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**AFRICAN MEDICAL AND RESEARCH
FOUNDATION
(A Company Limited by Guarantee)**

**ANNUAL
FINANCIAL STATEMENTS
30 SEPTEMBER 2012**

**AFRICAN MEDICAL AND RESEARCH FOUNDATION
(A Company Limited by Guarantee)**

**ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2012**

CONTENTS	PAGE
Directors, Officers and Administration	1-2
Report of the Directors	3
Statement of Directors' Responsibilities	4
Report of the Independent Auditors	5- 6
Financial Statements:	
Statement of Comprehensive Income	7
Statement of Financial Position	8
Statement of Changes in Reserves and Funds	9
Statement of Cash Flows	10
Notes to the Financial Statements	11 - 25

AFRICAN MEDICAL AND RESEARCH FOUNDATION
(A Company Limited by Guarantee)

DIRECTORS, OFFICERS AND ADMINISTRATION
FOR THE YEAR ENDED 30 SEPTEMBER 2012

DIRECTORS

Dr. Noerine Kaleeba - Interim Chair
Dr. Tewabech Bishaw
Mr. Gautam Dalal
Ms. Marry de GaayFortman
Lady Sue Woodford Hollick
Ms. Irene Kitinya
Mrs. Muthoni Kuria
Prof. Souleymane Mboup
Prof. Keith Mc Adam
Mr. Nicholas Merindol
Prof. Richard O. Muga
Prof. Mutuma Mugambi
Mr. Joseph Pegues
Mr. Mario Raffaelli
Dr. Eva Hawa Sinare

MANAGEMENT

Dr. Teguest Guerma - Director General
Ms. Jenny Panow - Chief Operations Officer
Dr. Peter Ngatia - Theme Director, Capacity Building
Mrs. Nancy Muriuki - Director of Human Resources
Ms. Mette Kjaer - Programme Manager
Dr. Lennie Kyomuhangi - Kenya Country Director
Dr. Festus Ilako - Tanzania Country Director
Mr. Abenet Berhanu - Uganda Country Director
Dr. Florence Temu - Ethiopia Country Director
Ms. Penina Ochola - South Africa Country Director (Retired October 2012)
Dr. Connie Osborne - South Africa Country Director (Appointed December 2012)
Dr. George Bhoka - South Sudan Country Director
Dr. Mor Ngom - Programme Coordinator West Africa

COMPANY SECRETARY

Chunga Associates
Certified Public Secretaries
The Rahimtulla Tower
Upperhill Road
P. O. Box 43963
00100 Nairobi, Kenya

AUDITORS

Deloitte & Touche
Deloitte Place, Waiyaki Way, Muthangari
P.O. Box 40092
00100 NAIROBI, Kenya

AFRICAN MEDICAL AND RESEARCH FOUNDATION
(A Company Limited by Guarantee)

DIRECTORS, OFFICERS AND ADMINISTRATION (continued)
FOR THE YEAR ENDED 30 SEPTEMBER 2012

REGISTERED OFFICE

Wilson Airport
Langata Road
P.O. Box 27691
00506 NAIROBI

LAWYERS

Kaplan & Stratton Advocates
9th Floor, Williamson House
4th Ngong Avenue
P.O. Box 40111
00100 NAIROBI

BANKERS

Barclays Bank PLC, London, UK
Citibank N.A., Nairobi, KENYA
Barclays Bank of Kenya Limited, Nairobi, KENYA
National Bank of Kenya Limited, Nairobi, KENYA
Ecobank, Nairobi, KENYA
National Bank of Commerce Limited, Dar-es-Salaam, TANZANIA
Standard Chartered Bank Tanzania Limited, Dar-es-Salaam, TANZANIA
Barclays Bank of Uganda Limited, Kampala, UGANDA
Nedbank, Pretoria, SOUTH AFRICA
Commercial Bank of Ethiopia, Addis Ababa, ETHIOPIA
Stanbic Bank Uganda, Kampala, UGANDA
Ecobank, Dakar, SENEGAL
Chase Bank, Nairobi, KENYA
I&M Bank, Nairobi, KENYA

AFRICAN MEDICAL AND RESEARCH FOUNDATION
(A Company Limited by Guarantee)

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 30 SEPTEMBER 2012

The Directors have the pleasure of submitting their report together with the audited financial statements for the year ended 30 September 2012, which disclose the state of the Foundation's affairs.

