

MICROCREDIT ENTERPRISES

(A California Not-For-Profit Organization)

FINANCIAL STATEMENTS

DECEMBER 31, 2007

MICROCREDIT ENTERPRISES

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Independent Auditors' Report

Board of Directors
MicroCredit Enterprises

We have audited the accompanying statement of financial position of MicroCredit Enterprises (a California not-for-profit Organization) as of December 31, 2007 and the related statements of activities and cash flows for the year 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 audit.

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 provides 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 Micro Credit Enterprises as of December 31, 2007, and the related statement of activities and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

RINA accountancy corporation

Certified Public Accountants

Oakland, California
February 6, 2008

MICROCREDIT ENTERPRISES**STATEMENT OF FINANCIAL POSITION - DECEMBER 31, 2007****ASSETS****CURRENT:**

Cash and cash equivalents	\$ 1,312,709
Investments	1,900,000
Current portion of loan receivable from microfinance institutions	3,844,166
Interest receivable	69,725
Dividends receivable	20,000
Pledge receivable	25,000
Prepaid expenses	4,837

TOTAL CURRENT ASSETS 7,176,437

Loans receivable from microfinance institutions 5,030,834

TOTAL ASSETS \$ 12,207,271

LIABILITIES AND NET ASSETS**CURRENT:**

Accounts payable	\$ 10,819
Interest payable	72,702
Other payables	28,455

TOTAL CURRENT LIABILITIES 111,976

LONG -TERM:

Deferred loan origination fees	60,681
Lines of credit	10,800,000
Note payable	500,000

TOTAL LIABILITIES 11,472,657

NET ASSETS:

Unrestricted	221,914
Temporarily restricted	512,700
Permanently restricted	0

TOTAL LIABILITIES AND NET ASSETS \$ 12,207,271

MICROCREDIT ENTERPRISES**STATEMENT OF ACTIVITIES****YEAR ENDED DECEMBER 31, 2007**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT:			
Revenue from Microfinance lending activities:			
Interest income - microfinance loans	\$ 632,577	\$ 0	\$ 632,577
Amortization of loan origination fees	22,474	0	22,474
Interest expense	<u>(341,952)</u>	<u>0</u>	<u>(341,952)</u>
Net revenue from microfinance lending activities	313,099	0	313,099
Other revenue and support:			
Contributions and grants	129,689	512,700	642,389
Pro bono services	1,103,360	0	1,103,360
Dividend income	68,677	0	68,677
Interest income	4,076	0	4,076
Realized losses	(6,091)	0	(6,091)
Unrealized losses	(1,230)	0	(1,230)
Other income	<u>4,400</u>	<u>0</u>	<u>4,400</u>
TOTAL REVENUE AND SUPPORT	<u>1,615,980</u>	<u>512,700</u>	<u>2,128,680</u>
OPERATING EXPENSES:			
Program services	831,357	0	831,357
Management and general	<u>546,531</u>	<u>0</u>	<u>546,531</u>
TOTAL OPERATING EXPENSES	<u>1,377,888</u>	<u>0</u>	<u>1,377,888</u>
INCREASE IN NET ASSETS	238,092	512,700	750,792
NET ASSETS, beginning of year	25,223	0	25,223
NET ASSETS TRANSFERRED UPON MERGER	<u>(41,401)</u>	<u>0</u>	<u>(41,401)</u>
NET ASSETS, end of year	<u>\$ 221,914</u>	<u>\$ 512,700</u>	<u>\$ 734,614</u>

See notes to financial statements.

MICROCREDIT ENTERPRISES**STATEMENT OF CASH FLOWS****YEAR ENDED DECEMBER 31, 2007**

CASH FLOWS FROM OPERATING ACTIVITIES:

Contributions and grants received from donors and grantors	\$ 617,389
Interest and loan origination fees received from micro finance institutions	610,931
Collections on other receivable	262
Cash used in operating activities	(227,678)
Loans made to micro finance institutions	(4,075,000)
Interest paid to financial institutions	(355,210)

NET CASH USED IN OPERATING ACTIVITIES (3,429,306)

CASH FLOWS FROM INVESTING ACTIVITIES:

Acquisition of investments	(6,282,321)
Proceeds on sale of investments	4,675,000

NET CASH USED IN INVESTING ACTIVITIES (1,607,321)

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from lines of credit	6,000,000
Proceeds from note payable	200,000
Cash transferred upon merger	124,113

NET CASH PROVIDED BY FINANCING ACTIVITIES 6,324,113

NET INCREASE IN CASH 1,287,486

CASH AND CASH EQUIVALENTS, beginning of year 25,223

CASH AND CASH EQUIVALENTS, end of year \$ 1,312,709

MICROCREDIT ENTERPRISES**STATEMENT OF CASH FLOWS****YEAR ENDED DECEMBER 31, 2007**RECONCILIATION OF NET LOSS TO NET CASH USED IN OPERATING
ACTIVITIES:

