

THE AMERICAN INDIA FOUNDATION

**FINANCIAL STATEMENTS
AND
ADDITIONAL INFORMATION**

DECEMBER 31, 2005 AND 2004

THE AMERICAN INDIA FOUNDATION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The American India Foundation

We have audited the accompanying statements of financial position of The American India Foundation (a not-for-profit organization), as of December 31, 2005 and 2004, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The American India Foundation as of December 31, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Lotz + Carr, LLP

New York, New York
April 7, 2006

THE AMERICAN INDIA FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004 *</u>
Assets		
Cash and cash equivalents (Notes 1c and 3)	\$2,686,555	\$2,906,918
Investments (Notes 1e and 4)	4,136,468	3,492,608
Unconditional promises to give (Notes 1d and 5)	1,200,945	524,316
Prepaid expenses and other current assets	81,280	23,682
Property and equipment (net of accumulated depreciation) (Notes 1f and 6)	<u>18,361</u>	<u>20,742</u>
Total Assets	<u><u>\$8,123,609</u></u>	<u><u>\$6,968,266</u></u>
Liabilities and Net Assets		
Grants payable (Note 7)	\$1,670,194	\$1,563,122
Accounts payable and accrued expenses	155,576	117,570
Refundable deposits held	10,000	12,500
Agency funds payable	<u>-</u>	<u>25,291</u>
Total Liabilities	<u><u>1,835,770</u></u>	<u><u>1,718,483</u></u>
Commitments (Note 9)		
Net Assets		
Unrestricted	1,608,521	2,388,478
Temporarily restricted (Note 2a)	4,079,318	2,261,305
Permanently restricted (Note 2b)	<u>600,000</u>	<u>600,000</u>
Total Net Assets	<u><u>6,287,839</u></u>	<u><u>5,249,783</u></u>
Total Liabilities and Net Assets	<u><u>\$8,123,609</u></u>	<u><u>\$6,968,266</u></u>

* Certain amounts have been reclassified for comparative purposes.

See notes to financial statements.

THE AMERICAN INDIA FOUNDATION
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005			2004 *				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Changes in Net Assets								
Support and Revenue								
Contributions and grants	\$2,943,432	\$ 2,894,958	\$ -	\$5,838,390	\$1,739,704	\$ 1,860,710	\$ -	\$3,600,414
Benefit income	2,010,413	-	-	2,010,413	2,181,021	-	-	2,181,021
Less: Direct benefit expenses	(282,106)	-	-	(282,106)	(243,647)	-	-	(243,647)
Donated services and facilities (Note 8)	159,861	-	-	159,861	212,906	-	-	212,906
Realized loss on investments	(6,570)	-	-	(6,570)	(6,743)	-	-	(6,743)
Unrealized loss on investments	(50,107)	-	-	(50,107)	(3,918)	-	-	(3,918)
Gain on foreign currency exchange	32,934	-	-	32,934	-	-	-	-
Interest and other income	210,945	-	-	210,945	73,804	-	-	73,804
	<u>5,018,802</u>	<u>2,894,958</u>	<u>-</u>	<u>7,913,760</u>	<u>3,952,927</u>	<u>1,860,710</u>	<u>-</u>	<u>5,813,637</u>
Net assets released from restrictions:								
Satisfaction of time and program restrictions	1,076,945	(1,076,945)	-	-	1,622,980	(1,622,980)	-	-
Return of grants	-	-	-	-	-	(141,300)	-	(141,300)
	<u>6,095,747</u>	<u>1,818,013</u>	<u>-</u>	<u>7,913,760</u>	<u>5,575,907</u>	<u>96,430</u>	<u>-</u>	<u>5,672,337</u>
Total Support and Revenue								
Expenses								
Program Services	5,510,413	-	-	5,510,413	4,326,976	-	-	4,326,976
Supporting Services	491,287	-	-	491,287	423,701	-	-	423,701
Management and general	874,004	-	-	874,004	671,581	-	-	671,581
Fundraising	1,365,291	-	-	1,365,291	1,095,282	-	-	1,095,282
Total Supporting Services								
	<u>6,875,704</u>	<u>-</u>	<u>-</u>	<u>6,875,704</u>	<u>5,422,258</u>	<u>-</u>	<u>-</u>	<u>5,422,258</u>
Total Expenses								
Increase (decrease) in net assets	(779,957)	1,818,013	-	1,038,056	153,649	96,430	-	250,079
Net assets, at beginning of year	2,388,478	2,261,305	600,000	5,249,783	2,234,829	2,164,875	600,000	4,999,704
	<u>\$1,608,521</u>	<u>\$ 4,079,318</u>	<u>\$ 600,000</u>	<u>\$6,287,839</u>	<u>\$2,388,478</u>	<u>\$ 2,261,305</u>	<u>\$ 600,000</u>	<u>\$5,249,783</u>
Net Assets at End of Year								

