

Audited Financial Statements
And Other Financial Information

ASOCIACION ESPERANZA INTERNACIONAL, INC.
SERVICIOS DE MICROFINANZAS

December 31, 2010 and 2009

Audited Financial Statements

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Independent Auditor's Report

To Executive Direction
Asociación Esperanza Internacional, Inc.,
Servicios de Microfinanzas
Santo Domingo, Dominican Republic

We have audited the balance sheets of **Servicios de Microfinanzas de Asociación Esperanza Internacional, Inc.**, as of December 31, 2010 and 2009, and the related states of income and expenses, changes in patrimony, and cash flows for the years then ended, and a summary of significant the countable policies and other explanatory notes.

Responsibility of the Administration on the Financial Statements

The management is responsible for the preparation and reasonable presentation of these financial statements and of which they are in conformity with the International Accountability Standards. This responsibility includes to design, to implement and to maintain the excellent internal control for the preparation and reasonable presentation of which the financial statements are free of false or erroneous declarations, or by fraud or error; as well as to select and to apply appropriate policies of accounting that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We made the audit in accordance with the International Auditing Standards emitted by the International Federation of Accountants. These standards require ethical fulfillments and that we glide and we make the audit to receive a reasonable rank of security about which the financial statements do not contain important false or erroneous declarations.

An audit includes procedures to obtain evidences of the amounts and revelations contained in the financial statements. The selected procedures depend on the judgment of the auditors, including the evaluation of the risks on which false or erroneous declarations of importance are included in the financial statements, or by fraud or error. When carrying out these evaluations of risk, we considered the internal control for the reasonable preparation and presentation of the financial statements, in order to design audit procedures that are appropriate in the circumstances, but in order not to express an opinion on the effectiveness of the internal control of the company. An audit includes, in addition, the evaluation of the used policies of accounting and the reasoning of the estimations done by the management, as well as the evaluation of the general presentation of the financial statements. We considered that the audit evidence that we have obtained is sufficient and appropriate to provide the bases of our opinion.

Opinion

In our opinion, the financial statements provide a true and reasonable presentation of the financial situation of ***Servicios de Microfinanzas de Asociación Esperanza Internacional, Inc.***, as of December 31, 2010 and 2009, its financial performance and its cash flows by the years then ended, in accordance with the International Accountability Standards emitted by the International Accounting Standards Board (IASB).

Santo Domingo, Dominican Republic
March 24, 2011

Carolina L. Amador

Authorized Public Accountants
Register I.C.P.A.R.D. No. 71



BALANCE SHEETS

ASOCIACION ESPERANZA INTERNACIONAL, INC.
SERVICIOS DE MICROFINANZAS

(Expressed in dominican pesos)

	<i>December 31,</i>	
	2010	2009
ASSETS		
Cash --Note B	8,217,972	2,544,801
Loans receivable- net--Note D	65,538,913	67,368,880
Accounts receivable	27,398,631	27,298,832
Prepaid expenses	755,239	661,930
Furniture and equipment -net--Note E	6,369,063	5,333,660
Other assets	1,018,496	835,538
	109,298,314	104,043,641
LIABILITIES AND PATRIMONY		
LIABILITIES		
Loans payable --Note F	22,654,736	31,073,703
Accounts payable	7,893,945	4,186,383
Accounts payable related--Note G	8,866,509	10,355,493
Accrued expenses	1,367,686	372,176
Deferred liabilities	-	1,027,406
	40,782,876	47,015,161
PATRIMONY		
Retained earnings --Note H	68,515,438	57,028,480
	68,515,438	57,028,480
	109,298,314	104,043,641

COMMITMENTS-- NOTE C

See notes to financial statements.