Change in net assets	\$ 750,792
Adjustments to reconcile change in net assets to cash used by operating activities:	
Realized investment losses	6,091
Unrealized investment losses	1,230
Increase in interest receivable	(63,396)
Increase in pledge receivable	(25,000)
Increase in dividends receivable	(20,000)
Decrease in other receivables	262
Decrease in prepaid expenses	423
Increase in loans receivable	(4,075,000)
Increase in accounts payable	10,819
Decrease in interest payable	(13,258)
Decrease in other payable	(21,545)
Increase in deferred loan origination fees	19,276
	<u>19,276</u>
 NET CASH USED IN OPERATING ACTIVITIES	 <u>\$ (3,429,306)</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Non-cash transactions:	
Donated stock	\$ 40,000
Pro bono services	1,103,360
Non-cash assets and liabilities transferred upon merger:	
Current assets	11,851
Loans receivable from microfinance institutions	4,800,000
Current liabilities	(135,960)
Long term debt	(4,841,405)

MICROCREDIT ENTERPRISES

NOTES TO FINANCIAL STATEMENTS - DECEMBER 31, 2007

Note 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of activities:

MicroCredit Enterprises (“the Organization”) is a California nonprofit public benefit organization which offers an innovative approach to mobilize private capital to help the impoverished. The Organization leverages private capital as collateral for loans to finance micro-businesses throughout the developing world.

The Organization’s principal financial benefactors are guarantors. To provide financial backing, an accredited individual, a foundation, an organization or an institution with assets guarantees and collateralizes a financial line-of-credit provided by a financial institution to the Organization. The Organization then borrows money from the guarantor-collateralized lines of credit in order to make loans to microfinance institutions (MFIs) in developing countries which, in turn, provide micro-credit business loans to individuals, mostly women, in developing countries, who are living in extreme poverty. The impoverished loan recipients generally have no credit history, no collateral and no formal education, but with microloans they can create and build home-based businesses.

Guarantors accept the risk of providing collateral in exchange for achieving a social purpose. Collateralized amounts are maintained in separately-administered and guarantor-controlled investment instruments (such as mutual funds, stocks, bonds, money market accounts, etc.).

Each \$1 million of collateral (which is the minimum required) approximates up to 5,000 new micro-credit business loans feeding as many as 25,000 people in the developing world. New micro-credit business loans (for a 4 – 6 month term) can begin as low as \$25 per borrower.

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, as applicable.

Public support and other revenue:

Contributions and grants are recorded as revenue at the date when an unconditional promise is made. Donor-restricted contributions and grants are recorded as temporarily restricted revenues and are reclassified to unrestricted net assets when a stipulated time restriction ends or purpose restriction is accomplished.

Interest income on microfinance loans is recognized as earned.

Loan origination fees on loans are deferred and recognized over the contractual lives of the related loans.

Donated services are recognized as contributions in accordance with SFAS 116, *Accounting for Contributions Received and Contributions Made*, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.

MICROCREDIT ENTERPRISES

NOTES TO FINANCIAL STATEMENTS - DECEMBER 31, 2007

Note 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Fair values of financial instruments:

The following methods and assumptions were used by the Organization in estimating its fair value disclosures for financial statements for which it is practicable to estimate:

Cash, cash equivalents and pledges receivable due in less than one year:

The carrying amount approximates fair values because of the short maturities of those instruments.

Short-term investments:

The investments are carried at fair value, based upon quoted market prices. Realized and unrealized gains and losses arising from investments are determined on a first-in, first-out basis and are reflected in the statement of activities.

Long-term debt:

The fair value of lines of credit and notes payable are based on their carrying amounts.

Cash and cash equivalents:

Cash equivalents are considered to be short-term, highly liquid investments with original maturities of three months or less.

Allowance for uncollectible loans receivable:

Although the Organization is on the allowance method, management has determined that due to reserves provided against MFI Loan defaults by the Hunter Douglas Endowment Fund (as described below) no separate allowance for uncollectible loans is currently required.

Hunter Douglas Endowment for Microfinance Sustainability Fund:

The Fund is maintained as a permanent revolving account to support the Organization's loans to MFIs during weak financial times and to temporarily fund any potential first-dollar loan losses which might arise from MFI loans defaults to the Organization. As of December 31, 2007, assets reserved under the Fund totaled \$1,000,000 consisting of short term investments funded through a \$500,000 donor-restricted contribution and a \$500,000, 5 year, annually renewable, interest free loan intended for this purpose.

Income taxes:

The Organization has received notice of exemption from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the Revenue and Taxation Code of California.

Note 2. NATURE OF ESTIMATES:

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

MICROCREDIT ENTERPRISES

NOTES TO FINANCIAL STATEMENTS - DECEMBER 31, 2007

Note 3. CONCENTRATIONS OF CREDIT RISK:

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents and loans receivable. Cash and cash equivalents were held in financial institutions in amounts exceeding the guaranteed amount of the Federal Deposit Insurance Commission. Loans receivable consist of loans made to microfinance institutions located in developing regions (presently, South America, Africa, Southeast and Central Asia). These institutions loan the money to finance micro businesses in the local countries. The Organization's policy is to diversify loans across countries and geographic regions.

