

MICROCREDIT ENTERPRISES

(A California Not-For-Profit Organization)

FINANCIAL STATEMENTS

DECEMBER 31, 2008 and 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, 2008 and December 31, 2007 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 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 MicroCredit Enterprises as of December 31, 2008 and December 31, 2007, and the related statements of activities and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

RINA accountancy corporation

Certified Public Accountants

Oakland, California
April 2, 2009

MICROCREDIT ENTERPRISES

STATEMENT OF FINANCIAL POSITION

<u>ASSETS</u>	<u>December 31, 2008</u>	<u>December 31, 2007</u>
CURRENT:		
Cash and cash equivalents	\$ 2,976,068	\$ 1,312,709
Investments	-	1,900,000
Current portion of loan receivable from microfinance institutions	5,855,255	3,844,166
Interest receivable	153,293	69,725
Dividends receivable	-	20,000
Pledge receivable	6,000	25,000
Other receivable	5,331	-
Prepaid expenses	28,973	4,837
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TOTAL CURRENT ASSETS	9,024,920	7,176,437
 Loans receivable from microfinance institutions	 12,714,166	 5,030,834
	<hr/>	<hr/>
TOTAL ASSETS	\$ 21,739,086	\$ 12,207,271
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 <u>LIABILITIES AND NET ASSETS</u> 		
CURRENT:		
Accounts payable	\$ 4,631	\$ 10,819
Interest payable	72,569	72,702
Deferred loan origination fees	61,000	-
Other payables	4,900	28,455
	<hr/>	<hr/>
TOTAL CURRENT LIABILITIES	143,100	111,976
 LONG -TERM:		
Deferred loan origination fees	59,409	60,681
Lines of credit	19,800,000	10,800,000
Note payable	500,000	500,000
	<hr/>	<hr/>
TOTAL LIABILITIES	20,502,509	11,472,657
	<hr/>	<hr/>
NET ASSETS:		
Unrestricted	520,821	221,914
Temporarily restricted	215,756	12,700
Permanently restricted	500,000	500,000
	<hr/>	<hr/>
TOTAL NET ASSETS	1,236,577	734,614
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TOTAL LIABILITIES AND NET ASSETS	\$ 21,739,086	\$ 12,207,271
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See notes to financial statements.

MICROCREDIT ENTERPRISES

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT:				
Revenue from microfinance lending activities:				
Interest income - microfinance loans	\$ 1,190,128	\$ -	\$ -	\$ 1,190,128
Amortization of loan origination fees	45,525	-	-	45,525
Interest expense	(682,695)	-	-	(682,695)
Net revenue from microfinance lending activities	552,958	-	-	552,958
Other revenue and support:				
Contributions and grants	-	343,040	-	343,040
Pro bono services	1,654,843	-	-	1,654,843
Dividend income	36,339	-	-	36,339
Interest income	54,112	-	-	54,112
TOTAL REVENUE AND SUPPORT	2,298,252	343,040	-	2,641,292
Net assets released from restrictions:				
Contribution restrictions satisfied	142,984	(142,984)	-	-
OPERATING EXPENSES:				
Program services	1,264,530	-	-	1,264,530
Management and general	857,799	-	-	857,799
Fundraising	-	-	-	-
TOTAL OPERATING EXPENSES	2,122,329	-	-	2,122,329
REDUCTION IN PLEDGES RECEIVABLE	-	(17,000)	-	(17,000)
INCREASE IN NET ASSETS	318,907	183,056	-	501,963
NET ASSETS RECLASSIFICATION	(20,000)	20,000	-	-
NET ASSETS, beginning of year	221,914	12,700	500,000	734,614
NET ASSETS, end of year	\$ 520,821	\$ 215,756	\$ 500,000	\$ 1,236,577

See notes to financial statements.

MICROCREDIT ENTERPRISES

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT:				
Revenue from microfinance lending activities:				
Interest income - microfinance loans	\$ 632,577	\$ -	\$ -	\$ 632,577
Amortization of loan origination fees	22,474	-	-	22,474
Interest expense	(341,952)	-	-	(341,952)
Net revenue from microfinance lending activities	313,099	-	-	313,099
Other revenue and support:				
Contributions and grants	129,689	12,700	500,000	642,389
Pro bono services	1,103,360	-	-	1,103,360
Dividend income	68,677	-	-	68,677
Interest income	4,076	-	-	4,076
Realized losses	(6,091)	-	-	(6,091)
Unrealized losses	(1,230)	-	-	(1,230)
Other income	4,400	-	-	4,400
TOTAL REVENUE AND SUPPORT	1,615,980	12,700	500,000	2,128,680
OPERATING EXPENSES:				
Program services	831,357	-	-	831,357
Management and general	546,531	-	-	546,531
TOTAL OPERATING EXPENSES	1,377,888	-	-	1,377,888
INCREASE IN NET ASSETS	238,092	12,700	500,000	750,792
NET ASSETS, beginning of year	25,223	-	-	25,223
NET ASSETS TRANSFERRED UPON MERGER	(41,401)	-	-	(41,401)
NET ASSETS, end of year	\$ 221,914	\$ 12,700	\$ 500,000	\$ 734,614

See notes to financial statements.

