INDEPENDENT AUDITOR’S REPORT

To the Board of Directors and Management
American Relief Agency for the Horn of Africa
Minneapolis, MN

We have audited the accompanying financial statements of American Relief Agency for the Horn of Africa (a nonprofit organization), which comprise the statement of financial position as of December 31, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of American Relief Agency for the Horn of Africa as of December 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Lafayette, Melson + Platt, Ltd.
Certified Public Accountants
February 18 2015
ASSETS

Current Assets
Cash $ 467,117
Pledges receivable, net 25,818
Contribution receivable 12,500
Other receivables 2,930
Total Current Assets 508,365

Property and Equipment
Building & improvements 212,812
Land 39,100
Equipment 4,078
Less accumulated depreciation (18,543)
Net Fixed Assets 237,447

Mailing list & software 13,345
Less accumulated amortization (5,399)
Net Mailing List & software 7,946

TOTAL ASSETS $ 753,758

LIABILITIES AND NET ASSETS

Current Liabilities
Accounts payable $ 25,635
Accrued expenses 10,135
Security deposit 3,750
Total Current Liabilities 39,520

Non-Current Liabilities
Accrued severance and sick pay 29,401
Total Non-Current Liabilities 29,401

TOTAL LIABILITIES 68,921

NET ASSETS
Unrestricted
Unrestricted 372,342
Board designated 184,500
556,842

Temporarily restricted 127,995

Total Net Assets 684,837

TOTAL LIABILITIES AND NET ASSETS $ 753,758
AMERICAN RELIEF AGENCY FOR THE HORN OF AFRICA

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2014

<table>
<thead>
<tr>
<th>SUPPORT AND REVENUE</th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Support</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions</td>
<td>$ 363,961</td>
<td>$ 691,033</td>
<td>$ 1,054,994</td>
</tr>
<tr>
<td>In-kind</td>
<td>1,667,347</td>
<td>-</td>
<td>1,667,347</td>
</tr>
<tr>
<td><strong>Total Support</strong></td>
<td>2,031,308</td>
<td>691,033</td>
<td>2,722,341</td>
</tr>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rental income</td>
<td>45,883</td>
<td>-</td>
<td>45,883</td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>671,305</td>
<td>(671,305)</td>
<td></td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>717,188</td>
<td>(671,305)</td>
<td>45,883</td>
</tr>
<tr>
<td><strong>TOTAL SUPPORT AND REVENUE</strong></td>
<td>2,748,496</td>
<td>19,728</td>
<td>2,768,224</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EXPENSES</th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program</td>
<td>2,434,248</td>
<td>-</td>
<td>2,434,248</td>
</tr>
<tr>
<td>Management and general</td>
<td>104,566</td>
<td>-</td>
<td>104,566</td>
</tr>
<tr>
<td>Fundraising</td>
<td>137,518</td>
<td>-</td>
<td>137,518</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>2,676,332</td>
<td>-</td>
<td>2,676,332</td>
</tr>
</tbody>
</table>

| (Decrease) increase in net assets | 72,164 | 19,728 | 91,892 |
| Net assets, beginning of year | 484,678 | 92,267 | 576,945 |
| Prior period adjustments | - | 16,000 | 16,000 |
| Restated beginning net assets | 484,678 | 108,267 | 592,945 |
| **Net assets, end of year** | $ 556,842 | $ 127,995 | $ 684,837 |

See Accompanying Notes to Financial Statements.
# Statement of Functional Expenses

**For the Year Ended December 31, 2014**

<table>
<thead>
<tr>
<th></th>
<th>Program</th>
<th>Management and General</th>
<th>Fundraising</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>$139,358</td>
<td>$37,350</td>
<td>$32,743</td>
<td>$210,451</td>
</tr>
<tr>
<td>Payroll taxes and benefits</td>
<td>25,917</td>
<td>7,236</td>
<td>4,673</td>
<td>37,826</td>
</tr>
<tr>
<td>Project delivery</td>
<td>563,899</td>
<td>-</td>
<td>-</td>
<td>563,899</td>
</tr>
<tr>
<td>Travel and transportation</td>
<td>10,481</td>
<td>-</td>
<td>-</td>
<td>10,481</td>
</tr>
<tr>
<td>Occupancy</td>
<td>5,452</td>
<td>26,242</td>
<td>2,385</td>
<td>34,079</td>
</tr>
<tr>
<td>In-kind project delivery</td>
<td>1,667,347</td>
<td>-</td>
<td>-</td>
<td>1,667,347</td>
</tr>
<tr>
<td>Office &amp; administrative</td>
<td>10,370</td>
<td>11,224</td>
<td>48,008</td>
<td>69,602</td>
</tr>
<tr>
<td>Communications</td>
<td>7,185</td>
<td>490</td>
<td>490</td>
<td>8,165</td>
</tr>
<tr>
<td>Professional fees</td>
<td>-</td>
<td>10,396</td>
<td>-</td>
<td>10,396</td>
</tr>
<tr>
<td>Depreciation/amortization</td>
<td>1,119</td>
<td>5,386</td>
<td>1,974</td>
<td>8,479</td>
</tr>
<tr>
<td>Direct fundraising</td>
<td>-</td>
<td>-</td>
<td>24,399</td>
<td>24,399</td>
</tr>
<tr>
<td>Postage</td>
<td>1,273</td>
<td>2,549</td>
<td>8,920</td>
<td>12,742</td>
</tr>
<tr>
<td>Printing</td>
<td>1,847</td>
<td>3,693</td>
<td>12,926</td>
<td>18,466</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>$2,434,248</td>
<td>$104,566</td>
<td>$137,518</td>
<td>$2,676,332</td>
</tr>
</tbody>
</table>

