MICROCREDIT ENTERPRISES

(A California Not-For-Profit Organization)

FINANCIAL STATEMENTS

DECEMBER 31, 2011 and DECEMBER 31, 2010

MICROCREDIT ENTERPRISES

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RINA

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, 2011 and December 31, 2010 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, 2011 and December 31, 2010, 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 11, 2012

MICROCREDIT ENTERPRISES

STATEMENT OF FINANCIAL POSITION

ASSETS	December 31, 2011	December 31, 2010
CURRENT:		
Cash and cash equivalents	$ 1,533,391	$ 3,170,757
Current portion of loans receivable from microfinance institutions	7,281,752	7,000,357
Interest receivable	178,218	139,271
Contributions receivable	-	7,600
Prepaid expenses	72,367	50,521
Other receivable	1,835	3,770
TOTAL CURRENT ASSETS	9,067,563	10,372,276
Loans receivable from microfinance institutions	14,809,801	6,545,580
Derivative financial instrument	327,558	(67,469)
Investment in MFX Solutions, LLC	205,000	205,000
Property and equipment, net	2,228	2,955
TOTAL ASSETS	$ 24,412,150	$ 17,058,342
LIABILITIES AND NET ASSETS		
CURRENT:		
Lines of credit	$ 1,000,000	$ 2,400,000
Current portion of notes payable	2,000,000	1,008,724
Accounts payable	10,972	7,526
Interest payable	23,019	55,404
Deferred loan origination fees	66,000	47,000
Other payables	8,395	3,948
TOTAL CURRENT LIABILITIES	3,108,386	3,522,602
LONG -TERM:		
Deferred loan origination fees	78,084	23,930
Line of credit	-	2,475,000
Notes payable	18,750,000	8,990,000
TOTAL LIABILITIES	21,936,470	15,011,532
NET ASSETS:		
Unrestricted	1,148,043	724,523
Temporarily restricted	827,637	822,287
Permanently restricted	500,000	500,000
TOTAL NET ASSETS	2,475,680	2,046,810
TOTAL LIABILITIES AND NET ASSETS	$ 24,412,150	$ 17,058,342

See notes to financial statements.

MICROCREDIT ENTERPRISES

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT:				
Revenue from microfinance lending activities:				
Interest income - microfinance loans, net	$ 1,408,576	$ -	$ -	$ 1,408,576
Amortization of loan origination fees	62,429	-	-	62,429
Interest expense	(682,184)	-	-	(682,184)
Net revenue from microfinance lending activities	788,821	-	-	788,821
Other revenue and support:				
Contributions and grants	381,969	5,350	-	387,319
Pro bono services	1,105,860	-	-	1,105,860
Interest income	9,936	3,598	-	13,534
Other income	15,676	-	-	15,676
TOTAL REVENUE AND SUPPORT	2,302,262	8,948	-	2,311,210
Net assets released from restrictions:				
Contribution restrictions satisfied	3,598	(3,598)	-	-
OPERATING EXPENSES:				
Program services	1,496,894	-	-	1,496,894
Management and general	385,446	-	-	385,446
TOTAL OPERATING EXPENSES	1,882,340	-	-	1,882,340
INCREASE IN NET ASSETS	423,520	5,350	-	428,870
NET ASSETS, beginning of year	724,523	822,287	500,000	2,046,810
NET ASSETS, end of year	$ 1,148,043	$ 827,637	$ 500,000	$ 2,475,680

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See notes to financial statements.

