

New York, New York
October 27, 2017

AMERICARES FOUNDATION, INC. AND AFFILIATE
Consolidated Statements of Financial Position
As of June 30, 2017 and 2016
(In thousands)

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 4,090	$ 8,149
Investments	20,510	16,767
Contributions receivable, net	7,793	3,472
Other receivables	274	308
Inventory, net	566,956	113,184
Prepaid expenses	633	817
Total current assets	600,256	142,697
NONCURRENT ASSETS		
Other assets:		
Contributions receivable, net	3,083	3,829
Property held for investment	450	3,749
Beneficial interest in split-interest agreements -		
Perpetual assets held in trust	3,474	2,949
Trust agreements	92	92
Total other assets	7,099	10,619
Property and equipment:		
Building and land	1,076	1,076
Furniture and equipment	3,916	3,839
Leasehold improvements	3,545	3,289
Accumulated depreciation and amortization	(5,367)	(4,823)
Net property and equipment	3,170	3,381
Total noncurrent assets	10,269	14,000
Total assets	$ 610,525	$ 156,697
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 4,761	$ 4,694
Committed grants	759	1,118
Deferred revenue	1,056	365
Loan payable	-	300
Total current liabilities	6,576	6,477
NONCURRENT LIABILITIES		
Liabilities under split-interest agreements	2,547	2,688
Loan payable and capital leases	382	106
Total noncurrent liabilities	2,929	2,794
Total liabilities	9,505	9,271
NET ASSETS		
Unrestricted	58,162	73,822
Temporarily restricted	538,113	69,429
Permanently restricted	4,745	4,175
Total net assets	601,020	147,426
Total liabilities and net assets	$ 610,525	$ 156,697

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

AMERICARES FOUNDATION, INC. AND AFFILIATE
Consolidated Statements of Activities
For the years ended June 30, 2017 and 2016
(In thousands)

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE								
Public support:								
Contributions	$ 18,339	$ 19,767	$ 481	$ 38,587	$ 21,152	$ 18,759	$ -	$ 39,911
Government grants	463	-	-	463	100	-	-	100
Donated medical and disaster supplies	99,794	2,242,101	-	2,341,895	453,268	423,124	-	876,392
Contributed services and facilities	7,794	-	-	7,794	8,054	-	-	8,054
Net assets released from restrictions	1,793,393	(1,793,393)	-	-	457,947	(457,947)	-	-
Total public support	1,919,783	468,475	481	2,388,739	940,521	(16,064)	-	924,457
Investment and fee revenue:								
Interest and dividend income	632	31	-	663	720	65	-	785
Net realized (loss) gain on investments	(67)	56	-	(11)	(287)	70	-	(217)
Net unrealized gain (loss) on investments	844	119	-	963	(86)	(165)	-	(251)
Other revenue	2,013	-	-	2,013	1,963	-	-	1,963
Change in value of split-interest agreements	(269)	3	89	(177)	(208)	6	(264)	(466)
Total revenue	3,153	209	89	3,451	2,102	(24)	(264)	1,814
Total support and revenue	1,922,936	468,684	570	2,392,190	942,623	(16,088)	(264)	926,271
EXPENSES								
Program services - grants, awards and program-related expenses	1,921,409	-	-	1,921,409	978,144	-	-	978,144
Supporting services								
Management and general	5,463	-	-	5,463	4,754	-	-	4,754
Fundraising	11,724	-	-	11,724	11,344	-	-	11,344
Total supporting services	17,187	-	-	17,187	16,098	-	-	16,098
Total expenses	1,938,596	-	-	1,938,596	994,242	-	-	994,242
Change in net assets	(15,660)	468,684	570	453,594	(51,619)	(16,088)	(264)	(67,971)
Net assets, beginning of year	73,822	69,429	4,175	147,426	125,441	85,517	4,439	215,397
Net assets, end of year	$ 58,162	$ 538,113	$ 4,745	$ 601,020	$ 73,822	$ 69,429	$ 4,175	$ 147,426

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

AMERICARES FOUNDATION, INC. AND AFFILIATE

Consolidated Statements of Functional Expenses

For the years ended June 30, 2017 and 2016

(In thousands)