* Certain amounts have been reclassified for comparative purposes.

See notes to financial statements.

THE AMERICAN INDIA FOUNDATION

STATEMENTS OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004 *</u>
Cash Flows From Operating Activities		
Increase in net assets	\$1,038,056	\$ 250,079
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	8,625	13,672
Donated securities	(85,974)	(346,370)
Realized loss on investments	6,570	6,743
Unrealized loss on investments	50,107	3,918
Increase in:		
Unconditional promises to give	(676,629)	(468,071)
Prepaid expenses and other current assets	(57,598)	(23,682)
Increase (decrease) in:		
Grants payable	107,072	1,182,154
Agency funds	(25,291)	(215,605)
Accounts payable and accrued expenses	38,006	108,188
Refundable deposits held	(2,500)	2,500
Net Cash Provided By Operating Activities	<u>400,444</u>	<u>513,526</u>
Cash Flows From Investing Activities		
Purchases of property and equipment	(6,244)	(3,158)
Purchases of investments	(3,616,813)	(1,724,196)
Proceeds from sale of investments	3,002,250	1,623,309
Net Cash Used By Investing Activities	<u>(620,807)</u>	<u>(104,045)</u>
Net increase (decrease) in cash and cash equivalents	(220,363)	409,481
Cash and cash equivalents, beginning of year	<u>2,906,918</u>	<u>2,497,437</u>
Cash and Cash Equivalents, End of Year	<u>\$2,686,555</u>	<u>\$2,906,918</u>

* Certain amounts have been reclassified for comparative purposes.

See notes to financial statements.

THE AMERICAN INDIA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

Note 1 - Organization and Summary of Significant Accounting Policies

a - Organization

The American India Foundation (AIF) is a not-for-profit organization formed to provide financial, technological, and managerial resources toward helping the people of India realize their full potential and strengthening the bonds between the United States of America (US) and India.

b - Related Organization

In December 2003, AIF signed a memorandum of understanding (MOU) with The American India Foundation Trust ("the Trust") located in India. The Trust will carry out developmental activities with funds provided by AIF. AIF and the Trust do not share any common members on their respective Board of Directors, and accordingly, the transactions of the Trust have not been included in the accompanying financial statements.

c - Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents, except for those short-term investments and cash managed by AIF's investment managers as part of their long term investment strategies.

d - Contributions and Unconditional Promises to Give

The Organization reports contributions received as unrestricted, temporarily restricted, or permanently restricted depending on the existence and/or nature of any donor restrictions. Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets.

The Organization uses the allowance method to determine uncollectible promises to give. The allowance is based on prior years experience and management's analysis of specific promises made.

e - Investments

The Organization reflects investments at fair value in the statement of financial position. Unrealized gains and losses on investments are reflected in the statement of activities. Interest, gains and losses on investments are reflected in the statement of activities as increases and decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. Investment income restricted by the donor is reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the income is recognized.

THE AMERICAN INDIA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

f - Property and Equipment

Property and equipment acquired are recorded at cost and are depreciated using the straight-line method over the estimated useful life of the related asset.

g - Financial Statement Presentation

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

h - Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

i - Income Taxes

The American India Foundation is a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been designated as an organization which is not a private foundation.

Note 2 - Restrictions on Assets

a - Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted for the following purposes:

	<u>2005</u>	<u>2004</u>
HIV	\$1,269,698	\$ -
Tsunami Relief	1,179,880	118,366
Livelihood	834,314	1,000,000
Donor advised funds	296,889	806,319
League of Artisans	216,233	-
Digital equalizer	100,000	-
Gujarat Earthquake Fund	72,154	55,223
Grant making	50,000	95,351
Donor Education	50,000	95,351
Other	10,150	-
General and administrative	-	90,695
	<u>\$4,079,318</u>	<u>\$2,261,305</u>

b - Permanently Restricted Net Assets

Permanently restricted net assets consist of two endowments totaling \$600,000. The investment income generated from the endowments is unrestricted and can be used for general purposes.