MICROCREDIT ENTERPRISES

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT:				
Revenue from microfinance lending activities:				
Interest income - microfinance loans, net	$ 1,270,447	$ -	$ -	$ 1,270,447
Amortization of loan origination fees	49,900	-	-	49,900
Interest expense	(788,353)	-	-	(788,353)
Net revenue from microfinance lending activities	531,994	-	-	531,994
Other revenue and support:				
Contributions and grants	197,429	509,500	-	706,929
Pro bono services	1,148,305	-	-	1,148,305
Interest income	11,500	2,153	-	13,653
Other income	1,336	-	-	1,336
TOTAL REVENUE AND SUPPORT	1,890,564	511,653	-	2,402,217
Net assets released from restrictions:				
Contribution restrictions satisfied	2,153	(2,153)	-	-
OPERATING EXPENSES:				
Program services	1,599,543	-	-	1,599,543
Management and general	414,864	-	-	414,864
TOTAL OPERATING EXPENSES	2,014,407	-	-	2,014,407
INCREASE (DECREASE) IN NET ASSETS	(121,690)	509,500	-	387,810
NET ASSETS, beginning of year as originally stated	1,122,771	36,229	500,000	1,659,000
NET ASSETS RECLASSIFICATION	(276,558)	276,558	-	-
NET ASSETS, beginning of year as revised	846,213	312,787	500,000	1,659,000
NET ASSETS, end of year	$ 724,523	$ 822,287	$ 500,000	$ 2,046,810

See notes to financial statements.

MICROCREDIT ENTERPRISES

STATEMENT OF CASH FLOWS

	Year Ended December 31, 2011	Year Ended December 31, 2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Contributions and grants received from donors and grantors	$ 387,318	$ 644,960
Interest and loan origination fees received from microfinance institutions	1,292,786	1,181,075
Cash used in operating activities	(637,188)	(387,403)
Net change in loans to microfinance institutions	(8,940,643)	2,776,787
Interest and fees paid to financial institutions	(615,915)	(732,949)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(8,513,642)	3,482,470
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	-	(2,506)
Investment income	-	-
Investment in partnership	-	(205,000)
NET CASH (USED) BY INVESTING ACTIVITIES	-	(207,506)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment from lines of credit	(3,875,000)	(4,325,000)
Repayment from notes payable	(8,497,724)	(3,450,250)
Proceeds from notes payable	19,250,000	2,250,000
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	6,877,276	(5,525,250)
NET DECREASE IN CASH	(1,636,366)	(2,250,286)
CASH AND CASH EQUIVALENTS, beginning of year	3,170,757	5,421,043
CASH AND CASH EQUIVALENTS, end of year	$ 1,534,391	$ 3,170,757
RECONCILIATION OF NET INCREASE IN NET ASSETS TO NET ASSETS PROVICED BY OPERATING ACTIVITIES:		
Change in net assets	$ 428,870	$ 387,810
Adjustments to reconcile change in net assets to cash used by operating activities:		
Depreciation	727	983
Loss on disposition of asset	-	1,231
(Increase) decrease in:		
Loans receivable	(8,940,643)	2,776,787
Pledge receivable	-	-
Interest receivable	(38,947)	(15,707)
Contribution receivable	7,600	340,400
Prepaid expenses	(21,846)	(24,963)
Other receivable	1,935	(2,270)
Increase (decrease) in:		
Accounts payable	3,446	7,525
Interest payable	(32,385)	24,090
Deferred loan origination fees	73,154	(11,049)
Other payable	4,447	(2,367)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ (8,513,642)	$ 3,482,470
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Non-cash transactions:		
Pro bono services	$ 1,105,860	$ 1,148,305

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS - DECEMBER 31, 2011 AND DECEMEMBER 31, 2012

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 $50 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.

Fair value measurements:

Professional accounting standards establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to

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

Fair value measurements (continued):

Level 2	Inputs to the valuation methodology include: · quoted prices for similar assets or liabilities in active markets; · quoted prices for identical or similar assets or liabilities in inactive markets; · inputs other than quoted prices that are observable for the asset or liability; · inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for measurement at fair value:

Investment in MFX Solutions: Valued at the recent acquisition price.

*Long-term debt***:** Lines of credit and notes payable are based on their carrying amounts.

Investments are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported on the statement of financial position.

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.

