

Africare
Financial Statements
June 30, 2005

Report of Independent Auditors

To the Board of Directors of
Africare

In our opinion, the accompanying statement of financial position as of June 30, 2005 and the related statements of activities, functional expenses and cash flows present fairly, in all material respects, the financial position of Africare at June 30, 2005, and its changes in net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Africare's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Africare's 2004 financial statements, and in our report dated October 14, 2005, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements 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 includes examining those standards, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

September 20, 2006

AFRICARE
Statements of Financial Position as of
June 30, 2005 and 2004

ASSETS

	<u>2005</u>	<u>2004</u>
Cash and cash equivalents	\$ 16,437,169	\$ 13,717,458
Investments	3,857,265	6,739,305
Total cash and investments	<u>20,294,434</u>	<u>20,456,763</u>
Accounts receivable, Combined Federal Campaign	12,907	13,424
Grants and support receivable (net of allowance for doubtful accounts of \$356,115 in 2005 and \$507,705 in 2004):		
U.S. federal government	6,479,378	5,829,451
Foreign governments and international organizations	1,787,700	1,147,067
Private and other	114,414	131,372
Total grants and support receivable	<u>8,381,492</u>	<u>7,107,890</u>
Employee receivables and advances	51,376	64,221
Other receivables and advances (net of allowance for doubtful accounts of \$231,100 in 2005 and \$228,426 in 2004)	1,555,284	286,427
Total current assets	<u>30,295,493</u>	<u>27,928,725</u>
Investments, non current	<u>3,018,063</u>	<u>3,018,063</u>
Property and equipment:		
Land	224,756	224,756
Donated artwork	579,135	579,135
Building	2,253,222	2,253,222
Furniture and equipment	1,915,239	1,951,629
Less accumulated depreciation	<u>(2,585,499)</u>	<u>(2,461,434)</u>
Total property and equipment, net	<u>2,386,853</u>	<u>2,547,308</u>
Other assets	187,618	280,958
TOTAL ASSETS	<u>\$ 35,888,027</u>	<u>\$ 33,775,054</u>

LIABILITIES AND NET ASSETS

LIABILITIES:		
Accounts payable	\$ 4,669,292	\$ 4,134,482
Accrued payroll and related expenses	837,900	675,455
Pension payable	1,996,451	390,454
Lease payable - current portion	43,586	42,830
Total current liabilities	<u>7,547,229</u>	<u>5,243,221</u>
Deferred revenues		
U.S. federal government	15,676,802	14,618,025
Foreign governments and international organizations	1,310,210	1,109,800
Private and other	1,063,926	588,596
Total deferred revenue	<u>18,050,938</u>	<u>16,316,421</u>
Lease payable - non current portion	61,427	110,556
Total liabilities	<u>18,112,365</u>	<u>21,670,198</u>
Commitments and contingencies		
NET ASSETS:		
Unrestricted net assets	6,864,998	8,764,664
Temporarily restricted net assets	345,372	322,129
Permanently restricted net assets	3,018,063	3,018,063
Total net assets	<u>10,228,433</u>	<u>12,104,856</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 35,888,027</u>	<u>\$ 33,775,054</u>

The accompanying notes are an integral part of these statements.

AFRICARE
Statement of Activities and Changes in Net Assets for the Year Ended June 30, 2005
with summarized financial information for 2004