1. OBJECTIVES OF THE FOUNDATION

The African Medical and Research Foundation (AMREF) is committed to improving health and health care in Africa. We aim to ensure that every African can enjoy the right to good health by helping to create vibrant networks of informed and empowered communities and health care providers working together in strong health systems.

This mission is to be achieved by developing, testing and promoting the adoption of appropriate models for improving health; contributing to capacity development at all levels and contributing to the development of an enabling environment for health improvement. AMREF works with communities to implement projects, learns from its activities and uses its knowledge to influence others.

2. PRINCIPAL ACTIVITIES

The principal activities of the Foundation, to achieve the above stated objectives include; improving community health, capacity building through training and outreach, and advocating for changes to improve the health and well-being of poor people in Africa.

The AMREF combined financial statements incorporate the financial statements of AMREF Headquarters, AMREF Kenya, AMREF South Sudan, AMREF West Africa, AMREF Tanzania, AMREF South Africa, AMREF Uganda, AMREF Ethiopia and AMREF Flying Doctors all of which are for the period 1 October 2011 to 30 September 2012. The Inter-company transactions and balances are eliminated upon combination of the financial statements.

3. INCORPORATION

The Foundation is incorporated in Kenya as a company limited by guarantee under the Companies Act and is domiciled in Kenya.

4. RESULTS

The results for the year are set out on page 7.

5. DIRECTORS

The current directors are set out on page 1.

Dr. Pascoal Mocumbi, Prof. M. S Abdullah, Mr. Anthony Durrant, Dr. Stephen Joseph, Mrs. Mwikali Muthiani and Prof. Laetitia Rispel retired on 4 October 2012. Dr. Tewabech Bishaw, Mr. Gautam Dalal, Ms. Irene Kitinya, Mr. Nicholas Merindol, Prof. Richard O. Muga, Dr. Eva Hawa Sinare were appointed on 4 October 2012.

6. AUDITORS

Deloitte & Touché have expressed their willingness to continue in office in accordance with section 159(2) of the Companies Act (Cap 486). AMREF practices a policy of rotation of external auditors and as such has undertaken a tender which may result in the appointment of new auditors.

7. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved at a meeting of the Directors held on 22 February 2013.

By Order of the Board



Dr. Noerine Kaleeba
Interim Chair AMREF Board of Directors
22 February 2013

AFRICAN MEDICAL AND RESEARCH FOUNDATION
(A Company Limited by Guarantee)

STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 30 SEPTEMBER 2012

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the operating results of the company for that year. It also requires the directors to ensure that the company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the company. They are also responsible for safeguarding the assets of the company.

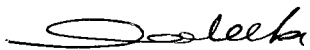
The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act and for such internal controls as directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial controls.

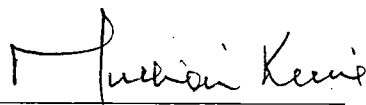
Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for at least the next twelve months from the date of this statement.

APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements of the company, as indicated above, were approved by the Board of Directors on 22 February 2013 and are signed on their behalf by:



Dr. Noerine Kaleeba
Interim Chair AMREF Board of Directors



Mrs. Muthoni Kuria
Director

22 February 2013

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AFRICAN MEDICAL AND RESEARCH FOUNDATION (A Company Limited by Guarantee)

Report on the Financial Statements

We have audited the accompanying financial statements of African Medical and Research Foundation, set out on pages 7 to 25 which comprise the statement of financial position as at 30 September 2012, and the statement of comprehensive income, statement of changes in reserves and funds and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, and for such internal controls as directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered the internal controls relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, 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 accompanying financial statements give a true and fair view of the state of the financial affairs of African Medical and Research Foundation as at 30 September 2012 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
AFRICAN MEDICAL AND RESEARCH FOUNDATION (A Company Limited by Guarantee)

Report on Other Legal Requirements

As required by the Kenyan Companies Act we report to you, based on our audit, that:

- i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- ii) in our opinion proper books of account have been kept by the company, so far as appears from our examination of those books; and
- iii) the company's statement of financial position and statement of comprehensive income are in agreement with the books of account.

