

**CONSOLIDATED FINANCIAL STATEMENTS**



**AMERICAN REFUGEE COMMITTEE AND  
SUBSIDIARIES**

**FOR THE YEARS ENDED  
MARCH 31, 2016 AND 2015**

# AMERICAN REFUGEE COMMITTEE AND SUBSIDIARIES

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
American Refugee Committee and Subsidiaries  
Minneapolis, Minnesota

We have audited the accompanying consolidated financial statements of the American Refugee Committee and Subsidiaries (ARC), which comprise the consolidated statements of financial position as of March 31, 2016 and 2015, and the related consolidated statements of activities and changes in net assets, 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 audits 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.

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## Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ARC as of March 31, 2016 and 2015, and the consolidated changes in its net assets and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Gelman Rosenberg & Friedman*

September 27, 2016

**AMERICAN REFUGEE COMMITTEE AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**AS OF MARCH 31, 2016 AND 2015**

**ASSETS**

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 5,219,576	\$ 4,387,533
Investments (Notes 2 and 13)	571,397	566,563
Grants receivable	16,748,110	22,290,452
Pledges receivable	384,001	675,800
Other receivables	253,671	857,174
Inventory	16,301	-
Prepaid expenses	916,133	850,291
Property, furniture and equipment, net of accumulated depreciation and amortization of \$487,145 and \$429,232 at March 31, 2016 and 2015, respectively (Note 8)	<u>641,558</u>	<u>126,185</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 24,750,747</u></b>	<b><u>\$ 29,753,998</u></b>

**LIABILITIES AND NET ASSETS**

**LIABILITIES**

Accounts payable and accrued expenses	\$ 427,651	\$ 408,561
Grants payable	809,459	217,361
Accrued salaries and benefits	<u>2,338,307</u>	<u>2,915,606</u>
Total liabilities	<u>3,575,417</u>	<u>3,541,528</u>

**NET ASSETS**

Unrestricted	2,593,055	1,034,306
Temporarily restricted (Note 3)	17,734,020	24,329,909
Permanently restricted (Notes 11 and 12)	<u>848,255</u>	<u>848,255</u>
Total net assets	<u>21,175,330</u>	<u>26,212,470</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 24,750,747</u></b>	<b><u>\$ 29,753,998</u></b>

**AMERICAN REFUGEE COMMITTEE AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED MARCH 31, 2016 AND 2015**

	<b>2016</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
<b>REVENUE AND SUPPORT</b>				
Contributions and grants:				
Contributions	\$ 3,547,921	\$ 1,689,216	\$ -	\$ 5,237,137
U.S. Government grants (Note 6)	-	18,224,065	-	18,224,065
United Nations grants	-	15,004,511	-	15,004,511
Private and other support	-	5,660,575	-	5,660,575
In-kind goods and services	43,695	-	-	43,695
Interest and investment income (Notes 2 and 12)	(758)	8,538	-	7,780
Other income	898,066	-	-	898,066
Net assets released from donor restrictions (Note 4)	<u>48,031,884</u>	<u>(48,031,884)</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>52,520,808</u>	<u>(7,444,979)</u>	<u>-</u>	<u>45,075,829</u>
<b>EXPENSES</b>				
Program Services:				
International Programs	<u>45,347,470</u>	<u>-</u>	<u>-</u>	<u>45,347,470</u>
Supporting Services:				
General and Administrative	4,391,532	-	-	4,391,532
Fundraising	<u>1,070,791</u>	<u>-</u>	<u>-</u>	<u>1,070,791</u>
Total supporting services	<u>5,462,323</u>	<u>-</u>	<u>-</u>	<u>5,462,323</u>
Total expenses	<u>50,809,793</u>	<u>-</u>	<u>-</u>	<u>50,809,793</u>
Changes in net assets	1,711,015	(7,444,979)	-	(5,733,964)
Net assets at beginning of year	1,034,306	24,329,909	848,255	26,212,470
Transfer of Net Assets (Note 10)	<u>(152,266)</u>	<u>849,090</u>	<u>-</u>	<u>696,824</u>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ 2,593,055</u></b>	<b><u>\$ 17,734,020</u></b>	<b><u>\$ 848,255</u></b>	<b><u>\$ 21,175,330</u></b>