	Unrestricted	Temporarily Restricted	Permanently Restricted	2005 Total	2004 Total
REVENUE					
Public Support:					
Foundations and trusts	\$ 961,333	\$ -	\$ -	\$ 961,333	\$ 2,694,377
Contributions and other grants	8,570,712	151,435	-	8,722,147	6,442,865
Special events	840,997	-	-	840,997	977,639
Combined federal campaign	200,645	-	-	200,645	165,349
Donated services and materials	10,573,383	-	-	10,573,383	7,330,441
Total public support	<u>21,147,070</u>	<u>151,435</u>	<u>-</u>	<u>21,298,505</u>	<u>17,610,671</u>
U.S. government grants	25,384,376	-	-	25,384,376	27,860,054
Foreign governments	1,614,658	-	-	1,614,658	981,940
Total governmental support	<u>26,999,034</u>	<u>-</u>	<u>-</u>	<u>26,999,034</u>	<u>28,841,994</u>
Investment Income:					
Interest and dividends	362,665	-	-	362,665	543,133
Gain on sale of securities	465,304	-	-	465,304	909,666
Unrealized gains (losses)	(465,802)	-	-	(465,802)	217,036
Total investment income	<u>362,167</u>	<u>-</u>	<u>-</u>	<u>362,167</u>	<u>1,669,835</u>
Other Revenue:					
Membership dues	12,614	-	-	12,614	13,700
Miscellaneous income	1,258,862	-	-	1,258,862	1,668,037
Net assets released from program restrictions:					
Satisfaction of program restrictions	128,192	(128,192)	-	-	-
Total other revenue and support	<u>1,399,668</u>	<u>(128,192)</u>	<u>-</u>	<u>1,271,476</u>	<u>1,681,737</u>
Total revenue and support	<u>49,907,939</u>	<u>23,243</u>	<u>-</u>	<u>49,931,182</u>	<u>49,804,237</u>
EXPENSES					
Program Services:					
General	2,909,205	-	-	2,909,205	1,845,532
Food security, relief, and refugee assistance	19,332,662	-	-	19,332,662	16,299,602
Health and water resources development	10,860,775	-	-	10,860,775	10,379,410
Agriculture and small scale irrigation	8,490,804	-	-	8,490,804	12,141,817
Integrated rural development	6,228,521	-	-	6,228,521	5,355,832
Total program services	<u>47,821,967</u>	<u>-</u>	<u>-</u>	<u>47,821,967</u>	<u>46,022,193</u>
Support Services:					
Management and general	2,067,886	-	-	2,067,886	3,746,551
Fundraising	838,613	-	-	838,613	604,506
Total supporting services	<u>2,906,499</u>	<u>-</u>	<u>-</u>	<u>2,906,499</u>	<u>4,351,057</u>
Total expenses	<u>50,728,466</u>	<u>-</u>	<u>-</u>	<u>50,728,466</u>	<u>50,373,250</u>
CHANGE IN NET ASSETS FROM OPERATIONS	(820,527)	23,243	-	(797,284)	(569,013)
Non-operating additional minimum pension liability	(1,079,139)	-	-	(1,079,139)	-
CHANGE IN NET ASSETS	(1,899,666)	23,243	-	(1,876,423)	(569,013)
NET ASSETS, BEGINNING OF YEAR	8,764,664	322,129	3,018,063	12,104,856	12,673,869
NET ASSETS, END OF YEAR	<u>\$ 6,864,998</u>	<u>\$ 345,372</u>	<u>\$ 3,018,063</u>	<u>\$ 10,228,433</u>	<u>\$ 12,104,856</u>

The accompanying notes are an integral part of these statements.

AFRICARE
Statements of Cash Flows for the Years Ended June 30, 2005 and 2004

CASH FLOWS FROM OPERATING ACTIVITIES:

	<u>2005</u>	<u>2004</u>
Changes in net assets	\$ (1,876,423)	\$ (569,013)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation and amortization	182,815	191,667
Provision for doubtful accounts receivable	350,356	2,100,213
Net realized and unrealized gains on investments	498	(1,126,702)
Changes in assets and liabilities:		
Decrease in other assets	93,340	133,616
(Increase) decrease in employee receivables, other receivables and advances	(1,255,495)	133,685
Increase in grants and support receivable	(1,623,958)	(4,396,481)
Increase (decrease) in accounts payable and accrued expenses	697,255	(286,024)
Increase in pension liability	1,605,997	249,113
Increase (decrease) in deferred revenue	1,734,517	(3,545,702)
	<hr/>	<hr/>
Net cash used in operating activities	(91,098)	(7,115,628)

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of property and equipment	(22,360)	(276,666)
Purchase of investments	(11,718,795)	(5,652,438)
Sales of investments	14,600,337	9,776,963
	<hr/>	<hr/>
Net cash provided by investing activities	2,859,182	3,847,859

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from capital leases	-	58,192
Repayments of capital leases	(48,373)	-
	<hr/>	<hr/>
Net cash (used in) provided by financing activities	(48,373)	58,192

CHANGE IN CASH AND CASH EQUIVALENTS	2,719,711	(3,209,577)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	13,717,458	16,927,035
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CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 16,437,169	\$ 13,717,458

NON-CASH TRANSACTIONS

Donated services and materials	\$ 10,573,383	\$ 7,330,441
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The accompanying notes are an integral part of these statements.