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

Cash and cash equivalents:

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

Accounting for derivatives:

Derivatives are recorded in the statement of financial position at fair value. Fair value for the Organization's derivative financial instruments are based on the present value of the expected future cash flows. Changes in fair value are recorded when they occur in the statement of activities.

Accounting for foreign currency denominated transactions:

The books and records of the Organization are maintained in U.S. dollars. Transactions denominated in foreign currencies are translated into U.S. dollars at the balance sheet date rate of exchange adjusted for the expected interest rate differential. Changes in foreign currency denominated transactions are recorded in the statement of activities in the period the change occurs.

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 Microfinance Institution (MFI) to determine the amount of the allowance. As of December 31, 2011 and 2010, management has determined that an allowance is unnecessary.

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, 2011 and 2010, 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. The Organization is required to submit annual federal and state information returns. The Internal Revenue Service has determined that the Organization is not a private foundation.

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, 2011, 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.

Reclassifications:

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 financial statements presentation. Such reclassifications had no effect on increase in net assets as previously reported.

Subsequent events:

Management has evaluated subsequent events through April 11, 2012, 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 concentration of credit risk consist principally of cash and loans receivable. The Organization places its cash and cash equivalents with high credit quality financial institutions. At times, the account balances may exceed the institution's federally insured limits. The Organization has not experienced any losses in such accounts. Loans receivable consist of loans made to microfinance institutions located in developing regions (presently, Latin America, Africa, Eastern Europe, 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. FOREIGN CURRENCY TRANSLATION:

The Organization from time to time issues loans denominated in a foreign currency. Loans receivable denominated in foreign currencies are translated into U.S. dollars at the balance sheet date rate of exchange adjusted for expected interest rate differential. Loans denominated in foreign currencies accrue interest at rates ranging from 6.6% to 10.0% annually, and mature between February 2012 and January 2014. Net unrealized currency gains and (losses) of ($395,027) and $67,469 at December 31, 2011 and 2010, respectively, from valuing foreign currency denominated assets at year-end exchange rates adjusted for interest rate differential, offsets the unrealized gain or loss on the foreign currency swap contracts during the year. Therefore, no amount is reflected in the Statement of Activities for the years ended December 31, 2011 and 2010 for this offsetting transaction.

Note 5. DERIVATIVE FINANCIAL INSTRUMENT:

To manage fluctuations of foreign currency values related to all loans denominated in foreign currencies as of December 31, 2011, and to guarantee fixed rate of interest paid from the MFI's in U.S. dollars, the Organization enters into currency swap agreements, which mature in concert with the outstanding foreign currency loans described in Note 4 above. A currency swap is a foreign exchange agreement between two parties to exchange principal and fixed rate interest payments on a loan in one currency for principal and fixed rate interest payments on an equal loan in another currency. As a result of the currency swap agreements, the organization has reduced the risk of loan repayments falling short of expected amounts due to foreign exchange rate fluctuation.

The Organization does not enter into derivative financial instrument agreements for trading or speculative purposes. At December 21, 2011 and 2010 the net position of the currency swaps is recorded as a derivative financial instrument in the statement of financial position. Change in the currency swap contracts' fair value of $395,027 and ($67,469) at December 31, 2011 and 2010, respectively, is included in the statement of activities as investment income, and offsets the change in value of the matched foreign currency loans discussed in Note 4. In addition, the statement of activities reflects interest income – microfinance loans net of the cost of the hedge transaction of $104,880 and $6,980 at December 31, 2011 and 2010, respectively.

Embedded in the currency swap is a forward contract which creates the obligation for both parties to close the swap agreement at the agreed upon maturity date.

Note 6. LOANS RECEIVABLE FROM MICRO CREDIT ORGANIZATIONS:

The Organization lending policy gives priority to microfinance organizations that that serve a high percentage of deeply-impoverished individuals and families, serve a high percentage of women, extend operations to isolated rural communities, operate or provide linkages to comprehensive social service programs, such as women's empowerment, financial literacy, health education or services and business training for micro-entrepreneurs, and demonstrate a track record of lowering interest rates to impoverished client-borrowers.