THE AMERICAN INDIA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

Note 3 - Concentration of Credit Risk

The Organization maintains cash and cash equivalent balances in financial institutions, which from time to time exceed the Federal Depository Insurance Corporation limit and subject the Organization to concentration of credit risk.

Note 4 - Investments

Investments are reflected at fair value and consist of the following:

	2005		2004	
	Cost	Fair Value	Cost	Fair Value
Corporate bonds	\$ 732,346	\$ 713,836	\$ -	\$ -
Mortgage backed securities	214,443	205,425	-	-
Municipal bonds	1,781,478	1,758,780	1,150,000	1,150,000
Certificates of deposit and auction instruments	1,422,010	1,418,394	2,050,000	2,050,000
Cash	40,033	40,033	-	-
Marketable equity securities	-	-	296,342	292,608
	<u>\$4,190,310</u>	<u>\$4,136,468</u>	<u>\$3,496,342</u>	<u>\$3,492,608</u>

Note 5 - Unconditional Promises to Give

Unconditional promises to give due within one year and are designated as follows:

	Unrestricted	Restricted for Future Programs and Periods	2005	2004
			Total	Total
Due within one year	\$ -	\$ 712,312	\$ 712,312	\$433,613
Due from one to five years	-	528,035	528,035	100,000
	-	1,240,347	1,240,347	533,613
Less: Discount	-	(39,402)	(39,402)	(9,297)
2005 Total	<u>\$ -</u>	<u>\$1,200,945</u>	<u>\$1,200,945</u>	
2004 Total	<u>\$ 333,613</u>	<u>\$ 190,703</u>		<u>\$524,316</u>

Uncollectible promises are expected to be insignificant.

Unconditional promises to give that are due in more than one year are discounted to net present value using a rate of 5%.

THE AMERICAN INDIA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

Note 6 - Property and Equipment

Property and equipment consist of the following:

	<u>Life</u>	<u>2005</u>	<u>2004</u>
Furniture, fixtures and equipment	5-7 years	\$ 7,282	\$ 7,282
Computer equipment	3-5 years	<u>56,558</u>	<u>50,314</u>
		63,840	57,596
Less: Accumulated depreciation		<u>(45,479)</u>	<u>(36,854)</u>
		<u>\$18,361</u>	<u>\$20,742</u>

Depreciation expense for the years ended December 31, 2005 and 2004 was \$8,625 and \$13,672, respectively.

Note 7 - Grant Making Activities

AIF provides grants to reputable Indian non-governmental organizations (NGO's) that are executing development projects in India. The initial focus of the grant making activities was to provide relief and rehabilitation assistance to victims of the Gujarat earthquake. The grant making activities have since expanded to focus on accelerating social and economic development in all of India.

AIF entered into various Memorandums of Understanding (MOUs) with the NGO's. These organizations are responsible for carrying out developmental activities with funds provided by AIF, and, if applicable, with matching contributions provided by other organizations. The amounts due to the NGO's are generally payable in installments based on certain criteria and/or milestones achieved as contained within the MOU. If at any stage AIF is not satisfied with the quantity or quality of the work on the project, it can withhold payment.

AIF awarded grants and incurred expenses in administering such grants. The grants were awarded in the following areas:

	<u>2005</u>	<u>2004</u>
Education	\$1,766,061	\$ 891,892
Gujarat Earthquake Fund	19,349	1,230,077
Livelihood	1,718,935	1,365,101
Tsunami Relief	840,835	-
Digital equalizer	478,096	106,000
Other grants	<u>153,448</u>	<u>92,085</u>
	<u>\$4,976,724</u>	<u>\$3,685,155</u>

THE AMERICAN INDIA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

Note 7 - Grant Making Activities (continued)

The unpaid balances of these grants are reflected as grants payable:

	<u>2005</u>	<u>2004</u>
Education	\$ 525,639	\$ 173,852
Gujarat Earthquake Fund	279,770	739,363
Livelihood	413,462	649,907
Tsunami Relief	<u>451,323</u>	<u>-</u>
	<u>\$1,670,194</u>	<u>\$1,563,122</u>

Note 8 - Donated Services and Facilities

Donated services and facilities consist of the following:

	<u>2005</u>	<u>2004</u>
Rent - New York	\$ 58,300	\$100,000
Legal fees	85,561	64,906
Rent - California	<u>16,000</u>	<u>48,000</u>
	<u>\$159,861</u>	<u>\$212,906</u>

AIF occupied office space in New York City for which no rent was paid from January 2005 - July 2005. AIF also utilizes a portion of an office located in California at no cost.

Note 9 - Commitments

a - In July 2005, AIF entered into a new one year lease for the rental of office space located in New York. The future minimum rental obligation under the new lease is approximately \$25,000. Rent expense for the office space was \$20,835 in 2005.

AIF also entered into a new two year lease for the rental of office space located in California. The future minimum rental obligation under the new lease is approximately \$30,000. Rent expense for the office space was \$10,060 in 2005.

THE AMERICAN INDIA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

Note 9 - Commitments (continued)

- b - On February 11, 2004, AIF signed a four-year agreement with the United Nations Foundation (UNF) to use its best efforts to raise at least \$1 million in support of the livelihoods component of a UNESCO sponsored project, "India World Heritage Biodiversity and Alternative Livelihoods Program". At December 31, 2005, the UNESCO project had yet to be finalized and submitted for approval to AIF's Board of Directors. Therefore, this commitment has not been accrued in these financial statements.

Note 10 - Functional Allocation of Expenses

The cost of providing the various programs and supporting services has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and the supporting services benefited.

ADDITIONAL INFORMATION

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INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION

To the Board of Directors of
The American India Foundation

Our report on our audits of the basic financial statements of The American India Foundation for 2005 and 2004 appears on page 1. We conducted our audits in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Functional Expenses for the year ended December 31, 2005 with comparative totals for 2004 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lotz + Carr, LLP

New York, New York
April 7, 2006

THE AMERICAN INDIA FOUNDATION
SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2005 WITH COMPARATIVE TOTALS FOR 2004

	Program Services				Support Services		2004* Total Expenses
	Service Corps	Digital Equalizer	Donor Education	League of Artisans	Grant Making	Total	
Salaries	\$ 38,908	\$ 57,411	\$ 57,740	\$ 27,917	\$ 54,966	\$ 236,942	\$ 394,769
Fringe and employee benefits	-	2,070	-	3,506	5,074	10,650	130,032
Stipends	6,407	-	-	-	-	6,407	31,915
Grants	15,054	478,096	35,053	-	4,448,521	4,976,724	3,685,155
Consulting	6,350	1,357	1,215	-	5,508	14,430	102,270
Professional services	-	-	-	-	-	-	89,101
Office supplies	587	429	1,292	3,835	776	6,919	43,521
Equipment, repairs and maintenance	346	43,843	982	25	343	45,539	97,272
Printing and postage	243	304	14,255	2,156	807	17,765	68,266
Insurance	15,981	8	-	-	13	16,002	25,128
Occupancy	10,766	4,257	12,419	417	9,503	37,362	195,494
Training	-	1,093	10,417	-	-	11,510	68,835
Travel and lodging	34,548	5,252	16,139	70	19,465	75,474	129,867
Indirect benefit expenses	-	-	-	-	-	-	317,517
Dues and fees	-	22	-	-	40	62	37,307
Depreciation	-	-	-	-	-	-	8,625
Promotional and development	1,413	424	43,624	144	1,272	46,877	120,164
Miscellaneous	64	-	2,080	4,965	641	7,750	4,153
Total Expenses, 2005	\$130,667	\$594,566	\$195,216	\$ 43,035	\$4,546,929	\$5,510,413	\$6,875,704
Total Expenses, 2004	\$223,118	\$315,716	\$111,212	\$ -	\$3,676,930	\$4,326,976	\$5,422,258
					\$ 874,004	\$1,365,291	
					\$ 423,701	\$1,095,282	

* Certain amounts have been reclassified for comparative purposes.

See independent auditor's report on additional information.