

**MICROCREDIT ENTERPRISES**

**(A California Not-For-Profit Organization)**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2009 and DECEMBER 31, 2008**

## **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, 2009 and December 31, 2008 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, 2009 and December 31, 2008, 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 20, 2010

# MICROCREDIT ENTERPRISES

## STATEMENT OF FINANCIAL POSITION

<u>ASSETS</u>	<u>December 31, 2009</u>	<u>December 31, 2008</u>
<b>CURRENT:</b>		
Cash and cash equivalents	\$ 5,421,043	\$ 2,976,068
Current portion of loans receivable from microfinance institutions	3,295,255	5,855,255
Pledge receivable	1,500	6,000
Interest receivable	123,564	153,293
Contributions receivable	348,000	-
Prepaid expenses	25,558	28,973
Other receivable	-	5,331
	<hr/>	<hr/>
TOTAL CURRENT ASSETS	9,214,920	9,024,920
Loans receivable from microfinance institutions	12,960,000	12,714,166
Property and equipment, net	2,662	-
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 22,177,582</u>	<u>\$ 21,739,086</u>
 <u>LIABILITIES AND NET ASSETS</u>  		
<b>CURRENT:</b>		
Accounts payable	\$ -	\$ 4,631
Interest payable	31,314	72,569
Deferred loan origination fees	6,500	61,000
Other payables	6,315	4,900
	<hr/>	<hr/>
TOTAL CURRENT LIABILITIES	44,129	143,100
 <b>LONG -TERM:</b>		
Deferred loan origination fees	75,479	59,409
Lines of credit	9,200,000	19,800,000
Notes payable	11,198,974	500,000
	<hr/>	<hr/>
TOTAL LIABILITIES	20,518,582	20,502,509
 <b>NET ASSETS:</b>		
Unrestricted	1,122,771	520,821
Temporarily restricted	36,229	215,756
Permanently restricted	500,000	500,000
	<hr/>	<hr/>
TOTAL NET ASSETS	1,659,000	1,236,577
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TOTAL LIABILITIES AND NET ASSETS	<u>\$ 22,177,582</u>	<u>\$ 21,739,086</u>

See notes to financial statements.

## MICROCREDIT ENTERPRISES

### STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUE AND SUPPORT:</b>				
Revenue from microfinance lending activities:				
Interest income - microfinance loans	\$ 1,698,356	\$ -	\$ -	\$ 1,698,356
Amortization of loan origination fees	79,856	-	-	79,856
Interest expense	(970,836)	-	-	(970,836)
Net revenue from microfinance lending activities	807,376	-	-	807,376
Other revenue and support:				
Contributions and grants	349,711	38,800	-	388,511
Pro bono services	1,134,890	-	-	1,134,890
Interest income	8,644	-	-	8,644
<b>TOTAL REVENUE AND SUPPORT</b>	<b>2,300,621</b>	<b>38,800</b>	<b>-</b>	<b>2,339,421</b>
Net assets released from restrictions:				
Contribution restrictions satisfied	218,327	(218,327)	-	-
<b>OPERATING EXPENSES:</b>				
Program services	1,132,816	-	-	1,132,816
Management and general	784,182	-	-	784,182
<b>TOTAL OPERATING EXPENSES</b>	<b>1,916,998</b>	<b>-</b>	<b>-</b>	<b>1,916,998</b>
<b>INCREASE IN NET ASSETS</b>	<b>601,950</b>	<b>(179,527)</b>	<b>-</b>	<b>422,423</b>
NET ASSETS, beginning of year	520,821	215,756	500,000	1,236,577
NET ASSETS, end of year	<u>\$ 1,122,771</u>	<u>\$ 36,229</u>	<u>\$ 500,000</u>	<u>\$ 1,659,000</u>

See notes to financial statements.