<b>2015</b>			
<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
\$ 1,953,326	\$ 743,436	\$ -	\$ 2,696,762
-	25,203,372	-	25,203,372
-	9,991,817	-	9,991,817
-	9,339,569	-	9,339,569
28,719	-	-	28,719
9,370	34,935	-	44,305
683,114	-	-	683,114
<u>42,753,653</u>	<u>(42,753,653)</u>	<u>-</u>	<u>-</u>
<u>45,428,182</u>	<u>2,559,476</u>	<u>-</u>	<u>47,987,658</u>
<u>41,092,501</u>	<u>-</u>	<u>-</u>	<u>41,092,501</u>
2,976,807	-	-	2,976,807
829,891	-	-	829,891
<u>3,806,698</u>	<u>-</u>	<u>-</u>	<u>3,806,698</u>
<u>44,899,199</u>	<u>-</u>	<u>-</u>	<u>44,899,199</u>
528,983	2,559,476	-	3,088,459
505,323	21,770,433	848,255	23,124,011
-	-	-	-
<u>\$ 1,034,306</u>	<u>\$ 24,329,909</u>	<u>\$ 848,255</u>	<u>\$ 26,212,470</u>

**AMERICAN REFUGEE COMMITTEE AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES  
FOR THE YEARS ENDED MARCH 31, 2016 AND 2015**

	2016				
	Supporting Services			Total Supporting Services	Total Expenses
	International Programs	General and Administrative	Fundraising		
Salaries	\$ 17,640,563	\$ 1,989,307	\$ 482,673	\$ 2,471,980	\$ 20,112,543
Employee benefits	3,302,237	406,887	95,191	502,078	3,804,315
Payroll taxes	661,033	128,952	40,279	169,231	830,264
Printing and publishing	95,864	27,748	3,727	31,475	127,339
Education and training	2,314,296	9,790	-	9,790	2,324,086
Legal	116,240	18,770	27,966	46,736	162,976
Occupancy	1,904,045	185,296	50,048	235,344	2,139,389
Accounting	176,669	52,089	-	52,089	228,758
Insurance	170,218	8,309	2,171	10,480	180,698
Depreciation	65,621	22,360	10,790	33,150	98,771
Telephone	534,664	39,117	2,476	41,593	576,257
Travel and transportation	2,775,091	329,116	38,718	367,834	3,142,925
Postage and delivery	141,874	15,915	48,744	64,659	206,533
Office supplies	486,725	35,461	13,113	48,574	535,299
Membership and dues	25,944	56,751	1,439	58,190	84,134
Meetings and conferences	78,909	113,658	4,608	118,266	197,175
Advertising and recruiting	78,254	78,118	839	78,957	157,211
Currency loss	230,938	(6,530)	-	(6,530)	224,408
Bank charges	213,567	24,675	65,427	90,102	303,669
Equipment maintenance	950,063	5,967	244	6,211	956,274
Purchased services	1,068,334	624,828	170,486	795,314	1,863,648
Equipment purchase	1,471,367	109,536	11,853	121,389	1,592,756
Interest	1,021	32,712	-	32,712	33,733
Grants	1,189,702	72,926	-	72,926	1,262,628
Construction	1,580,806	-	-	-	1,580,806
Program supplies	8,020,705	4,490	-	4,490	8,025,195
Other	52,720	5,284	-	5,284	58,004
<b>TOTAL</b>	<b>\$ 45,347,470</b>	<b>\$ 4,391,532</b>	<b>\$ 1,070,791</b>	<b>\$ 5,462,323</b>	<b>\$ 50,809,793</b>

See accompanying notes to consolidated financial statements.