AFRICARE
Statement of Functional Expenses for the
Year Ended June 30, 2005
with summarized financial information for 2004

	Program Services					Supporting Services			Total Expenses		
	General	Food Security, Relief and Refugee Assistance	Health and Water Resources Development	Agriculture and Small Scale Irrigation	Integrated Rural Development	Total	Management and General	Fundraising	Total	2005	2004
Salaries, and fringe benefits	\$ 747,430	\$ 4,541,474	\$ 4,145,686	\$ 3,205,371	\$ 2,309,694	\$ 14,949,655	\$ 954,952	\$ 396,598	\$ 1,351,550	\$ 16,301,205	\$ 16,850,852
Freight	9,836	10,831,072	16,259	53,497	62,676	10,973,340	2,488	302	2,790	10,976,130	7,646,930
Travel, relocation and housing	74,796	504,612	568,411	579,113	559,465	2,286,397	72,478	16,361	88,839	2,375,236	2,777,795
Construction, subcontracts, and other services	588,589	555,374	1,622,978	502,791	357,979	3,627,711	5,929	245,438	251,367	3,879,078	3,445,237
Supplies and materials	555,611	800,910	1,123,280	1,262,775	713,606	4,456,182	31,787	51,342	83,129	4,539,311	3,953,797
Rent and occupancy charges	60,155	341,084	543,451	558,665	361,173	1,864,528	135,917		135,917	2,000,445	2,082,527
Conferences, conventions and meetings	171,249	182,763	699,509	347,563	359,061	1,760,145	18,911	32,478	51,389	1,811,534	1,310,310
Vehicle purchases, repair and maintenance	281,342	672,630	1,072,320	1,146,146	729,122	3,901,560	35,022	6,424	41,446	3,943,006	3,846,907
Professional and contractual services	22,595	49,715	243,637	169,392	114,927	600,266	54,674	44,450	99,124	699,390	1,563,721
Telephone, postage and delivery	58,331	116,855	219,168	280,568	149,694	824,616	59,165	12,796	71,961	896,577	978,855
Office equipment and furnishings	55,759	65,007	231,109	82,140	93,630	527,645	13,276	2,078	15,354	542,999	497,120
Insurance	13,393	35,478	98,392	125,770	98,715	371,748	32,632		32,632	404,380	478,909
Advertising	8,683	21,932	39,778	5,824	26,710	102,927	4,228	14,038	18,266	121,193	99,073
Office equipment rental	25,821	29,486	35,354	51,188	48,202	190,051	31,314	926	32,240	222,291	280,287
Legal and audit	1,521	8,055	7,573	27,018	4,942	49,109	175,254		175,254	224,363	482,289
Recruitment	347	3,360	14,753	6,531	4,490	29,481	7,408	4,908	12,316	41,797	25,524
Depreciation							182,815		182,815	182,815	191,667
Other	233,747	572,855	179,117	86,452	234,435	1,306,606	249,636	10,474	260,110	1,566,716	3,861,450
Total Expenses	\$ 2,909,205	\$ 19,332,662	\$ 10,860,775	\$ 8,490,804	\$ 6,228,521	\$ 47,821,967	\$ 2,067,886	\$ 838,613	\$ 2,906,499	\$ 50,728,466	\$ 50,373,250

The accompanying notes are an integral part of these statements.

AFRICARE
Notes to Financial Statements

1. ORGANIZATION

Organization – Founded in 1970, Africare is a private, nonprofit organization dedicated to improving the quality of life in Africa. Africare provides assistance in three principal areas -- food security, agriculture and health. Africare's financial support comes from charitable foundations, corporations, the religious community, other private organizations, the U.S. government, local agencies, foreign institutions, and individuals. Its headquarters is in Washington, D.C. During fiscal year 2005, Africare had field offices in 25 African countries.

