

**THE MICRODREAMS FOUNDATION, INC.**  
**FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**YEARS ENDED DECEMBER 31, 2011 AND 2010**

**THE MICRODREAMS FOUNDATION, INC.  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

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**CITRIN COOPERMAN**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
The MicroDreams Foundation, Inc.

We have audited the accompanying statements of financial position of The MicroDreams Foundation, Inc. (a nonprofit organization) (the "Organization") as of December 31, 2011 and 2010, and the related statements of activities, changes in net assets, 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 audits.

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 provide 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 The MicroDreams Foundation, Inc. as of December 31, 2011 and 2010, and the changes in its net assets and its 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 financial statements as a whole. The schedules of functional expenses on pages 11 - 12 are presented for purposes of additional analysis and are 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, 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 financial statements as a whole.

*Citrin Cooperman & Company, LLP*  
CERTIFIED PUBLIC ACCOUNTANTS

April 6, 2012

**THE MICRODREAMS FOUNDATION, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2011 AND 2010**

	<b>2011</b>	<b>2010</b>
<b><u>ASSETS</u></b>		
Cash	\$ 109,222	\$ 340,057
Certificate of deposit	55,556	55,327
Contributions receivable	9,150	9,418
Loan interest and fees receivable	39,878	4,166
Microenterprise loans receivable, net of allowance of \$205,789 and \$109,620 for 2011 and 2010, respectively	823,157	438,482
<b>TOTAL ASSETS</b>	<b>\$ 1,036,963</b>	<b>\$ 847,450</b>

**LIABILITIES AND NET ASSETS**

Liabilities:		
Accounts payable	\$ 6,784	\$ 177
Reserve for loan guarantees	98,286	124,709
Loans payable	300,000	100,000
Total liabilities	405,070	224,886
Commitments and contingencies (Notes 4, 5, and 6)		
Net assets:		
Unrestricted	631,893	622,564
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 1,036,963</b>	<b>\$ 847,450</b>

See accompanying notes to financial statements.

**THE MICRODREAMS FOUNDATION, INC.**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

	<b>2011</b>	<b>2010</b>
Revenue and support:		
Contributions - unrestricted	\$ 186,882	\$ 374,132
Contributions in-kind	4,568	6,938
Program operating revenue:		
Loan portfolio income	54,401	23,770
Guarantee fee income	11,117	1,447
Investment income	440	778
Gain on foreign currency translation	3,967	4,372
Total revenue and support	261,375	411,437
Expenses:		
Program services:		
Lending	77,234	61,357
Advisory	75,133	40,536
Supporting services:		
Management and general	98,054	77,734
Fundraising	1,625	1,871
Total expenses	252,046	181,498
INCREASE IN NET ASSETS	\$ 9,329	\$ 229,939

See accompanying notes to financial statements.

**THE MICRODREAMS FOUNDATION, INC.  
STATEMENTS OF CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2011 AND 2010**

Net assets - January 1, 2010	\$ 392,625
Increase in net assets	<u>229,939</u>
Net assets - December 31, 2010	622,564
Increase in net assets	<u>9,329</u>
NET ASSETS - DECEMBER 31, 2011	<u>\$ 631,893</u>

See accompanying notes to financial statements.

**THE MICRODREAMS FOUNDATION, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

	2011	2010
Cash flows from operating activities:		
Changes in net assets	\$ 9,329	\$ 229,939
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Interest on certificate of deposit	(229)	(502)
Provision for (reduction of) loan guarantees	(26,423)	27,101
Provision for loan losses	96,169	34,256
Gain on foreign currency translation	(3,967)	(4,372)
Changes in assets and liabilities:		
Contributions receivable	268	9,695
Loan interest and fees receivable	(37,589)	12,948
Accounts payable	<u>6,607</u>	<u>(5,107)</u>
Net cash provided by operating activities	<u>44,165</u>	<u>303,958</u>
Cash flows from investing activities:		
Principal collected on microenterprise loans	125,000	110,000
Issuance of microenterprise loans	<u>(600,000)</u>	<u>(261,740)</u>
Net cash used in investing activities	<u>(475,000)</u>	<u>(151,740)</u>
Cash provided by financing activities:		
Proceeds from loan payable	<u>200,000</u>	<u>-</u>
Net increase (decrease) in cash	(230,835)	152,218
Cash - beginning	<u>340,057</u>	<u>187,839</u>
CASH - ENDING	<u>\$ 109,222</u>	<u>\$ 340,057</u>

See accompanying notes to financial statements.