2015					
Supporting Services					
International Programs	General and Administrative	Fundraising	Total Supporting Services	Total Expenses	
\$ 15,318,716	\$ 1,459,112	\$ 396,438	\$ 1,855,550	\$ 17,174,266	
3,129,872	326,993	75,356	402,349	3,532,221	
612,793	111,658	33,142	144,800	757,593	
65,049	17,131	3,714	20,845	85,894	
1,625,707	-	-	-	1,625,707	
79,655	1,862	33,502	35,364	115,019	
1,819,526	173,515	37,848	211,363	2,030,889	
160,654	27,684	817	28,501	189,155	
157,216	17,292	4,664	21,956	179,172	
27,256	46,483	6,891	53,374	80,630	
491,527	16,404	1,583	17,987	509,514	
3,076,096	173,955	7,829	181,784	3,257,880	
213,771	15,207	30,335	45,542	259,313	
491,693	25,353	11,160	36,513	528,206	
27,976	74,267	1,642	75,909	103,885	
51,635	42,446	4,444	46,890	98,525	
129,682	47,264	5	47,269	176,951	
25,276	(166)	-	(166)	25,110	
193,353	11,317	26,111	37,428	230,781	
868,322	1,526	251	1,777	870,099	
1,043,524	298,418	146,483	444,901	1,488,425	
1,647,483	50,071	7,676	57,747	1,705,230	
970	39,015	-	39,015	39,985	
2,765,692	-	-	-	2,765,692	
1,396,533	-	-	-	1,396,533	
5,622,335	-	-	-	5,622,335	
50,189	-	-	-	50,189	
<b>\$ 41,092,501</b>	<b>\$ 2,976,807</b>	<b>\$ 829,891</b>	<b>\$ 3,806,698</b>	<b>\$ 44,899,199</b>	

## AMERICAN REFUGEE COMMITTEE AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED MARCH 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ (5,733,964)	\$ 3,088,459
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	98,770	80,630
Net realized and unrealized gain on investments	(4,834)	(31,036)
Net asset transfer from Questscope LTD	12,975	-
Net asset transfer from Questscope	683,849	-
(Increase) decrease in:		
Grants receivable	5,542,342	(1,375,658)
Pledges receivable	291,799	225,158
Other receivables	603,503	(520,369)
Inventory	(16,301)	-
Prepaid expenses	(65,842)	(157,242)
Increase (decrease) in:		
Accounts payable and accrued expenses	19,090	(384,066)
Grants payable	592,098	(316,868)
Accrued salaries and benefits	<u>(577,299)</u>	<u>760,622</u>
Net cash provided by operating activities	<u>1,446,186</u>	<u>1,369,630</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of equipment	<u>(614,143)</u>	<u>(41,176)</u>
Net cash used by investing activities	<u>(614,143)</u>	<u>(41,176)</u>
Net increase in cash and cash equivalents	832,043	1,328,454
Cash and cash equivalents at beginning of year	<u>4,387,533</u>	<u>3,059,079</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 5,219,576</u></b>	<b><u>\$ 4,387,533</u></b>

## AMERICAN REFUGEE COMMITTEE AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2016 AND 2015

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

##### Organization -

The American Refugee Committee and Subsidiaries (ARC) is a non-profit organization, incorporated in 1978 for the purpose of providing emergency relief and medical, education, training and other services at refugee camps. The international headquarters, based in Minneapolis, Minnesota, supports medical relief and settlement programs which, during the two years ending March 31, 2016 and 2015 operated in Liberia, Rwanda, Somalia, Uganda, Sudan, South Sudan, Pakistan, Thailand, Democratic Republic of Congo, Syria, Jordan, the Philippines and Myanmar.

During the 2014 fiscal year, the Board of Directors of Questscope, LTD. and Questscope (a UK charity) voted to recognize ARC as their sole member and entered into a parent/subsidiary relationship effective April 1, 2015 that allows both organizations to retain their unique identities, values and leadership while leveraging strengths and unique qualities. Questscope, Ltd is a nonprofit organization with registration in the United States. Questscope is a UK registered charity under the United Kingdom Articles of Charitable Companies. Questscope is also legally registered to conduct business in the Hashemite Kingdom of Jordan (Jordan). Both Questscope, LTD and Questscope receive grants and contributions to manage educational and refugee programs in Jordan and Syria.

