



Consolidated Financial Statements

For the Years Ended
December 31, 2009 and 2008

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Independent Auditors' Report***Board of Directors
Esperanza International Foundation and Affiliate
Bellevue, Washington***Certified Public
Accountants
and Consultants

We have audited the accompanying consolidated statements of financial position of Esperanza International Foundation and its affiliate, (collectively, the Organization) as of December 31, 2009 and 2008, and the related consolidated statements of activities and changes in net assets, and cash flows for the years 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 (the Affiliate) as of and for the years ended December 31, 2009 and 2008. The Affiliate's financial statements reflect total assets and revenues constituting 94% and 48%, respectively, of the related consolidated 2009 totals; and 84% and 67%, respectively, of the related consolidated 2008 totals. The Affiliate's financial 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 audits 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 audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports 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 its affiliate as of December 31, 2009 and 2008, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements, taken as a whole. The accompanying supplementary information on pages 10 to 13 as of and for the years ended December 31, 2009 and 2008 is presented for the purpose of additional analysis and is not a required part of the basic consolidated financial statements. This supplementary information is the responsibility of the Organization's management. Such information has been subjected to the auditing procedures applied in the audits of the basic 2009 and 2008 consolidated financial statements and, in our opinion, which insofar as it relates to Asociacion Esperanza Internacional, Inc., is based on the report of other auditors, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Certified Public Accountants
May 2, 2011

ESPERANZA INTERNATIONAL FOUNDATION AND AFFILIATE

Consolidated Statements of Financial Position

	<i>December 31,</i>	<u>2009</u>	<u>2008</u> <i>(As Restated)</i>
<i>Assets</i>			
Cash and cash equivalents		\$ 223,323	\$ 734,827
Accounts receivable		332,496	562,457
Notes receivable, net		1,901,755	1,876,011
Prepaid expenses		23,244	2,754
Property and equipment, net of accumulated depreciation		235,750	255,513
Other assets		<u>27,372</u>	<u>25,917</u>
Total Assets		<u>\$ 2,743,940</u>	<u>\$ 3,457,479</u>
 <i>Liabilities and Net Assets</i>			
Liabilities:			
Accounts payable		\$ 430,085	\$ 416,488
Accrued expenses		16,133	43,685
Deferred liabilities		180,879	164,779
Notes payable		<u>875,047</u>	<u>1,031,961</u>
Total Liabilities		1,502,144	1,656,913
Unrestricted net assets		<u>1,241,796</u>	<u>1,800,566</u>
Total Net Assets		<u>1,241,796</u>	<u>1,800,566</u>
Total Liabilities and Unrestricted Net Assets		<u>\$ 2,743,940</u>	<u>\$ 3,457,479</u>

See accompanying notes.

ESPERANZA INTERNATIONAL FOUNDATION AND AFFILIATE

Consolidated Statements of Activities and Changes in Net Assets

	<i>For the Years Ended December 31,</i>	<i>2009</i>	<i>2008</i> <i>(As Restated)</i>
Revenues and Support:			
Contributed support		\$ 869,005	\$ 1,275,906
Grants		44,605	672,014
Dividends, interest and commissions		883,272	890,355
Net realized loss on investments			(9,675)
In-kind contributions		47,195	2,018,049
Special events		110,382	417,482
Other		30,133	16,539
Total Revenues and Support		1,984,592	5,280,670
Expenses:			
Program		1,868,777	3,349,678
Management and general		559,097	678,033
Fundraising		115,488	209,688
Total Expenses		2,543,362	4,237,399
Change in Net Assets		(558,770)	1,043,271
Unrestricted net assets, beginning of year		1,800,566	757,295
Unrestricted Net Assets, End of Year		\$ 1,241,796	\$ 1,800,566

See accompanying notes.

ESPERANZA INTERNATIONAL FOUNDATION AND AFFILIATE

Consolidated Statements of Cash Flows

	<i>For the Years Ended December 31,</i>	<i>2009</i>	<i>2008</i> <i>(As Restated)</i>
Cash Flows from Operating Activities:			
Change in net assets		\$ (558,770)	\$ 1,043,271
Adjustments to reconcile change in net assets to net cash provided by operating activities-			
Depreciation and amortization		68,750	56,119
Loss on disposal of fixed assets		37,393	766
Net realized and unrealized loss on investments			9,675
Foreign currency translation gain		9,335	(88,149)
Changes in operating assets and liabilities:			
Accounts receivable		229,961	(227,211)
Notes receivable, net		(25,744)	(373,125)
Prepaid expenses		(20,490)	2,706
Other assets		(1,455)	1,719,157
Accounts payable		13,597	366,887
Accrued expenses		(27,552)	(42,479)
Deferred liabilities		16,100	(1,570,468)
Net Cash (Used in) Provided by Operating Activities		(258,875)	897,149
Cash Flows from Investing Activities:			
Proceeds from sale of investment			43,088
Purchases of property and equipment		(86,380)	(119,704)
Net Cash Used in Investing Activities		(86,380)	(76,616)
Cash Flows from Financing Activities:			
Proceeds from notes payable		-	340,318
Repayment of notes payable		(166,249)	(725,987)
Net Cash Provided by (Used in) Financing Activities		(166,249)	(385,669)
Net Change in Cash and Cash Equivalents		(511,504)	434,864
Cash and cash equivalents, beginning of year		734,827	299,963
Cash and Cash Equivalents, End of Year		\$ 223,323	\$ 734,827
Supplemental Cash Flow Information:			
Cash paid for interest		\$ 142,645	\$ 116,114

See accompanying notes.

