ACDI/VOCA And Affiliates

Consolidated Financial Report
December 31, 2006

McGladrey & Pullen
Certified Public Accountants

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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, 2006, 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 affiliates, whose statements reflect total assets and support and revenue constituting 31% and 2%, 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 2005 financial statements, and in our opinion dated May 6, 2006, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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. The financial statements of ACDI/VOCA's international affiliate were not audited in accordance with *Government Auditing Standards.* 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of ACDI/VOCA and Affiliates as of December 31, 2006, 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

Bethesda, Maryland
June 6, 2007

ACDI/VOCA And Affiliates

Consolidated Balance Sheet
December 31, 2006
(With Comparative Totals For 2005)

Assets		2006		2005
Cash and cash equivalents (Note 2)	$	17,318,122	$	22,325,426
Cash surrender value of life insurance (Note 3)		385,066		341,593
Receivables, net (Note 4)		20,657,273		15,833,717
Prepaid expenses and deposits		184,120		211,468
Inventory (Note 5)		5,257,618		4,043,875
Property and equipment, net (Note 6)		305,031		246,614
	$	44,107,230	$	43,002,693

Liabilities And Net Assets				
Liabilities				
Accounts payable and accrued expenses (Note 7)	$	3,627,148	$	3,104,359
Refundable advances		24,246,490		29,115,986
Loans payable (Note 8)		4,864,809		800,000
Deferred rent (Note 16)		645,953		636,024
		33,384,400		33,656,369
Commitments and Contingencies (Notes 13, 14, and 16)				
Net Assets (Note 9)				
Unrestricted		2,215,002		1,731,413
Temporarily restricted (Note 10)		8,507,828		7,614,911
		10,722,830		9,346,324
	$	44,107,230	$	43,002,693

See Notes To Consolidated Financial Statements.

ACDI/VOCA And Affiliates

Consolidated Statement Of Activities
Year Ended December 31, 2006
(With Comparative Totals For 2005)

	2006			2005
	Unrestricted	Temporarily Restricted	Total	Total
Support and revenue:				
Contracts and grants	$ 87,069,181	$ 892,917	$ 87,962,098	$ 83,303,477
In-kind support (Note 1)	2,255,907	-	2,255,907	2,514,768
Interest income on loans	1,960,242	-	1,960,242	1,132,049
Interest income	50,199	-	50,199	-
Contributions	41,064	-	41,064	38,314
Other	43,473	-	43,473	165,213
Total support and revenue	91,420,066	892,917	92,312,983	87,153,821
Expenses:				
Overseas program expenses	79,618,371	-	79,618,371	75,380,516
General and administrative	11,318,106	-	11,318,106	9,636,726
Total expenses	90,936,477	-	90,936,477	85,017,242
Change in net assets	483,589	892,917	1,376,506	2,136,579
Net assets:				
Beginning	1,731,413	7,614,911	9,346,324	7,209,745
Ending	$ 2,215,002	$ 8,507,828	$ 10,722,830	$ 9,346,324

See Notes To Consolidated Financial Statements.

ACDI/VOCA And Affiliates

Consolidated Statement Of Functional Expenses
Year Ended December 31, 2006
(With Comparative Totals For 2005)

	2006									
	Overseas Programs					General and Administrative				
	ACDI/VOCA	VOCA	CredAgro	Frontiers	Total Overseas Program Costs	ACDI/VOCA	VOCA	Total General and Administrative Costs	Total	2005 Total
Subcontractors	$ 39,383,162	$ 25,000	$ -	$ -	$ 39,408,162	$ -	$ -	$ -	$ 39,408,162	$ 39,135,053
Salaries and benefits	20,421,444	-	377,880	87,913	20,887,237	7,764,551	-	7,764,551	28,651,788	25,340,280
Overseas allowances/travel/relocation	5,648,211	-	19,278	35,344	5,702,833	585,802	-	585,802	6,288,635	5,557,915
Occupancy	2,056,904	-	71,615	21,616	2,150,135	1,478,013	-	1,478,013	3,628,148	3,229,224
In-kind	2,255,907	-	-	-	2,255,907	-	-	-	2,255,907	2,514,768
Equipment rental and maintenance	1,909,787	-	23,729	2,823	1,936,339	161,849	-	161,849	2,098,188	2,397,882
Training and workshops	1,832,183	-	-	-	1,832,183	4,154	-	4,154	1,836,337	1,916,286
Office supplies and postage	871,358	-	16,655	2,606	890,619	112,039	181	112,220	1,002,839	1,019,754
Professional fees	1,086,816	-	-	14,355	1,101,171	273,079	-	273,079	1,374,250	926,452
Telecommunications	669,167	-	27,399	4,415	700,981	111,601	-	111,601	812,582	755,998
Consultants	480,150	-	-	-	480,150	23,549	-	23,549	503,699	506,849
Meetings and conferences	400,217	-	-	-	400,217	176,599	-	176,599	576,816	416,806
Publications and printing fees	200,903	-	-	-	200,903	106,284	-	106,284	307,187	293,790
Staff development	105,755	-	-	-	105,755	145,261	-	145,261	251,016	120,698
Depreciation	-	-	45,253	11,677	56,930	70,325	-	70,325	127,255	117,481
ACDI/VOCA memberships	5,698	-	-	-	5,698	97,582	-	97,582	103,280	98,366
Temporary services	356	-	-	-	356	61,793	-	61,793	62,149	61,151
Other	655,245	-	646,754	200,796	1,502,795	145,444	-	145,444	1,648,239	608,489
	$ 77,983,263	$ 25,000	$ 1,228,563	$ 381,545	$ 79,618,371	$ 11,317,925	$ 181	$ 11,318,106	$ 90,936,477	$ 85,017,242

