



Consolidated Financial Statements

**For the Years Ended
December 31, 2010 and 2009**

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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, 2010 and 2009, 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 audits. 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, 2010 and 2009. The Affiliate's financial statements reflect total assets and revenues constituting 94% and 33%, respectively, of the related consolidated 2010 totals; and 94% and 48%, respectively, of the related consolidated 2009 totals. The Affiliate's financial statements were audited by other auditors whose reports have 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 reports 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 audits 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, 2010 and 2009, 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, as a whole. The accompanying supplementary information on pages 9 to 12 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, as it relates to Asociacion Esperanza Internacional, Inc., are based on the reports of other auditors, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Certified Public Accountants
May 25, 2012

ESPERANZA INTERNATIONAL FOUNDATION AND AFFILIATE

Consolidated Statements of Financial Position
December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Assets		
Cash and cash equivalents	\$ 374,386	\$ 223,323
Accounts receivable	387,252	332,496
Notes receivable, net	1,761,069	1,901,755
Prepaid expenses	25,255	23,244
Property and equipment, net of accumulated depreciation	233,454	235,750
Other assets	32,917	27,372
Total Assets	<u>\$ 2,814,333</u>	<u>\$ 2,743,940</u>
 Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 513,840	\$ 430,085
Accrued expenses	36,951	16,133
Deferred liabilities	57,286	180,879
Notes payable	610,330	875,047
Total Liabilities	<u>1,218,407</u>	<u>1,502,144</u>
Unrestricted net assets	<u>1,595,926</u>	<u>1,241,796</u>
Total Net Assets	<u>1,595,926</u>	<u>1,241,796</u>
Total Liabilities and Unrestricted Net Assets	<u>\$ 2,814,333</u>	<u>\$ 2,743,940</u>

See accompanying notes.

ESPERANZA INTERNATIONAL FOUNDATION AND AFFILIATE

**Consolidated Statements of Activities and Changes in Net Assets
For the Years Ended December 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
Revenues and Support:		
Contributed support	\$ 1,707,262	\$ 869,005
Grants	45,518	44,605
Dividends, interest, and commissions	752,782	883,272
In-kind contributions	44,940	47,195
Special events	119,197	110,382
Other	160,157	30,133
	<u>2,829,856</u>	<u>1,984,592</u>
Total Revenues and Support	2,829,856	1,984,592
Expenses:		
Program	1,734,371	1,885,074
Management and general	581,068	502,806
Fundraising	160,287	155,482
	<u>2,475,726</u>	<u>2,543,362</u>
Total Expenses	2,475,726	2,543,362
Change in Net Assets	354,130	(558,770)
Unrestricted net assets, beginning of year	1,241,796	1,800,566
Unrestricted Net Assets, End of Year	<u>\$ 1,595,926</u>	<u>\$ 1,241,796</u>

See accompanying notes.

ESPERANZA INTERNATIONAL FOUNDATION AND AFFILIATE

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 354,130	\$ (558,770)
Adjustments to reconcile change in net assets to net cash provided by operating activities-		
Depreciation and amortization	64,002	68,750
Loss on disposal of fixed assets	1,349	37,393
Foreign currency translation (gain) loss	(23,352)	9,335
Changes in operating assets and liabilities:		
Accounts receivable	(54,756)	229,961
Notes receivable, net	140,686	(25,744)
Prepaid expenses	(2,011)	(20,490)
Other assets	(5,545)	(1,455)
Accounts payable	83,755	13,597
Accrued expenses	20,818	(27,552)
Deferred liabilities	(123,593)	16,100
Net Cash Provided (Used in) by Operating Activities	455,483	(258,875)
Cash Flows from Investing Activities:		
Purchases of property and equipment	(76,731)	(86,380)
Net Cash Used in Investing Activities	(76,731)	(86,380)
Cash Flows from Financing Activities:		
Proceeds from notes payable	26,632	
Repayment of notes payable	(254,321)	(166,249)
Net Cash Used in Financing Activities	(227,689)	(166,249)
Net Change in Cash and Cash Equivalents	151,063	(511,504)
Cash and cash equivalents, beginning of year	223,323	734,827
Cash and Cash Equivalents, End of Year	\$ 374,386	\$ 223,323
Supplemental Cash Flow Information:		
Cash paid for interest	\$ 100,772	\$ 142,645

See accompanying notes.

ESPERANZA INTERNATIONAL FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2010 and 2009

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, 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 Foundation 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 organizations have been eliminated in these consolidated financial statements.

While the Organization has an economic interest in the Esperanza International - Haiti (EI Haiti), it does not have control. Therefore, EI Haiti's 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, 2010 and 2009, respectively.