Based upon the fact that ARC, as the sole member, has controlling interest of the boards of Questscope, LTD. and Questscope, the financial results for Questscope, LTD. and Questscope as of and for the year ended March 31, 2016 are included in the accompanying consolidated financial statements (Note 10). However, since ARC did not retain control over Questscope, LTD. and Questscope as of and for the year ended March 31, 2015; such figures are not included within the accompanying comparative financial information for the year ended March 31, 2015.

WikiRelief, LLC was established in April 2013 as a wholly owned subsidiary of ARC. The organization is developing a web-based emergency relief tool to enable coordination by worldwide relief organizations. Financial activity of WikiRelief is immaterial to these financial statements and are not separately stated.

##### Basis of presentation -

The accompanying consolidated financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958-810, *Not-for-Profit Entities, Consolidation*.

##### Principles of consolidation -

The consolidated financial statements include the assets, liabilities and activities and change in net assets of the American Refugee Committee and its Subsidiaries, Questscope, LTD., Questscope and WikiRelief (collectively ARC). All material intercompany accounts and transactions are eliminated in consolidation.

##### Cash and cash equivalents -

ARC considers all cash and other highly liquid investments with initial maturities of three months or less, and funds invested with local banks in foreign countries to be cash equivalents.

Bank deposit accounts are insured by the FDIC up to a limit of \$250,000. At times during the year, ARC maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

## AMERICAN REFUGEE COMMITTEE AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2016 AND 2015

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

##### Cash and cash equivalents (continued) -

ARC had \$3,812,971 and \$3,711,536 of cash on hand and cash at financial institutions in foreign countries at March 31, 2016 and 2015, respectively. The majority of such funds are not insured.

##### Foreign currency translation -

The U.S. Dollar (dollars) is the functional currency of ARC's worldwide operations. Transactions in currencies other than dollars are re-measured into dollars at the rate of exchange in effect at the time of the transaction. Current assets and liabilities denominated in non-U.S. currency are translated into dollars at the exchange rate in effect at the date of the Consolidated Statements of Financial Position. The effect of these conversions are recorded in the Consolidated Statements of Activities and Changes in Net Assets.

##### Investments -

Investments are recorded at their readily determinable fair value. Realized and unrealized gains and losses are included in interest and investment income in the Consolidated Statements of Activities and Changes in Net Assets.

##### Grants, pledges and other receivables -

Amounts to be received in the future are recorded as grants receivable in the Consolidated Statements of Financial Position. All grants, pledges and other receivables are stated at net realizable value, which approximates fair value and are considered to be collectible within one year unless otherwise stated by the donor.

##### Property, furniture and equipment -

Property, furniture and equipment, which cost in excess of \$5,000, are capitalized and stated at cost. Depreciation of equipment and vehicles purchased at headquarters is depreciated over the useful life of the related assets, generally three to five years.

Leasehold improvements are amortized over the remaining life of the lease. Property, furniture and equipment purchased with restricted grant funds are recorded as an expense and charged against the grant which provided the funds to purchase the equipment and vehicles.

##### Income taxes -

ARC is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying consolidated financial statements. ARC is not a private foundation.

Questscope, LTD. is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. Questscope, LTD. is not a private foundation.

Questscope is registered under the United Kingdom Articles of Charitable Companies, as a charity within the definition of section 506 (1) Income and Corporation Tax Act 1988, and is therefore able to take advantage of the reliefs given by Section 505 of that act. Accordingly, no provision for income taxes has been made in the accompanying consolidated financial statements.