MICROCREDIT ENTERPRISES

STATEMENT OF CASH FLOWS

	<u>Year Ended</u> <u>December 31, 2008</u>	<u>Year Ended</u> <u>December 31, 2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Contributions and grants received from donors and grantors	\$ 345,040	\$ 617,389
Interest and loan origination fees received from microfinance institutions	1,211,812	610,931
Collections and advances on other receivable	(5,331)	262
Cash used in operating activities	(387,670)	(227,678)
Loans made to microfinance institutions	(9,694,422)	(4,075,000)
Interest and fees paid to financial institutions	(706,070)	(355,210)
	<u>(9,236,641)</u>	<u>(3,429,306)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of investments	-	(6,282,321)
Proceeds on sale of investments	1,900,000	4,675,000
	<u>1,900,000</u>	<u>(1,607,321)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from lines of credit	9,000,000	6,000,000
Proceeds from note payable	-	200,000
Cash transferred upon merger	-	124,113
	<u>9,000,000</u>	<u>6,324,113</u>
NET INCREASE IN CASH	1,663,359	1,287,486
CASH AND CASH EQUIVALENTS, beginning of year	1,312,709	25,223
CASH AND CASH EQUIVALENTS, end of year	\$ 2,976,068	\$ 1,312,709
RECONCILIATION OF NET INCREASE IN NET ASSETS TO NET ASSETS USED IN OPERATING ACTIVITIES:		
Change in net assets	\$ 501,963	\$ 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	(83,568)	(63,396)
Decrease (increase) in pledge receivable	19,000	(25,000)
Decrease (increase) in dividends receivable	20,000	(20,000)
Decrease (increase) in other receivables	(5,331)	262
Decrease (increase) in prepaid expenses	(24,135)	423
(Increase) in loans receivable	(9,694,421)	(4,075,000)
Increase (decrease) in accounts payable	(6,188)	10,819
(Decrease) in interest payable	(133)	(13,258)
(Decrease) in other payable	(23,555)	(21,545)
Increase in deferred loan origination fees	59,727	19,276
	<u>(9,236,641)</u>	<u>(3,429,306)</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Non-cash transactions:		
Donated stock	\$ -	\$ 40,000
Pro bono services	1,654,843	1,103,360
Conversion of investments to cash equivalents	1,900,000	-
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)

See notes to financial statements.

MICROCREDIT ENTERPRISES

NOTES TO FINANCIAL STATEMENTS - DECEMBER 31, 2008 AND 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 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 partners are Guarantors. Financial backing is provided to the Organization in the form of a guarantee and collateralization of a line of credit with a financial institution – and can be provided by an accredited individual, a foundation, an organization, or an institution with assets. The Organization borrows money against this guaranteed and collateralized line of credit in order to lend to microfinance institutions in developing countries. The microfinance institutions, in turn, lend to individuals (mostly women) living in extreme poverty in developing countries, to start businesses. 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, 2008 AND 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, 2008 and 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, 2008 AND 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. The Organization's cash and cash equivalents are maintained with two financial institutions in the United States of America. Non-interest bearing deposits in this financial institution are fully insured by the FDIC until December 31, 2009, interest bearing deposits are insured up to \$250,000. 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. 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 five years subsequent to December 31, 2008 are as follows:

<u>Year Ending December 31,</u>	
2009	\$ 5,855,255
2010	5,460,596
2011	5,747,858
2012	1,162,857
2013	<u>342,855</u>
Total	<u>\$ 18,569,421</u>

Note 5. LINE OF CREDIT:

The Organization has the following lines of credit at December 31, 2008 and 2007. All the lines of credit are secured by the guarantees of the Organization's guarantors.

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
The Organization has a line of credit with Calvert Social Investment Foundation, a 501(c)(3) private foundation, which is not to exceed \$3,600,000. 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.	\$ 3,600,000	\$ 3,600,000

MICROCREDIT ENTERPRISES

NOTES TO FINANCIAL STATEMENTS - DECEMBER 31, 2008 AND DECEMBER 31, 2007

Note 5. LINE OF CREDIT (Continued):

	December 31,	
	2008	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. 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.	\$ 2,400,000	\$ 2,400,000
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. Interest is charged at 3 month 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.	4,800,000	4,800,000
The Organization also has a line of credit with The First Republic Bank, a bank organized under the laws of the United States, which is not to exceed \$10,200,000. Interest is charged at 5 year U.S. treasury rate plus 2.45% per annum and is payable monthly. The principal plus any unpaid interest will be payable at maturity on July 11, 2014.	7,800,000	-
The Organization has a line of credit with Skirball Foundation, a 501(c)(3) private foundation, which is not to exceed \$1,200,000. Interest is charged at a fixed rate of 5.50% per annum and is payable quarterly. The principal plus any unpaid interest will be payable at maturity on January 8, 2013.	<u>1,200,000</u>	<u>-</u>
Total	<u>\$19,800,000</u>	<u>\$10,800,000</u>