The Organization assesses certain eligibility criteria to evaluate the creditworthiness of an MFI. These include, quality and integrity of the management and Board of Directors, quality of the client-borrower loan portfolio, financial performance and prospects for growth, stability of the political, economic and legal environment of the country. Some of the specific financial qualification include, serve at least 5,000 borrowers or have a minimum US $1,000,000 gross loan portfolio, maintain portfolio-at-risk (i.e., outstanding balance of all loans with payments in arrears beyond 30 days) below 10%, be operationally self-sufficient or demonstrate a clear plan to achieve operational self-sufficiency, provide independent audit reports covering at least the two most recent years, have a business plan with three years of financial projections, present a credit rating or other similar external evaluation/recommendation.

The Organization loans money to microfinance institutions at interest ranging from 6.5% 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.

Note 6. LOANS RECEIVABLE FROM MICRO CREDIT ORGANIZATIONS (Continued):

Maturities on long-term receivables from microfinance institutions, including the derivative financial instruments, for the years subsequent to December 31, 2011 are as follows:

Year Ending December 31,	
2012	$ 7,281,752
2013	9,662,359
2014	5,475,000
Total	$22,419,111

Note 7. INVESTMENT:

In July 2010, the Organization contributed capital of $205,000 to MFX Solutions, LLC. MFX Solutions, LLC supports lending to entrepreneurs in low-income countries with affordable hedging products and risk management. This investment is valued at Level 2 based on the fair value hierarchy.

The organization uses MFX Solutions, LLC to hedge foreign currency risk associated with loans denominated in foreign currencies. Included in the derivative financial instrument on the statement of financial position totaling $327,558, $229,354 is hedged through MFX Solutions, LLC as of December 31, 2011. As of December 31, 2010 the derivative financial instrument hedged through MFX Solutions reflects a liability of $67,469. In addition, the cost of the hedge transactions (See Note 5) of $104,880 and $6,980 at December 31, 2011 and 2010 were paid to MFX Solutions, LLC.

Note 8. LINES OF CREDIT:

The Organization has the following lines of credit at December 31, 2011 and 2010. Repayment of the lines of credit is supported by the guarantees of the Organization's guarantors.

	December 31, 2011	December 31, 2010
The Organization 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
The Organization 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 the 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.	1,000,000	2,475,000
Totals	$ 1,000,000	$ 4,875,000

Note 9. NOTES PAYABLE:

The Organization has the following notes payable at December 31, 2011 and 2010. Repayment of the notes is supported by the guarantees of the Organization's guarantors.

	December 31, 2011	December 31, 2010
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, 2016, unless the due date is extended.	$ 500,000	$ 500,000
Note payable to First Republic Bank, with an interest rate of 5.22%, guaranteed by guarantors. Quarterly principal payments of $510,000 with first payment due on October 31, 2011 and monthly interest payments. On July 29, 2011 $8,000,000 payment was made as part of a restructuring of loan into a $20,000,000 facility, $17,000,000 was outstanding at December 31, 2011. It is split into 4 separate notes executed during 2011 year.	-	8,000,000
Note payable to First Republic Bank, with an interest rate of 4.28%, guaranteed by guarantors. Semi-annual principal payments of $2,000,000 with first payment due on December 29, 2012 with monthly interest payments payable through June 29, 2014.	8,000,000	-
Note payable to First Republic Bank, with an interest rate of 3.97%, guaranteed by guarantors. Semi-annual principal payments of $250,000 with first payment due on February 28, 2013 with monthly interest payments payable through August 31, 2014.	1,000,000	-
Note payable to First Republic Bank, with an interest rate of 3.96%, guaranteed by guarantors. Semi-annual principal payments of $1,500,000 with first payment due on March 31, 2013 with monthly interest payments payable through September 30, 2014.	6,000,000	-
Note payable to First Republic Bank, with an interest rate of 4.00%, guaranteed by guarantors. Semi-annual principal payments of $500,000 with first payment due on May 31, 2013 with monthly interest payments payable through November 30, 2014.	2,000,000	-
Unsecured note Payable to Benito & Frances C. Gaguine Foundation, with no interest. Note is payable upon maturity on February 1, 2013.	1,000,000	1,000,000
Unsecured note payable to Calvert Social Investment Foundation, Inc., with an interest rate of 4.5%. Quarterly interest payments with first payment due December 31, 2011. Principal due upon maturity on October 11, 2014.	1,500,000	-