See Notes To Consolidated Financial Statements.

ACDI/VOCA And Affiliates

Consolidated Statement Of Cash Flows
Year Ended December 31, 2006
(With Comparative Totals For 2005)

	2006	2005
Cash Flows From Operating Activities		
Change in net assets	$ 1,376,506	$ 2,136,579
Adjustments to reconcile change in net assets to net cash (used in) operating activities:		
Depreciation and amortization	127,255	117,481
Deferred rent	9,929	2,685
Change in value of cash surrender value of life insurance	(43,473)	(43,821)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(4,823,556)	(5,459,927)
Prepaid expenses and deposits	27,348	(16,017)
Inventory	(1,213,743)	(2,589,210)
Increase (decrease) in:		
Accounts payable and accrued expenses	522,789	(44,897)
Refundable advances	(4,869,496)	(604,999)
Net cash (used in) operating activities	(8,886,441)	(6,502,126)
Cash Flows From Investing Activities		
Purchase of property and equipment	(185,672)	(79,886)
Net cash (used in) investing activities	(185,672)	(79,886)
Cash Flows From Financing Activities		
Proceeds from issuance of loans payable	4,064,809	800,000
Net cash provided by financing activities	4,064,809	800,000
Net (decrease) in cash and cash equivalents	(5,007,304)	(5,782,012)
Cash And Cash Equivalents		
Beginning	22,325,426	28,107,438
Ending	$ 17,318,122	$ 22,325,426

See 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, Agricultural Services International (ASI), 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 dedicated to providing technical assistance in areas of agriculture, economic development, financial services and community development to identify and create economic opportunities for cooperatives, farmer associations, small and medium sized entrepreneurs and community development organizations.

Agricultural Services International is a not-for-profit organization established in 1993 for the purpose of undertaking agricultural projects funded by nonfederal government sources. ASI's activity during the year was only with the VOCA Foundation.

The VOCA Foundation was established to preserve ACDI/VOCA's long-standing volunteer ethic and enhance the company'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.

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 nine regions of Azerbaijan. CredAgro maintains an outstanding loan portfolio of over $9 million with a portfolio at risk (>30 days) of 0.43 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. CredAgro is expected to continue as a sustainable financial institution that continues to grow through 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 2007, Frontiers will have an active loan portfolio of over $4.5 million. Frontiers reached operational self sufficiency in the third quarter of 2005 – one full year ahead of projections. 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 provided $3 million in loan capital as passthrough funds to Frontiers. The original CAMFA project ended in September 2006, but CAMFA II will continue to provide support to Frontiers LLC, and will encourage leveraging Frontiers' donated capital and attracting alternative sources of funds and equity investors.

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.

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

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, 2006.

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.

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.

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 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, 2006, the allowance for doubtful accounts was $504,572.

Inventory: Inventory, consisting entirely of agricultural commodities, is stated at domestic market value on the Bill of Lading plus ocean and inland freight costs. Management determines the allowance for obsolete inventory by identifying nonmarketable items. Items are written off when deemed unmarketable. There is no provision for obsolete inventory at December 31, 2006.

Property and equipment: ACDI/VOCA capitalizes all property and equipment with a cost of $5,000 or more purchased with non-federal funds. 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 grant under which they were acquired, due to the short-term nature and purpose of the foreign programs.

Support and revenue: ACDI/VOCA receives awards from federal agencies 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.

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

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.

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. Revenues and expenses of $2,255,907 were recorded during the year ended December 31, 2006, to reflect the value of these contributed services. 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, 2006, was $8,295,185.

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, 2006, 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, 2006. 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.

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

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, 2005, from which the summarized information was derived.

Reclassifications: Certain items in the December 31, 2005 financial statements have been reclassified to conform to the December 31, 2006 financial statement presentation. These reclassifications had no effect on the previously reported change in net assets.

Note 2. Cash And Cash Equivalents

Cash and cash equivalents consist of the following at December 31, 2006:

Amounts held for monetization	$ 9,912,281
Amounts held at field offices	4,195,282
Amounts held at headquarters	3,210,559
	$ 17,318,122

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 $385,066 at December 31, 2006.