STATEMENTS OF INCOME AND EXPENSES

ASOCIACION ESPERANZA INTERNACIONAL, INC.
SERVICIOS DE MICROFINANZAS

(Expressed in dominican pesos)

	<i>Years ended</i> <i>December 31,</i>	
	<u>2010</u>	<u>2009</u>
Income:--Note D		
Grants	28,138,394	22,302,920
Interests and commission	27,875,361	31,249,035
Others	2,006,664	66,089
	<u>58,020,419</u>	<u>53,618,044</u>
Expenses :--Notes C, E and F		
Interests and commission	3,547,395	4,828,152
Administratives	38,030,507	33,794,350
Depreciation	1,656,529	1,392,829
Provision for uncollectable loans	2,075,007	4,076,299
	<u>45,309,438</u>	<u>44,091,630</u>
RESULT OF THE YEAR	<u>12,710,981</u>	<u>9,526,414</u>

See notes to financial statements.

STATEMENTS OF CHANGES IN PATRIMONY

ASOCIACION ESPERANZA INTERNACIONAL, INC.
SERVICIOS DE MICROFINANZAS

(Expressed in dominican pesos)

	<u><i>Retained earnings</i></u>
Balance as of	
December 31, 2008	50,067,384
Prior years adjustments--Note H	(2,565,318)
Result of the year	9,526,414
	<hr/>
Balance as of	
December 31, 2009	57,028,480
Prior years adjustments--Note H	(1,224,023)
Result of the year	12,710,981
	<hr/>
BALANCE AS OF	
 DECEMBER 31, 2010	<u><u>68,515,438</u></u>

See notes to financial statements.

STATEMENT OF CASH FLOWS

**ASOCIACION ESPERANZA INTERNACIONAL, INC.
SERVICIOS DE MICROFINANZAS**

(Expressed in dominican pesos)

	<i>Years ended December 31,</i>	
	2010	2009
OPERATING ACTIVITIES		
Cash receipt (paid) by:		
Grant, interest and commission and others	58,020,419	53,618,044
Operational expenses	(35,073,268)	(33,735,757)
Financial	(3,547,395)	(4,828,152)
NET CASH PROVIDED BY OPERATING EXPENSES	<u>19,399,756</u>	<u>15,054,135</u>
INVESTMENT ACTIVITIES		
Cash paid in:		
Accounts receivable	(99,799)	(5,598,689)
Loan receivable-Net	(245,040)	(6,432,880)
Adquisition of furniture and equipment	(2,841,890)	(1,168,299)
Sale of furniture	592,118	-
NET CASH USED IN INVESTMENT ACTIVITIES	<u>(2,594,611)</u>	<u>(13,199,868)</u>
FINANCING ACTIVITIES		
Cash receipt (paid) by:		
Loans payable	(8,418,967)	(6,181,193)
Account payable relationed parties	(1,488,984)	1,372,383
Prior years adjustments	(1,224,023)	(2,565,318)
NET CASH USED BY FINANCING ACTIVITIES	<u>(11,131,974)</u>	<u>(7,374,128)</u>
(Decrease) increase in cash during the year	5,673,171	(5,519,861)
Cash at the beginning of the year	<u>2,544,801</u>	<u>8,064,662</u>
CASH AT END OF THE YEAR	<u>8,217,972</u>	<u>2,544,801</u>

STATEMENT OF CASH FLOWS

ASOCIACION ESPERANZA INTERNACIONAL, INC.
SERVICIOS DE MICROFINANZAS

(Expressed in dominican pesos)

**CONCILIATION BETWEEN RESULT OF THE YEARS WITH
NET CASH PROVIDED BY OPERATING EXPENSES**

	<i>Years ended</i> <i>December 31,</i>	
	<i>2010</i>	<i>2009</i>
Result of the year	12,710,981	9,526,414
Items that no require cash		
Depreciation	1,656,529	1,392,829
Provision for uncollectable loans	2,075,007	4,076,299
Gain in sale of assets	(442,160)	-
	<hr/>	<hr/>
	3,289,376	5,469,128
Changes in assets and liabilities		
(Increase) decrease in:		
Prepaid expenses	(93,309)	(562,506)
Other assets	(182,958)	(123,671)
Increase (decrease) in:		
Accounts payable	3,707,562	223,538
Accrued expenses	995,510	(487,757)
Deferred liabilities	(1,027,406)	1,008,989
	<hr/>	<hr/>
	19,399,756	15,054,135
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See notes to financial statements.