Deloitte & Touche

Certified Public Accountants (Kenya)

22 February 2013

Nairobi

AFRICAN MEDICAL AND RESEARCH FOUNDATION
(A Company Limited by Guarantee)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 SEPTEMBER 2012

	Note	2012 US\$ '000	2011 US\$ '000
INCOME			
Grants – Restricted	2	73,517	57,304
Grants- Unrestricted	2	2,563	2,971
Other income	3	4,501	4,854
Net Financing income	4	547	10
TOTAL INCOME		<u>81,128</u>	<u>65,139</u>
EXPENDITURE			
Direct programme activity	5(a)	69,248	54,933
Programme monitoring and support	5(b)	5,152	4,210
Institutional development	5(c)	2,984	2,477
Administration	5 (d)	3,744	3,551
TOTAL EXPENDITURE		<u>81,128</u>	<u>65,171</u>
OPERATING SURPLUS/(DEFICIT) FOR THE YEAR	6	<u>-</u>	<u>(32)</u>

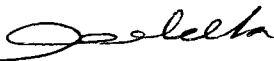
The notes set out on pages 11 to 25 form an integral part of these financial statements.

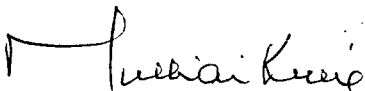
AFRICAN MEDICAL AND RESEARCH FOUNDATION
(A Company Limited by Guarantee)

STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2012

ASSETS	Note	2012 US\$ '000	2011 US\$ '000
NON-CURRENT ASSETS			
Property and equipment	8	5,763	5,784
CURRENT ASSETS			
Inventories	9	634	592
Debtors and prepayments	10	3,832	2,553
Grants receivable	11(a)	22,203	18,741
Investments	12	1,190	1,057
Cash and cash equivalents	13	14,280	23,646
		42,139	46,589
TOTAL ASSETS		47,902	52,373
FUNDS AND LIABILITIES			
FUNDS			
Accumulated reserve		4,952	4,925
Aircraft replacement fund		1,250	1,092
Aircraft maintenance fund		189	174
Accumulated assets reserve		5,763	5,784
TOTAL FUNDS		12,154	11,975
CURRENT LIABILITIES			
Unexpended grants	11(b)	26,779	34,225
Creditors and accruals	14	8,969	6,173
		35,748	40,398
TOTAL FUNDS AND LIABILITIES		47,902	52,373

The financial statements set out on pages 7 to 25 were approved by the Board of Directors on 22 February 2013 and signed on its behalf by: -


Dr. Noerine Kaleeba
Interim Chair, Board of Directors


Mrs. Muthoni Kuria
Director

The notes set out on pages 11 to 25 form an integral part of these financial statements

AFRICAN MEDICAL AND RESEARCH FOUNDATION
(A Company Limited by Guarantee)

STATEMENT OF CHANGES IN RESERVES AND FUNDS
FOR THE YEAR ENDED 30 SEPTEMBER 2012

	Accumulated Assets Reserve US\$'000	Accumulated Reserve US\$'000	Aircraft Replacement Fund US\$'000	Aircraft Maintenance Fund US\$'000	Total US\$'000
30 September 2011					
At 1 October 2010	6,147	4,637	872	169	11,825
Deficit for the year	-	(32)	-	-	(32)
Utilized during the year	-	-	-	(58)	(58)
Depreciation transfer Aircraft depreciation/maintenance transfer	(720)	720	-	-	-
Additions to property and equipment	-	(283)	220	63	-
	357	(117)	-	-	240
	<u>5,784</u>	<u>4,925</u>	<u>1,092</u>	<u>174</u>	<u>11,975</u>
30 September 2012					
At 1 October 2011	5,784	4,925	1,092	174	11,975
Surplus for the year	-	-	-	-	-
Utilized during the year	-	-	-	(49)	(49)
Depreciation transfer Aircraft depreciation/maintenance transfer	(608)	608	-	-	-
Additions to property and equipment	-	(222)	158	64	-
	587	(359)	-	-	228
	<u>5,763</u>	<u>4,952</u>	<u>1,250</u>	<u>189</u>	<u>12,154</u>

Aircraft replacement fund was created with the aim of investing at least the amount equivalent to the depreciation charged on the caravan aircraft each year to enable the Foundation to replace the aircraft when necessary. This includes any other funds specifically received for the future replacement of the aircraft. The amounts are not distributable.

Aircraft maintenance fund was created to cover the estimated cost of the next major overhaul of the aircraft on the basis of hours flown. The amounts are not distributable.

The accumulated assets reserve has been created to separate reserves that specifically relate to property and equipment and reflects the net book value of the assets as at year end.

