

ACDI/VOCA And Affiliates

Consolidated Financial Report
December 31, 2008

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McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
ACDI/VOCA
Washington, D.C.

We have audited the accompanying consolidated balance sheet of ACDI/VOCA and Affiliates (ACDI/VOCA) as of December 31, 2008, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of ACDI/VOCA's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of ACDI/VOCA's international affiliate, CredAgro LLC, whose statements reflect total assets and support and revenue constituting 55% and 11%, respectively, of the related totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as they relate to the amounts included for ACDI/VOCA, is based solely on the report of such other auditors. The prior year summarized comparative information has been derived from ACDI/VOCA's 2007 financial statements, and in our opinion dated May 29, 2008, based on our audit and the report of other auditors, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 audit and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the 2008 consolidated financial statements referred to above present fairly, in all material respects, the financial position of ACDI/VOCA and Affiliates as of December 31, 2008, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Vienna, Virginia
May 21, 2009

ACDI/VOCA And Affiliates

Consolidated Balance Sheet
 December 31, 2008
 (With Comparative Totals For 2007)

Assets	2008	2007
Cash And Cash Equivalents (Note 2)	\$ 26,243,101	\$ 24,519,023
Cash Surrender Value Of Life Insurance (Note 3)	480,784	431,473
Investments	-	262,583
Receivables, net (Note 4)	11,402,479	8,384,409
Loans Receivable - CredAgro & Frontiers, net (Note 5)	65,700,457	44,639,843
Other Assets	1,108,256	718,848
Inventory (Note 6)	1,580,339	3,918,531
Property And Equipment, net (Note 7)	2,583,715	1,083,787
	\$ 109,099,131	\$ 83,958,497
Liabilities And Net Assets		
Liabilities		
Accounts payable and accrued expenses (Note 8)	\$ 4,899,387	\$ 3,850,378
Refundable advances	30,804,921	28,543,699
Loans payable - CredAgro & Frontiers (Note 9)	51,923,194	35,563,305
Deferred rent (Note 17)	667,103	636,584
Deferred income	556,833	31,810
	88,851,438	68,625,776
Commitments and Contingencies (Notes 14, 15, and 17)		
Net Assets (Note 10)		
Unrestricted	3,968,055	3,372,267
Temporarily restricted (Note 11)	16,279,638	11,960,454
	20,247,693	15,332,721
	\$ 109,099,131	\$ 83,958,497

See Notes To Consolidated Financial Statements.

ACDI/VOCA And Affiliates

Consolidated Statement Of Activities
 Year Ended December 31, 2008
 (With Comparative Totals For 2007)

	2008			2007
	Unrestricted	Temporarily Restricted	Total	Total
Support and revenue:				
Contracts and grants	\$ 106,215,289	\$ 4,705	\$ 106,219,994	\$ 88,556,356
Interest income on loans	-	14,902,754	14,902,754	6,343,237
In-kind support (Note 1)	5,208,678	-	5,208,678	2,227,756
Contributions	46,649	-	46,649	37,190
Interest income	37,281	-	37,281	89,390
Other	54,796	178,382	233,178	323,332
Net assets released from restrictions	10,674,796	(10,674,796)	-	-
Total support and revenue	122,237,489	4,411,045	126,648,534	97,577,261
Expenses:				
Overseas program expenses	106,475,241	-	106,475,241	80,999,876
General and administrative	15,166,460	-	15,166,460	12,961,817
Total expenses	121,641,701	-	121,641,701	93,961,693
Change in net assets before currency translation	595,788	4,411,045	5,006,833	3,615,568
Currency translation (Note 11)	-	(91,861)	(91,861)	994,323
Change in net assets	595,788	4,319,184	4,914,972	4,609,891
Net assets:				
Beginning	3,372,267	11,960,454	15,332,721	10,722,830
Ending	\$ 3,968,055	\$ 16,279,638	\$ 20,247,693	\$ 15,332,721

See Notes To Consolidated Financial Statements.