NOTES TO THE FINANCIAL STATEMENTS

ASOCIACIÓN ESPERANZA INTERNACIONAL, INC. SERVICIOS DE MICROFINANZAS

December 31, 2010 and 2009

NOTE A--SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization: *Servicios de Microfinanzas is a department of Asociación Esperanza Internacional, Inc.* is a non - profit religious association created by Decree No. 128/99 under the protection of Law No. 520 dated July 26, 1920.

The main objectives of the Institution are:

- To liberate the children and their families of poverty through that generate income, education and health. Restore the self-esteem and dignity to those who have lost it.
- The development of the micro-enterprise, assisting poor people, especially mothers, in the creation of income and employment generation to stabilize the personal dignity.
- The community development through the establishment of schools that emphasize their programs on literacy, primary health education, clinical nutrition education, recreation and leadership, sports programs to assist children and adolescents, religious education and spiritual development.
- Development of environmental health programs, such as improved health, development of improved access to safe water for their staff and food, water, latrine, recycling of plastic, glass and metals, and other matters of interest to developing environmental awareness.

Fund Accounting: The accounting records kept by the Asociación are prepared under the fund principle, such require that each fund has accounting according objectives and activities

Furniture and Equipments: The Furniture and equipments are recorded based on cost of acquisition not exceeding its market value. They are depreciating according Fiscal Law in use.

Other Assets: In other assets guarantees and deposits for the obtaining of services are included deprived public and, as well as, licenses of programs of Microsoft, received in quality of donation, which are being amortized in a period of five years.

NOTES TO THE FINANCIAL STATEMENTS--Continued

**ASOCIACIÓN ESPERANZA INTERNACIONAL, INC.
SERVICIOS DE MICROFINANZAS**

**NOTE A--SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES--
Continued**

Acknowledge of Income and Expenses by Accrual Basis: The method used by *Asociación Esperanza Internacional, Inc.*, to record income and expenses is the accrual basis, which consist in recognizing the income and expenses when they are done.

NOTE B--CASH

The detail of cash as of December 31, is as follows:

	<u>2010</u>	<u>2009</u>
Fund for expenses	371,600	265,360
Asociación Higuamo de Ahorros y Préstamos	489,523	183,178
Banco BHD, S. A.	5,748,372	635,753
Banco de Reservas de la República Dominicana	1,372,697	655,419
Banco BHD, S.A. (Account in US\$)	235,780	805,091
	<u>8,217,972</u>	<u>2,544,801</u>

NOTE C--COMMITMENTS

The Association maintains leases for premises where they operate their offices, renewable annually. The cost of rent for the acts complete by December 31, 2010 and 2009 amounted to a value of DR\$2,118,000 and DR\$1,872,000, respectively.

NOTE D--LOANS RECEIVABLE

The loans receivable as of December 31, is as follows:

<u>Detail</u>	<u>2010</u>	<u>2009</u>
No matureted loans	61,755,919	63,682,880
matureted loans	4,487,525	4,910,023
	66,243,444	68,592,903
Less, provision for uncollectable loans	(704,531)	(1,224,023)
	<u>65,538,913</u>	<u>67,368,880</u>

As of December 31, 2010 and 2009, the loans receivable rated an interest and commission that oscillates between a 36% and 48% annual. Most of the loans receivable at the year 2010 have a maturities in 2011.

