

THE MICRODREAMS FOUNDATION, INC.
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEARS ENDED DECEMBER 31, 2010 AND 2009

**THE MICRODREAMS FOUNDATION, INC.
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The MicroDreams Foundation, Inc.

We have audited the accompanying statement of financial position of The MicroDreams Foundation, Inc. (a nonprofit organization) (the "Organization") as of December 31, 2010, and the related statements of activities, changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the The MicroDreams Foundation, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 provides 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, 2010, and the results of its operations and its 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 financial statements taken as a whole. The additional information contained in the supplementary schedule on page 12 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The 2009 financial statements were reviewed by us, and our report thereon, dated October 11, 2010, stated we were not aware of any material modifications that should be made to those statements for them to be in conformity with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements as a whole. The additional information contained in the supplementary schedule on page 13 is presented only for supplementary analysis purposes. Such information has not been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, but was compiled from information that is the representation of management, without audit or review. Accordingly, we do not express an opinion or any other form of assurance on the 2009 supplementary information.

Citrin Cooperman & Company, LLP
CERTIFIED PUBLIC ACCOUNTANTS

June 23, 2011

THE MICRODREAMS FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2010 AND 2009

	2010	2009
	(Audited)	(Unaudited) (Restated)
<u>ASSETS</u>		
Cash	\$ 340,057	\$ 187,839
Certificate of deposit	55,327	54,825
Contributions receivable	9,418	19,113
Loan interest and fees receivable	4,166	17,079
Microenterprise loans receivable, net of allowance of \$109,620 and \$75,364 for 2010 and 2009, respectively	438,482	316,661
TOTAL ASSETS	\$ 847,450	\$ 595,517
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable	\$ 177	\$ 5,284
Reserve for loan guarantees	124,709	97,608
Loan payable	100,000	100,000
Total liabilities	224,886	202,892
Commitments and contingencies (Notes 4, 5, and 6)		
Net assets:		
Unrestricted	622,564	392,625
TOTAL LIABILITIES AND NET ASSETS	\$ 847,450	\$ 595,517

See accompanying notes to financial statements.

THE MICRODREAMS FOUNDATION, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u> (Audited)	<u>2009</u> (Unaudited) (Restated)
Revenue and support:		
Contributions - unrestricted	\$ 374,132	\$ 146,427
Contributions in-kind	6,938	77,991
Program operating revenue:		
Loan portfolio income	25,217	25,121
Investment income	778	5,685
Gain on foreign currency translation	<u>4,372</u>	<u>15,206</u>
Total revenue and support	<u>411,437</u>	<u>270,430</u>
Expenses:		
Program services:		
Lending	61,357	96,559
Advisory	40,536	64,574
Supporting services:		
Management and general	77,734	98,084
Fundraising	<u>1,871</u>	<u>1,643</u>
Total expenses	<u>181,498</u>	<u>260,860</u>
INCREASE IN NET ASSETS	<u>\$ 229,939</u>	<u>\$ 9,570</u>

See accompanying notes to financial statements.

**THE MICRODREAMS FOUNDATION, INC.
STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2010 AND 2009**

Net assets - January 1, 2009, as previously reported (unaudited)	\$ 321,345
Restatement for change in loan reserve provision for 2008 (unaudited)	<u>61,710</u>
Net assets - January 1, 2009, as restated (unaudited)	383,055
Increase in net assets for the year ended December 31, 2009, as restated (unaudited)	<u>9,570</u>
Net assets - December 31, 2009, as restated (unaudited)	392,625
Increase in net assets for the year ended December 31, 2010	<u>229,939</u>
NET ASSETS - DECEMBER 31, 2010	<u>\$ 622,564</u>

See accompanying notes to financial statements.

THE MICRODREAMS FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
	(Audited)	(Unaudited)
		(Restated)
Cash flows from operating activities:		
Changes in net assets	\$ 229,939	\$ 9,570
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Interest on certificate of deposit	(502)	(5,324)
Provision for loan guarantees	27,101	76,195
Provision for loan losses	34,256	20,364
Gain on foreign currency translation	(4,372)	(15,206)
Changes in assets and liabilities:		
Contributions receivable	9,695	39,315
Loan interest and fees receivable	12,948	(14,989)
Accounts payable	<u>(5,107)</u>	<u>1,651</u>
Net cash provided by operating activities	<u>303,958</u>	<u>111,576</u>
Cash flows from investing activities:		
Principal collected on microenterprise loans	110,000	75,773
Issuance of microenterprise loans	(261,740)	(397,592)
Payment on loan guarantee	-	(43,210)
Withdrawals from certificate of deposit	<u>-</u>	<u>150,500</u>
Net cash used in investing activities	<u>(151,740)</u>	<u>(214,529)</u>
Cash provided by financing activities:		
Proceeds from loan payable	<u>-</u>	<u>100,000</u>
Net increase (decrease) in cash	152,218	(2,953)
Cash - beginning	<u>187,839</u>	<u>190,792</u>
CASH - ENDING	<u>\$ 340,057</u>	<u>\$ 187,839</u>

See accompanying notes to financial statements.

THE MICRODREAMS FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

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, 2010 or 2009.

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.

THE MICRODREAMS FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

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. During the years ended December 31, 2010 and 2009, a law firm provided pro bono legal services to the Organization valued at \$6,938 and \$77,991, 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 94% and 56% of the total contributions received during the years ended December 31, 2010 and 2009, respectively.

NOTE 4. LOAN 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 lender requires that certain covenants be met as part of the lending agreement. The Organization was in compliance with the covenants for the year ended December 31, 2010. The Organization was not in compliance with one of the covenants for the year ended December 31, 2009. The covenant violation was subsequently waived by the lender.