ESPERANZA INTERNATIONAL FOUNDATION AND AFFILIATE

Notes to Consolidated 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% 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.

While the Organization has an economic interest in the Esperanza International - Haiti (EI Haiti), it does not have control. Therefore, its operations are not consolidated in the financial statements of the Organization. The two organizations share a common focus 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. All funding provided to EI Haiti is through the Asociacion Esperanza Internacional, Inc.

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 accounting standards generally accepted in the United States of America (GAAP). Under GAAP, 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 net assets as of December 31, 2009 and 2008, respectively.

ESPERANZA INTERNATIONAL FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements

Note 1 - Continued

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.

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 \$37,973 and \$111,156 at December 31, 2009 and 2008, respectively.

At December 31, 2009 and 2008, the annual interest rates on notes receivable varied between 36% and 48%. The note receivable balances at December 31, 2009 and 2008 had maturity dates of twelve months or less.

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 insured amounts.

There were two donors that contributed 66% and 40% of contributed support for the years ended December 31, 2009 and 2008, respectively.

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. Property 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 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 GAAP. Donated use of facility at December 31, 2009 and 2008, totaled \$7,200 and \$12,000, respectively, 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, GAAP does not allow amortization. However, trademarks are subject to an annual impairment test. As of December 31, 2009 and 2008, there was no impairment of the trademark.

Foreign Operations - Approximately 76% and 91% of the Organization's expenses were incurred outside of the United States in Dominican Republic and Haiti for the years ended December 31, 2009 and 2008, respectively. Approximately \$1.1 million and \$1.3 million of the net assets reported in the accompanying consolidated statements of financial position relate to those activities as of December 31, 2009 and 2008, respectively.

Operations outside the United States are subject to risks inherent in operating under different legal systems and various political and economic environments. Among the risks are changes in existing tax laws, possible limitations on foreign investment and income repatriation, government price or foreign exchange controls, and restrictions on currency exchange.

ESPERANZA INTERNATIONAL FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements

Note 1 - Continued

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.

Income Tax Status - The Internal Revenue Service has determined that the Foundation 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. The Organization files income tax returns with the U.S. and foreign governments. The Organization is subject to income tax examinations by the tax authorities of these governments for the current year and certain prior years based on the applicable laws and regulations of each jurisdiction.

Use of Estimates - The preparation of financial statements in conformity with GAAP 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 May 2, 2011, 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:

	<u>2009</u>	<u>2008</u>
Furniture and equipment	\$ 230,150	\$ 222,127
Transportation equipment	312,350	289,915
Leasehold improvements	52,086	18,430
Other	<u>16,134</u>	<u>47,361</u>
	610,720	577,833
Less accumulated depreciation	<u>(374,970)</u>	<u>(322,320)</u>
	<u>\$ 235,750</u>	<u>\$ 255,513</u>

ESPERANZA INTERNATIONAL FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements

Note 3 - Notes Payable

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

	<u>2009</u>	<u>2008</u>
Note payable to Fundación Reservas del País Inc., the note is payable over an eight year period, and bears an annual interest of 12%. Payments on the note are due annually on December 31, 2009 through 2016.	\$ 316,665	\$ 408,574
Note payable to Grameen Foundation USA, with an annual interest rate of 6.39%, due December 31, 2012, without any guarantee.	389,947	453,537
Note payable to Asociación Dominicana de Mitigación de Desastre Inc. and bears an annual interest rate and fee of 18% without any guarantee.	111,600	110,800
Notes payable to individuals with variable annual interest rates ranging from 18% to 20%, without any guarantee.	22,040	20,083
Note payable to Banco BHD, S. A., payable in monthly installments of principal and interest at 24%. Note is collateralized by a vehicle.	27,900	27,700
Note payable to Banco de Reservas, payable in monthly installments of principal and interest at 18%. Note is collateralized by a vehicle.	<u>6,895</u>	<u>11,267</u>
	<u>\$ 875,047</u>	<u>\$ 1,031,961</u>

Note 4 - Lease Commitments

The Organization leases office space in Dominican Republic, renewable annually. Rent expense for operating leases totaled \$132,480 and \$48,883 for the years ended December 31, 2009 and 2008, respectively.

Note 5 - Employee Benefit Plan

The Foundation has a 403(b) plan that covers substantially all full-time employees who have completed one year of service. There were no employer contributions for the years ended December 31, 2009 and 2008.