Note 9. NOTES PAYABLE (Continued):

	December 31, 2011	December 31, 2010
Unsecured notes payable to Guarantors, with an interest rate of 3.50%. Quarterly interest payments began May 31, 2011. Principal due upon maturity on February 28, 2014.	$ 750,000	$ -
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 was fully paid upon maturity on March 31, 2011.	-	498,724
Totals	$ 20,750,000	$ 9,998,724

Maturities of long-term notes for the years subsequent to December 31, 2011 are as follows:

Year Ending December 31,	
2012	$ 2,000,000
2013	9,500,000
2014	8,750,000
2015	-
Thereafter	500,000
Total	$ 20,750,000

Note 10. 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, 2011 are as follows:

	Program Services	Management and General	Total Pro Bono Services
Officer services provided pro bono	$ 26,000	$ 104,200	$ 130,200
Legal and professional services	720,027	255,633	975,660
	$ 746,027	$ 359,833	$ 1,105,860

Note 10. 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, 2010 are as follows:

	Program Services	Management and General	Total Pro Bono Services
Officer services provided pro bono	$ 94,945	$ 174,285	$ 269,230
Legal and professional services	661,455	217,620	879,075
	$ 756,400	$ 391,905	$ 1,148,305

Note 11. UNRESTRICTED NET ASSETS:

Unrestricted net assets as of December 31, 2011 are $1,148,043 of which $15,000 was designated in 2011 by the board for future loans under Fund to Alleviate Extreme Poverty.

Net Assets have been reclassified to properly reflect donor contributions to the Fund to Alleviate Extreme Poverty from the inception of the organization.

Note 12. 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. The organization had five loans and four loans outstanding for the years ended December 31, 2011 and December 31, 2010, respectively.

As of December 31, 2011 and December 31, 2010, respectively, temporarily restricted net assets available under this program:

	December 31, 2011	December 31, 2010
Cash	$ 175,477	$ 111,567
Loans outstanding to MFI’s	652,160	710,720
Total	$ 827,637	$ 822,287

Note 13. ENDOWMENTS:

At December 31, 2011, 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.

The Organization has historically expended all investment gains in excess of the original amounts to support the programs specified by the donors. In 2011, realized investment earnings of $3,598 were appropriated for operational expenses and program activities. There were no unrealized investment earnings on endowment assets at December 31, 2011.

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.

MICROCREDIT ENTERPRISES

NOTES TO FINANCIAL STATEMENTS - DECEMBER 31, 2011 AND DECEMBER 31, 2010

Note 13. ENDOWMENTS (Continued):

Endowment net asset composition by type of fund for year ended December 31, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$ -	$ 500,000	$ 500,000

Net changes in endowment funds for the year ended December 31, 2011 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning balance	$ -	$ -	$ 500,000	$ 500,000
Investment return	-	3,598	-	3,598
Appropriations	-	(3,598)	-	(3,598)
Ending balance	$ -	$ -	$ 500,000	$ 500,000

Endowment net asset Composition by type of Fund for year ended December 31, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$ -	$ 500,000	$ 500,000

Net changes in endowment funds for the year ended December 31, 2010 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning balance	$ -	$ -	$ 500,000	$ 500,000
Investment return	-	2,153	-	2,153
Appropriations	-	(2,153)	-	(2,153)
Ending balance	$ -	$ -	$ 500,000	$ 500,000