Africare has five core programs which are:

General – includes activities such as literacy and vocational training, micro-enterprise, civil-society development and governance and emergency humanitarian aid that are outside of and complement Africare's principal program areas.

Food security, relief and refugee assistance – includes activities that use a combination of food resources aimed at improving food access, availability, and utilization to promote active and healthy lives. Refugee assistance involves providing emergency aid to victims of natural and man-made disasters.

Health and water resources development – includes activities to establish and strengthen rural health clinics and primary health services networks where basic medical care is limited or non-existent and activities to increase water supplies, improve water distribution systems and water portability/sanitation throughout Africa. Specific work includes well construction and village level sanitation infrastructure.

Agriculture and small scale irrigation – includes services that focus on all aspects of food production and utilization, from improved cultivation of crops, livestock, agricultural irrigation and natural resource management to farm infrastructure and farmer credit and training in agribusiness practices.

Integrated rural development – provides services to support rural areas needing help in water resources, irrigation, agriculture and health clinics to reduce shortages of essential food, water and services caused by drought and large influxes of immigrants.

The accompanying financial statements include the operations of Africare's headquarters and field offices.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The financial statements include certain prior year summarized comparative information which is presented in total but not by net asset class nor by functional classification. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Africare's financial statements for the year ended June 30, 2004, from which the summarized information was derived.

AFRICARE
Notes to Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents – Africare maintains numerous bank accounts in many countries in order to finance grant funded projects. Cash and cash equivalents consist of cash on hand and in banks, and all highly liquid investments with an original maturity of three months or less. Cash and cash equivalents held in the United States of America (“U.S.”) are insured according to FDIC regulations, while those that are maintained overseas are largely uninsured. Total cash and cash equivalents held in the U.S. were \$1,440,447 and \$2,212,410 as of June 30, 2005 and 2004, respectively, of which \$1,089,071 and \$788,119 exceeded the FDIC insurance limits. In overseas accounts, Africare had \$13,212,246 and \$11,505,048 in cash and cash equivalents as of June 30, 2005 and 2004, respectively. Africare has not experienced a loss due to concentration of credit risk. The fair value of cash and cash equivalents approximates their respective carrying value.

Investments – Investments consist of U.S. Government bonds, corporate bonds, common stocks, and mutual funds. Investments in marketable securities and all debt securities are recorded at fair value, which is based on quoted market prices or dealer quotes. Gains and losses arising from the sale, maturity, or other disposition of investments are accounted for on a specific identification basis calculated as of the trade date. Unrealized and realized gains and losses are reported as investment income on the statement of activities. Investment income is reported as unrestricted revenue unless stipulated for a specific purpose by a donor.

Property and Equipment – Property and equipment are recorded at cost if purchased or, if donated, at the fair value at the date of the gift. Fixed assets greater than \$5,000 are capitalized and depreciated over their estimated useful life using the straight-line basis of depreciation. The estimated useful lives of each class of assets are as follows:

	<u>Years</u>
Buildings	50 years
Furniture and equipment	3 years
Vehicles	3 years

Fixed assets acquired with grant funds are expensed as a cost of the grant when purchased.

Net Assets – Resources are classified for accounting and reporting purposes in three classes of net assets based on the existence or absence of donor-imposed restrictions. A description of the three net asset classes are as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed purpose restriction or time restrictions that may be met either by actions of Africare or the passage of time.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by Africare. These assets are invested by Africare’s management. There are no restrictions placed on the use of investment earnings. Accordingly, investment income is recorded as unrestricted revenue.

AFRICARE
Notes to Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Contributions and public support – All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or are restricted by the donor for specific purposes are recorded as temporarily restricted support.

When a donor restriction expires, that is when a stipulated time restriction ends or the purpose for the donor restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions. Restricted contributions received in the same year in which the restrictions are met are recorded as unrestricted support.

Grants - Africare receives funding under grants and contracts from U.S. and foreign governments, international organizations and other grantors for direct and indirect program costs. This funding is subject to contractual restrictions, which must be met through incurring qualifying expenses for particular programs. Accordingly, such grants are considered exchange transactions and are recorded as unrestricted income to the extent that related expenses are incurred in compliance with the criteria stipulated in the grant agreements.