	2017				2016			
	Grants, Awards and Program-Related Expenses	Supporting Services: Management and General	Supporting Services: Fundraising	Total	Grants, Awards and Program-Related Expenses	Supporting Services: Management and General	Supporting Services: Fundraising	Total
FUNCTIONAL EXPENSES								
Salaries and related payroll expenses	$ 9,980	$ 3,237	$ 4,221	$ 17,438	$ 8,742	$ 2,817	$ 3,576	$ 15,135
Rent and other occupancy costs	1,808	403	316	2,527	1,728	450	346	2,524
Grants and awards, relief supplies	1,889,795	-	-	1,889,795	948,399	-	-	948,399
Grants to other agencies	2,485	-	-	2,485	3,234	-	-	3,234
Professional fees and contract services	8,280	709	1,752	10,741	9,078	548	1,992	11,618
Office supplies and equipment	306	461	884	1,651	397	279	687	1,363
Telephone	117	89	420	626	107	61	562	730
Postage, shipping and warehousing	5,803	10	1,117	6,930	4,126	3	1,472	5,601
Equipment and software rental	134	10	25	169	125	16	19	160
Promotional expenses	208	9	2,395	2,612	183	2	2,136	2,321
Travel	1,368	96	228	1,692	1,155	56	194	1,405
Insurance and miscellaneous	532	345	252	1,129	463	427	229	1,119
Depreciation	593	94	114	801	407	95	131	633
Total functional expenses	$ 1,921,409	$ 5,463	$ 11,724	$ 1,938,596	$ 978,144	$ 4,754	$ 11,344	$ 994,242

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

AMERICARES FOUNDATION, INC. AND AFFILIATE
Consolidated Statements of Cash Flows
For the years ended June 30, 2017 and 2016
(In thousands)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 453,594	$ (67,971)
Adjustments to reconcile changes in net assets to net cash used in operating activities		
Depreciation and amortization	801	633
Net realized loss on investments	11	217
Net unrealized (gain)/loss on fair value of investments	(963)	251
Donated real estate	-	(3,300)
Donated investments	(3,621)	(1,590)
Realized and unrealized loss on property held for investment and contributed stock	57	3
Changes in assets and liabilities		
Decrease in other receivables	34	725
Increase in contributions receivable	(3,575)	(4,296)
(Increase) decrease in inventory	(453,772)	70,039
Decrease (increase) in prepaid expenses	184	(97)
(Increase) decrease in beneficial interest in split-interest agreements	(525)	265
Increase (decrease) in accounts payable and accrued expenses	67	(55)
Decrease in committed grants	(359)	(553)
Increase (decrease) in deferred revenue	691	(13)
(Decrease) increase in liabilities under split-interest agreements	(141)	505
Net cash used in operating activities	(7,517)	(5,237)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(600)	(827)
Proceeds from sale of assets held for investments	3,254	-
Proceeds from sale of investments	19,762	21,905
Purchases of investments	(18,934)	(18,868)
Net cash provided by investing activities	3,482	2,210
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of loan payable	(300)	-
Loan payable borrowing	300	-
Payments of capital leases	(24)	(18)
Net cash used in financing activities	(24)	(18)
Net decrease in cash and cash equivalents	(4,059)	(3,045)
Cash and cash equivalents, beginning of year	8,149	11,194
Cash and cash equivalents, end of year	$ 4,090	$ 8,149

Supplemental cash flow information:

Noncash items for fiscal years 2017 and 2016 included $2,341,895 and $876,392 of donated medical and disaster relief supplies, respectively, and $7,794 million and $8,054 million of contributed services and facilities, respectively. Cash used in operating activities included payments for interest on gift annuities of $400 and $300 fiscal 2017 and 2016, respectively.

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

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. The Company places its cash and cash equivalents in institutions and funds of high credit quality. The Company maintains cash at financial institutions that periodically exceed federally insured amounts. The Company has not experienced any loss in such accounts and believes it is not exposed to any significant risk on cash.

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. As of June 30, 2017 and 2016 there was no allowance for uncollectible contributions receivables.

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.

In fiscal year 2017, Americares received an extraordinary pharmaceutical donation of the hepatitis C drug, daclatasvir, valued at approximately $1.334 billion. Daclatasvir, when combined with sofosbuvir, provides a potential cure for chronic hepatitis C infection in adults. As of June 30, 2017, Americares shipped approximately $0.97 billion worth of this life-saving drug to Myanmar, Nigeria, Rwanda and Vietnam, with the remaining $0.37 billion of the product staged for shipments in early fiscal year 2018 to Indonesia, Ethiopia and, again, Myanmar.

Americares operates a Patient Assistance Program ("PAP") through which it receives gifts in kind of donated medical supplies. This program`s pharmaceutical donations totaled $224.7 million and $180.0 million for the years ended June 30, 2017 and 2016, respectively. Additionally, Americares received gifts of cash to assist with the funding of PAP costs totaling $3.1 million and $2.0 million for the years ended June 30, 2017 and 2016, 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 PAP program of $1.0 million and $0.5 million for the years ended June 30, 2017 and 2016, respectively.

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.

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 $5,000 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 twenty years.

Depreciation expense for the years ended June 30, 2017 and 2016 was $0.8 million and $0.6 million, respectively.

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, 2017 and 2016, committed grants expected to be distributed in the next fiscal year aggregate to $0.8 million and $1.1 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 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 Americares believes that these estimates are reasonable, actual results could differ from such estimates.