## MICROCREDIT ENTERPRISES

### STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUE AND SUPPORT:</b>				
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
<b>TOTAL REVENUE AND SUPPORT</b>	<b>2,298,252</b>	<b>343,040</b>	<b>-</b>	<b>2,641,292</b>
Net assets released from restrictions:				
Contribution restrictions satisfied	142,984	(142,984)	-	-
<b>OPERATING EXPENSES:</b>				
Program services	1,264,530	-	-	1,264,530
Management and general	857,799	-	-	857,799
<b>TOTAL OPERATING EXPENSES</b>	<b>2,122,329</b>	<b>-</b>	<b>-</b>	<b>2,122,329</b>
<b>REDUCTION IN PLEDGES RECEIVABLE</b>	<b>-</b>	<b>(17,000)</b>	<b>-</b>	<b>(17,000)</b>
<b>INCREASE IN NET ASSETS</b>	<b>318,907</b>	<b>183,056</b>	<b>-</b>	<b>501,963</b>
<b>NET ASSETS RECLASSIFICATION</b>	<b>(20,000)</b>	<b>20,000</b>	<b>-</b>	<b>-</b>
<b>NET ASSETS, beginning of year</b>	<b>221,914</b>	<b>12,700</b>	<b>500,000</b>	<b>734,614</b>
<b>NET ASSETS, end of year</b>	<b>\$ 520,821</b>	<b>\$ 215,756</b>	<b>\$ 500,000</b>	<b>\$ 1,236,577</b>

See notes to financial statements.

## MICROCREDIT ENTERPRISES

### STATEMENT OF CASH FLOWS

	Year Ended December 31, 2009	Year Ended December 31, 2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Contributions and grants received from donors and grantors	\$ 38,790	\$ 345,040
Interest and loan origination fees received from microfinance institutions	1,774,218	1,211,812
Advances on contributions receivable	-	(5,331)
Cash used in operating activities	(452,636)	(387,670)
Net change in loans to microfinance institutions	1,984,167	(9,694,422)
Interest and fees paid to financial institutions	(1,004,370)	(706,070)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>2,340,169</b>	<b>(9,236,641)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of property and equipment	(2,811)	-
Investment income	8,643	-
Proceeds on sale of investments	-	1,900,000
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>5,832</b>	<b>1,900,000</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
(Repayment) proceeds from lines of credit	(10,600,000)	9,000,000
Proceeds from notes payable	10,698,974	-
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>98,974</b>	<b>9,000,000</b>
<b>NET INCREASE IN CASH</b>	<b>2,444,975</b>	<b>1,663,359</b>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<b>2,976,068</b>	<b>1,312,709</b>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b>\$ 5,421,043</b>	<b>\$ 2,976,068</b>
<b>RECONCILIATION OF NET INCREASE IN NET ASSETS TO NET ASSETS USED IN OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 422,423	\$ 501,963
Adjustments to reconcile change in net assets to cash used by operating activities:		
Depreciation	149	-
Pledge receivable	4,500	19,000
Interest receivable	21,086	(83,568)
Dividends receivable	-	20,000
Contribution receivable	(348,000)	-
Prepaid expenses	3,415	(24,135)
Other receivable	5,331	(5,331)
Loans receivable	2,314,166	(9,694,421)
Accounts payable	(4,631)	(6,188)
Accrued payroll liabilities	-	-
Interest payable	(41,255)	(133)
Other payable	1,415	(23,555)
Deferred loan origination fees	(38,430)	59,727
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ 2,340,169</b>	<b>\$ (9,236,641)</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Non-cash transactions:		
Pro bono services	\$ 1,134,890	\$ 1,654,843

See notes to financial statements.

# MICROCREDIT ENTERPRISES

## NOTES TO FINANCIAL STATEMENTS - DECEMBER 31, 2009 AND DECEMBER 31, 2008

### **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 of a line of credit or note with a financial institution or foundation. The guarantee can be provided by an accredited individual, a foundation, an organization, or an institution with assets. The Organization borrows money against this guarantee 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 guarantees in exchange for achieving a social purpose. Guaranteed amounts are maintained in Guarantor-controlled investment instruments that meet liquidity requirements (such as mutual funds, stocks, bonds, money market accounts, etc.).

Each \$1 million guarantee (which is the minimum required) approximates up to 3,000 new micro-credit business loans, feeding as many as 15,000 people in the developing world. New micro-credit business loans (for a 4 - 6 month term) can be for as little 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 professional accounting standards. 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, a contribution is recognized.