Grants and support receivable represents amounts due from funding organizations for reimbursable expenses incurred in accordance with the grant agreements. Deferred revenue represents grant funding received in advance of incurring the related expenses.

Agricultural Commodities – Africare receives agricultural commodities at no cost from agencies of the U.S. government for distribution under contracts related to specific relief programs, monetization with the cash proceeds to be used for Africare projects, or monetization with the proceeds distributed to other non-profit organization partners.

Commodities received that are to be sold (monetized), where the related proceeds are designated for Africare project activities, are recorded as deferred revenue when the cash proceeds are received. Revenue and expense are recognized when the proceeds are utilized for project activities.

Commodities received that are to be sold (monetized), where the related proceeds are designated for other non-profit organizations, are recorded as a liability until the funds are distributed to those other organizations.

Donated Services, Materials, Furniture, and Equipment - Donated services, materials, furniture, and equipment are recorded at the fair value of the donated items and are included as public support in the accompanying financial statements. Approximately \$10.0 million of donated freight was provided by USAID.

AFRICARE
Notes to Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences – Employees of Africare are entitled to paid vacations and sick leave depending on their length of the service. Upon termination or retirement, employees are entitled to receive compensation at their current base salary for all unused vacation leave. Unused sick leave is canceled upon termination of employment, with no compensation to the employee.

Foreign Currency – The U.S. dollar is the functional currency of Africare. Transactions in currencies other than dollars are translated into dollars at the rates of exchange in effect during the month of the transaction. Property and equipment purchases with non-U.S. currency are translated into dollars at the exchange rate in effect at the time of purchase. 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 balance sheets. The net gain or (loss) from foreign currency of \$(69,697) and \$557,513 for the fiscal years ended June 30, 2005 and 2004, respectively, are included in other expenses on the statement of functional expenses.

Functional Allocation of Expenses – Direct and identifiable expenses are charged to specific programs and supporting services. Employees’ salaries are allocated to programs and supporting services based on time incurred. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support of Africare.

Income Taxes - Africare is a nonprofit organization exempt from federal income taxes on income other than unrelated business income under Section 501(c)(3) of the Internal Revenue Code.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain 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. The amounts Africare will ultimately realize could differ materially, in the near term, from the amounts assumed in arriving at the net realizable value. Significant estimates include the allowance for doubtful accounts and various liability accruals.

Reclassifications – Certain 2004 balances have been reclassified to conform to the 2005 presentation.

3. INVESTMENTS

Investments are presented in the financial statements at fair value. As of June 30, 2005 and 2004 investments were comprised of the following:

	2005	2004
U.S. Government bonds	\$ 1,788,587	\$ 2,581,610
Corporate bonds	734,836	1,100,051
Common stocks	4,223,272	5,805,188
Mutual funds	128,633	270,519
Total	<u>\$6,875,328</u>	<u>\$9,757,368</u>

Africare uses the average cost method in computing realized and unrealized gains and losses.

AFRICARE
Notes to Financial Statements

4. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30, 2005 and 2004:

	2005	2004
General programs	\$133,650	\$145,207
Food security, relief and refugee assistance	6,918	6,287
Health and water resources development	178,624	144,455
Agriculture and small scale irrigation programs	150	150
Integrated rural development	26,030	26,030
	<u>\$345,372</u>	<u>\$322,129</u>

Temporarily restricted net assets released from restrictions:

General programs	\$27,306	\$65,830
Food security, relief and refugee assistance	6,387	2,294
Health and water resources development	94,499	107,813
	<u>\$128,192</u>	<u>\$175,937</u>

In accordance with donor stipulations, permanently restricted net assets are held (and invested) in perpetuity, the income from which has not been restricted by donors. Investment income earned from the endowment was \$89,033 and \$85,900 for the years ended June 30, 2005 and 2004, respectively, and is reported together with other investment income on the statement of activities.

5. LEASE COMMITMENTS

Minimum future lease payments for copiers under capital leases are as follows:

Total minimum lease payments	\$105,013
Less current portion	<u>(43,586)</u>
Non-current portion	<u>\$61,427</u>

Equipment capitalized under capital leases totals \$185,981 with accumulated amortization of \$119,585.