Recent Accounting Pronouncements

Currently Effective

In August 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about and Entity’s Ability to Continue as a Going Concern. Under the new guidance, management is required to assess an entity’s ability to continue as a going concern, and to provide related footnote disclosures in certain circumstances. The provisions of this ASU are effective for annual periods ending after December 15, 2016, and for annual and interim periods thereafter. The Company has adopted this guidance with no impact to the consolidated financial statements.

In May 2015, the FASB issued ASU 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent), which exempts investments measured using the net asset value ("NAV") practical expedient in Accounting Standards Codification ("ASC") 820, Fair Value Measurement, from categorization within the fair value hierarchy. The guidance requires retrospective application and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. The guidance removes the requirement to categorize investments measured using the NAV practical expedient within the fair value hierarchy. Entities will instead show the carrying amount of investments measured using the NAV practical expedient as a reconciling item. Management has evaluated and determined that ASU 2015-07 does not have a material impact on the consolidated financial statements.

Effective in Future Periods

In August 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statement of Not-for-Profit Entities. The new guidance improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. Management is currently evaluating the impact of ASU 2016-14 will have on the consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. This new revenue recognition guidance will supersede nearly all existing revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve the core principle, the new guidance implements a five-step process for customer contract revenue recognition. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows arising from contracts with customers. For nonpublic entities, the standard will be effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. Nonpublic entities can also elect to early adopt the standard as of the following: (a) annual reporting periods beginning after December 15, 2016, including interim periods; or (b) annual reporting periods beginning after December 15, 2016, and interim periods within annual reporting periods beginning one year after the annual reporting period of initial application of the new standard. Entities can transition to the new guidance either retrospectively or as a cumulative-effect adjustment as of the date of adoption. Management is currently assessing the impact of this new revenue recognition guidance on the consolidated financial statements.

In February 2016, the FASB issued the new guidance, ASU 2016-02, Leases, which simplifies the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Under the new guidance, lessees will be required to recognize a lease liability, which is a lessor's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control use of, a specified asset for the lease term for all leases (with the exception of short-term leases) at the adoption date. The new guidance is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years after December 15, 2020. Early adoption is permitted for any interim or annual financial statements net yet issued. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing and operating leases) must apply a modified retrospective approach for all leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. Management is currently evaluating the impact of ASU 2016-02 will have on the consolidated financial statements.

Reclassification

Certain reclassifications have been made to the fiscal 2017 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 2016 consolidated financial statements.

3. INVESTMENTS

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

	2017			2016		
	Level 1	Level 3	Total	Level 1	Level 3	Total
Fixed income	$ 10,742	$ -	$ 10,742	$ 10,526	$ -	$ 10,526
Equity securities	8,549	5	8,554	6,060	5	6,065
Other	1,214	-	1,214	176	-	176
	20,505	5	20,510	16,762	5	16,767
Beneficial interest in split-interest agreements -						
Perpetual assets held in trust	-	3,474	3,474	-	2,949	2,949
Trust agreements	-	92	92	-	92	92
	-	3,566	3,566	-	3,041	3,041
Total	$ 20,505	$ 3,571	$ 24,076	$ 16,762	$ 3,046	$ 19,808

The following table summarizes the changes in Level 3 investments for the years ended June 30, 2017 and 2016 (in thousands):

	2017	2016
Balance at beginning of year	$ 3,046	$ 3,313
Contributions	436	-
Unrealized gain/(loss)	89	(267)
Balance at end of year	$ 3,571	$ 3,046

4. CONTRIBUTIONS RECEIVABLE

Contributions expected to be collected after one year have been discounted using a discount rate of 2.4% and 1.5% for the years ended June 30, 2017 and 2016, respectively, and are reflected on the accompanying consolidated financial statements at net present value. Contributions receivable, net at June 30, 2017 and 2016, are due as follows (in thousands):

	2017	2016
Less than one year	$ 7,793	$ 3,472
One to five years	3,308	3,955
Total contributions receivable	11,101	7,427
Less: discount to present value	(225)	(126)
Total contributions receivable, net	$ 10,876	$ 7,301

5. INVENTORY

Inventory balances as of June 30, 2017 and 2016, were composed of the following (in thousands):

	2017	2016
Medicines	$ 583,899	$ 127,373
Medical devices and consumables	5,152	5,149
Other assorted	1,405	4,662
Total inventory	590,456	137,184
Less: allowance for obsolescence	(23,500)	(24,000)
Total inventory, net	$ 566,956	$ 113,184

Medical inventory increased substantially in fiscal year 2017 due to the receipt of the pharmaceutical daclatasvir, of which $370 million was in ending inventory at June 30, 2017. These goods will be shipped in early fiscal year 2018.

