ESPERANZA

Leading the way to a future with hope

Consolidated Financial Statements with Supplemental Schedules and Independent Auditors' Report

December 31, 2008

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Certified Public
Accountants
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Independent Auditors' Report

Board of Directors
Esperanza International Foundation
Bellevue, Washington

We have audited the accompanying consolidated statement of financial position of Esperanza International Foundation and affiliate, (collectively, the Organization) as of December 31, 2008, and the related consolidated statements of activities and changes in net assets, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of Asociacion Esperanza Internacional, Inc., a consolidated affiliate, whose statements reflect total assets and revenues constituting 85 percent and 67 percent, respectively, of the related consolidated totals. Those statements were audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to the amounts included for Asociacion Esperanza Internacional, Inc. is based solely on the report of the other auditors.

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 and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Esperanza International Foundation and affiliate as of December 31, 2008, and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating schedule of financial position and consolidating schedule of activities and changes in net assets on pages 9 to 10 are presented for the purpose of additional analysis of the basic consolidated financial statements rather than to present the financial position, change in net assets, and net assets of the individual organizations, and are not a required part of the basic consolidated financial statements. These schedules are the responsibility of the Organization's management. Such schedules have been subjected to the auditing procedures applied in our audit of the basic consolidated financial statements and, in our opinion, based on our audit and the report of the other auditors, are fairly stated in all material respects when considered in relation to the basic consolidated financial statements taken as a whole.

Clark Nuber P. S.

Certified Public Accountants
January 28, 2010

ESPERANZA INTERNATIONAL FOUNDATION AND AFFILIATE

Consolidated Statement of Financial Position

December 31, 2008

Assets

Cash and cash equivalents	$ 734,827
Accounts receivable	532,457
Notes receivable	1,876,011
Prepaid expenses	2,754
Property and equipment, net of accumulated depreciation	255,513
Other assets	25,917
Total Assets	**$ 3,427,479**

Liabilities and Net Assets

Liabilities:	
Accounts payable	$ 416,488
Accrued expenses	43,685
Deferred liabilities	164,779
Notes payable	1,031,961
Total Liabilities	**1,656,913**
Unrestricted net assets	1,770,566
Total Net Assets	**1,770,566**
Total Liabilities and Unrestricted Net Assets	**$ 3,427,479**

The accompanying notes are an integral part of the financial statements.

ESPERANZA INTERNATIONAL FOUNDATION AND AFFILIATE

Consolidated Statement of Activities and Changes in Net Assets

For the Year Ended December 31, 2008

Revenues and Support:	
Contributed support	$ 1,245,906
Grants	672,014
Dividends, interest and commissions	890,355
Net realized loss on investments	(9,675)
In-kind contributions	2,018,049
Special events	417,482
Other	16,539
Total Revenues and Support	**5,250,670**
Expenses:	
Program	3,349,678
Management and general	678,033
Fundraising	209,688
Total Expenses	**4,237,399**
Change in Net Assets	**1,013,271**
Unrestricted net assets, beginning of year	757,295
Unrestricted Net Assets, End of Year	**$ 1,770,566**

The accompanying notes are an integral part of the financial statements.

ESPERANZA INTERNATIONAL FOUNDATION AND AFFILIATE

Consolidated Statement of Cash Flows

For the Year Ended December 31, 2008

Cash Flows from Operating Activities:	
Change in net assets	$ 1,013,271
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	56,119
Loss on disposal of fixed assets	766
Net realized and unrealized loss on investments	9,675
Foreign currency translation gain	(88,149)
Cash provided (used) by changes in operating assets and liabilities:	
Accounts receivable	(197,211)
Notes receivable	(373,125)
Prepaid expenses	2,706
Other assets	1,719,157
Accounts payable	366,887
Accrued expenses	(42,479)
Deferred liabilities	(1,570,468)
Net Cash Provided by Operating Activities	**897,149**
Cash Flows from Investing Activities:	
Proceeds from sale of investment	43,088
Purchases of property and equipment	(119,704)
Net Cash Used In Investing Activities	**(76,616)**
Cash Flows from Financing Activities:	
Proceeds from note payable	340,318
Repayment of note payable	(725,987)
Net Cash Used in Financing Activities	**(385,669)**
Net Change in Cash and Cash Equivalents	**434,864**
Cash and cash equivalents, beginning of year	299,963
Cash and Cash Equivalents, End of Year	**$ 734,827**
Supplemental Cash Flow Information:	
Cash paid for interest	$ 116,114

The accompanying notes are an integral part of the financial statements.

Note 1 - Nature of Operations and Significant Accounting Policies

Nature of Operations - Esperanza International Foundation (the Foundation) was formed in November, 1992. The mission is to free children and their families from poverty through initiatives that generate income, education and health, restoring self-worth and dignity to those who have lost hope. The Foundation primarily provides support to individuals and individual business owners primarily located in Dominican Republic and Haiti.