THE MICRODREAMS FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

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, 2010 and 2009, the maximum potential amount of future payments that MicroDreams would be required to make under the guarantee is \$444,836 and \$366,431, respectively.

The following schedule summarizes the loans guaranteed by MicroDreams at December 31, 2010 and 2009:

	2010		2009	
	Maximum Obligation	Reserve	Maximum Obligation	Reserve
Fundacion De Ayuda Empresarial, an Ecuadorian microenterprise institution, maturing June 2010	\$ -	\$ -	\$ 8,000	\$ 2,000
Emprender, a Bolivian microenterprise institution, maturing December 2010	-	-	16,000	4,000
South Pacific Business Development Foundation ("SPBD - Samoa"), a Samoan microenterprise institution which is a related entity, maturing October 2012 through December 2013	254,836	63,709	302,431	75,608
Instituto de Desarrollo Regional Cesar Vallejo, a Peruvian microenterprise institution, maturing April 2013	40,000	16,000	40,000	16,000
Programa de Apoyo para el Desarrollo de la Microempresa, a Bolivian microenterprise institution, maturing October 2013	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>-</u>	<u>-</u>
	<u>\$ 444,836</u>	<u>\$ 124,709</u>	<u>\$ 366,431</u>	<u>\$ 97,608</u>

THE MICRODREAMS FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

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.

MicroDreams was required to pay \$43,210 as guarantor for a Ugandan microenterprise institution which defaulted on its debt during 2009.

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, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Loan receivable with interest rate at 7% per annum, maturing in June 2010	\$ -	\$ 40,000
Loan receivable with interest rate at 1% per annum, maturing in December 2010	-	20,000
Loan receivable with interest rate at 6% per annum, maturing in December 2014	<u>125,850</u>	<u>119,460</u>
	<u>\$ 125,850</u>	<u>\$ 179,460</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. The following schedule summarizes the loans receivable from SPBD - Tonga at December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Loan receivable with interest rate at 7% per annum, maturing in September 2012	\$ 2,139	\$ 2,099
Loan receivable with interest rate at 5% per annum, maturing in September 2013	75,000	75,000
Loan receivable with interest rate at 7% per annum, maturing in September 2014	87,113	85,466
Loan receivable with interest rate at 5% per annum, maturing in December 2014	<u>50,000</u>	<u>50,000</u>
	<u>\$ 214,252</u>	<u>\$ 212,565</u>

THE MICRODREAMS FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

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, 2010:

Loan receivable with interest rate at 6% per annum, maturing in December 2012	\$ 100,000
Loan receivable with interest rate at 8% per annum, maturing in December 2014	<u>108,000</u>
	<u>\$ 208,000</u>

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 2010 and 2009, foreign currency translation adjustments resulted in gains of \$4,372 and \$15,206, respectively, which are included in the statement 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 fees and consulting fees paid to Transformative each totaled \$36,000 in 2010 and \$13,750 in 2009.

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.

During 2009, the Organization made donations of \$30,500 to SPBD - Samoa and incurred travel expenses of \$20,324 related to its providing tsunami relief and recovery in the Independent State of Samoa. Such costs are included in program services.

NOTE 7. RESTATEMENT

During 2010, management determined that the methods and procedures that had been used to estimate the Organization's reserve for loan guarantees in prior years was resulting in overstatement of the reserves. Accordingly, the reserve for loan guarantees was reduced and net assets were increased by \$61,710 as of January 1, 2009. Additionally, the 2009 financial statements were restated to reduce the loan guarantee reserve expense by \$78,384. As a result, the change in net assets for the year ended December 31, 2009, was revised from a decrease of \$68,814 to an increase of \$9,570.

THE MICRODREAMS FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE 8. SUBSEQUENT EVENTS

In accordance with FASB ASC 855, *Subsequent Events*, the Company has evaluated subsequent events through June 23, 2011 the date on which these financial statements were available to be issued.

As of January 18, 2011, the Organization obtained a commitment from an entity to provide an additional \$200,000 of funding to be used for the purpose of expanding the program of providing small loans to poor women as described in Note 4. The loan is unsecured, bears interest at 4%, and matures between January and July 2016.

SUPPLEMENTARY INFORMATION

**THE MICRODREAMS FOUNDATION, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
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
TOTAL FUNCTIONAL EXPENSES	<u>\$ 61,357</u>	<u>\$ 40,536</u>	<u>\$ 77,734</u>	<u>\$ 1,871</u>	<u>\$ 181,498</u>

See independent auditors' report.

THE MICRODREAMS FOUNDATION, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2009
(UNAUDITED)
(RESTATED)

	Program Services		Supporting Services		Total
	Lending	Advisory	Management and General	Fundraising	
	-	-	-	-	
Professional fees and marketing	\$ -	\$ -	\$ 4,133	\$ 1,302	\$ 5,435
Management fees	-	-	13,750	-	13,750
Consulting fees	-	13,750	-	-	13,750
Office	-	-	1,439	-	1,439
Travel	-	20,324	-	341	20,665
Donated legal services	-	-	77,991	-	77,991
Donations	-	30,500	-	-	30,500
Microenterprise loan loss provision	20,364	-	-	-	20,364
Loan guarantee loss provision	76,195	-	-	-	76,195
Other	-	-	771	-	771
TOTAL FUNCTIONAL EXPENSES	<u>\$ 96,559</u>	<u>\$ 64,574</u>	<u>\$ 98,084</u>	<u>\$ 1,643</u>	<u>\$ 260,860</u>

See independent auditors' report.