The notes set out on pages 11 to 25 form an integral part of these financial statements

AFRICAN MEDICAL AND RESEARCH FOUNDATION
(A Company Limited by Guarantee)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 SEPTEMBER 2012

	Note	2012 US\$ '000	2011 US\$ '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus/ (deficit) for the year		-	(32)
Adjustments for:			
Change in fair value of investments & accrued interest		(133)	98
Net movement in funds		179	182
Gain on disposal of property and equipment		(42)	(79)
Depreciation charge on property and equipment		608	720
Interest income		(487)	(108)
Operating surplus before working capital changes		125	781
(Increase)/decrease in inventories		(42)	27
(Increase)/decrease in debtors and prepayments		(1,279)	175
Net movement in grant receivable/unexpended grants		(10,908)	8,101
Increase in creditors and accruals		2,796	1,438
Cash flows (used in)/ generated from operating activities		(9,308)	10,522
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment		(587)	(357)
Proceeds on disposal of property and equipment		42	79
Interest received		487	108
Net cash used in investing activities		(58)	(170)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(9,366)	10,352
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		23,646	13,294
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	13	14,280	23,646

The notes set out on pages 11 to 25 form an integral part of these financial statements.

AFRICAN MEDICAL AND RESEARCH FOUNDATION
(A Company Limited by Guarantee)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 SEPTEMBER 2012

1. SIGNIFICANT ACCOUNTING POLICIES.

Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards. For purposes of Kenyan Companies Act, the balance sheet is equivalent to the statement of financial position and the profit and loss account is presented as the statement of comprehensive income.

Adoption of new and revised International Financial Reporting Standards (IFRSs)

(i) Standards and interpretations affecting amounts reported in the current period (and/or prior periods)

Several new and revised standards and interpretations became effective during the year. The directors have evaluated the impact of these new standards and interpretations and none of them had a significant impact on the company's financial statements.

(ii) Standards and interpretations issued but not yet effective

At the date of authorization of these financial statements, several other new and revised standards and interpretations were in issue but not yet effective. The adoption of these standards and interpretations, when effective, is not expected to have a material impact on the financial statements of the company.

(iii) Early adoption

The company did not early adopt any new standards and/or interpretation that are in issue but not yet effective.

(a) Basis of preparation

The company prepares its financial statements under the historic cost convention as modified by financial instruments that are measured at fair value. The principal accounting policies adopted are set out below:

b) Income recognition

- i. Restricted grants (grants received for specific purposes) and unrestricted grant (non-specific grants) income is recognised when expenditure is incurred;
- ii. Air Ambulance recoveries are recognized in the year the service is provided;
- iii. Donations in kind are recognised in the financial statements at the amount attributed to by the donor, or in the absence of this, at their estimated present market value; and
- iv. Other income is recognised when received, earned or invoiced depending on the nature.

(c) Foreign currency transactions

Transactions in foreign currencies are converted to US dollars using the exchange rate ruling at the date of the transaction. Foreign currency monetary assets and liabilities are translated to US dollars using the exchange rates ruling at the balance sheet date. Resulting exchange gains and losses are recognized in the income and expenditure statement. Non-monetary assets and liabilities denominated in foreign currency are recorded at the exchange rate ruling at the date of the transaction.

AFRICAN MEDICAL AND RESEARCH FOUNDATION
(A Company Limited by Guarantee)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 SEPTEMBER 2012

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Recognition and measurement of financial instruments

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in surplus or deficit.

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace

The company's financial assets are mainly classified as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, grants receivables, bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Financial assets at Fair Value Through Profit or Loss (FVTPL)

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included under other income. The company classifies Government Securities, Bank deposits, Commercial Paper and Corporate bonds under financial assets at FVTPL.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

The objective evidence of impairment of receivables arises when there is a significant financial difficulty of the counter party or when there is a default or delinquency in the interest or principal payments. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition.

AFRICAN MEDICAL AND RESEARCH FOUNDATION
(A Company Limited by Guarantee)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 SEPTEMBER 2012

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Recognition and measurement of financial instruments (continued)

The carrying amount of the financial asset is reduced by the impairment loss indirectly through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the surplus or deficit.

Derecognition of financial assets

The company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay.

Financial liabilities

Other financial liabilities

Other financial liabilities (including trade and other payables, unexpended grants) are initially measured at their fair values plus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to acquisition or issue of the financial liability. Financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the surplus or deficit.

AFRICAN MEDICAL AND RESEARCH FOUNDATION
(A Company Limited by Guarantee)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 30 SEPTEMBER 2012

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Property and equipment

Assets donated to the company are included in the financial statements at the amount attributed to them by the donor. Property and equipment purchased for donor-funded health programmes are expensed in the year of purchase. All other property and equipment are capitalized.