## AMERICAN REFUGEE COMMITTEE AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2016 AND 2015

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

##### Uncertain tax positions -

For the years ended March 31, 2016 and 2015, ARC has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

##### Net asset classification -

The net assets are reported in three self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of ARC and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of ARC and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Consolidated Statements of Activities and Changes in Net Assets as net assets released from restrictions.
- **Permanently restricted net assets** represent funds restricted by the donor to be maintained in-perpetuity by ARC.

##### Contributions and grants -

Unrestricted and temporarily restricted contributions and grants are recorded as revenue in the year notification is received from the donor.

Temporarily restricted contributions and grants are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Temporarily restricted contributions and grants received in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying consolidated financial statements.

##### Use of estimates -

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

##### Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Consolidated Statements of Activities and Changes in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**AMERICAN REFUGEE COMMITTEE AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2016 AND 2015**

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

Investment risks and uncertainties -

ARC invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks.

Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying consolidated financial statements.

Fair value measurement -

ARC adopted the provisions of FASB ASC 820, *Fair Value Measurement*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. ARC accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

**2. INVESTMENTS**

Investments consisted of the following at March 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
	<u>Fair Value</u>	<u>Fair Value</u>
US Treasury Notes	\$ 202,662	\$ 253,162
S&P 500 Index Mutual Fund	<u>368,735</u>	<u>313,401</u>
<b>TOTAL INVESTMENTS</b>	<b><u>\$ 571,397</u></b>	<b><u>\$ 566,563</u></b>

Included in interest and investment income are the following:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 2,946	\$ 13,269
Net realized and unrealized gain on investments	<u>4,834</u>	<u>31,036</u>
<b>TOTAL INTEREST AND INVESTMENT INCOME</b>	<b><u>\$ 7,780</u></b>	<b><u>\$ 44,305</u></b>

**3. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consisted of the following at March 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
International Programs	\$ 15,791,892	\$ 24,294,974
Ball Fund	43,473	34,935
Questscope, LTD. Programs (U.S)	117,551	-
Questscope Programs (UK)	<u>1,781,104</u>	<u>-</u>
	<b><u>\$ 17,734,020</u></b>	<b><u>\$ 24,329,909</u></b>

AMERICAN REFUGEE COMMITTEE AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2016 AND 2015

4. NET ASSETS RELEASED FROM RESTRICTIONS

The following temporarily restricted net assets were released from donor restrictions at March 31, 2016 and 2015, by incurring expenses, which satisfied the restricted purposes specified by the donors:

	<u>2016</u>	<u>2015</u>
International Programs	\$ 44,714,670	\$ 42,753,653
Questscope, LTD. Programs (U.S)	239,085	-
Questscope Programs (UK)	<u>3,078,129</u>	<u>-</u>
	<b><u>\$ 48,031,884</u></b>	<b><u>\$ 42,753,653</u></b>

5. LEASE COMMITMENT

Operating lease -

ARC has operating lease agreements relating to the headquarters' office space and an office in Washington, D.C. Rent expense under these operating leases totaled \$293,186 and \$296,957 for the years ended March 31, 2016 and 2015, respectively.

Each of these leases has termination clauses that allow termination under certain conditions and with payment of unamortized improvement costs.

The following is a schedule of future minimum rental payments required under these leases:

**Year Ending March 31,**

2017	\$ 243,811
2018	247,549
2019	251,441
2020	255,436
2021	259,532
Thereafter	<u>174,933</u>
	<b><u>\$ 1,432,702</u></b>

Foreign field locations have various short-term leases for operating space that individually have terms of less than one year. During the years ended March 31, 2016 and 2015, ARC incurred approximately \$1,152,000 and \$1,057,000, respectively, in rental expense related to these leases.

6. CONTINGENCIES

U.S. Government awards -

ARC receives grants from various agencies of the United States Government. For fiscal years through March 31, 2014, such grants were subject to audit under the provisions of OMB Circular A-133. Beginning for fiscal year ended March 31, 2015, such grants are subject to audit under the provisions of *Title 2 U.S. Code of Federal Regulations (CFR) Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The ultimate determination of amounts received under the United States Government grants is based upon the allowance of costs reported to and accepted by the United States Government as a result of the audits.