# MICROCREDIT ENTERPRISES

## NOTES TO FINANCIAL STATEMENTS - DECEMBER 31, 2009 AND DECEMBER 31, 2008

### **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.

#### Loans receivable:

Loans Receivable are stated at the amount management expects to collect of the outstanding balance. An allowance, if required, is based on management's assessment of the current status of an individual loan that is anticipated to be partially or fully uncollectible. Management considers the specific operational and performance metrics and liquidity positions of each MFI to determine the amount of the allowance. As of December 31, 2009, management has determined that an allowance of \$330,000 is an adequate allowance for a specific loan that is projected to be uncollectible. Management determined that there was no allowance required at December 31, 2008.

#### Property and equipment:

Property and equipment are recorded at cost. The Organization capitalizes all expenditures for property and equipment in excess on \$1,000. Property and equipment are depreciated using the straight-line method of accounting over useful lives of 5 to 25 years.

#### Hunter Douglas Endowment for Microfinance Sustainability Fund:

The fund is maintained as a permanent revolving account to temporarily fund any of MicroCredit Enterprises' liquidity demands when MFIs are temporarily late with payments as a result of operating in a developing country. The fund ensures MCE can meet all of its obligations until payment is made. As of December 31, 2009 and 2008, assets reserved under the Fund totaled \$1,000,000 consisting of a \$500,000 donor-restricted contribution and a \$500,000, 5-year, annually-renewable, interest-free loan intended for this purpose. The fund has been deposited in short-term investments.

#### 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.

# MICROCREDIT ENTERPRISES

## NOTES TO FINANCIAL STATEMENTS - DECEMBER 31, 2009 AND DECEMBER 31, 2008

### **Note 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

Accounting for uncertain tax positions:

The Organization recognizes the financial statement benefit of an uncertain tax position only after considering the probability that a tax authority would sustain the position in an examination. For tax positions meeting a "more-likely-than-not" threshold, the amount recognized in the financial statements is the benefit expected to be realized upon settlement with the tax authority. For tax positions not meeting the threshold, no financial statement benefit is recognized. As of December 31, 2009, the Organization has had no uncertain tax positions. The Organization recognizes interest and penalties, if any, related to uncertain tax positions as income tax expense. All income tax returns since inception are subject to examination by tax authorities.

Subsequent events:

Management has evaluated subsequent events through April 20, 2010, the date which the financial statements were available for issue.

### **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.

### **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 June 30, 2010, 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. LOANS RECEIVABLE FROM MICRO CREDIT ORGANIZATIONS:**

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, 2009 are as follows:

<u>Year Ending</u> <u>December 31,</u>	
2010	\$ 3,295,255
2011	7,010,000
2012	4,750,000
2013	<u>1,200,000</u>
Total	<u>\$ 16,255,255</u>

## MICROCREDIT ENTERPRISES

### NOTES TO FINANCIAL STATEMENTS - DECEMBER 31, 2009 AND DECEMBER 31, 2008

**Note 5. LINES OF CREDIT:**

The Organization has the following lines of credit at December 31, 2009 and 2008. All the lines of credit are secured by the guarantees of the Organization's guarantors.

	December 31,	
	2009	2008
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.	\$ 1,000,000	\$ 3,600,000
The Organization also has a line of credit with Riverstyx 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 line of credit was refinanced as a term loan with an effective date of December 31, 2009	-	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>1,000,000</u>	<u>1,200,000</u>
Total	<u>\$ 9,200,000</u>	<u>\$19,800,000</u>

## MICROCREDIT ENTERPRISES

### NOTES TO FINANCIAL STATEMENTS - DECEMBER 31, 2009 AND DECEMBER 31, 2008

**Note 6. NOTES PAYABLE:**

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Unsecured note payable to a not-for-profit public benefit with no interest. The note, which is annually renewable, is payable upon maturity on July 6, 2012, unless the due date is extended.	\$ 500,000	\$ 500,000
Note payable to First Republic Bank, with an interest of 5.220%, guaranteed by guarantors. Quarterly principal payments of \$510,000 with first payment due on October 31, 2011 and monthly interest payments will be payable through July 10, 2014.	10,200,000	-
Secured note payable on the MicroPlace web portal offered to retail investors, with an interest rate of 5.00% paid to investors and a 1% fee paid to MicroPlace. The note will be payable upon maturity on March 31, 2011.	<u>498,974</u>	<u>-</u>
	11,198,974	500,000
Less current maturities	<u>-</u>	<u>-</u>
Totals	<u>\$ 11,198,974</u>	<u>\$ 500,000</u>