NOTES TO FINANCIAL STATEMENTS--Continued

ASOCIACION ESPERANZA INTERNACIONAL, INC.
SERVICIOS DE MICROFINANZAS

NOTE D--LOANS RECEIVABLE--Continued

Provision for uncollectable loans:

The movement of provision for uncollectable loans during the years ended December 31, is as follow:

<u>Details</u>	<u>2010</u>	<u>2009</u>
Balance at beginning of the year	1,224,023	3,170,241
Provision of the year	2,075,007	4,076,299
Write off loans during the year	3,299,030	7,246,540
Elimination of loans during the year	(2,594,499)	(6,022,517)
Balance at end of the year	<u>704,531</u>	<u>1,224,023</u>

<u>Maturities</u>	<i>December 31,</i>		<i>% Over Total Loans</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
15 a 30 days	1,892,027	1,175,616	2.86	1.71
31 a 60 days	1,256,599	1,158,672	1.90	1.69
61 a 91 days	341,580	350,114	0.52	0.51
More than 91 days	292,788	1,001,598	0.44	1.46
Matured balance	3,782,994	3,686,000	5.71	5.37
Accrued balance matured	704,531	1,224,023	1.06	1.78
No matured balance	61,755,919	63,682,880	93.23	92.84
Loans Receivable	<u>66,243,444</u>	<u>68,592,903</u>	<u>100.00</u>	<u>100.00</u>

NOTE E--FURNITURE AND EQUIPMENT

The detail of furniture and equipment as of December 31, is as follow:

<u>Details</u>	<i>Balance as of</i> <i>12/31/2009</i>	<i>Adittion</i>	<i>Retire</i>	<i>Balance as of</i> <i>12/31/2010</i>
Furniture and equipment	7,050,835	305,154	-	7,355,989
Transportation equipment	8,032,343	2,434,220	(1,645,500)	8,821,063
Others	746,815	102,516	-	849,331
	15,829,993	2,841,890	(1,645,500)	17,026,383
Accumulated Depreciation	(10,496,333)	(1,656,529)	1,495,542	(10,657,320)
	<u>5,333,660</u>	<u>1,185,361</u>	<u>(149,958)</u>	<u>6,369,063</u>

NOTES TO THE FINANCIAL STATEMENTS--Continued

ASOCIACIÓN ESPERANZA INTERNACIONAL, INC.
SERVICIOS DE MICROFINANZAS

NOTE F--LOANS PAYABLE

The details of the loans payable at December 31, is as follows:

<u>Detail</u>	<u>2010</u>	<u>2009</u>
Loan of Fundación Reservas del País Inc., to cover operating expenses and investments. To be implemented over a period of five years beginning February 2004. This loan was agreed at a rate of interest and commission of 12% per year, payable on January 15 each year. It will be payable in eight years from the year 2009 in eight annual installments in December 31, the years 2009 to 2016. The amount spent to cover operating expenses will be paid in terms of three years beginning with the year 2008 three annual fees payable from December 31, 2008 to 2009.	6,956,500	11,350,000
Loans of Grameen Foundation USA, at an interest global annual of 6.39%, with maturitie in december 31, 2012, without especif warranty	8,600,992	13,976,611
Loan of Asociación Dominicana de Mitigación de Desastre Inc., at an interest and commission annual rate of 18% without specify guarantee, payable to presentation.	3,600,000	4,000,000
Loans to individuals to interest rates and commission annual rates between 15% and 16%, without specific guarantee, and payable to presentation.	1,463,000	499,947
Loan of Banco BHD, S. A., to interest rate of 13%-14%, without warranty.	1,000,000	999,999
Loan of Banco de Reservas, payable through monthly installments of principal and interest and commission annual rate of 26%, collateralized on vehicle.	33,924	247,146
Loan of PROINFANCIA to interest annual rate of 12%, payable monthly.	1,000,320	-
	<u>22,654,736</u>	<u>31,073,703</u>

NOTES TO THE FINANCIAL STATEMENTS--Continued

ASOCIACIÓN ESPERANZA INTERNACIONAL, INC.
SERVICIOS DE MICROFINANZAS

NOTE G--ACCOUNT PAYABLE RELATED

At December 31, 2010 the institution has a balance of US\$236,204 (RD\$8,866,509) for the commitment of credit granted and received from KIVA to Esperanza International Foundation in the Dominican Republic to increase their lending. These negotiations have approval and endorsement of the Esperanza International Foundation office in Bellevue, WA, United States of America.