ESPERANZA INTERNATIONAL FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements For the Years Ended December 31, 2010 and 2009

Note 1 - Continued

Cash and Cash Equivalents - The Organization considers temporary investments with an original maturity of three months or less to be cash equivalents.

Receivables - 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 \$21,313 and \$37,973 at December 31, 2010 and 2009, respectively.

At December 31, 2010 and 2009, the annual interest rates on notes receivable varied between 36% and 48%. The note receivable balances at December 31, 2010 and 2009, 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 was one donor that contributed 28% of contributed support for the year ended December 31, 2010, and two donors that contributed 66% of contributed support for the year ended December 31, 2009.

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 cost of repairs and maintenance are expensed as incurred. The cost 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, 2010 and 2009, totaled \$10,800 and \$7,200, respectively, and is included in the consolidated statements of activities 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, 2010 and 2009, there was no impairment of the trademark.

Foreign Operations - Approximately 68% and 76% of the Organization's expenses were incurred outside of the United States in Dominican Republic and Haiti for the years ended December 31, 2010 and 2009, respectively. Approximately \$1.4 million and \$1.1 million of the net assets reported in the accompanying consolidated statements of financial position relate to those activities as of December 31, 2010 and 2009, 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

For the Years Ended December 31, 2010 and 2009

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.

Reclassifications - Certain reclassifications were made to the December 31, 2009, financial statements to conform to the current period presentation. The reclassifications have no effect on previously reported change in net assets or net assets.

Subsequent Events - The Organization has evaluated subsequent events through May 25, 2012, 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>2010</u>	<u>2009</u>
Furniture and equipment	\$ 228,125	\$ 230,150
Transportation equipment	321,341	312,350
Other	66,608	68,220
	<u>616,074</u>	<u>610,720</u>
Less accumulated depreciation	<u>(382,620)</u>	<u>(374,970)</u>
Total	<u>\$ 233,454</u>	<u>\$ 235,750</u>

ESPERANZA INTERNATIONAL FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements For the Years Ended December 31, 2010 and 2009

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>2010</u>	<u>2009</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.	\$ 185,043	\$ 316,665
Note payable to Grameen Foundation USA, with an annual interest rate of 6.39%, due December 31, 2012, without any guarantee.	228,786	389,947
Note payable to Asociación Dominicana de Mitigación de Desastre Inc. and bears an annual interest rate and fee of 18% without any guarantee.	95,760	111,600
Notes payable to individuals with variable annual interest rates ranging from 15% to 16%, without any guarantee.	46,630	22,040
Note payable to Banco BHD, S. A., payable in monthly installments of principal and interest at 13% to 14% without warranty.	26,600	27,900
Note payable to Banco de Reservas, payable in monthly installments of principal and interest at 26%. Note is collateralized by a vehicle.	902	6,895
Note payable to PROINFANCIA, payable monthly with an annual interest rate of 12%.	<u>26,609</u>	
Total	<u>\$ 610,330</u>	<u>\$ 875,047</u>

Note 4 - Lease Commitments

The Organization leases office space in Dominican Republic, renewable annually. Rent expense for operating leases totaled \$106,987 and \$132,480 for the years ended December 31, 2010 and 2009, 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, 2010 and 2009.

SUPPLEMENTARY INFORMATION

ESPERANZA INTERNATIONAL FOUNDATION AND AFFILIATE

**Consolidating Schedule of Financial Position
December 31, 2010**

	<i>Esperanza International Foundation</i>	<i>Asociacion Esperanza Internacional, Inc. Microfinance</i>	<i>Asociacion Esperanza Internacional, Inc. Health Services</i>	<i>Eliminations</i>	<i>Consolidated Totals</i>
Assets					
Cash and cash equivalents	\$ 142,871	\$ 218,598	\$ 12,917	\$ -	\$ 374,386
Accounts receivable	20,596	800,169	174,071	(607,584)	387,252
Notes receivable, net		1,743,335	17,734		1,761,069
Prepaid expenses	5,166	20,089			25,255
Property and equipment, net of accumulated depreciation	1,981	169,417	62,056		233,454
Other assets	3,963	27,092	1,862		32,917
Total Assets	\$ 174,577	\$ 2,978,700	\$ 268,640	\$ (607,584)	\$ 2,814,333
Liabilities and Net Assets					
Liabilities:					
Accounts payable	\$ 5,040	\$ 445,828	\$ 670,556	\$ (607,584)	\$ 513,840
Accrued expenses		36,380	571		36,951
Deferred liabilities			57,286		57,286
Note payable		602,616	7,714		610,330
Total Liabilities	5,040	1,084,824	736,127	(607,584)	1,218,407
Unrestricted net assets	169,537	1,893,876	(467,487)		1,595,926
Total Net Assets	169,537	1,893,876	(467,487)		1,595,926
Total Liabilities and Unrestricted Net Assets	\$ 174,577	\$ 2,978,700	\$ 268,640	\$ (607,584)	\$ 2,814,333

See independent auditors' report.