Depreciation is calculated on the straight line basis to write down the cost of each asset, to its residual value over its estimated useful life as follows:

Buildings	2.5% p.a
Aircraft: Hull	5.0 %p.a
Aircraft: Engine	25.0% p.a
Motor vehicles, medical, surgical and radio equipment	25.0%p.a
Furniture, fittings and general equipment	12.5%p.a
Information technology hardware and software	33.3%p.a

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

f) Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined using the weighted average method. Provision is made for obsolete and defective stocks.

g) Debtors and prepayments

Debtors and prepayments are stated at nominal value less write-down for any amounts expected to be irrecoverable.

h) Grants receivables/unexpended grants

Grants received for specific purposes are treated as unexpended grants and credited to the income and expenditure statement when the activities for which they were provided for have been undertaken. Any unexpended grants are carried forward as liabilities. Excess of expenditure over receipts for specific grants are recognised as revenue and included in the financial statements as accounts receivable from donors.

i) Retirement benefit obligations

The company operates a defined contribution retirement benefit scheme for all its local employees. In respect of employees on international contract, the company contributes to individual retirement benefit schemes chosen by the staff concerned.

The company's contributions of 14% of basic pay to the defined contribution scheme and the individual retirement benefit schemes are charged to the income statement in the year to which they relate.

j) Aircraft replacement fund

The aircraft replacement fund was created with the aim of investing at least the amount equivalent to the depreciation charged on the caravan aircraft each year to enable the company to replace the aircraft when necessary. This also includes any other funds specifically received for future replacement of aircraft.

AFRICAN MEDICAL AND RESEARCH FOUNDATION
(A Company Limited by Guarantee)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 30 SEPTEMBER 2012

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) Aircraft maintenance reserve

The aircraft maintenance reserve was created to cover the estimated cost of the next major overhaul of aircraft on the basis of hours flown.

l) Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are recognized in the income statement on a straight-line basis over the term of the lease.

m) Cash and cash equivalents

Cash and cash equivalents comprise bank balances, bank deposits and cash. Bank overdrafts are payable on demand and form an integral part of the cash management and are included as a component of cash and cash equivalents for the purposes of the statement of cash flow, where applicable.

n) Comparatives

Where necessary comparative figures have been adjusted to conform to change in presentation in the current year.

o) Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the process of applying the company's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities within the next financial year. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates including expectations of future events that are believed to be reasonable under the circumstances.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the statement of financial position date that has a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Equipment

Critical estimates are made by the Directors in determining depreciation rates of equipment.

AFRICAN MEDICAL AND RESEARCH FOUNDATION
(A Company Limited by Guarantee)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 30 SEPTEMBER 2012

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment

At each statement of financial position date, the company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash generating unit to which the asset belongs.

Provisions and contingent liabilities

The company reviews its obligations at each statement of financial position date to determine whether provisions need to be made and if there are any contingent liabilities.

2. GRANT FUNDS

	Restricted Funds 2012 US\$ '000	Unrestricted Funds 2012 US\$ '000	Total Funds 2012 US\$ '000	Total Funds 2011 US\$ '000
Grants receivable brought forward- (Note 11(a))	(17,328)	(1,413)	(18,741)	(22,986)
Unexpended grants brought forward- (Note 11(b))	33,372	853	34,225	30,369
Adjustments for grants to partners in Tanzania	-	-	-	299
Net grant funds brought forward	16,044	(560)	15,484	7,682
Grants received during the year	63,084	3,428	66,512	67,711
Total grants available for operations	79,128	2,868	81,996	75,393
Add: Grants receivable – (Note 11 (a))	21,242	961	22,203	18,741
Less: Unexpended grants – (Note 11 (b))	(26,510)	(269)	(26,779)	(34,225)
Funding for Uganda and Kenya projects	853	(853)	-	-
Advance to partners	(1,112)	-	(1,112)	606
Transfer to accumulated assets reserve	(84)	(144)	(228)	(240)
Net grant income	73,517	2,563	76,080	60,275

AFRICAN MEDICAL AND RESEARCH FOUNDATION
(A Company Limited by Guarantee)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 30 SEPTEMBER 2012