Note 6. NOTE PAYABLE:

At December 31, 2008 and 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, 2008 AND 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 year ended December 31, 2008 are as follows:

	<u>Program Services</u>	<u>Management and General</u>	<u>Total Pro Bono Services</u>
Officers' services provided pro bono	\$ 155,899	\$ 571,406	\$ 727,305
Legal and professional services	<u>824,517</u>	<u>103,021</u>	<u>927,538</u>
	<u>\$ 980,416</u>	<u>\$ 674,427</u>	<u>\$ 1,654,843</u>

The value of donated services included as contributions in the financial statements and the corresponding program service and management expenses for the year 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 and professional 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. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets are available for the following uses:

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, 2008, temporarily restricted net assets available under this program totaled \$215,756.

Fund to Alleviate Extreme Poverty	\$ 191,141
Mexican MFI market study	4,532
Capacity Building Project	18,337
Guatemala funds	<u>1,746</u>
Total	<u>\$ 215,756</u>

MICROCREDIT ENTERPRISES

NOTES TO FINANCIAL STATEMENTS - DECEMBER 31, 2008 AND DECEMBER 31, 2007

Note 8. TEMPORARILY RESTRICTED NET ASSETS (Continued):

Temporarily restricted net assets were released from donor restrictions during the year ended December 31, 2008 by incurring expenses satisfying the restricted purposes as follows:

Microloans disbursed	\$ 100,000
Mexican MFI market study	20,468
Capacity Building Project	14,663
Guatemala funds	<u>7,853</u>
Total	<u>\$ 142,984</u>

As of December 31, 2007, temporarily restricted net assets available under this program totaled \$12,700.

Fund to Alleviate Extreme Poverty	<u>\$ 12,700</u>
Total	<u>\$ 12,700</u>

There were no temporarily restricted net assets that were released from donor restrictions during the year ended December 31, 2007.

Note 9. ENDOWMENTS:

At December 31, 2008, permanently restricted net assets are comprised of the Hunter Douglas Endowment for Microfinance Sustainability Fund. The original amounts of this endowment are held in perpetuity and temporarily fund any of the Organization's liquidity demands when microfinance institutions default on loan payments. The fund ensures MCE can meet all of its financial obligations in the period until the Guarantors fulfill their legal obligation and cover the amount of the default. The related income on the endowment is spent to support the activities of the Organization.

The Organization's endowments consist of one individual fund established for short-term liquidity purposes. Its endowment consists of donor-restricted funds. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization maintains three classes of funds. The Hunter Douglas Endowment for Microfinance Sustainability Permanently Restricted Fund; Temporarily Restricted Funds that are designated to finance self-help microloans for desperately impoverished entrepreneurs; and Unrestricted Funds that support general operating expenses.

At the end of each fiscal year, the Board authorizes that any net increase in assets (investment returns for the year) of The Hunter Douglas Endowment for Microfinance Sustainability fund be released to provide funding for general programs and services.

The Organization's investment goals for endowment funds focus on capital preservation. Investment choices are generally limited to cash, money market accounts and government-backed securities.

The Organization has historically expended all investment gains in excess of the original amounts to support the programs specified by the donors. In 2008, realized investment earnings of \$19,864 were appropriated for operational expenses and program activities. There were no unrealized investment earnings on endowment assets at December 31, 2008.

MICROCREDIT ENTERPRISES

NOTES TO FINANCIAL STATEMENTS - DECEMBER 31, 2008 AND DECEMBER 31, 2007

Note 9. ENDOWMENTS (Continued):

Effective January 1, 2009, legislation enacted by the State of California subjects the Organization to the requirements of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA requires the Foundation to follow prudent management and investment standards, and to set spending limitations for its endowment funds. The Organization will need to ensure that its spending policy allocates, in a reasonable and balance manner, the total earnings from the endowment assets between current spending and reinvestment for future earnings and expenditures, with the goal of maintaining or enhancing the purchasing power of the endowment. Management is currently evaluating the effects of adopting UPMIFA requirements.

Endowment Net Asset Composition by Type of Fund for year ended December 31, 2008:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor restricted endowment Funds	\$ -	\$ -	\$ 500,000	\$ 500,000
Board-designated endowment funds	-	-	-	-
Totals	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 500,000</u>	<u>\$ 500,000</u>

Net changes in endowment funds for the year ended December 31, 2008 were as follows:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Beginning balance	\$ -	\$ -	\$ 500,000	\$ 500,000
Net asset reclassification	-	-	-	-
Endowment funds after reclassification	-	-	500,000	500,000
Investment return	-	-	19,864	19,864
Contributions	-	-	-	-
Appropriations	-	-	<u>(19,864)</u>	<u>(19,864)</u>
Ending Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 500,000</u>	<u>\$ 500,000</u>

Note 10. RECLASSIFICATIONS:

Certain items in the financial statements for 2007 have been reclassified to conform with the current year presentation. Such reclassifications had no effect on net assets.