The main objectives of the Foundation are:

- To liberate the children and their families of poverty through initiatives 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 personal dignity.

- The community development through the establishment of schools that emphasize 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.

Principles of Consolidation - The consolidated financial statements include the accounts of Esperanza International and Asociacion Esperanza Internacional, Inc. (collectively, the Organization). Esperanza International Foundation is a Washington State nonprofit corporation with headquarters in Bellevue, Washington. It has branch offices in Dominican Republic and Haiti. Asociacion Esperanza Internacional, Inc. is a religious association with headquarters in Santo Domingo, Dominican Republic.

The two organizations are governed by the same board of directors with common members. However, Esperanza International Foundation provides over 90 percent of the support of Asociacion Esperanza Internacional, Inc., and the organizations work collaboratively on program and governance matters. All significant accounts and transactions between the two foundations have been eliminated in these financial statements.

Basis of Presentation - The Organization maintains its accounting records using the accrual method of accounting, whereby revenues are recorded when earned and expenses when incurred. The consolidated financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations". Under SFAS No. 117, the Organization is required to report financial 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. The Organization had no donor-restricted assets as of December 31, 2008.

Cash and Cash Equivalents - The Organization considers temporary investments with an original maturity of three months or less, other than amounts held in its investment portfolios, to be cash equivalents.

Note 1 - Continued

Notes Receivable - Accounts and microloans receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation allowance for accounts receivable have not been material to the financial statements. The allowance for doubtful accounts was $1,876,011 at December 31, 2008.

At December 31, 2008 the annual interest rates on notes receivable varied between 36% and 48%. The note receivable balances at December 31, 2008 had maturity dates of twelve months or less.

Investments - The Organization carries investments at fair value on the statement of financial position. Realized and unrealized gains and losses are reflected on the consolidated statements of activities in the period in which they occur. At December 31, 2008, the Foundation did not have any investments.

Concentration of Credit Risk - The Organization invests its funds with financial institutions and has established guidelines relative to diversification and maturities that maintain safety and liquidity. Such amounts may be in excess of the FDIC and SIPC insured amounts.

Property and Equipment - The Organization capitalizes assets with a cost greater than $250 and an estimated useful life of one or more years. Depreciation is computed utilizing the straight-line method. Furniture and fixtures, computer hardware, and equipment are depreciated over an estimated useful life of three to five years. The costs of repairs and maintenance are expensed as incurred. The costs of renewals, replacements and betterments are capitalized.

In-kind Facility Contribution - Donated goods and use of facilities are recorded at fair market value at the date of receipt. Donated services are recorded only if specific professional expertise is provided or the services are for constructing a fixed asset, in accordance with generally accepted accounting principles. Donated use of facility at December 31, 2008 totaled $12,000 and is included in the consolidated statements of activity and changes in net assets.

Intangible Assets - The Organization capitalizes the cost of creating and registering trademarks. Since trademarks are considered to have indefinite lives, generally accepted accounting principles do not allow amortization. However, trademarks are subject to an annual impairment test. As of December 31, 2008, there was no impairment of the trademark.

Foreign Operations - Approximately 91% of the Organization’s expenses are incurred outside of the United States in Dominican Republic and Haiti. Approximately $1.3 million of the net assets reported in the accompanying consolidated statement of financial positions relate to those activities.

Foreign Currency Translation - The functional currency of some of the Organization’s field offices is the local currency in which the office is located. Assets and liabilities of the offices have been translated into U.S. dollars at year-end exchange rates. Revenues and expenses have been translated at average monthly exchange rates. Any translation adjustments are included in the consolidated statements of activities and changes in net assets.

Note 1 - Continued

Income Tax Status - The Internal Revenue Service has determined that the Organization is exempt from U.S. income tax under section 501(c)(3) of the U.S. Internal Revenue Code. Asociacion Esperanza Internacional, Inc is a nonprofit civic association recognized as exempt from income tax under national tax laws of Dominican Republic.

Uncertain Tax Positions - In June 2006, the FASB released FASB Interpretation (“FIN”) No. 48, Accounting for Uncertainty in Income Taxes. FIN 48 interprets the guidance in FASB Statement of Financial Accounting Standards (“SFAS”) No. 109, Accounting for Income Taxes. When FIN 48 is implemented, reporting entities utilize different recognition thresholds and measurement requirements when compared to prior technical literature. On December 30, 2008, the FASB Staff issued FASB Staff Position (“FSP”) FIN 48-3, Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises. As deferred by the guidance in FSP FIN 48-3, the Foundation is not required to implement the provisions of FIN 48 until fiscal years beginning after December 15, 2008. As such, the Foundation has not implemented those provisions in the 2008 financial statements.