ACDI/VOCA And Affiliates

Consolidated Statement Of Functional Expenses
Year Ended December 31, 2008
(With Comparative Totals For 2007)

	2008										
	Overseas Programs				General and Administrative						2007 Total
	ACDI/VOCA	CredAgro	Frontiers	Total Overseas Program Costs	ACDI/VOCA	ASI	VOCA	Total General and Administrative Costs	Total		
Subcontractors	\$ 46,999,806	\$ -	\$ -	\$ 46,999,806	\$ -	\$ -	\$ -	\$ -	\$ 46,999,806	\$ 32,635,812	
Salaries and benefits	24,913,219	2,543,479	160,916	27,617,614	10,363,527	469	-	10,363,996	37,981,610	32,990,394	
Overseas allowances/travel/relocation	5,927,631	46,160	17,302	5,991,093	964,173	-	-	964,173	6,955,266	6,920,168	
Occupancy	3,843,576	266,630	28,921	4,139,127	1,583,010	-	-	1,583,010	5,722,137	4,587,065	
Interest expense on loans	-	4,954,909	512,024	5,466,933	-	-	-	-	5,466,933	3,195,848	
In-kind support	5,159,268	-	-	5,159,268	49,410	-	-	49,410	5,208,678	2,227,756	
Equipment rental and maintenance	2,800,394	57,648	10,249	2,868,291	358,075	-	-	358,075	3,226,366	1,551,097	
Professional fees	975,523	25,532	14,359	1,015,414	297,145	162,496	1,192	460,833	1,476,247	1,492,928	
Office supplies and postage	1,002,940	56,629	1,192	1,060,761	231,879	-	-	231,879	1,292,640	1,308,390	
Income tax	-	1,162,046	96,605	1,258,651	-	-	-	-	1,258,651	1,126,219	
Telecommunications	963,971	117,331	11,036	1,092,338	164,873	-	-	164,873	1,257,211	996,816	
Consultants	1,076,258	68,717	-	1,144,975	46,683	-	-	46,683	1,191,658	500,718	
Training and workshops	803,429	-	7,585	811,014	7,097	128	-	7,225	818,239	402,612	
Meetings and conferences	275,710	-	-	275,710	199,761	-	-	199,761	475,471	257,050	
Publications and printing fees	282,303	-	-	282,303	129,819	238	-	130,057	412,360	96,962	
Staff development	122,381	-	-	122,381	124,357	-	-	124,357	246,738	35,722	
Depreciation and amortization	-	147,499	18,469	165,968	72,523	-	-	72,523	238,491	128,607	
Temporary services	26,750	-	-	26,750	66,246	-	-	66,246	92,996	1,936,678	
ACDI/VOCA memberships	8,158	-	-	8,158	69,736	-	-	69,736	77,894	-	
Bad debt	-	-	-	-	14,098	-	-	14,098	14,098	550,889	
Other	619,128	263,353	86,205	968,686	259,392	118	15	259,525	1,228,211	1,019,962	
	<u>\$ 95,800,445</u>	<u>\$ 9,709,933</u>	<u>\$ 964,863</u>	<u>\$ 106,475,241</u>	<u>\$ 15,001,804</u>	<u>\$ 163,449</u>	<u>\$ 1,207</u>	<u>\$ 15,166,460</u>	<u>\$ 121,641,701</u>	<u>\$ 93,961,693</u>	

See Notes To Consolidated Financial Statements.

ACDI/VOCA And Affiliates

Consolidated Statement Of Cash Flows
Year Ended December 31, 2008
(With Comparative Totals For 2007)

	2008	2007
Cash Flows From Operating Activities		
Change in net assets	\$ 4,914,972	\$ 4,609,891
Adjustments to reconcile change in net assets to net cash (used in) operating activities:		
Depreciation and amortization	238,491	128,607
Deferred rent	30,519	(9,369)
Allowance for doubtful accounts receivable	(24,842)	56,890
Allowance for doubtful loans receivable	321,261	363,757
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(2,993,228)	(783,839)
Loans receivable	(21,381,875)	(32,003,787)
Other assets	(389,408)	(534,728)
Inventory	2,338,192	1,339,087
Increase (decrease) in:		
Accounts payable and accrued expenses	1,049,009	238,733
Refundable advances	2,261,222	4,297,209
Deferred income	525,023	16,307
Net cash (used in) operating activities	(13,110,664)	(22,281,242)
Cash Flows From Investing Activities		
Purchase of investments	-	(262,583)
Proceeds from sale of investments	262,583	-
Purchase of property and equipment	(1,794,459)	(958,044)
Proceeds from property and equipment sales	56,040	50,681
Change in value of cash surrender value of life insurance	(49,311)	(46,407)
Net cash (used in) investing activities	(1,525,147)	(1,216,353)
Cash Flows From Financing Activities		
Proceeds from issuance of loans payable	16,359,889	30,698,496
Net cash provided by financing activities	16,359,889	30,698,496
Net increase in cash and cash equivalents	1,724,078	7,200,901
Cash And Cash Equivalents		
Beginning	24,519,023	17,318,122
Ending	<u>\$ 26,243,101</u>	<u>\$ 24,519,023</u>
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	\$ 4,450,789	\$ 1,124,688
Cash paid for taxes	<u>\$ 906,113</u>	<u>\$ 744,066</u>

See Notes To Consolidated Financial Statements.