	2012 US\$ '000	2011 US\$ '000
3. OTHER INCOME		
Income from air ambulance recoveries	731	851
Students fees	785	767
Medical services	1,552	1,983
Maaisha sales	344	-
Consultancy fees	72	68
Fundraising activities	207	46
Library charges	18	20
Miscellaneous income	792	1,119
	<u>4,501</u>	<u>4,854</u>
4. NET FINANCING INCOME		
Increase/(decrease) in fair value of investments	60	(98)
Interest income	487	108
	<u>547</u>	<u>10</u>
5. EXPENDITURE		
5.(a) Direct Programme Activity		
Personnel costs	29,564	23,336
Financial contributions to partners	5,055	7,075
Transport	21,115	15,917
Project assets	5,901	4,747
Supplies & Services	12,597	8,952
Communications	1,686	1,575
Other Costs	4,634	3,365
Finance Costs	576	204
Less 5 (b), (c) & (d)	(11,880)	(10,238)
	<u>69,248</u>	<u>54,933</u>
5 (b) Programme monitoring and support		

Programme monitoring and support expenditure amounting to US\$ mil (2011: US\$ 5,152 mil) includes costs relating to Programme Management, Programme Technical Leaders, Health Policy and Systems Research, Information Technology, Director General and country level support costs, except Finance, Administration, Human Resources and Communications and Fundraising expenses.

AFRICAN MEDICAL AND RESEARCH FOUNDATION
(A Company Limited by Guarantee)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 30 SEPTEMBER 2012

5. EXPENDITURE (Continued)

5 (c) Institutional Development

Institutional development expenditure amounting to US\$ 2,984 mil (2011: US\$ 2.477 mil) includes costs relating to the Director General, Directorates of Communications, Fundraising and Human Resources and all country level costs relating to Communications, Fundraising and Human Resources.

5 (d) Administration

Administration expenditure amounting to US\$ 3,744 (2011: US\$ 3.551) includes costs relating to Corporate Governance, the Director General, Finance, Administration, Risk based Audit and all country level costs relating to Finance & Administration.

6. OPERATING SURPLUS/ (DEFICIT)	2012	2011
	US\$ '000	US\$ '000
The operating surplus /(deficit) is arrived at after charging/(crediting)		
Depreciation	608	720
Staff costs	22,557	18,379
Auditors' remuneration	71	68
Gain on disposal of property and equipment	42	79
	<u> </u>	<u> </u>
The following items are included within staff costs:		
Retirement benefit costs- defined contribution plans	2,546	2,075
	<u> </u>	<u> </u>

7. RELATED PARTY TRANSACTIONS

a) Names and position of key management personnel

The names and position of the personnel in key management positions of AMREF during the year are as disclosed on page 1.

b) Key Management Compensation

	2012	2011
	US\$ '000	US\$ '000
Short term employee benefits	2,537	2,790
Termination benefits	501	523
	<u> </u>	<u> </u>
	3,038	3,313
	<u> </u>	<u> </u>
c) Debtors balance due from related parties	161	128
	<u> </u>	<u> </u>

AFRICAN MEDICAL AND RESEARCH FOUNDATION
(A Company Limited by Guarantee)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 30 SEPTEMBER 2012

8. PROPERTY AND EQUIPMENT

	Land and buildings US\$ '000	Aircraft US\$ '000	Motor vehicles US\$ '000	Furniture, fittings & general equipment US\$ '000	Total US\$ '000
COST OR REVALUATION					
At 1 October 2010	4,646	3,605	1,227	3,453	12,931
Additions	25	11	165	156	357
Disposals	(4)	(7)	(841)	(863)	(1,715)
At 30 September 2011	4,667	3,609	551	2,746	11,573
At 1 October 2011	4,667	3,609	551	2,746	11,573
Additions	47	-	202	338	587
Disposals	-	-	(107)	(80)	(187)
Reclassification	-	-	518	(518)	-
At 30 September 2012	4,714	3,609	1,164	2,486	11,973
DEPRECIATION					
At 1 October 2010	1,568	1,226	975	3,015	6,784
Charge for the year	119	220	134	247	720
Eliminated on disposals	(4)	(7)	(841)	(863)	(1,715)
At 30 September 2011	1,683	1,439	268	2,399	5,789
At 1 October 2011	1,683	1,439	268	2,399	5,789
Charge for the year	97	158	117	236	608
Eliminated on disposals	-	-	(107)	(80)	(187)
Eliminated on reclassification	-	-	518	(518)	-
At 30 September 2012	1,780	1,597	796	2,037	6,210
NET BOOK VALUE					
At 30 September 2012	2,934	2,012	368	449	5,763
At 30 September 2011	2,984	2,170	283	347	5,784

In the opinion of the Directors, there is no major impairment of property and equipment.