Since the provisions of FIN 48 have not been implemented in accounting for uncertain tax positions, the Foundation continues to utilize its prior policy of accounting for these positions, following the guidance in SFAS No. 5, Accounting for Contingencies. Disclosure is not required of a loss contingency involving an unasserted claim or assessment when there has been no manifestation by a potential claimant of an awareness of a possible claim or assessment unless it is considered probable that a claim will be asserted and there is a reasonable possibility that the outcome will be unfavorable. Using that guidance, as of December 31, 2008, the Foundation has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

Use 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional Expenses - The costs of providing the various programs and other activities have been summarized in the consolidated statements of activities, and changes in net assets on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Subsequent Events - The Organization has evaluated subsequent events through January 28, 2010, the date on which the financial statements were available to be issued.

Note 2 - Property and Equipment

Property and equipment consist of the following at December 31, 2008:

Furniture and equipment	$ 222,127
Transportation equipment	289,915
Leasehold improvements	18,430
Other	47,361
	577,833
Less: accumulated depreciation	(322,320)
	$ 255,513

Note 3 - Notes Payable

The following long-term debt is held by Asociacion Esperanza Internacional, Inc and consists of the following on December 31, 2008:

Note payable to Fundación Reservas del País Inc., the note is payable over eight year period, and bears an annual interest of 12%. Payments on the note are due annually on December 31, 2009 through 2016.	$ 408,574
Note payable to Grameen Foundation USA, with a variable annual interest Between 2% and 12%, due 2016, without any guarantee.	453,537
Note payable to Asociación Dominicana de Mitigación de Desastre Inc and bears an annual interest rate of 8% without any guarantee.	110,800
Notes payable to individuals with variable annual interest rates ranging from 18% to 20%, without any guarantee.	20,083
Note payable to Banco BHD, S. A., payable in monthly installments of principal and interest at 24%. Note is collateralized by vehicle.	27,700
Note payable to Banco de Reservas, payable in monthly installments of principal and interest at 18%. Note is collateralized by vehicle.	11,267
	$ 1,031,961

Note 4 - Lease Commitments

The Company leases office space in Dominican Republic, renewable annually. Rent expense for operating leases totaled $48,883 for the year ended December 31, 2008.

SUPPLEMENTAL SCHEDULES

ESPERANZA INTERNATIONAL FOUNDATION

Consolidating Schedule of Financial Position

December 31, 2008

	Esperanza International Foundation	*Esperanza International and Asociacion Esperanza Internacional, Inc.*	*Eliminations*	*Consolidated Totals*
Assets				
Cash and cash equivalents	$ 508,566	$ 226,261	$ -	$ 734,827
Accounts receivable		532,457		532,457
Notes receivable		1,876,011		1,876,011
Prepaid expenses		2,754		2,754
Property and equipment, net of accumulated depreciation	4,746	250,767		255,513
Other assets	3,963	21,954		25,917
Total Assets	**$ 517,275**	**$ 2,910,204**	**$ -**	**$ 3,427,479**
Liabilities and Net Assets				
Liabilities:				
Accounts payable	$ -	$ 416,488	$ -	$ 416,488
Accrued expenses		43,685		43,685
Deferred liabilities		164,779		164,779
Note payable		1,031,961		1,031,961
Total Liabilities		**1,656,913**		**1,656,913**
Unrestricted net assets	517,275	1,253,291		1,770,566
Total Net Assets	**517,275**	**1,253,291**		**1,770,566**
Total Liabilities and Unrestricted Net Assets	**$ 517,275**	**$ 2,910,204**	**$ -**	**$ 3,427,479**

The accompanying notes are an integral part of the financial statements.

ESPERANZA INTERNATIONAL FOUNDATION AND AFFILIATE

Consolidated Schedule of Activities and Changes in Net Assets

For the Year Ended December 31, 2008

	Esperanza International Foundation	*Esperanza International and Asociacion Esperanza Internacional, Inc.*	*Eliminations*	*Consolidated Totals*
Revenues and Support:				
Contributed support	$ 1,245,906	$ -	$ -	$ 1,245,906
Grants		1,745,068	(1,073,054)	672,014
Dividends, interest and commissions	10,243	880,112		890,355
Net realized loss on investments	(9,675)			(9,675)
In-kind contributions	73,387	1,944,662		2,018,049
Special events	417,482			417,482
Other		16,539		16,539
Total Revenues and Support	**1,737,343**	**4,586,381**	**(1,073,054)**	**5,250,670**
Expenses:				
Program	1,203,338	3,219,394	(1,073,054)	3,349,678
Management and general	30,556	647,477		678,033
Fundraising	209,688			209,688
Total Expenses	**1,443,582**	**3,866,871**	**(1,073,054)**	**4,237,399**
Change in Net Assets	**293,761**	**719,510**		**1,013,271**
Unrestricted net assets, beginning of year	223,514	533,781		757,295
Unrestricted Net Assets, End of Year	**$ 517,275**	**$ 1,253,291**	**$ -**	**$ 1,770,566**

The accompanying notes are an integral part of the financial statements.