Note 4. Receivables

Receivables at December 31, 2006, consist of the following:

Loans receivable	$ 13,235,714
Grants receivable	7,674,242
Travel advances	69,408
Other	182,481
	21,161,845
Less allowance for doubtful account	504,572
	$ 20,657,273

Note 5. Inventory

At December 31, 2006, inventory was comprised of agricultural commodities of $5,257,618 held in Uganda and Rwanda under its monetization programs.

Note 6. Property And Equipment

At December 31, 2006, property and equipment was comprised of the following:

	Estimated Useful Lives	Cost	Accumulated Depreciation	Net	Depreciation Expense
Furniture and equipment	5-7 years	$ 355,405	$ 311,948	$ 43,457	$ 60,569
Leasehold improvements	15 years	422,464	379,600	42,864	6,240
Vehicles (CredAgro)	4 years	67,487	48,338	19,149	18,595
Building (CredAgro)	40 years	67,118	934	66,184	825
Intangible (CredAgro)	Various	66,473	7,107	59,366	7,107
Software	3 years	396,937	322,926	74,011	33,919
		$ 1,375,884	$ 1,070,853	$ 305,031	$ 127,255

Note 7. Accounts Payable And Accrued Expenses

Accounts payable and accrued expenses consist of the following at December 31, 2006:

Accounts payable	$ 1,330,198
Accrued vacation	665,465
Accrued payroll	650,405
Other	981,080
	$ 3,627,148

Note 8. Loans Payable

Frontiers has one loan from Saint – Onore Microfinance Ltd., totaling $577,829 at December 31, 2006.

CredAgro has the following loans outstanding at December 31, 2006:

	Date of Isssue	Date of Maturity	Amount
Dexia Micro-Credit Fund	11/15/2005	06/15/2007	$ 381,066
Symbiotics (1st loan)	08/15/2006	02/15/2008	476,331
Oikocredit, Ecumenical Development Cooperative Society U.A.	09/05/2006	09/05/2009	571,597
DWM Securitizations S.A.	10/19/2006	06/08/2011	952,662
Finethic Microfinance S.C.A.	10/30/2006	04/30/2008	476,331
Symbiotics (2nd loan)	10/03/2006	10/03/2008	476,331
European Bank for Reconstruction and Development ("EBRD")	12/01/2006	09/22/2009	952,662
Total CredAgro Loans Payable			$ 4,286,980

Note 9. Net Assets

Net assets at December 31, 2006, consist of the following:

ACDI/VOCA	
Unrestricted	$ 2,006,442
Temporarily restricted	8,507,828
	10,514,270
Agricultural Services International - Unrestricted	188,746
VOCA Foundation - Unrestricted	19,814
	$ 10,722,830

Note 10. 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, 2006, due to the purpose restriction being accomplished.

	December 31, 2005	Additions	Released	Balance December 31, 2006
CredAgro	$ 4,651,000	$ 391,159	$ -	$ 5,042,159
Frontiers	2,963,911	501,758	-	3,465,669
	$ 7,614,911	$ 892,917	$ -	$ 8,507,828

Note 11. Related Parties

During the year ended December 31, 2006, 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, 2006, rent in the amount of $79,468 was paid to NCFC. In addition, $22,024 was paid to NCFC for other office expenses during the year ended December 31, 2006.

Note 12. 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 $566,914 for the year ended December 31, 2006. 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 $348,542 for the year ended December 31, 2006.

Note 13. Commitments

At December 31, 2006, ACDI/VOCA has commitments under contracts and cooperative agreements of approximately $247,321,041 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 $120,569,835 as of December 31, 2006.

Note 14. Contingencies

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.

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: Multiple claims have been filed against ACDI/VOCA. Three employment-related claims have been filed by local or former local staff of the Cairo, Egypt field office. A sexual harassment complaint has been filed by a former local staff member of Kampala, Uganda office. A worker's compensation claim has been filed by a former Uganda office project worker. A wrongful termination claim has been filed by a former member of the headquarters staff in Washington, D.C. A D.C. worker's compensation based contract claim has been filed by a former overseas project employee. In all cases management has sought the assistance of competent counsel to vigorously defend these various claims and has also undertaken to negotiate settlement of the claims in a timely manner. In the D.C. worker's compensation based claim the claimant is recently deceased, raising the expectation that this claim will likely be withdrawn. ACDI/VOCA's general counsel states that ACDI/VOCA has clearly viable defenses against each of the claims pending and estimates a level of corporate exposure which is not material.

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 to the benefit 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 15. 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, 2006, these pooled recruiting costs totaled $383,346 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.

Note 16. 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, 2006, is $645,593. Total rent expense charged to operations during the year ended December 31, 2006, was $3,628,148.

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

Years Ending December 31,	U.S. Offices	Field Offices	Total
2007	$ 1,237,372	$ 765,498	$ 2,002,870
2008	1,245,275	188,719	1,433,994
2009	1,263,954	151,100	1,415,054
2010	1,282,913	-	1,282,913
2011 to 2014	5,097,229	-	5,097,229
	$ 10,126,743	$ 1,105,317	$ 11,232,060