6. DONATED REAL ESTATE, CONTRIBUTED SERVICES AND FACILITIES

In fiscal year 2016, Americares received a contribution of real estate valued at $3.3 million, 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 $3.3 million which represents the value of this contribution. This transaction was completed in fiscal year 2017.

For the year ended June 30, 2017 and 2016, contributed services and facilities included the following (in thousands):

	2017	2016
Professional services	$ 6,812	$ 7,275
Other contributed services and facilities	575	558
No-charge freight	407	221
	$ 7,794	$ 8,054

7. ENDOWMENTS AND LIABILITIES UNDER SPLIT-INTEREST AGREEMENTS

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, 2017 and 2016, Americares did not maintain any board-designated (quasi) endowment funds. Changes in endowment net assets for the years ended June 30, 2017 and 2016 are as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, June 30, 2015	$ -	$ 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)
Endowment assets, June 30, 2016	-	195	1,226	1,421
Investment return:				
Deposits	-	-	45	45
Investment income	-	26	-	26
Realized gain on sales	-	56	-	56
Unrealized gain in fair value of investments	-	119	-	119
Withdrawal	-	(100)	-	(100)
Endowment assets, June 30, 2017	$ -	$ 296	$ 1,271	$ 1,567

As of June 30, 2017 and 2016, perpetual assets held in trusts totaling $3.5 million and $2.9 million, respectively, have been excluded from the above permanently restricted endowment assets. During fiscal year 2017, Americares withdrew $100,000 from its endowment which had been appropriated in fiscal year 2016 for expenditures to support the reconfiguration of its Distribution Center in Stamford, Connecticut.

As of June 30, 2017, the FASB actuarial calculation for liabilities under split interest agreements from annuity contracts was $2.95 million. NY State requires that the Annuity account (cash and investment) be maintained at 126.5% of that liability (or $781,580 in excess of that amount). As of June 30, 2017, Americares had an excess of this amount in those accounts.

8. LOAN PAYABLE AND LINE OF CREDIT

In November 2016, Americares Free Clinics, Inc. entered into a new unsecured $300,000 five-year loan at an annual interest rate of 1% with Northern Trust Company (“The Loan”) which is secured by Americares Foundation, Inc. The purpose of the loan was to repay the $300,000 loan from Citizens Bank N.A. (formerly held by Royal Bank of Scotland). The prior loan provided 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 $4,000 and $6,000 has been reflected in insurance and miscellaneous expense on the accompanying consolidated statement of activities for years ended June 30, 2017 and 2016, respectively. At June 30, 2017, the outstanding balance on The Loan was $300,000 which is payable in full on November 3, 2021.

In fiscal year 2017, Americares entered into an uncommitted $3 million line of credit with Northern Trust Company secured by certain Americares investment funds. The line of credit expires in July, 2020 and any outstanding balances would accrue interest at the overnight LIBOR rate plus 1.75%. No amounts were drawn down during fiscal year 2017.

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.

Both Americares and the Clinics are exempt from federal income tax under Internal Revenue Code (“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, 2014, 2015, 2016 and 2017 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, 2017 and 2016, the largest contributor accounted for 57% and 11%, respectively, of total merchandise contributions. The three largest contributors accounted for 67% and 32% of total merchandise contributions for the years ended June 30, 2017 and 2016, 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’ contribution was approximately $0.6 million and $0.5 million for years ended June 30, 2017 and 2016, respectively.

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. During fiscal year 2016, no funds were allocated to this plan. In fiscal year 2017, $30,000 was recognized as expense for 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 (in thousands):

Fiscal Year Ending		Minimum Lease Commitments
2018	$	1,617
2019		1,581
2020		1,588
2021		1,602
2022		1,617
2023 and beyond		2,325
Total lease commitments	$	10,330

Rent expense for the years ended June 30, 2017 and 2016 was $1.6 and $1.5 million, respectively.

Americares sublets office space to World Wrestling Entertainment, Inc. ("WWE"), HomeFront and The Elm Project. The sublet with WWE expires May 2018. From July 1, 2017 through May 31, 2018, AmeriCares will record as income $118,158. The arrangements with HomeFront and The Elm Project are month to month.

13. TEMPORARILY RESTRICTED NET ASSETS

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

		2017		2016
Purpose restricted:				
Disaster relief:				
Donated inventory	$	518,448	$	51,078
Donated cash and pledges		17,335		15,447
Clinics		492		1,035
		536,275		67,560
Time restricted		1,838		1,869
Total	$	538,113	$	69,429

14. SUBSEQUENT EVENTS

Americares has evaluated subsequent events through October 27, 2017, the date these consolidated financial statements were available for issuance, and noted no events, except as those disclosed above, that require consideration for adjustments to, or disclosure in the consolidated financial statements.