

**Africare**  
Financial Statements  
June 30, 2006

**Report of Independent Auditors**

To the Board of Directors of  
Africare

In our opinion, the accompanying statement of financial position as of June 30, 2006 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, 2006, 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 2005 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*

November 7, 2007

**AFRICARE**  
**Statements of Financial Position**  
**As of June 30, 2006 and 2005**

	2006	2005
<b>ASSETS</b>		
Cash and cash equivalents	\$ 10,625,788	\$ 16,437,169
Investments	3,732,076	3,857,265
Total cash and investments	<u>14,357,864</u>	<u>20,294,434</u>
Accounts receivable, Combined Federal Campaign	<u>4,680</u>	<u>12,907</u>
Grants and support receivable (net of allowance for doubtful accounts of \$150,000 in 2006 and \$356,115 in 2005):		
U.S. federal government	5,671,023	6,479,378
Less Allowance for doubtful accounts		
Foreign governments and international organizations	635,959	1,787,700
Private and other	<u>68,651</u>	<u>114,414</u>
Total grants and support receivable	<u>6,375,633</u>	<u>8,381,492</u>
Employee receivables and advances (net of allowance for doubtful accounts of \$10,000 in 2006)	61,329	51,376
Other receivables and advances (net of allowance for doubtful accounts of \$680,000 in 2006 and \$231,100 in 2005)	<u>377,991</u>	<u>1,555,284</u>
Total current assets	<u>21,177,497</u>	<u>30,295,493</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	2,876,533	1,915,239
Less accumulated depreciation	<u>(2,947,024)</u>	<u>(2,585,499)</u>
Total property and equipment, net	<u>2,986,622</u>	<u>2,386,853</u>
Other assets	<u>1,848,824</u>	<u>187,618</u>
<b>TOTAL ASSETS</b>	<b>\$ 29,031,006</b>	<b>\$ 35,888,027</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES:</b>		
Accounts payable and other	\$ 4,908,070	\$ 3,987,825
Accrued payroll and related expenses	876,783	837,900
Pension payable	1,408,155	1,996,451
Lease payable - current portion	<u>40,085</u>	<u>43,586</u>
Total current liabilities	<u>7,233,093</u>	<u>6,865,762</u>
Deferred revenues		
U.S. federal government	6,981,133	16,358,269
Foreign governments and international organizations	1,393,299	1,310,210
Private and other	<u>1,721,517</u>	<u>1,063,926</u>
Total deferred revenue	<u>10,095,949</u>	<u>18,732,405</u>
Lease payable - non current portion	<u>23,995</u>	<u>61,427</u>
Total liabilities	<u>17,353,037</u>	<u>25,659,594</u>
Commitments and contingencies		
<b>NET ASSETS:</b>		
Unrestricted net assets	8,311,109	6,864,998
Temporarily restricted net assets	348,797	345,372
Permanently restricted net assets	<u>3,018,063</u>	<u>3,018,063</u>
Total net assets	<u>11,677,969</u>	<u>10,228,433</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 29,031,006</b>	<b>\$ 35,888,027</b>

*The accompanying notes are an integral part of these statements.*

**AFRICARE****Statements of Activities and Changes in Net Assets****For the Year Ended June 30, 2006 with summarized financial information for 2005**

	Unrestricted	Temporarily Restricted	Permanently Restricted	2006 Total	2005 Total
<b>REVENUE</b>					
Public Support:					
Foundations and trusts	\$ 1,351,400	\$ -	\$ -	\$ 1,351,400	\$ 961,333
Contributions and other grants	7,250,129	295,104	-	7,545,233	8,722,147
Special events	819,820	-	-	819,820	840,997
Combined federal campaign	198,439	-	-	198,439	200,645
Donated services and materials	8,980,098	-	-	8,980,098	10,573,383
Total public support	18,599,886	295,104	-	18,894,990	21,298,505
U.S. government grants	25,548,677	-	-	25,548,677	25,384,376
Foreign governments	1,368,561	-	-	1,368,561	1,614,658
Total governmental support	26,917,238	-	-	26,917,238	26,999,034
Investment Income:					
Interest and dividends	467,725	-	-	467,725	362,665
(Loss) gain on sale of securities	(610)	-	-	(610)	465,304
Unrealized losses	(78,180)	-	-	(78,180)	(465,802)
Total investment income	388,935	-	-	388,935	362,167
Other Revenue:					
Membership dues	28,410	-	-	28,410	12,614
Miscellaneous income	4,369,720	-	-	4,369,720	1,258,862
Net assets released from program restrictions:					
Satisfaction of program restrictions	291,679	(291,679)	-	-	-
Total other revenue and support	4,689,809	(291,679)	-	4,398,130	1,271,476
Total revenue and support	50,595,868	3,425	-	50,599,293	49,931,182
<b>EXPENSES</b>					
Program Services:					
Food security, relief, and refugee assistance	15,439,502	-	-	15,439,502	19,332,662
Health and water resources development	14,818,687	-	-	14,818,687	10,860,775
Agriculture and small scale irrigation	7,884,983	-	-	7,884,983	8,490,804
Integrated rural development	5,422,242	-	-	5,422,242	6,228,521
Other development programs	2,384,094	-	-	2,384,094	2,909,205
Total program services	45,949,508	-	-	45,949,508	47,821,967
Support Services:					
Management and general	2,920,129	-	-	2,920,129	2,067,886
Fundraising	1,359,140	-	-	1,359,140	838,613
Total supporting services	4,279,269	-	-	4,279,269	2,906,499
Total expenses	50,228,777	-	-	50,228,777	50,728,466
<b>CHANGE IN NET ASSETS FROM OPERATIONS</b>	367,091	3,425	-	370,516	(797,284)
Non-operating minimum pension liability adjustment					
	1,079,020	-	-	1,079,020	(1,079,139)
<b>CHANGE IN NET ASSETS</b>	1,446,111	3,425	-	1,449,536	(1,876,423)
<b>NET ASSETS, BEGINNING OF YEAR</b>	6,864,998	345,372	3,018,063	10,228,433	12,104,856
<b>NET ASSETS, END OF YEAR</b>	\$ 8,311,109	\$ 348,797	\$ 3,018,063	\$ 11,677,969	\$ 10,228,433