ACDI/VOCA And Affiliates

Notes To Consolidated Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies

Nature of activities: ACDI/VOCA and Affiliates consist of five entities: ACDI/VOCA, Agribusiness Systems International (ASI) (Formally known as Agricultural Services International), CredAgro Non-Banking Credit Organization of Azerbaijan (CredAgro), Frontiers Microcredit Co. Ltd. (Frontiers), and VOCA Foundation (the Foundation), collectively (ACDI/VOCA). Agricultural Cooperative Development International (ACDI) and Volunteers in Overseas Cooperative Assistance (VOCA) combined their operations to create ACDI/VOCA, a nonprofit organization, effective January 1, 1997.

ACDI/VOCA is a private, nonprofit international development organization that has fostered broad-based economic growth, enhanced livelihoods and created vibrant communities in 145 nations. For 45 years ACDI/VOCA has enabled organizations, whether enterprises, financial institutions, cooperatives or associations, to manage and finance themselves and to succeed in the global economy.

ACDI/VOCA's practice areas are enterprise development, agribusiness, financial services and community development. In January 2009, a fifth practice area, food security, was added, to be fully effective by the end of 2009. A former USAID administrator called ACDI/VOCA "the premier agricultural development NGO in the world." As a recognized leader and developer of new enterprise development methodologies, ACDI/VOCA promotes economic growth in conjunction with poverty reduction. It reduces the cost and increases the efficiency of financial intermediation to provide access to needed financial services. ACDI/VOCA is an innovator and effective manager of food aid-based interventions that have positive development effects. It has hard-won experience in conflict-affected and fragile states, and proficiency at managing the transition from relief to development. While retaining a people-to-people orientation from its cooperative roots in development, ACDI/VOCA today designs and implements multidisciplinary economic and community development projects of significant scale and complexity.

Funding sources include USAID, USDA, US Department of State, the World Bank, UNDP, the European Bank for Reconstruction and Development, NEPAD, the Asian and Inter-American Development Banks, as well as private foundations, corporations and individual countries. Interventions are based on in-depth understanding of the unique markets, stakeholders and cultural contexts of the countries in which we operate and apply community-driven development approaches.

Agribusiness Systems International is a not-for-profit organization established in 1993 for the purpose of undertaking agricultural projects funded by nonfederal government sources. In 2008, ASI implemented 5 agribusiness consulting contracts in the Middle East.

The VOCA Foundation was established to preserve ACDI/VOCA's long-standing volunteer ethic and enhance ACDI/VOCA's standing as a pre-eminent volunteer organization. Its mission is to mobilize resources from private foundations, corporations and individual donors in order to expand volunteer-generated economic opportunities. In 2008, the VOCA Foundation managed two volunteer assignments for the Mars Corporation.

CredAgro, LLC is a for-profit limited liability company founded and wholly owned by ACDI/VOCA in Azerbaijan in 2000 under the USAID Cooperative Agreement 122-A-00-00-00010, Azerbaijan Rural Credit (ARC) Project. It is based in Baku, Azerbaijan and provides loans to farmers and rural enterprises in 9 regions of Azerbaijan. CredAgro maintains an outstanding loan portfolio of approximately US \$55.8 million with a Portfolio at Risk (PAR) (>30 days) of 1.65 percent. ACDI/VOCA received authority from USAID to retain the balance of funds that were loaned and repaid under the terms of ACDI/VOCA's agreement with USAID.

ACDI/VOCA And Affiliates

Notes To Consolidated Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

CredAgro has experienced considerable growth and expansion in FY 2008. The number of loans outstanding to customers grew more than 150 percent from 8,596 in 2007 to 13,773 in 2008. The value of loans to customers increased from \$37 million in 2007 to approximately \$56 million in 2008. To service this new business, the number of credit staff grew from 57 in 2007 to 86 in 2008. Due to economic conditions in Azerbaijan, CredAgro is purchasing or building branch locations rather than renting when feasible. CredAgro currently owns two branch properties. CredAgro is expected to continue as a fully sustainable financial institution growing through the expansion of its lending activities and services to rural enterprises in Azerbaijan.