Note 6 - Prior Period Adjustment

During the year ended December 31, 2009, management discovered that certain contributions should have been recognized as of December 31, 2008. As a result, unrestricted net assets as of December 31, 2008 and contribution revenues for the year ended December 31, 2008 were increased by \$30,000. The correction has no effect on the cumulative net assets reported as of December 31, 2009. Financial statements as of and for the year ended December 31, 2008 have been restated to correct this error.

SUPPLEMENTARY INFORMATION

ESPERANZA INTERNATIONAL FOUNDATION AND AFFILIATE

Consolidating Schedule of Financial Position

December 31, 2009

	<i>Esperanza International Foundation</i>	<i>Esperanza International and Asociacion Esperanza Internacional, Inc.</i>	<i>Eliminations</i>	<i>Consolidated Totals</i>
Assets				
Cash and cash equivalents	\$ 137,770	\$ 85,553	\$ -	\$ 223,323
Accounts receivable	16,667	315,829		332,496
Notes receivable, net		1,901,755		1,901,755
Prepaid expenses	4,776	18,468		23,244
Property and equipment, net of accumulated depreciation	3,407	232,343		235,750
Other assets	3,963	23,409		27,372
Total Assets	\$ 166,583	\$ 2,577,357	\$ -	\$ 2,743,940
Liabilities and Net Assets				
Liabilities:				
Accounts payable	\$ 1,765	\$ 428,320	\$ -	\$ 430,085
Accrued expenses	3,300	12,833		16,133
Deferred liabilities		180,879		180,879
Note payable		875,047		875,047
Total Liabilities	5,065	1,497,079		1,502,144
Unrestricted net assets	161,518	1,080,278		1,241,796
Total Net Assets	161,518	1,080,278		1,241,796
Total Liabilities and Unrestricted Net Assets	\$ 166,583	\$ 2,577,357	\$ -	\$ 2,743,940

See independent auditors' report.

ESPERANZA INTERNATIONAL FOUNDATION AND AFFILIATE

Consolidating Schedule of Financial Position

December 31, 2008, As Restated

	<i>Esperanza International Foundation</i>	<i>Esperanza International and Asociacion Esperanza Internacional, Inc.</i>	<i>Eliminations</i>	<i>Consolidated Totals</i>
Assets				
Cash and cash equivalents	\$ 508,566	\$ 226,261	\$ -	\$ 734,827
Accounts receivable	30,000	532,457		562,457
Notes receivable, net		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	\$ 547,275	\$ 2,910,204	\$ -	\$ 3,457,479
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	547,275	1,253,291		1,800,566
Total Net Assets	547,275	1,253,291		1,800,566
Total Liabilities and Unrestricted Net Assets	\$ 547,275	\$ 2,910,204	\$ -	\$ 3,457,479

See independent auditors' report.

ESPERANZA INTERNATIONAL FOUNDATION AND AFFILIATE

Consolidating Schedule of Activities and Changes in Net Assets

For the Year Ended December 31, 2009

	<i>Esperanza International Foundation</i>	<i>Esperanza International and Asociacion Esperanza Internacional, Inc.</i>	<i>Eliminations</i>	<i>Consolidated Totals</i>
Revenues and Support:				
Contributed support	\$ 869,005	\$ -	\$ -	\$ 869,005
Grants		856,115	(811,510)	44,605
Dividends, interest and commissions	1,424	881,848		883,272
Net realized loss on investments				
In-kind contributions	47,195			47,195
Special events	110,382			110,382
Other		30,133		30,133
Total Revenues and Support	1,028,006	1,768,096	(811,510)	1,984,592
Expenses:				
Program	1,275,095	1,405,192	(811,510)	1,868,777
Management and general	23,180	535,917		559,097
Fundraising	115,488			115,488
Total Expenses	1,413,763	1,941,109	(811,510)	2,543,362
Change in Net Assets	(385,757)	(173,013)		(558,770)
Unrestricted net assets, beginning of year	547,275	1,253,291		1,800,566
Unrestricted Net Assets, End of Year	\$ 161,518	\$ 1,080,278	\$ -	\$ 1,241,796

See independent auditors' report.

ESPERANZA INTERNATIONAL FOUNDATION AND AFFILIATE

Consolidating Schedule of Activities and Changes in Net Assets

For the Year Ended December 31, 2008, As Restated

	<i>Esperanza International Foundation</i>	<i>Esperanza International and Asociacion Esperanza Internacional, Inc.</i>	<i>Eliminations</i>	<i>Consolidated Totals</i>
Revenues and Support:				
Contributed support	\$ 1,275,906	\$ -	\$ -	\$ 1,275,906
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	1,767,343	4,586,381	(1,073,054)	5,280,670
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	323,761	719,510		1,043,271
Unrestricted net assets, beginning of year	223,514	533,781		757,295
Unrestricted Net Assets, End of Year	\$ 547,275	\$ 1,253,291	\$ -	\$ 1,800,566

See independent auditors' report.