ESPERANZA INTERNATIONAL FOUNDATION AND AFFILIATE

**Consolidating Schedule of Financial Position
December 31, 2009**

	<i>Esperanza International Foundation</i>	<i>Asociacion Esperanza Internacional, Inc. Microfinance</i>	<i>Asociacion Esperanza Internacional, Inc. Health Services</i>	<i>Eliminations</i>	<i>Consolidated Totals</i>
Assets					
Cash and cash equivalents	\$ 137,770	\$ 71,000	\$ 14,553	\$ -	\$ 223,323
Accounts receivable	16,667	761,637	120,366	(566,174)	332,496
Notes receivable, net		1,879,592	22,163		1,901,755
Prepaid expenses	4,776	18,468			23,244
Property and equipment, net of accumulated depreciation	3,407	148,809	83,534		235,750
Other assets	3,963	23,311	98		27,372
Total Assets	\$ 166,583	\$ 2,902,817	\$ 240,714	\$ (566,174)	\$ 2,743,940
Liabilities and Net Assets					
Liabilities:					
Accounts payable	\$ 1,765	\$ 405,717	\$ 588,777	\$ (566,174)	\$ 430,085
Accrued expenses	3,300	10,383	2,450		16,133
Deferred liabilities		28,665	152,214		180,879
Note payable		866,956	8,091		875,047
Total Liabilities	5,065	1,311,721	751,532	(566,174)	1,502,144
Unrestricted net assets	161,518	1,591,096	(510,818)		1,241,796
Total Net Assets	161,518	1,591,096	(510,818)		1,241,796
Total Liabilities and Unrestricted Net Assets	\$ 166,583	\$ 2,902,817	\$ 240,714	\$ (566,174)	\$ 2,743,940

See independent auditors' report.

ESPERANZA INTERNATIONAL FOUNDATION AND AFFILIATE

**Consolidating Schedule of Activities and Changes in Net Assets
For the Year Ended December 31, 2010**

	<i>Esperanza International Foundation</i>	<i>Asociacion Esperanza Internacional, Inc. Microfinance</i>	<i>Asociacion Esperanza Internacional, Inc. Health Services</i>	<i>Eliminations</i>	<i>Consolidated Totals</i>
Revenues and Support:					
Contributed support	\$ 1,707,262	\$ -	\$ -	\$ -	\$ 1,707,262
Grants		831,103	284,052	(1,069,637)	45,518
Dividends, interest, and commissions	147	752,635			752,782
In-kind contributions	44,940				44,940
Special events	119,197				119,197
Other		54,180	105,977		160,157
Total Revenues and Support	1,871,546	1,637,918	390,029	(1,069,637)	2,829,856
Expenses:					
Program	1,674,735	926,885	202,388	(1,069,637)	1,734,371
Management and general	28,506	408,251	144,311		581,068
Fundraising	160,287				160,287
Total Expenses	1,863,528	1,335,136	346,699	(1,069,637)	2,475,726
Change in Net Assets	8,018	302,782	43,330		354,130
Unrestricted net assets, beginning of year	161,519	1,591,094	(510,817)		1,241,796
Unrestricted Net Assets, End of Year	\$ 169,537	\$ 1,893,876	\$ (467,487)	\$ -	\$ 1,595,926

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>Asociacion Esperanza Internacional, Inc. Microfinance</i>	<i>Asociacion Esperanza Internacional, Inc. Health Services</i>	<i>Eliminations</i>	<i>Consolidated Totals</i>
Revenues and Support:					
Contributed support	\$ 869,005	\$ -	\$ -	\$ -	\$ 869,005
Grants		629,388	226,727	(811,510)	44,605
Dividends, interest and commissions	1,424	881,848			883,272
In-kind contributions	47,195				47,195
Special events	110,382				110,382
Other		1,865	28,268		30,133
Total Revenues and Support	1,028,006	1,513,101	254,995	(811,510)	1,984,592
Expenses:					
Program	1,235,100	964,801	496,683	(811,510)	1,885,074
Management and general	23,180	316,626	163,000		502,806
Fundraising	155,482				155,482
Total Expenses	1,413,762	1,281,427	659,683	(811,510)	2,543,362
Change in Net Assets	(385,756)	231,674	(404,688)		(558,770)
Unrestricted net assets, beginning of year	547,275	1,359,420	(106,129)		1,800,566
Unrestricted Net Assets, End of Year	\$ 161,519	\$ 1,591,094	\$ (510,817)	\$ -	\$ 1,241,796

See independent auditors' report.