Frontiers, LLC is a for-profit limited liability company founded by ACDI/VOCA in 2003 under the USAID Cooperative Agreement 122-A-00-01-00047 (CAMFA). It is based in Bishkek, Kyrgyzstan and provides wholesale loans to micro finance institutions (MFIs) in Central Asia. By the end of 2008, Frontiers had an active loan portfolio of over US \$9.8 million with practically no delinquency, and Portfolio at Risk (PAR) above 30 days is zero. Frontiers reached operational self sufficiency in the third quarter of 2005 – one full year ahead of projections and currently is fully operational and is 85 percent financially sustainable. With more than 1,000 MFIs registered in Kyrgyzstan, Kazakhstan, Tajikistan and Uzbekistan, there remains a substantial market for Frontiers' further growth and expansion. Presently, Frontiers offers a term loan for a maximum of 24 months, with interest rates varying according to risk. Future products will include a revolving line of credit for more mature clients and a hedging mechanism to reduce client foreign exchange risk. Under the CAMFA agreement, USAID agreed for US \$4.5 million disposition of funds for loan capital as passthrough to Frontiers. The original CAMFA project ended in September 2006, but CAMFA II will continue to provide support to Frontiers LLC through September 2009. CAMFA II actively supports leveraging Frontiers' donated capital by attracting alternative sources of funds and equity investors.

During the year ended December 31, 2008, CredAgro had net income of \$3,777,858 and Frontiers had net income of \$421,558, with Return on Equity (ROE) of 51 percent and 14 percent respectively.

ACDI/VOCA continues to provide support and oversight to CredAgro and Frontiers through its presence on their respective Board of Directors.

A summary of ACDI/VOCA's significant accounting policies follows:

Basis of accounting: The consolidated financial statements are prepared on the accrual basis of accounting, whereby, revenue is recognized when earned and expenses are recognized when incurred.

Principles of consolidation: The accompanying consolidated financial statements include the financial statements of ACDI/VOCA, ASI, VOCA Foundation, Frontiers and CredAgro. All material inter-organization transactions and balances have been eliminated in the consolidation.

Basis of presentation: The financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, ACDI/VOCA 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. ACDI/VOCA has no permanently restricted net assets at December 31, 2008.

Cash and cash equivalents: Cash and cash equivalents consist of cash and money market mutual funds.

The restricted cash consists of held monetization proceeds resulting from the sale of agricultural commodities donated to the Organization under Title II of the Agricultural Trade Development and Assistance Act of 1954 (Public Law (P.L.) 480, Title I) (7 USC 1722). These proceeds will be used to fund certain federal programs.

ACDI/VOCA And Affiliates

Notes To Consolidated Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Financial risk: ACDI/VOCA maintains its cash and cash equivalents in bank deposit accounts, which, at times, may exceed federally insured limits. ACDI/VOCA has not experienced any losses in such accounts. ACDI/VOCA believes it is not exposed to any significant financial risk on cash and cash equivalents held in the US.

Three factors could have an impact on ACDI/VOCA's project activities: high inflation in countries where ACDI/VOCA does business, currency exchange rate fluctuations, and instability in the banking sector overseas. One or all of these factors could have a measured impact on project activity in countries where costs are largely incurred in local currency but the project funds have been awarded in US dollars.

Life insurance: The cash surrender value is reflected at market value. To adjust to the carrying value of these life insurance policies, the change in fair market value is charged to current year operations.

Receivables: Receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a quarterly basis. The majority of ACDI/VOCA's receivables are comprised mainly of amounts billed to federal and non-federal grants, which are billable when expenditures are incurred. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. A receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 30 days. ACDI/VOCA does not charge interest on accounts receivable. At December 31, 2008, the allowance for doubtful accounts receivable was \$300,719.

Loan receivables: CredAgro reports loans at their outstanding principal balances net of unamortized deferred fees and costs on loan origination. Loan origination fees and certain direct costs are deferred and recognized as adjustments to income over the lives of related loans. CredAgro also provides equipment financing to customers through a variety of lease arrangements. Direct finance leases are carried at the aggregate of lease payments receivable plus estimated residual value of the leased property less unearned income.

Frontiers measures loans to customers at amortized costs, using the effective interest rate method, less allowance for impairment. All loans are recognized at the settlement date when the funds are given to borrowers. The amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate.

At December 31, 2008, the allowance for doubtful loans receivable was \$977,524.

Inventory: Inventory, consisting entirely of agricultural commodities, is either distributed directly to beneficiaries or monetized. The proceeds from monetization are used to fund development programs.

Monetization commodity is stated at the lower of cost or market. Cost is the value on the Bill of Lading plus ocean and inland freight costs. Market value is the estimated selling price on the open market less selling costs. Distribution commodity is stated at cost.