AFRICARE
Notes to Financial Statements

The future minimum annual rental payments due under non-cancelable capital leases with initial or remaining terms in excess of one year are as follows:

2006	\$50,936
2007	43,524
2008	19,908
2009	<u>3,152</u>
 Total minimum lease payments	 117,520
 Less amount representing interest	 <u>(12,507)</u>
 Present value of minimum lease payments	 <u>\$105,013</u>

6. EMPLOYEE BENEFIT PLAN

Africare has a noncontributory defined benefit retirement plan (the "Plan") that covers all employees after one year of employment. The benefits are based on years of service and the employee's average compensation during the three highest consecutive years of participation. Africare makes actuarially determined contributions to satisfy minimum funding requirements.

The following table sets forth the Plan's funded status as of June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Projected benefit obligation at end of year	\$ 8,308,747	\$6,616,359
Fair value of plan assets at end of year	<u>5,470,475</u>	<u>5,473,089</u>
Funded status	(2,838,272)	(1,143,270)
Unrecognized transition (asset)/obligation	137,463	206,193
Unrecognized prior service cost	8,195	9,105
Unrecognized net (gain)/loss	<u>2,870,587</u>	<u>1,632,803</u>
 Net amount recognized	 <u>\$ 177,973</u>	 <u>\$ 704,831</u>
 Amount recognized consists of		
Accrued pension liability	\$(1,996,451)	\$ (390,454)
Intangible asset	145,658	215,298
Accumulated other comprehensive income	<u>2,028,766</u>	<u>879,987</u>
 Net amount recognized	 <u>\$ 177,973</u>	 <u>\$ 704,831</u>

At June 30, 2005, the accumulated benefit obligation exceeded the fair value of plan assets by \$1,996,451, which resulted in a minimum pension liability adjustment of \$1,079,139. This adjustment was recorded as a non-operating loss on the statement of activities.

AFRICARE
Notes to Financial Statements

The net periodic pension costs for the years ended June 30, 2005 and 2004 included the following components:

	2005	2004
Service cost	\$381,785	\$362,406
Interest cost	405,942	373,557
Expected return on plan assets	(376,729)	(339,850)
Net amortization and deferral of prior service cost	149,860	141,339
Net periodic pension cost (NPPC)	\$560,858	\$537,452

Assumptions used in the pension accounting for June 30, 2005 and 2004 were:

Discount rates - (liability/NPPC)	5.25%/6.25%	6.25%/6.25%
Rate of increase in compensation levels	3.00%	3.00%
Expected long-term rate of return	7.00%	6.25%
Amortization period (years)	11.96 yrs	12.40 yrs

Contributions to the Plan during the year ended June 30, 2005 were \$34,000. There were no contributions to the plan during the year ended June 30, 2004. During fiscal years ending June 30, 2005 and 2004, benefits of \$216,493 and \$193,024, respectively, were paid to eligible participants.

On December 2, 2005, the Board of Directors approved an amendment to freeze the accrual of benefits under the plan as of June 30, 2006. This action does not affect Plan disclosures as of June 30, 2005 and does not affect the benefits of current retirees or terminated, vested participants in the Plan.

7. COMMITMENTS AND CONTINGENCIES

During fiscal years ended June 30, 2005 and 2004, Africare received 51% and 56%, respectively, of its total revenue in the form of grants and contracts from the Federal government. Approximately 93% and 89%, respectively, of the total federal grant and contract revenue during fiscal years 2005 and 2004 was provided by the U.S. Agency for International Development ("USAID"). Amounts expended under these grants and contracts are subject to financial and compliance audits as required by OMB Circular A-133 or by the grantor agency as a condition of receiving the awards. These audits may result in questioned costs which the grantor agencies may disallow and therefore the potential exists for the return of the grant or contract funding to the grantor agencies. The amount, if any, of expenditures, which may be disallowed and or returned as a result of questioned costs identified in Africare's fiscal year 2005 and 2004 financial and compliance audits or any future audits that may be performed by grantor agencies cannot be determined at this time.

During August, 2005 Africare initiated, on its own accord, independent external reviews in two countries to ensure the proper handling of funds. The results are not final and, in the opinion of management, the outcome of such reviews will not have a materially adverse effect on Africare's financial position or its activities.