**AMERICAN REFUGEE COMMITTEE AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2016 AND 2015**

**6. CONTINGENCIES (Continued)**

U.S. Government awards (continued) -

Audits in accordance with the applicable provisions have been completed for all required fiscal years through 2016. Until such audits have been accepted by the United States Government, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

Foreign operations -

ARC provides capital assistance, technical assistance and training in numerous developing countries through its field offices in each of those countries. The future results of those programs could be adversely affected by a number of potential factors, such as currency devaluations or changes in the political climate. As of March 31, 2016 and 2015, ARC had cash, property and equipment and prepaid expenses in various countries in Africa, Middle East and Asia, totaling approximately \$4,400,000 and \$4,600,000 in each year, which represented approximately 18% and 15%, respectively, of ARC's total assets.

**7. EMPLOYEE BENEFIT PLAN**

ARC has a tax-deferred annuity plan for substantially all long-term U.S.-based employees and international expatriate employees. ARC contributed an amount equal to six percent of the employees' salaries to the plan in 2016 and 2015. Employees have the option to contribute up to \$18,000 of their salaries annually in 2016 and 2015 calendar years. Contributions by ARC for the years ended March 31, 2016 and 2015 totaled \$187,678 and \$178,551, respectively.

**8. PROPERTY, FURNITURE AND EQUIPMENT**

The cost and accumulated depreciation and amortization of furniture and equipment at March 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Land	\$ 78,303	\$ -
Buildings	267,906	-
Furniture	175,593	180,425
Equipment	<u>606,901</u>	<u>374,992</u>
	1,128,703	555,417
Less: Accumulated depreciation and amortization	<u>(487,145)</u>	<u>(429,232)</u>
<b>PROPERTY, FURNITURE AND EQUIPMENT, NET</b>	<b><u>\$ 641,558</u></b>	<b><u>\$ 126,185</u></b>

**9. LINE OF CREDIT**

ARC has a bank line of credit bearing interest at LIBOR plus 3% (3.1555%) per annum. Credit available under the line of credit was \$4,500,000 at March 31, 2016 and 2015. There was no outstanding balance on the line of credit at either March 31, 2016 or 2015. The line of credit is collateralized by the general assets of ARC.



**AMERICAN REFUGEE COMMITTEE AND SUBSIDIARIES**

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**10. TRANSFER OF NET ASSETS**

As more fully discussed in Note 1, ARC entered into a parent/subsidiary relationship with Questscope, LTD. and Questscope effective April 1, 2015. As a result of the relationship, the accompanying consolidated financial statements include the financial activity of Questscope, LTD and Questscope as of and for the year ended March 31, 2016. Accordingly, the net assets of Questscope, LTD and Questscope as of March 31, 2015 are shown as a transfer of net assets on the accompanying Statement of Activities and Change in Net Assets. The transfer amounts shown on the accompanying Statement of Activities and Change in Net assets is comprised of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Questscope, LTD.	\$ 2,975	\$ 10,000	\$ 12,975
Questscope	<u>(155,241)</u>	<u>839,090</u>	<u>683,849</u>
	<u>\$ (152,266)</u>	<u>\$ 849,090</u>	<u>\$ 696,824</u>

**11. PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets are restricted in-perpetuity, and the income from them is expendable to fund emergency situations overseas.

The assets are held in the following funds as of March 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Ball Fund	\$ 537,500	\$ 537,500
Bridge Fund	124,326	124,326
Mellon Fund	<u>186,429</u>	<u>186,429</u>
<b>TOTAL PERMANENTLY RESTRICTED NET ASSETS</b>	<b><u>\$ 848,255</u></b>	<b><u>\$ 848,255</u></b>

Investment income generated from the permanently restricted net assets of the Ball Fund is considered to be temporarily restricted until authorized to be expended on emergency programs (Note 12).