ACDI/VOCA occasionally conducts inventory swaps with other international organizations that are involved in agricultural commodity management. Under an inventory swap agreement, ACDI/VOCA distributes commodity to a partner organization to be repaid at a later date with inventory of an equivalent commodity and quantity. ACDI/VOCA continues to carry swapped commodity on its books as inventory even though the inventory is not held in its warehouses.

ACDI/VOCA And Affiliates

Notes To Consolidated Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Non-marketable commodity is written off as it becomes obsolete. ACDI/VOCA does not currently carry a reserve for inventory obsolescence.

Property and equipment: ACDI/VOCA capitalizes all property and equipment with a cost of \$5,000 or more that is purchased for purposes other than direct project activity. Property and equipment is stated at cost and depreciated on a straight-line basis over the estimated useful life of the assets. Leasehold improvements are depreciated over the lesser of the lease term or the estimated useful lives of the assets.

Furniture, vehicles and equipment purchased for direct use of foreign programs are expensed and charged to the award under which they were acquired, due to the short-term nature and purpose of the foreign programs. Disposition of vehicles, furniture and equipment is determined by the conditions of the award.

Fair value of financial instruments: The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents: For cash and cash equivalents, the carrying amount is a reasonable estimate of fair value.

Cash surrender value of life insurance: For cash surrender value of life insurance, the value is reflected at market value.

Loans receivable: The carrying amount of these amounts approximates fair value because of the short maturity of these loans. Fair value is adjusted in consideration of the allowance for possible uncollectible accounts.

Accounts receivable: The carrying amount of these amounts approximates fair value because of the short maturity of these instruments. Fair value is adjusted in consideration of the allowance for possible uncollectible accounts.

Accounts payable and accrued expenses: The carrying amount of these amounts approximates fair value because of the short maturity of these obligations.

Bond payable: The fair value of the bond payable is the amount payable at the reporting date.

Support and revenue: ACDI/VOCA receives awards from federal and non-federal entities for various purposes. Expense reimbursements not yet received are accrued to the extent such expenses have been incurred for the purposes specified by an approved award. ACDI/VOCA defers award revenues received under approved awards to the extent they exceed expenses incurred for the purposes specified under the award restrictions. These funds are reported as refundable advances.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted revenue is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Interest income on loans to customers is recognized when incurred on the original loan amount.

ACDI/VOCA And Affiliates

Notes To Consolidated Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Proceeds from monetization of commodities inventory is reported as a refundable advance.

In-kind support: ACDI/VOCA receives contributions of time from individuals who perform significant services, principally agricultural consulting and farmer volunteers. These services are valued at the estimated expense that would be required to employ staff to perform these functions. ACDI/VOCA also receives commodity donations from the federal government. A portion of these commodities are then donated to other implementing partners and individual beneficiaries. During the year ended December 31, 2008, the value of contributed services totaled \$1,848,745 and the value of donated commodities was \$3,310,523. ACDI/VOCA also recorded revenue and expenses for pro bono legal and professional services received in the amount of \$49,410. In addition, ACDI/VOCA, in accordance with the terms of awards from the U.S. government, raises third party contributions of goods, services and program income. The amount raised in the year ended December 31, 2008, was \$10,494,348.

Foreign currency translation: Monthly expenses that are incurred by project field office operations in foreign countries are translated using the adjusted weighted monthly average exchange rate in effect at the end of each month. At year-end, balances denominated in foreign currency are valued at the exchange rate in effect at year-end, with gains and losses recognized in the statement of activities.

Expenses: Direct costs associated with specific programs are recorded as program expenses. Fringe benefits are pooled and allocated based on salaries. General and administration expenses are unallocated in the statement of activities. There is a fringe benefit pool for staff hired through HQ. Local staff salaries are charged directly to the project.

Indirect expenses: Indirect costs are charged to all awards based on a provisional rate established by ACDI/VOCA's cognizant agency, USAID. Any variance between the provisional rate and the final negotiated rate is adjusted in the period when finalized. During the year ended December 31, 2008, ACDI/VOCA's indirect cost rate was calculated based on modified direct costs, in accordance with the approved NICRA.

Income tax status: ACDI/VOCA, ASI and VOCA Foundation are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code; however, income from certain activities not directly related to their tax-exempt purpose is subject to taxation as unrelated business income. None had taxable sources of unrelated business income for the year ended December 31, 2008. In addition, they qualify for the charitable contribution deduction and have been classified as organizations that are not private foundations. However, foreign affiliates Frontiers and CredAgro are subject to local income tax in the jurisdictions where they operate, and certain cross-border payments are subject to foreign withholding taxes.