**THE MICRODREAMS FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 AND 2010**

**NOTE 1. ORGANIZATION**

The MicroDreams Foundation, Inc., ("MicroDreams" or the "Organization") is a not-for-profit organization which provides new venture financing and advisory services to assist microenterprise development organizations in the world's poor developing countries.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Financial Statement Presentation

MicroDreams follows the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-605, *Revenue Recognition*, which requires the Organization to distinguish between contributions that increase permanently restricted net assets, temporarily restricted net assets and unrestricted net assets. Permanently restricted net assets are subject to donor-imposed stipulations that require that they be maintained permanently by the organization. Generally, the donors of these assets permit the organization to use all or part of the income earned on any related investments for general or specific purposes. Temporarily restricted net assets represent donor-imposed stipulations that may or will be met, either by actions of the organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as "net assets released from restrictions." Unrestricted net assets represent expendable funds that are available to support the operating activities of the organization. The Organization had no permanent or temporarily restricted net assets at December 31, 2011 or 2010.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Loans Receivable

Loans receivable are carried at their estimated collectible amounts. Interest income on loans receivable is recognized using the interest method. Interest income on impaired loans is recognized as cash is collected or on a cost-recovery basis. Origination fees and costs are deferred and recognized as an adjustment of the yield on the related loan.

Provisions for losses on loans receivable are determined on the basis of loss experience, known and inherent risks in the loan portfolio, and current economic conditions.

Revenue Recognition

Contributions are recognized as revenue when they are unconditionally promised and are reflected as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Loan guarantee fees are recognized as revenue over the guarantee period on the accrual basis. Interest income from loans are recognized as revenue on an accrual basis when earned.



**THE MICRODREAMS FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 AND 2010**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Reserve for Loan Guarantees

Reserves for loan guarantees are determined on the basis of loss experience, known and inherent risks in the loans guaranteed, and current economic conditions.

Donated Services

Donated services are recognized as contributions 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, provided that the values can be reasonably estimated. A law firm provided the Organization with pro bono legal services valued at \$4,568 and \$6,938 for the years ended December 31, 2011 and 2010, respectively.

Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated by management between the programs and supporting services benefited.

Tax Exemption Status

MicroDreams qualifies as a charitable organization as defined by Internal Revenue Code Section 501(c)(3) and, accordingly, is exempt from Federal income taxes. MicroDreams is also exempt from state income taxes.

**NOTE 3. CONCENTRATION OF RISK**

Routinely throughout the years, MicroDreams maintained certain bank accounts in excess of the limits that are insurable by the Federal Deposit Insurance Corporation. MicroDreams has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk with respect to such balances.

Contributions from a board member, members of his family and an unrelated party accounted for 80% and 94% of the total contributions received during the years ended December 31, 2011 and 2010, respectively.

Substantially all of the Organization's program activities are provided to affiliates in the developing countries of Samoa, the Kingdom of Tonga and Fiji. The Organization's program services are subject to various political, economic, and other risks and uncertainties inherent in the countries in which the Organization operates. Among other risks, MicroDreams' activities are subject to the risks and restrictions on transfer of funds, foreign exchange restrictions, political conditions and governmental regulations.

**NOTE 4. LOANS PAYABLE**

In February 2009, MicroDreams obtained a \$100,000 unsecured, non-interest bearing loan from an unrelated foundation for the purposes of expanding the revolving loan program of South Pacific Business Development Microfinance Ltd., an affiliate microenterprise institution in the Kingdom of Tonga, that provides small loans to poor women to help them start micro businesses. The loan is due in 2014.

**THE MICRODREAMS FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 AND 2010**

**NOTE 4. LOANS PAYABLE (CONTINUED)**

In January 2011, MicroDreams obtained a \$200,000 unsecured, non-compounding 4% interest bearing loan from the same unrelated foundation for the purposes of expanding the revolving loan program of South Pacific Business Development Microfinance (Fiji) Ltd., an affiliate microenterprise institution headquartered in Suva, Fiji, that provides small loans to poor women to help them start micro businesses. The loan is due in 2016.