**Percent by function**: 91% Program, 4% Management and General, 5% Fundraising.

See Accompanying Notes to Financial Statements.
Cash flows from operating activities:

Increase in net assets $ 91,892

Adjustments to reconcile changes in net assets to net cash provided by operating activities:

- Depreciation and amortization 8,479
- Pledges receivable, net 40,627
- Contribution receivables 8,500
- Other receivables 1,687
- Prepaid expenses 3,595
- Security deposit 1,600
- Accounts payable 20,152
- Accrued expenses 28,144

Net cash provided by operating activities $ 204,676

Cash flows from investing activities

- Purchase of capitalizable assets (14,170)

Net cash (used in) investing activities (14,170)

Net increase in cash 190,506

Cash, beginning of year 276,611

Cash, end of year $ 467,117

See Accompanying Notes to Financial Statements.
NATURE OF ACTIVITIES

Organization

American Relief Agency for the Horn of Africa (ARCHA) is a non-profit organization incorporated on September 7, 2000 in Minnesota. The mission of the Organization is to strive to alleviate the suffering from hunger, illiteracy, diseases, and poverty in the Horn of Africa, as well as help the east African community in Minnesota.

ARAH receives a majority of its support from grants and contributions.

The major programs of the Organization are as follows:

Food Distribution - Over 50,000 people are served by the ARAHA's food distributions each year. We employ a rigorous process of working with local officials and trusted community representatives to identify the specific families that would benefit the most from our regular food programs.

Water Wells - ARAHA works tirelessly to help those in the Horn of Africa who struggle to find water on a daily basis. Thousands of people and livestock now have easy access to water that is necessary to sustain life, thanks to the dozens of shallow, hand-dug and machine-dug wells ARAHA builds each year.

Education - ARAHA's goal is to give families the opportunity to help break the cycle of poverty in the Horn of Africa through the building and maintenance of schools and computer labs, distributing textbooks and other essential supplies, and paying teacher salaries.

Income Generation - ARAHA has developed several projects like water tankers and dairy cows which promote self-reliance by helping beneficiaries generate an income. By making their own money, families don't need to wait for another round of emergency aid to feed or clothe their children.

Orphan Sponsorship - Millions of children are orphaned due to war, famine, HIV/AIDS, and drought in the Horn of Africa. ARAHA's sponsorship provides basic food, clothing, and school fees to ensure that children who have lost their parents are able to stay in school and have hope for a better future.

Medical/Disaster Relief - ARAHA brings relief to thousands in East Africa when drought, disease, or famine comes to the region. Whether it's setting up a mobile cholera clinic on the ground or delivering emergency water rations during severe drought seasons, our goal is to reach as many people as possible when disaster strikes the Horn.
Basis of Presentation

ARAH A prepares its financial statements on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ("US GAAP") and with standards established by the Financial Accounting Standards Board Accounting ("FASB") for external financial reporting by not-for-profits organizations. Accordingly, ARAHA’s resources are classified and reported based upon the existence or absence of donor-imposed restrictions, as follows:

Unrestricted: Unrestricted net assets include those net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by board designation.

Temporarily restricted: Temporarily restricted net assets include those net assets whose use has been donor restricted by either specified time or purpose limitation.

Permanently restricted: Permanently restricted net assets represent funds that are restricted in perpetuity by the donor. As of December 31, 2014, the Organization does not have any permanently restricted net assets.

Income Taxes

ARAH A is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and applicable Minnesota Statutes, except to any extent it has taxable income that is not related to its tax exempt purpose. Unrelated business income is taxed at the corporate income tax rate. Management believes the Organization did not have any unrelated business income in 2014.

ARAH A requires that a tax position be recognized or derecognized based on a "more-likely-than-not" threshold. This applies to positions taken or expected to be taken in a tax return. ARAHA does not believe its financial statements include, or reflect, any uncertain tax positions. Tax years from 2011 to the present remain subject to examination by taxing authorities.

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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
Land, Building and Improvements, Equipment, Mailing list, & Software

Land, building, improvements, equipment, mailing list, and software purchased are recorded at cost and depreciated over the estimated useful lives of the assets. Property and equipment donated, if material, are stated at their fair market value at the time of donation. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. ARAHA capitalizes all such assets with a cost basis of $1,000 or greater.