**12. ENDOWMENT**

ARC's endowment consists of donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, ARC classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

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**12. ENDOWMENT (Continued)**

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 ARC in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, ARC considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purpose of ARC and the donor-restricted endowment fund;
- General economic conditions and the possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments; and
- Investment policies of ARC.

Endowment net asset composition by type of fund as of March 31, 2016:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Ball Fund	\$ 43,473	\$ 537,500
Bridge Fund	-	124,326
Mellon Fund	<u>-</u>	<u>186,429</u>
<b>TOTAL FUNDS</b>	<b><u>\$ 43,473</u></b>	<b><u>\$ 848,255</u></b>

Changes in endowment net assets for the year ended March 31, 2016 are as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Endowment net asset, beginning of year	\$ 34,935	\$ 848,255
Net investment income	-	8,538
Transfer of net investment income (loss) from permanently restricted	<u>8,538</u>	<u>(8,538)</u>
<b>ENDOWMENT NET ASSETS, END OF YEAR</b>	<b><u>\$ 43,473</u></b>	<b><u>\$ 848,255</u></b>

Endowment net asset composition by type of fund as of March 31, 2015:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Ball Fund	\$ 34,935	\$ 537,500
Bridge Fund	-	124,326
Mellon Fund	<u>-</u>	<u>186,429</u>
<b>TOTAL FUNDS</b>	<b><u>\$ 34,935</u></b>	<b><u>\$ 848,255</u></b>

**AMERICAN REFUGEE COMMITTEE AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**12. ENDOWMENT (Continued)**

Changes in endowment net assets for the year ended March 31, 2015 are as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Endowment net assets, beginning of year	\$ -	\$ 848,255
Net investment income	-	34,935
Transfer of net investment income (loss) from permanently restricted	<u>34,935</u>	<u>(34,935)</u>
<b>ENDOWMENT NET ASSETS, END OF YEAR</b>	<b><u>\$ 34,935</u></b>	<b><u>\$ 848,255</u></b>

**13. FAIR VALUE MEASUREMENT**

In accordance with FASB ASC 820, *Fair Value Measurement*, ARC has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Investments recorded in the Consolidated Statements of Financial Position are categorized based on the inputs to valuation techniques as follows:

**Level 1.** These are investments where values are based on unadjusted quoted prices for identical assets in an active market ARC has the ability to access.

**Level 2.** These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

**Level 3.** These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used at March 31, 2016 and 2015.

- **U.S. Treasury Notes** - Valued at the closing price reported on the active market in which the individual securities are traded.
- **Mutual Funds** - The fair value is equal to the reported net asset value of the fund, which is the price at which additional shares can be obtained.

The table below summarizes, by level within the fair value hierarchy, ARC's investments as of March 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Asset Class:</b>				
US Treasury Notes	\$ 202,662	\$ -	\$ -	\$ 202,662
S&P 500 Index Mutual Fund	<u>368,735</u>	<u>-</u>	<u>-</u>	<u>368,735</u>
<b>TOTAL</b>	<b><u>\$ 571,397</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 571,397</u></b>

**AMERICAN REFUGEE COMMITTEE AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2016 AND 2015**

**13. FAIR VALUE MEASUREMENT (Continued)**

The table below summarizes, by level within the fair value hierarchy, ARC's investments as of March 31, 2015:

<b>Asset Class:</b>	<b><u>Level 1</u></b>	<b><u>Level 2</u></b>	<b><u>Level 3</u></b>	<b><u>Total</u></b>
US Treasury Notes	\$ 253,162	\$ -	\$ -	\$ 253,162
S&P 500 Index Mutual Fund	<u>313,401</u>	<u>-</u>	<u>-</u>	<u>313,401</u>
<b>TOTAL</b>	<b><u>\$ 566,563</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 566,563</u></b>

**14. SUBSEQUENT EVENTS**

In preparing these consolidated financial statements, ARC has evaluated events and transactions for potential recognition or disclosure through September 27, 2016, the date the consolidated financial statements were issued.