The lender requires that certain covenants be met as part of the lending agreement. The Organization was in compliance with the covenants for the years ended December 31, 2011 and 2010.

**NOTE 5. LOAN GUARANTEES**

MicroDreams is contingently liable as the guarantor with respect to the indebtedness of several microenterprise institutions. The guarantees have various maturities ranging from October 2012 to April 2014. In certain instances of delinquencies or default as described in the guarantee agreement, MicroDreams would be obligated to perform under the guarantee by making the required payments. As of December 31, 2011 and 2010, the maximum potential amount of future payments that MicroDreams would be required to make under the guarantee is \$339,146 and \$444,836, respectively.

The following schedule summarizes the loans guaranteed by the Organization at December 31, 2011 and 2010:

	<u>2011</u>		<u>2010</u>	
	<u>Maximum</u>		<u>Maximum</u>	
	<u>Obligation</u>	<u>Reserve</u>	<u>Obligation</u>	<u>Reserve</u>
South Pacific Business Development Foundation ("SPBD - Samoa"), a Samoan microenterprise institution which is a related entity, maturing October 2012 through December 2013	\$ 149,146	\$ 37,286	\$ 254,836	\$ 63,709
Instituto de Desarrollo Regional Cesar Vallejo, a Peruvian microenterprise institution, maturing April 2013	40,000	16,000	40,000	16,000
Programa de Apayo para el Desarrollo de la Microempresa, a Bolivian microenterprise institution, maturing October 2013	50,000	20,000	50,000	20,000
South Pacific Business Development Microfinance Limited ("SPBD - Tonga"), a Tongan microenterprise institution which is a related entity, maturing April 2014	<u>100,000</u>	<u>25,000</u>	<u>100,000</u>	<u>25,000</u>
	<u>\$ 339,146</u>	<u>\$ 98,286</u>	<u>\$ 444,836</u>	<u>\$ 124,709</u>

**THE MICRODREAMS FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 AND 2010**

**NOTE 5. LOAN GUARANTEES (CONTINUED)**

The Organization's contingent liability, as the guarantor with respect to the indebtedness of SPBD - Samoa, is measured using the financing institutions' local currency (the euro) as the functional currency. The Organization's settlement of the obligations are translated into U.S. dollars at the exchange rate on the settlement date. Additionally, reserve for loan guarantees at the statement of financial position date are translated into U.S. dollars at the effective exchange rate at that date. Gains or losses on such transactions were not significant.

**NOTE 6. RELATED-PARTY TRANSACTIONS**

Loans Receivable

The Organization provided several unsecured interest bearing loans to SPBD - Samoa which is an affiliate that has two common board members. The following schedule summarizes the loans receivable from SPBD - Samoa at December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Loan receivable with interest rate at 7% per annum, maturing in September 2014	\$ 200,000	\$ -
Loan receivable with interest rate at 6% per annum, maturing in December 2014	124,830	125,850
Loan receivable with interest rate at 7% per annum, maturing in December 2015	50,000	-
Loan receivable with interest rate at 7% per annum, maturing in December 2015	<u>150,000</u>	<u>-</u>
	<u>\$ 524,830</u>	<u>\$ 125,850</u>

The Organization provided several unsecured interest bearing loans to SPBD - Tonga which is an affiliate that has a common board member. During 2010, SPBD - Tonga borrowed and repaid a loan totaling \$50,000. Additionally, SPBD - Tonga repaid two loans totaling \$125,000 for the year ended December 31, 2011. The following schedule summarizes the loans receivable from SPBD - Tonga at December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Loan receivable with interest rate at 7% per annum, maturing in September 2012	\$ 2,279	\$ 2,139
Loan receivable with interest rate at 5% per annum, maturing in September 2013	-	75,000
Loan receivable with interest rate at 7% per annum, maturing in September 2014	92,797	87,113
Loan receivable with interest rate at 5% per annum, maturing in December 2014	<u>-</u>	<u>50,000</u>
	<u>\$ 95,076</u>	<u>\$ 214,252</u>