AFRICAN MEDICAL AND RESEARCH FOUNDATION
(A Company Limited by Guarantee)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 30 SEPTEMBER 2012

	2012 US\$ '000	2011 US\$ '000
9. INVENTORIES		
Aviation spare parts	245	311
Printed books and manuals	230	117
Sundry stocks	159	164
	<u>634</u>	<u>592</u>
10. DEBTORS AND PREPAYMENTS		
Trade receivables	3,130	2,553
European, North American and FDSA offices	161	128
Programme advances	220	116
Others	1,038	243
	<u>4,549</u>	<u>3,040</u>
Provision for bad debts	(717)	(487)
	<u>3,832</u>	<u>2,553</u>
11. GRANTS RECEIVABLE/UNEXPENDED		
(a) Grants receivable		
Restricted	21,242	17,328
Unrestricted	961	1,413
	<u>22,203</u>	<u>18,741</u>

Grants receivable represent expenditure incurred on projects for which there are commitments from donors for which a donation has not been received by the year-end.

	2012 US\$ '000	2011 US\$ '000
(b) Unexpended grants		
Restricted	26,510	33,372
Unrestricted	269	853
	<u>26,779</u>	<u>34,225</u>

Unexpended grants represent grants and donations received in advance of expenditure which remain unutilized as at the balance sheet date.

AFRICAN MEDICAL AND RESEARCH FOUNDATION
(A Company Limited by Guarantee)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 30 SEPTEMBER 2012

12. INVESTMENTS	2012	2011
	US\$ '000	US\$ '000
Bank deposits	245	428
Kenya Government debt securities	366	253
Commercial paper and Corporate bonds	313	348
US Government Agencies	266	28
	<u>1,190</u>	<u>1,057</u>

The weighted average interest rate was 8.79 % (2.46% 2011).

13. CASH AND CASH EQUIVALENTS

Cash in bank and at hand	10,436	17,980
Short term bank deposits	3,844	5,666
	<u>14,280</u>	<u>23,646</u>

The weighted average interest rate on the term deposit was 8.79% (2011 2.46%).

14. CREDITORS AND ACCRUALS

Trade creditors	6,263	4,609
Accruals	2,706	1,564
	<u>8,969</u>	<u>6,173</u>

15. CONTINGENT LIABILITY

As at 30 September 2012 AMREF KCO had pending lawsuits which relate to legal claims by former employees, a current tenant, refrigeration contractors and some construction companies estimated at US\$ 223,000. Judgment in respect of these cases had not been determined as at 30 September 2012. The amounts have not been provided for in these financial statements as it was not possible to accurately quantify the potential liability arising from all of them.

Although there can be no assurance, the Directors believe, based on the information currently available and legal advice obtained, that the claim can be successfully defended and therefore no provision has been made in the financial statements.

AFRICAN MEDICAL AND RESEARCH FOUNDATION
(A Company Limited by Guarantee)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 30 SEPTEMBER 2012

16. TAXATION

No taxation is provided for in these financial statements, as the Foundation is exempt from income taxation in Kenya in recognition of its charitable status under paragraph 10 of First Schedule of the Income Tax Act (Cap. 470).

17. OPERATING LEASE

	2012	2011
	US\$ 000	US\$ 000
Operating lease rentals are payable as follows:		
Tenancy:		
Less than 1 year	61	54
Between one and five years	198	175
	<u>259</u>	<u>229</u>

18. FINANCIAL RISK MANAGEMENT

AMREF's principal financial instruments comprise receivables/debtors, cash and cash equivalents, investments, unexpended grants and creditors. These instruments arise directly from its operations.

The Foundation's activities expose it to a variety of financial risks: market risk (including interest rate risk, foreign currency risk and equity/price risk), credit risk and liquidity risk. AMREF seeks to minimize the potential adverse effects of these financial risks. Risk management is carried out under policies approved by the Board of Directors.

MARKET RISK

Market risk is the risk that the value of an investment will decrease due to movement in market factors. Value may fluctuate due to changes in interest rates, foreign currency rates and equity prices. The objective of market risk management is to manage and control market risk exposure within acceptable levels.

i) Interest rate risk

Interest rate risk is the risk borne due to changes in interest rates on borrowings and investments. There is no significant short-term exposure to changes in interest rates as cash and cash equivalents are held as cash in hand, on-demand deposits, or in short-term deposits with maturities of three months or less.