Asset Impairment

Land, building, improvements, equipment, mailing list, and software purchased are recorded at cost less accumulated depreciation. These amounts are assessed for impairment when management believes that events or changes in circumstances indicate that the carrying amount may not be recoverable. Based on this assessment, amounts that are considered impaired will be written down to their face value. At December 31, 2014, these assets listed above are not considered to be impaired.

Pledges Receivable, Net

Promises to make contributions to ARAHA that are communicated to ARAHA prior to December 31 but which are received after December 31 are recorded as pledges receivable at the cash value of the contribution. ARAHA generally does not receive multi-year promises to give.

ARAH uses the allowance method to determine uncollectible promises receivable. The allowance is based on the past three years’ experience and management’s analysis of specific promises made. As of December 31, 2014, management has established an allowance of $40,000.

Functional Allocation Expenses

Whenever possible, expenses are charged to program services based on direct expenditures incurred. Any expenditure not directly chargeable is allocated to program services based on management’s analysis and estimates of direct personnel hours and labor-related costs. These estimates are revised by management, as necessary, to reflect the current state of the Organization and to provide accurate expense allocations.

Accrued Vacation Pay

ARAH provides vacation time for both full-time exempt and non-exempt employees based on length of service. An employee cannot maintain at one time any more vacation time than the maximum the employee is allowed to earn in a twelve month period.
In-Kind Contributions

Donated goods, equipment, services, and facilities are recorded at fair value at the date of donation. Donated services are recorded when there is an objective basis to measure the value of such services and the service involves specialized skills that would be purchased, if not provided by donation. During 2014, ARAHA received and in turn delivered $1,667,347 worth of textbooks for students.

Contributions and Grants

ARAHAs reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. Restricted contributions for which the restrictions are met in the year received are considered unrestricted for financial statement purposes. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

CONCENTRATION OF CREDIT RISK ARISING FROM PLEDGES RECEIVABLE

Concentration of credit risk with respect to pledges receivable are limited due to the large number of contributors comprising ARAHA’s contributor base and their dispersion across different geographic areas.

BOARD DESIGNATED NET ASSETS

ARAHAs Board of Directors has established an unrestricted net asset account designated to help establish an estimated 6 month reserve for operating expenses.

ACCRUED SEVERANCE AND SICK PAY

ARAHAs has a special provision in its sick pay policy which states that unused sick time up to 25 days, will be paid out to an employee as normal wages at retirement. In addition, in 2014, ARAHA entered into a two year agreement with the Executive Director which included a provision to provide as severance package upon termination of employment.

LEASES

ARAHAs rents four office spaces in Africa on a month to month basis, for the purpose of overseeing its programs in Africa. Total rent expense for these four offices amounted to $9,767.
SUBSEQUENT EVENTS

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through February 18, 2015, the date the financial statements were available to be issued.

TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are subject to donor imposed stipulations that may or will be met, either by actions of the ARAHA’s management and/or the passage of time.

Temporarily restricted net assets are available to use after December 31, 2014 for the following programs:

| Income generating projects | $ 41,679 |
| Other                      | 29,847   |
| Water wells and tankers    | 26,690   |
| Somalia relief             | 15,530   |
| Food baskets               | 14,249   |
| **Total**                  | **$127,995** |

CREDIT CARDS

ARAHAA maintained a credit card account on which it can cumulatively borrow up to $25,000 as of December 31, 2014. Balances on these accounts accrue interest at variable rates of interest. Advances on these accounts are included in accounts payable on the Statement of Financial Position.

RENTAL INCOME

During 2014, ARAHA leased a portion of its office space to five non-related businesses. Total rental income from these leases was $45,883 in 2014. The future minimum lease payments to be received are as follows:

| 2015 | $ 2,700 |

PRIOR PERIOD ADJUSTMENTS

There were two prior period adjustments made to the ending temporarily restricted net assets to properly reflect a total of $16,000 of contribution receivables that should have been reflected as of December 31, 2013. The funds were received in 2014 and 2015 and were discovered through analysis of project funding overseas.
COMMITMENT TO FUND ANNUAL OPERATIONS OF SCHOOL

The ARAHA built a school for girls, in the Shegerab camp in eastern Sudan, in partnership with Healing Bridges, Inc. in 2010. The partnership agreement with Healing Bridges stated that Healing Bridges will continue to support the school financially for its operational expenses. Management of ARAHA has determined that Healing Bridges failed to fulfill its promise and had stopped all its funding in 2011 to support the school. ARAHA’s management has assessed that it has a “moral” obligation to support all of the school’s operational costs going forward until other assistance can be found. As of December 31, 2014, management has estimated that yearly operating costs for the school approximates $36,000 annually, for which it covers 100%. It is the Organization’s intent to continue fully funding the school’s operating costs on an annual basis, as part of its continuing mission work.