Maturities of long-term notes for the years subsequent to December 31, 2009 are as follows:

<u>Year Ending December 31,</u>	
2010	\$ -
2011	1,008,974
2012	2,540,000
2013	2,040,000
2014	<u>5,610,000</u>
Total	<u>\$ 11,198,974</u>

**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, 2009 are as follows:

	<u>Program Services</u>	<u>Management and General</u>	<u>Total Pro Bono Services</u>
Officer services provided pro bono	\$ 101,713	\$ 381,207	\$ 482,920
Legal and professional services	<u>491,815</u>	<u>160,155</u>	<u>651,970</u>
	<u>\$ 593,528</u>	<u>\$ 541,362</u>	<u>\$ 1,134,890</u>

## MICROCREDIT ENTERPRISES

### NOTES TO FINANCIAL STATEMENTS - DECEMBER 31, 2009 AND DECEMBER 31, 2008

**Note 7. PRO BONO SERVICES (Continued):**

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>
Officer 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>

**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, mostly women. No overhead, administrative fees or fundraising costs are paid with these funds.

As of December 31, 2009, temporarily restricted net assets available under this program totaled \$41,229.

Fund to Alleviate Extreme Poverty	\$ 29,951
Mexican MFI market study	4,532
Annual Guarantor Trip	<u>1,746</u>
Total	<u>\$ 36,229</u>

Temporarily restricted net assets were released from donor restrictions during the year ended December 31, 2009 by incurring expenses or disbursing loans satisfying the restricted purposes as follows:

Microloans disbursed	\$ 200,000
Capacity Building Project	<u>18,327</u>
Total	<u>\$ 218,327</u>

## MICROCREDIT ENTERPRISES

### NOTES TO FINANCIAL STATEMENTS - DECEMBER 31, 2009 AND DECEMBER 31, 2008

**Note 8. TEMPORARILY RESTRICTED NET ASSETS (Continued):**

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>

Temporarily restricted net assets were released from donor restrictions during the year ended December 31, 2008 by incurring expenses or disbursing loans 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>

**Note 9. ENDOWMENTS:**

At December 31, 2009, 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 or finance projects; 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.

## MICROCREDIT ENTERPRISES

### NOTES TO FINANCIAL STATEMENTS - DECEMBER 31, 2009 AND DECEMBER 31, 2008

**Note 9. ENDOWMENTS (Continued):**

The Organization has historically expended all investment gains in excess of the original amounts to support the programs specified by the donors. In 2009, realized investment earnings of \$8,644 were appropriated for operational expenses and program activities. There were no unrealized investment earnings on endowment assets at December 31, 2009.

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 balanced 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.

The Organization has interpreted the State Uniform Prudent Management of Investment Funds Act, effective January 1, 2009 in California, as requiring the preservation of the original gift value, as of the gift date, of the donor-restricted endowment assets.

Endowment Net Asset Composition by Type of Fund for year ended December 31, 2009:

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

Net changes in endowment funds for the year ended December 31, 2009 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning balance	\$ -	\$ -	\$ 500,000	\$ 500,000
Investment return	-	-	8,644	8,644
Appropriations	<u>      -</u>	<u>      -</u>	<u>  (8,644)</u>	<u>  (8,644)</u>
Ending balance	\$ <u>      -</u>	\$ <u>      -</u>	\$ <u>500,000</u>	\$ <u>500,000</u>

## MICROCREDIT ENTERPRISES

### NOTES TO FINANCIAL STATEMENTS - DECEMBER 31, 2009 AND DECEMBER 31, 2008

**Note 9. ENDOWMENTS (Continued):**

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	\$ <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
Investment return	-	-	19,864	19,864
Appropriations	<u>      -</u>	<u>      -</u>	<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 2008 have been reclassified to conform with the current year presentation.