Estimates: The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of support and revenue and expenses during the reporting period. Actual results could differ from those estimates.

Prior year information: The financial statements include certain prior year summarized comparative information in total but not by net asset class. 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 ACDI/VOCA's financial statements for the year ended December 31, 2007, from which the summarized information was derived.

Reclassifications: Certain items in the December 31, 2007 financial statements have been reclassified to conform to the December 31, 2008 financial statement presentation. These reclassifications had no effect on the previously reported change in net assets.

ACDI/VOCA And Affiliates

Notes To Consolidated Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Recent and upcoming accounting pronouncements: In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return including positions that the organization is exempt from income taxes or not subject to income taxes on unrelated business income. If there are changes in net assets as a result of application of FIN 48 these will be accounted for as an adjustment to the opening balance of net assets. Additional disclosures about the amounts of such liabilities will be required also. ACDI/VOCA presently discloses or recognizes income tax positions based on management's estimate of whether it is reasonably possible or probable, respectively, that a liability has been incurred for unrecognized income tax benefits by applying FASB Statement No. 5, Accounting for Contingencies. ACDI/VOCA has elected to defer the application of Interpretation 48 in accordance with FASB Staff Position (FSP) FIN 48-3. This FSP defers the effective date of Interpretation 48 for nonpublic enterprises, such as ACDI/VOCA, included within its scope to the annual financial statements for fiscal years beginning after December 15, 2008. ACDI/VOCA will be required to adopt FIN 48 in its 2009 annual financial statements. Management is currently assessing the impact of FIN 48 on its consolidated financial position and results of operations and has not determined if the adoption of FIN 48 will have a material effect on its financial statements.

Note 2. Cash And Cash Equivalents

Cash and cash equivalents consist of the following at December 31, 2008:

Amounts held for monetization	\$ 15,161,672
Amounts held at field offices	7,570,323
Amounts held at headquarters	2,098,365
Amounts held at CredAgro	876,287
Amounts held at Frontiers	536,454
	<u>\$ 26,243,101</u>

Note 3. Life Insurance Policies

ACDI/VOCA has life insurance policies on certain individuals. The face value of life insurance policies totaled \$1,300,000 and the cash surrender value is \$480,784 at December 31, 2008.

Note 4. Receivables

Receivables at December 31, 2008, held by ACDI/VOCA and U.S. Affiliates, consist of the following:

Grants receivable	\$ 11,528,554
Travel advances	136,554
Other	38,090
	<u>11,703,198</u>
Less allowance for doubtful account	300,719
	<u>\$ 11,402,479</u>

ACDI/VOCA And Affiliates

Notes To Consolidated Financial Statements

Note 5. Loans Receivable

Loans receivable - CredAgro	\$ 56,811,270
Loans receivable - Frontiers	9,866,711
	<u>66,677,981</u>
Less allowance for doubtful account	977,524
	<u><u>\$ 65,700,457</u></u>

Note 6. Inventory

At December 31, 2008, inventory was comprised of agricultural commodities of \$1,580,339 held, swapped, or on loan in Uganda and Haiti under its monetization programs.

Note 7. Property And Equipment

At December 31, 2008, property and equipment was comprised of the following:

	Estimated Useful Lives	Cost	Accumulated Depreciation	Net	Depreciation Expense
ACDI/VOCA:					
Furniture and equipment	5-7 years	\$ 612,678	\$ 409,614	\$ 203,064	\$ 22,550
Leasehold improvements	15 years	356,757	314,392	42,365	7,436
Software	3 years	351,544	332,374	19,170	42,537
Subtotal		<u>1,320,979</u>	<u>1,056,380</u>	<u>264,599</u>	<u>72,523</u>
CredAgro:					
Buildings	40 years	1,499,315	42,869	1,456,446	37,353
Land	-	267,256	-	267,256	-
Computer equipment	3-5 years	350,352	80,780	269,572	46,946
Vehicles	4 years	269,983	120,060	149,923	40,217
Furniture and equipment	5-7 years	169,519	30,360	139,159	22,983
Subtotal		<u>2,556,425</u>	<u>274,069</u>	<u>2,282,356</u>	<u>147,499</u>
Frontiers:					
Computer equipment	3-5 years	30,874	11,822	19,052	6,165
Vehicles	4 years	28,439	19,128	9,311	6,773
Furniture and equipment	5-7 years	27,373	18,976	8,397	3,070
Software	3 years	5,556	5,556	-	2,461
Subtotal		<u>92,242</u>	<u>55,482</u>	<u>36,760</u>	<u>18,469</u>
Grand total		<u><u>\$ 3,969,646</u></u>	<u><u>\$ 1,385,931</u></u>	<u><u>\$ 2,583,715</u></u>	<u><u>\$ 238,491</u></u>