*The accompanying notes are an integral part of these statements.*

**AFRICARE**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2006 and 2005**

	<b>2006</b>	<b>2005</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 1,449,536	\$ (1,876,423)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation and amortization	361,525	182,815
Provision for doubtful accounts receivable	1,677,555	350,356
Net realized and unrealized (losses) gains on investments	(78,790)	498
Changes in assets and liabilities:		
(Increase) decrease in other assets	(1,661,206)	93,340
(Increase) decrease in employee receivables, other receivables and advances	716,667	(1,255,495)
(Increase) decrease in grants and support receivable	787,204	(1,623,958)
Increase (decrease) in accounts payable and accrued expenses	277,661	697,255
Increase (decrease) in pension liability	(588,296)	1,605,997
Increase (decrease) in deferred revenue	(7,954,989)	1,734,517
Net cash used in operating activities	<u>(5,013,133)</u>	<u>(91,098)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(961,294)	(22,360)
Purchase of investments	(6,189,270)	(11,718,795)
Sales of investments	6,393,249	14,600,337
Net cash (used in) provided by investing activities	<u>(757,315)</u>	<u>2,859,182</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayments of capital leases	(40,933)	(48,373)
Net cash used in financing activities	<u>(40,933)</u>	<u>(48,373)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	(5,811,381)	2,719,711
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>16,437,169</u>	<u>13,717,458</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$10,625,788</u>	<u>\$16,437,169</u>
<b>NON-CASH TRANSACTIONS</b>		
Donated services and materials	\$ 8,980,098	\$10,573,383

*The accompanying notes are an integral part of these statements.*

**AFRICARE**  
**Statement of Functional Expenses**  
**For the Year Ended June 30, 2006 with summarized financial information for 2005**