	< 1 year	1-3 years	Over 3 years	2012 Totals	2011 Totals
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Kenyan Investments					
Bank Deposits	66	-	-	66	51
Kenya Government Debt securities	185	47	134	366	253
US Investments Bank deposits	-	-	179	179	377
Commercial papers and corporate bonds	-	23	290	313	348
US Government Agencies	-	-	266	266	28
	<u>251</u>	<u>70</u>	<u>869</u>	<u>1,190</u>	<u>1,057</u>

AFRICAN MEDICAL AND RESEARCH FOUNDATION
(A Company Limited by Guarantee)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 30 SEPTEMBER 2012

18. FINANCIAL RISK MANAGEMENT (Continued)

i) Interest rate risk (Continued)

Long term exposure relates to Government bonds held in the United States which are being renegotiated downwards from a 2.81% rate.

The Foundation does not have interest bearing borrowings and is therefore not significantly exposed to interest rate risk.

ii) Foreign exchange rate risk

Foreign exchange rate risk is a form of risk that arises from the change in price of one currency against another. AMREF's policy with respect to transactions is to record in US Dollars at the rate in effect at the date of the transaction whatever the currency.

Risk arises where there is a significant fluctuation between the currency of the donor contracts signed and the currency of spend. Where there is a significant reduction in purchasing power AMREF limits spending by monitoring budgets in US \$ and reducing activities or if major enough by renegotiating contract ceilings with donors. During the current period there was no significant impairment based on transaction exchange rates.

AMREF's policy with respect to monetary assets and liabilities denominated in other currencies is to translate at the rate of exchange in effect at the balance sheet date. All gains or losses on changes in currency exchange rates are accounted for in the income statement. A translation loss of US\$.393 million has been recorded through the income statement and is predominantly caused by holdings in euro and pound sterling.

AMREF does not take speculative positions in foreign exchange contracts or any derivative financial instruments.

ii) Equity risk

AMREF holds no equity investment and therefore is not exposed to securities price risk.

AFRICAN MEDICAL AND RESEARCH FOUNDATION
(A Company Limited by Guarantee)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 30 SEPTEMBER 2012

18. FINANCIAL RISK MANAGEMENT (Continued)

CREDIT RISK

The table below represents the Foundation's maximum exposure to credit risk without taking account of the value of any collateral obtained as at the end of the reporting period.

	Fully performing US \$'000	Past due US \$'000	Impaired US \$'000	Total US \$'000
30 September 2012				
Debtors	4,549	-	(717)	3,832
Grants receivable	22,203	-	-	22,203
Investments	1,190	-	-	1,190
Bank balances	14,280	-	-	14,280
	<u>42,222</u>	<u>-</u>	<u>(717)</u>	<u>41,505</u>
30 September 2011				
Debtors	3,040	-	(487)	2,553
Grants receivable	18,741	-	-	18,741
Investments	1,057	-	-	1,057
Bank balances	23,646	-	-	23,646
	<u>46,484</u>	<u>-</u>	<u>(487)</u>	<u>45,997</u>

Credit risk is the loss due to a debtor's nonpayment of a loan or other line of credit. The largest concentrations of credit exposure within the Foundation arises from grants receivable, trade receivables, deposits held with service providers, prepayments, term deposits and cash and cash equivalents held with banks.

Grants receivable consists primarily of institutional donors with which AMREF has signed agreements and is in the process of requesting reimbursement.

The Foundation only places significant amounts of funds with recognized financial institutions with strong credit ratings and does not consider the credit risk exposure to be significant.

Trade receivables consist primarily of amounts invoiced by the AMREF Flying Doctors Unit and are current in nature and relate mainly to medical insurers. Where bad debts have been recognized they have been provided for as indicated in Note 10.

AFRICAN MEDICAL AND RESEARCH FOUNDATION
(A Company Limited by Guarantee)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 30 SEPTEMBER 2012

18. FINANCIAL RISK MANAGEMENT (Continued)

LIQUIDITY RISK

	1-12 months US \$'000	>12 months US \$'000	Total US \$'000
30 September 2012			
Creditors	8,470	-	8,470
Unexpended Grants	26,779	-	26,779
	<u>35,249</u>	<u>-</u>	<u>35,249</u>
30 September 2011			
Creditors	6,173	-	6,173
Unexpended Grants	34,225	-	34,225
	<u>40,398</u>	<u>-</u>	<u>40,398</u>

Liquidity risk for AMREF consists of the risk that it will encounter difficulties in meeting its liabilities arising mainly from grant advances, creditors and staff.

Liquidity risk is minimized by maintaining sufficient funds as cash in hand, on-demand deposits or short-term deposits with maturities of three months or less to meet short-term liabilities. In addition, investments are all in liquid securities which can easily be sold to meet longer term cash flow needs.

19. CURRENCY

The financial statements are presented in United States of America Dollars (US\$).