ACDI/VOCA And Affiliates

Notes To Consolidated Financial Statements

Note 8. Accounts Payable And Accrued Expenses

Accounts payable and accrued expenses consist of the following at December 31, 2008:

	ACDI/VOCA & US Affiliates	CredAgro & Frontiers	Total
Accrued employee costs	\$ 2,247,644	\$ -	\$ 2,247,644
Accounts payable	1,119,049	-	1,119,049
Accrued interest	-	946,387	946,387
Other	18,685	567,622	586,307
	<u>\$ 3,385,378</u>	<u>\$ 1,514,009</u>	<u>\$ 4,899,387</u>

Note 9. Loans Payable

Frontiers and CredAgro have the following loans outstanding at December 31, 2008:

Entity	Payable to	Amount
Frontiers	Planet Finance	\$ 1,524,553
Frontiers	PF Oikocredit	1,365,794
Frontiers	Saint - Honore Microfinance Ltd	1,304,705
Frontiers	European Bank of Reconstruction and Development	836,240
Frontiers	ARIS	318,027
		<u>5,349,319</u>
CredAgro	DWM Securitizations S.A.	9,000,000
CredAgro	Texnikabank JSCB	5,862,672
CredAgro	Triple Jump	4,500,000
CredAgro	IFC	4,000,000
CredAgro	GMF	4,000,000
CredAgro	European Bank for Reconstruction and Development (EBRD)	3,400,000
CredAgro	KfW	3,154,536
CredAgro	Microvest	3,000,000
CredAgro	Blue Orchard	2,000,000
CredAgro	Dexia Fund	2,000,000
CredAgro	Credit Suisse	2,000,000
CredAgro	Oikocredit, Ecumenical Development Cooperative Society U.A.	1,490,000
CredAgro	Dual Return Fund	1,000,000
CredAgro	Symbiotics	666,667
CredAgro	Finethic Microfinance S.C.A.	500,000
		<u>46,573,875</u>
	Total loans payable	<u>\$ 51,923,194</u>

ACDI/VOCA And Affiliates

Notes To Consolidated Financial Statements

Note 10. Net Assets

Net assets at December 31, 2008, consist of the following:

ACDI/VOCA	
Unrestricted	\$ 3,921,641
Temporarily restricted	16,279,638
	<u>20,201,279</u>
Agricultural Services International - Unrestricted	2,466
VOCA Foundation - Unrestricted	43,948
	<u>\$ 20,247,693</u>

Note 11. Temporarily Restricted Net Assets

Temporarily restricted net assets include donor restricted and other funds, which are only available for program activities. Temporarily restricted net assets were released from restrictions, during the year ended December 31, 2008, due to the purpose restriction being accomplished.

	Balance December 31, 2007	Currency Translation	Additions	Released	Balance December 31, 2008
CredAgro	\$ 7,086,121	\$ 392,789	\$ 13,487,791	\$ 9,709,933	\$ 11,256,768
Frontiers	4,874,333	(484,650)	1,598,050	964,863	5,022,870
	<u>\$ 11,960,454</u>	<u>\$ (91,861)</u>	<u>\$ 15,085,841</u>	<u>\$ 10,674,796</u>	<u>\$ 16,279,638</u>

Note 12. Related Parties

During the year ended December 31, 2008, ACDI/VOCA had an affiliation agreement with the National Council of Farmer Cooperatives (NCFC), a not-for-profit trade association of agricultural cooperatives, for the purpose of promoting the mutual interests of each organization. ACDI/VOCA and one other not-for-profit organization entered into an agreement with NCFC whereby the two organizations would jointly occupy certain office space and share in the cost of leased space and certain other office expense. For the year ended December 31, 2008, rent in the amount of \$80,459 was paid to NCFC.

During the year ended December 31, 2008, Land O' Lakes performed work on two subagreements from ACDI/VOCA. The work performed was related to ACDI/VOCA's USAID agreements FAO-A-00-99-00016-00 and FAO-A-00-99-00018-00 for Farmer-to-Farmer programs in Russia, Armenia, Azerbaijan, and Georgia. Land O' Lakes was paid on a reimbursement basis by ACDI/VOCA for the work performed. For the year ended December 31, 2008, reimbursements in the amount of \$163,918 were paid to Land O' Lakes.