**THE MICRODREAMS FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 AND 2010**

**NOTE 6. RELATED-PARTY TRANSACTIONS (CONTINUED)**

Loans Receivable (Continued)

During 2010, the Organization provided two unsecured interest bearing loans to South Pacific Business Development Microfinance (Fiji) Ltd. ("SPBD - Fiji"), a microenterprise institution in the Republic of Fiji, which is an affiliate that has a common board member. The following schedule summarizes the loans receivable from SPBD - Fiji at December 31, 2011 and 2010:

	2011	2010
Loan receivable with interest rate at 6% per annum, maturing in December 2012	\$ 100,000	\$ 100,000
Loan receivable with interest rate at 8% per annum, maturing in December 2014	109,040	108,000
Loan receivable with interest rate at 7% per annum, maturing in December 2015	200,000	-
	\$ 409,040	\$ 208,000

Several of the Organization's microenterprise loans receivable from affiliates are measured using the affiliates' local currency (the Samoan Tala, Tongan Pa'anga, and Fijian Dollar) as the functional currency. The loans receivable have been translated at the rates of exchange on the statement of financial position date. During 2011 and 2010, foreign currency translation adjustments resulted in gains of \$3,967 and \$4,372, respectively, which are included in the statements of activities.

Others

The Organization paid management fees to Transformative Ventures, LLC ("Transformative"), an affiliate which is solely owned by a board member, to perform certain administrative duties for MicroDreams. Additionally, Transformative provided consulting services to MicroDreams related to its advisory program services. Management and consulting fees paid to Transformative totaled \$51,000 and \$36,000 for the years ended December 31, 2011 and 2010, respectively.

Transformative also provided other administrative services, such as bookkeeping and occupancy costs, which have not been reflected in these financial statements since it was not practical to determine a value for these services.

**NOTE 7. SUBSEQUENT EVENTS**

In accordance with FASB ASC 855, *Subsequent Events*, the Company has evaluated subsequent events through April 6, 2012, the date on which these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

**SUPPLEMENTARY INFORMATION**

**THE MICRODREAMS FOUNDATION, INC.  
SCHEDULE OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Program Services</u>		<u>Supporting Services</u>		<u>Total</u>
	<u>Lending</u>	<u>Advisory</u>	<u>Management and General</u>	<u>Fundraising</u>	
Professional fees and marketing	\$ -	\$ -	\$ 44,894	\$ -	\$ 44,894
Management fees	-	-	51,000	-	51,000
Consulting fees	-	51,000	-	-	51,000
Office	-	-	325	-	325
Travel	-	17,990	-	1,447	19,437
Donated legal services	-	4,568	-	-	4,568
Interest expense	7,333	-	-	-	7,333
Microenterprise loan loss provision	96,169	-	-	-	96,169
Loan guarantee loss (reduction)	(26,423)	-	-	-	(26,423)
Other	155	1,575	1,835	178	3,743
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b><u>\$ 77,234</u></b>	<b><u>\$ 75,133</u></b>	<b><u>\$ 98,054</u></b>	<b><u>\$ 1,625</u></b>	<b><u>\$ 252,046</u></b>

See independent auditors' report.

**THE MICRODREAMS FOUNDATION, INC.**  
**SCHEDULE OF FUNCTIONAL EXPENSES (CONTINUED)**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Program Services</u>		<u>Supporting Services</u>		<u>Total</u>
	<u>Lending</u>	<u>Advisory</u>	<u>Management and General</u>	<u>Fundraising</u>	
Professional fees and marketing	\$ -	\$ 13	\$ 33,498	\$ 1,754	\$ 35,265
Management fees	-	-	36,000	-	36,000
Consulting fees	-	36,000	-	-	36,000
Office	-	-	458	-	458
Travel	-	4,523	-	-	4,523
Donated legal services	-	-	6,938	-	6,938
Microenterprise loan loss provision	34,256	-	-	-	34,256
Loan guarantee loss provision	27,101	-	-	-	27,101
Other	-	-	840	117	957
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b><u>\$ 61,357</u></b>	<b><u>\$ 40,536</u></b>	<b><u>\$ 77,734</u></b>	<b><u>\$ 1,871</u></b>	<b><u>\$ 181,498</u></b>

See independent auditors' report.