	Program Services					Supporting Services			Total Expenses	
	Food Security, Relief and Refugee Assistance	Health and Water Resources Development	Agriculture and Small Scale Irrigation	Integrated Rural Development	Other Development Programs	Management and General	Fundraising	Total	2006	2005
Salaries, and fringe benefits	\$ 3,739,064	\$ 5,945,998	\$ 2,978,494	\$ 2,145,741	\$ 568,957	\$ 1,123,315	\$ 591,560	\$ 1,714,875	\$ 17,093,129	\$ 16,301,205
Freight	8,119,400	32,492	11,455	19,430	4,104	99	-	99	8,186,980	10,976,130
Travel, relocation and housing	360,042	705,501	498,885	315,474	80,202	107,511	38,271	145,782	2,105,886	2,375,236
Construction, subcontracts, and other services	866,563	2,303,674	416,449	396,098	275,988	1,208	325,998	327,206	4,585,978	3,879,078
Supplies and materials	500,289	1,660,868	1,706,995	950,084	194,253	36,298	108,403	144,701	5,157,200	4,539,311
Rent and occupancy charges	270,886	617,257	414,463	250,804	77,436	136,155	-	136,155	1,767,001	2,000,445
Conferences, conventions and meetings	174,048	1,191,502	281,989	185,495	186,138	29,684	44,996	74,680	2,093,852	1,811,534
Vehicle purchases, repair and maintenance	886,047	1,034,281	937,753	594,179	199,041	52,399	13,970	66,369	3,717,670	3,943,006
Professional and contractual services	91,374	226,998	82,496	50,563	54,416	54,781	44,884	99,665	605,512	699,390
Telephone, postage and delivery	91,934	321,538	193,662	126,951	52,638	53,517	16,825	70,342	857,065	896,577
Office equipment and furnishings	76,016	203,460	44,777	75,145	14,384	12,710	11,218	23,928	437,710	542,999
Insurance	45,608	133,757	102,934	57,085	14,296	34,005	-	34,005	387,685	404,380
Advertising	5,002	51,330	2,923	22,115	7,394	4,479	142,764	147,243	236,007	121,193
Office equipment rental	34,805	66,230	48,652	51,225	15,058	31,235	60	31,295	247,265	222,291
Legal and audit	123,833	60,463	75,894	51,833	416	240,742	-	240,742	553,181	224,363
Recruitment	4,806	13,000	1,281	5,676	590	3,745	-	3,745	29,098	41,797
Depreciation	1,441	88,370	13,366	50,627	31,460	176,261	-	176,261	361,525	182,815
Other	48,344	161,968	72,515	73,707	607,323	821,985	20,191	842,176	1,806,033	1,566,716
<b>Total Expenses</b>	<b>\$ 15,439,502</b>	<b>\$ 14,616,667</b>	<b>\$ 7,864,963</b>	<b>\$ 5,422,242</b>	<b>\$ 2,384,094</b>	<b>\$ 2,920,129</b>	<b>\$ 1,359,140</b>	<b>\$ 4,279,269</b>	<b>\$ 50,228,777</b>	<b>\$ 50,728,466</b>

The accompanying notes are an integral part of these 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 2006, Africare had field offices in 24 African countries. Africare has five core programs which are:

**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.

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

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, 2005, from which the summarized information was derived.

**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 \$1,894,137 and \$1,440,447 as of June 30, 2006 and 2005, respectively, of which \$1,589,776 and \$1,089,071 exceeded the FDIC insurance limits. In overseas accounts, Africare had \$8,399,520 and \$13,212,246 in cash and cash equivalents as of June 30, 2006 and 2005, 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.

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**Notes to Financial Statements**

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**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

**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 is 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 restrictions 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.

**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.



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**Notes to Financial Statements**

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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 for distribution are recorded at an amount approximating fair market value. Commodities held in inventory or in-transit are recorded as an asset and liability until distributed. Upon distribution they are recorded as revenue and expense. Commodity inventories are included in other assets, with the related liability in accounts payable and other, totaling \$1,362,634 for 2006.

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 \$7.4 million and \$10.0 million of donated freight were provided by USAID, for the fiscal years ended June 30, 2006 and 2005, respectively.

**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. 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 exchange losses from foreign currency of \$482,538 and \$69,697 for the fiscal years ended June 30, 2006 and 2005, 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

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**Notes to Financial Statements**

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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, various liability accruals, commodity inventory and distributed commodities.

**Reclassifications** – certain 2005 comparative amounts were reclassified to conform to the 2006 presentation. These reclassifications had no effect on the previously reported changes in net assets.

**3. Investments**

Investments are presented in the financial statements at fair value. As of June 30, 2006 and 2005 investments were comprised of the following:

	2006	2005
U.S. Government bonds	\$1,855,881	\$1,788,587
Corporate bonds	645,277	734,836
Common stocks	4,140,252	4,223,272
Mutual funds	<u>108,729</u>	<u>128,633</u>
Total	<u>\$6,750,139</u>	<u>\$6,875,328</u>

**4. Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes at June 30, 2006 and 2005:

	2006	2005
Other development programs	\$ 122,801	\$ 133,650
Food security, relief and refugee assistance	25,475	6,918
Health and water resources development	174,341	178,624
Agriculture and small scale irrigation programs	150	150
Integrated rural development	<u>26,030</u>	<u>26,030</u>
Total temporarily restricted net assets	<u>\$ 348,797</u>	<u>\$ 345,372</u>

Temporarily restricted net assets released from restrictions:

	2006	2005
Other development programs	\$ 12,668	\$ 27,306
Food security, relief and refugee assistance	111,167	6,387
Health and water resources development	<u>167,844</u>	<u>94,499</u>
Total temporarily restricted net assets	<u>\$ 291,679</u>	<u>\$ 128,192</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 \$87,524 and \$89,033 for the years ended June 30, 2006 and 2005, 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	\$ 64,080
Less current portion	<u>(40,085)</u>
Non-current portion	<u>\$ 23,995</u>

Equipment capitalized under capital leases totals \$185,981 with accumulated amortization of \$181,579.

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:

2007	\$ 43,918
2008	21,288
2009	<u>3,940</u>
Total minimum lease payments	69,146
Less amount representing interest	<u>(5,066)</u>
Present value of minimum lease payments	<u>\$ 64,080</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.