ACDI/VOCA And Affiliates

Notes To Consolidated Financial Statements

Note 13. Pension Plan

ACDI/VOCA has a noncontributory defined contribution pension plan covering all eligible domestic employees. Pension benefits are funded currently. Pension plan expense was \$831,419 for the year ended December 31, 2008. Certain officers of ACDI/VOCA are also trustees of the plan. ACDI/VOCA pays its overseas employees, in lieu of participating in the pension plan, an additional 10% of their basic pay as a retirement benefit. This expense amounted to \$569,070 for the year ended December 31, 2008.

Note 14. Commitments

At December 31, 2007, ACDI/VOCA has commitments under contracts and cooperative agreements of approximately \$299,010,491 through 2010. A significant portion of these agreements is with USAID and is funded through a Federal Reserve Letter of Credit (FRLC). Funds available under the FRLC as partial funding for the contract commitments were approximately \$107,400,318 as of December 31, 2008.

Note 15. Contingencies

Federal Grants: ACDI/VOCA participates in a number of federally-assisted award programs which are subject to financial and compliance audits by USAID or their representatives. As such, there exists a contingent liability for potential questioned costs that may result from such audits. Management does not anticipate any significant adjustments as a result from such audits.

Operations in foreign countries: ACDI/VOCA has operations in many countries throughout the world, many of which have politically and economically volatile environments and whose governments are still in development stages. As a result, ACDI/VOCA may have financial risks associated with these operations including such matters as the assessment of local taxes. No assessments of any such amounts have been received and, accordingly, no provision for such liabilities, if any, that might result from these operations have been made in the accompanying consolidated financial statements.

Litigation: In the normal course of operations, ACDI/VOCA has been involved in various litigation. Management is of the opinion, as of December 31, 2008, that any liability or loss resulting from such litigation will not have a material adverse effect on the consolidated financial position, net assets, or cash flows of ACDI/VOCA.

ACDI/VOCA is subject to certain other claims and assessments that arise during the ordinary course of business. Management believes most of these matters will be resolved in favor of ACDI/VOCA or will not have a material impact on the financial position of ACDI/VOCA. Other matters in which ACDI/VOCA may be liable will be covered by existing insurance.

Note 16. Volunteer Recruiting

ACDI/VOCA recruits expert volunteers who provide direct technical assistance and training to a number of projects. For the year ended December 31, 2008, these pooled recruiting costs totaled \$194,463 and they are recorded in overseas programs expenses on the consolidated statement of activities. These costs are allocated as a direct cost based on the number of project assignments conducted annually. As part of the NICRA process, a schedule of recruiting costs and recruiting cost allocation is provided to USAID for review and approval. Under accounting principles generally accepted in the United States of America, volunteer recruiting costs are considered fundraising expenses. The definition of fundraising under OMB Circular A-122 and accounting principles generally accepted in the United States of America are not the same.

ACDI/VOCA And Affiliates

Notes To Consolidated Financial Statements

Note 17. Lease Obligations

ACDI/VOCA has operating leases for their office spaces in Washington, D.C. and in various countries. The lease for the office in Washington, D.C. expires during the year ending December 31, 2014. The lease contains an option to extend the term of the lease for an additional period. The leases provided for rent abatements and annual incremental increases to the base rental. Rent expense is recorded on a straight-line basis over the entire lease term. Escalating rental payments and rent abatements are being amortized over the remaining life of the lease. The unamortized portion of these incentives is reported as deferred rent in the accompanying balance sheet. Deferred rent at December 31, 2008, is \$667,103. Total rent expense charged to operations during the year ended December 31, 2008, was \$5,426,586.

Future minimum lease payments under these operating leases are as follows:

Years Ending December 31,	U.S. Offices	Field Offices	Total
2009	\$ 1,263,954	\$ 907,756	\$ 2,171,710
2010	1,282,913	226,498	1,509,411
2011	1,302,157	133,142	1,435,299
2012	1,321,689	76,080	1,397,769
2013	1,340,933	44,380	1,385,313
2014	1,132,450	-	1,132,450
	<u>\$ 7,644,096</u>	<u>\$ 1,387,856</u>	<u>\$ 9,031,952</u>

Note 18. Subsequent Events

CredAgro received a \$3 million loan from Incofin on February 4, 2009. Also, on March 19, 2009, CredAgro received a \$4 million disbursement from the International Finance Corporation.

The Foundation board passed a resolution on June 16, 2009, to dissolve the company. The ACDI/VOCA board passed a resolution on the same date to establish a board designated fund known as the VOCA Foundation Fund. The Foundation's total net assets as of the date of the resolution are to be transferred to the VOCA Foundation Fund. The purpose of the newly created fund is to support volunteer programs at ACDI/VOCA.