Note 4. INVESTMENTS:

Short-term investments are stated at fair value and consist of the following as of December 31, 2007:

	Cost	Fair Value	Unrealized Gains (Losses)
Money market instruments	\$ 1,401,230	\$ 1,400,000	\$ (1,230)
Municipal securities	500,000	500,000	0
	\$ 1,901,230	\$ 1,900,000	\$ (1,230)

Net realized losses from the sale of investments in the amount of \$6,091 are included in net income in 2007. The first-in, first-out (FIFO) method is used to determine the cost of each security at the time of sale. All of the investments are earmarked as collateral against possible defaults on notes receivable from microfinance institutions.

Note 5. LONG-TERM LOANS RECEIVABLE:

The Organization loans money to microfinance institutions at interest ranging from 8% to 10%. In most cases, interest is payable quarterly until the loan is paid in full, principal payments commence 18 months after the disbursement date and are made semiannually in equal installments through the maturity date of the loan.

Maturities on long-term receivables from microfinance institutions for the three years subsequent to December 31, 2007 are as follows:

Year Ending <u>December 31,</u>	
2008	\$ 3,844,166
2009	3,846,666
2010	1,184,168
Total	\$ 8,875,000

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NOTES TO FINANCIAL STATEMENTS - DECEMBER 31, 2007

Note 6. LINE OF CREDIT:

The Organization has a line of credit with Calvert Social Investment Foundation, a 501(c)(3) private foundation, which is not to exceed \$3.6 million. It is secured by the guarantees of the Organization's guarantors. Interest is charged at a fixed rate of 5.0% per annum and is payable semiannually. The principal plus any unpaid interest will be payable at maturity on December 31, 2012. There was an outstanding balance of \$3,600,000 on the line of credit as of December 31, 2007.

The Organization also has a line of credit with MSST Foundation, a 501(c)(3) private foundation, which is not to exceed \$2,400,000. It is secured by the guarantees of the Organization's guarantors. Interest is charged at a fixed rate of 4% per annum and is payable semiannually. The principal plus any unpaid interest will be payable at maturity on September 29, 2011. There was an outstanding balance of \$2,400,000 on the line of credit as of December 31, 2007.

The Organization also has a line of credit with The Tokyo Star Bank, a bank organized under the laws of Japan, which is not to exceed \$4,800,000. It is secured by the guarantees of the Organization's guarantors. Interest is charged at U.S. treasury rate plus 0.25% per annum and is payable quarterly. The principal plus any unpaid interest will be payable at maturity on February 28, 2012. There was an outstanding balance of \$4,800,000 on the line of credit as of December 31, 2007.

Note 7. PRO BONO SERVICES:

The value of donated services included as contributions in the financial statements and the corresponding program service and management expenses for the years ended December 31, 2007 are as follows:

	<u>Program Services</u>	<u>Management and General</u>	<u>Total Pro bono Services</u>
Officers' services provided pro bono	\$ 253,000	\$ 269,000	\$ 522,000
Legal services	<u>306,552</u>	<u>274,808</u>	<u>581,360</u>
	<u>\$ 559,552</u>	<u>\$ 543,808</u>	<u>\$ 1,103,360</u>

Note 8. NOTE PAYABLE:

At December 31, 2007, the Organization had an unsecured note payable to a not-for-profit public benefit organization in the amount of \$500,000. No interest is charged on the note. The note, which is annually renewable, is payable upon maturity on July 6, 2012, unless the due date is extended.

MICROCREDIT ENTERPRISES

NOTES TO FINANCIAL STATEMENTS - DECEMBER 31, 2007

Note 9. RESTRICTIONS ON NET ASSETS:

Temporarily restricted net assets available on December 31, 2007 are related to funds raised in support of the following programs:

Fund to Alleviate Extreme Poverty: The fund gives donors the opportunity to support the Organization's microloan programs with direct grants or contributions. 100% of every donation received directly funds microloans for deeply impoverished entrepreneurs, nearly all of them women with children. No overhead, administrative fees or fundraising costs are paid with these funds. As of December 31, 2007, temporarily restricted net assets available under this program totaled \$12,700.

Hunter Douglas Endowment for Microfinance Sustainability: The fund is a revolving account to support loans to MFIs during weak financial times and to temporarily fund any potential first-dollar loan losses which might arise from MFI loans defaults and consist of endowment fund investments to be held indefinitely, the income from which is expendable to support the microfinance activities of the Organization. As of December 31, 2007, temporarily restricted net assets available under this program totaled \$500,000.

Note 10. MERGER:

On January 2, 2007, the Organization, formerly MicroEnterprises Fund, Inc., entered into an Agreement of Merger with MicroCredit Enterprises, LLC, a Delaware Limited Liability Company. As a result of the merger, MicroCredit Enterprises, LLC's separate existence was terminated. As the surviving entity, the Organization succeeded to all rights and property and was subject to all debts and liabilities of the LLC. As of January 2, 2007, the Organization changed its name to MicroCredit Enterprises.