Africare's Investment Committee (the "Committee") monitors Plan assets to ensure that portfolio income and liquidity is adequate to meet Plan benefit payments and other costs. In addition, the Committee ensures adequate capital growth over an extended period of time while considering market risks and changes in the actuarial present value of the liability. Plan assets are required to be diversified to ensure no disproportionate risks are taken with any single asset class or industry sector and to guard against inflation. The Plan asset allocation is reviewed periodically with current market assumptions to ensure that the long-term goals of the plan are met.

Plan assets were invested in the following asset classes at June 30, 2006 and 2005:

	<u>Pension Assets</u>	
	<u>2006</u>	<u>2005</u>
Money Market Funds	1%	1%
U.S Government Securities	17%	15%
Domestic Equity	69%	70%
Fixed Income	10%	12%
Mortgage and Asset Backed	3%	2%
Total	<u>100%</u>	<u>100%</u>

**AFRICARE**  
**Notes to Financial Statements**

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The following table sets forth the Plan's funded status as of June 30, 2006 and 2005:

	<b>2006</b>	<b>2005</b>
Projected benefit obligation at end of year	\$ 7,248,122	\$ 8,308,747
Fair value of plan assets at end of year	<u>5,839,967</u>	<u>5,470,475</u>
<b>Funded status</b>	(1,408,155)	(2,838,272)
Unrecognized transition (asset/obligation)	-	137,463
Unrecognized prior service cost	-	8,195
Unrecognized net (gain)/loss	<u>1,069,879</u>	<u>2,870,587</u>
Net amount recognized	<u>\$ (338,276)</u>	<u>\$ 177,973</u>
<b>Amount recognized consists of</b>		
Accrued pension liability	\$ (1,408,155)	\$ (1,996,451)
Intangible asset	-	145,658
Accumulated other non-operating expense	<u>1,069,879</u>	<u>2,028,766</u>
Net amount recognized	<u>\$ (338,276)</u>	<u>\$ 177,973</u>

At June 30, 2006, the accumulated benefit obligation exceeded the fair value of plan assets by \$1,408,155. Based on changes in actuarial assumptions and the Board actions to freeze accrual of benefits as of June 30, 2006, a minimum pension liability adjustment of \$1,079,020 was recorded. This adjustment was reported as a non-operating gain on the statement of activities.

The accumulated benefit obligation for the Plan was \$7,248,122 and \$7,466,926 as of June 30, 2006 and 2005, respectively.

The net periodic pension costs for the years ended June 30, 2006 and 2005 included the following components:

	<b>2006</b>	<b>2005</b>
Service cost	\$ 484,827	\$ 381,785
Interest cost	417,150	405,942
Expected return on plan assets	(385,339)	(376,729)
Net amortization and deferred of prior service cost	<u>228,963</u>	<u>149,860</u>
Net period pension cost (NPPC)	<u>\$ 745,601</u>	<u>\$ 560,858</u>

Assumptions used in the pension accounting for June 30, 2006 and 2005 were as follows:

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	2006	2005
<b>Weighted-average assumptions used to determine benefit obligations at June 30:</b>		
Discount rate	6.10%	5.25%
Rate of compensation increase	0.00%	3.00%
<b>Weighted-average assumptions used to determine net periodic benefit cost for years ended June 30:</b>		
Discount rate	5.25%	6.25%
Expected return on plan assets	7.00%	7.00%
Rate of compensation increase	3.00%	3.00%

Employer contributions to the Plan during the years ended June 30, 2006 and 2005 were \$305,370 and \$34,000, respectively. Africare expects to contribute approximately \$518,710 to the Plan during the year ended June 30, 2007. During fiscal years ended June 30, 2006 and 2005, benefits of \$236,625 and \$216,493, 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 plan curtailment does not affect the benefits of current retirees or terminated, vested participants in the Plan. The net impact of the curtailment for the year ended June 30, 2006 was to increase the net accrued pension liability by \$76,018.

Considering the plan curtailment described above, the following benefit payments, reflecting past service, are expected to be paid as of June 30, 2006:

	<b>Pension Benefits</b>
2007	\$ 335,300
2008	337,600
2009	353,900
2010	419,800
2011	430,200
2012 - 2016	<u>2,696,700</u>
Total	<u>\$ 4,573,500</u>

**7. Commitments and Contingencies**

During fiscal years ended June 30, 2006 and 2005, Africare received 50% and 51%, respectively, of its total revenue in the form of grants and contracts from the Federal government. Approximately 93% of the total federal grant and contract revenue during fiscal years 2006 and 2005 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 returned as a result of questioned costs identified in Africare's fiscal year 2006 and 2005 financial and compliance audits or any future audits that may be performed by grantor agencies cannot be determined at this time.