NOTE H – PRIOR YEARS ADJUSTMENTS

During the year ended December 31, 2010 the institution made adjustment to the portfolio of credit amounting to RD\$ 1,224, 023. While for the year ended December 31, 2009, the institution together with the Grameen Foundation reconciled the balances of loans for the purpose of consolidating and restructuring debt and renegotiate the interest rate and result of the conciliation and sanitation of the balance sheets were adjustments amounting to RD\$ 2,565,318 caused by Exchange rate differences, bad implementation of interests and other concepts.



CAMPUSANO & ASOCIADOS, SRL
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Firma Miembro de:



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RNC-101-56287-2

The Leading Edge Alliance is a worldwide alliance of major independently owned accounting and consulting firms.

Independent Auditors' Report on Supplemental Information

To Executive Direction
Asociación Esperanza Internacional, Inc.,
Santo Domingo, Dominican Republic

The audited financial statements of ***Servicios de Microfinanzas de Asociación Esperanza Internacional, Inc.,*** for the years ended December 31, 2010 and 2009, are presented in the preceding section of this report. The following financial information is presented for purposes of additional analysis and is not a required part of the financial statements of ***Servicios de Microfinanzas de Asociación Esperanza Internacional, Inc.,*** such information has been subjected to the auditing procedures applied in our audit of the financial statements for the years then ended and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Campusano & Asociados
Authorized Public Accountants
Register I.C.P.A.R.D. No. 71

Santo Domingo, Dominican Republic
March 24, 2011



DETAIL OF ADMINISTRATIVE EXPENSES

ASOCIACION ESPERANZA INTERNACIONAL, INC.
SERVICIOS DE MICROFINANZAS

(Expressed in dominican pesos)

	<i>Years ended</i>	
	<i>December 31,</i>	
	2010	2009
Payroll	14,429,112	12,394,951
Vacations	78,935	101,629
Christmas bonus	1,434,422	1,125,983
Occupational hazard insurance	184,583	-
Notice and severance	957,306	150,306
Medical security	1,267,944	1,465,253
Employee attention	531,704	96,500
Incentive	289,206	48,000
Pension plan	1,981,292	1,799,255
Vacations	313,810	88,642
International expenses	141,833	51,797
Fuel	2,383,527	2,168,644
Insurance of vehicles	57,448	50,037
Furniture maintenance	514,587	421,358
Vehicles maintenance	1,379,141	865,259
Local maintenance	219,607	281,494
Per diem	285,703	724,413
Hosting	10,832	-
Transportation	1,903,943	1,908,386
Education	58,945	52,509
Office supplies	972,674	823,573
Working material	19,150	-
Other expenses relative to work	295,850	80,388
Local rent	2,118,678	1,871,574
Communications	1,187,649	1,497,110
Trash, wather and power	619,563	463,932
Cleanning	251,022	301,175
Part time employee	257,942	205,774
Miscellaneous	-	13,713
General insurance	777,887	515,608
Professional fees	633,052	630,560
Events and celebrations	349,742	17,620
Contribution to education	159,119	-
Donations and contributions	17,942	-
Vehicles compensantion	235,157	354,927
Housing Compensation	233,000	-
Suscriptions	179,230	136,742
Visits atencion	7,602	-
Insurance over loands	30,499	6,067
Advertising	7,870	19,765
Meetings	280,736	337,636
Watchman service	50,564	105
Other personnel expenses	-	887,333
Professional fees	300,825	252,333
Chritsmas accesories	600	-
Elimination at bad items	-	205,462
Exchange loss	437,097	-
Various taxes	39,966	-
shortages and surpluses	(1,847)	-
Others	145,058	1,378,537
	<u>38,030,507</u>	<u>33,794,350</u>