KIVA MICROFUNDS

FINANCIAL STATEMENTS

DECEMBER 31, 2008

**KIVA MICROFUNDS**

**AUDITED FINANCIAL STATEMENTS**

**DECEMBER 31, 2008**

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JEROME A.
BELLOTTI
& ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Kiva Microfunds
San Francisco, CA

## INDEPENDENT AUDITORS' REPORT

We have audited the accompanying statement of financial position of Kiva Microfunds, a nonprofit organization, as of December 31, 2008, and the related statements of activities, functional expenses, and cash flows for the year 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 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 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 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 Kiva Microfunds as of December 31, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Jerome A Bellotti Associates

March 17, 2009

170 Knowles Drive, Suite 209 Los Gatos, California 95032 Phone: (408) 871-1555 Facsimile: (408) 871-0444

## KIVA MICROFUNDS

## STATEMENT OF FINANCIAL POSITION

## DECEMBER 31, 2008

### ASSETS

| | | |
|---|---|---|
| Current Assets: | | |
| Cash and cash equivalents | $ | 2,513,173 |
| Accounts receivable | | 5,107 |
| Pledges receivable | | 1,493,000 |
| Due from Kiva User Fund Account | | 498,756 |
| Investments | | 3,752 |
| Prepaid expenses | | 71,489 |
| Total current assets | | 4,585,277 |
| Property and Equipment, net | | 597,080 |
| Other Assets: | | |
| Website domain name | | 25,000 |
| Deposits | | 6,049 |
| Total other assets | | 31,049 |
| Total assets | $ | 5,213,406 |

### LIABILITIES AND NET ASSETS

| | | |
|---|---|---|
| Current Liabilities: | | |
| Accounts payable | $ | 52,081 |
| Accrued expenses | | 254,091 |
| Total current liabilities | | 306,172 |
| Long-Term Liabilities: | | |
| Deferred rent | | 28,910 |
| Total liabilities | | 335,082 |
| Net Assets: | | |
| Unrestricted | | 3,023,835 |
| Temporarily restricted | | 1,854,489 |
| Total net assets | | 4,878,324 |
| Total liabilities and net assets | $ | 5,213,406 |

See notes to the financial statements.

## KIVA MICROFUNDS

## STATEMENT OF ACTIVIES

## YEAR ENDED DECEMBER 31, 2008

| | Unrestricted | Temporarily Restricted | Total |
|---|---|---|---|
| Revenue and Support: | | | |
| Pledges | $ 540,000 | $ 1,256,000 | $ 1,796,000 |
| Online donations | 2,214,755 | - | 2,214,755 |
| Gift certificate auto-conversion | 261,250 | - | 261,250 |
| Corporate contributions | 57,354 | 50,000 | 107,354 |
| Individual contributions | 312,406 | - | 312,406 |
| Interest income | 370,820 | - | 370,820 |
| Partnership income | 100,000 | - | 100,000 |
| Investment loss | (1,224) | - | (1,224) |
| Other income | 2,106 | - | 2,106 |
| Net assets released from restrictions | 1,218,982 | (1,218,982) | - |
| Total revenue and support before in-kind donations | 5,076,449 | 87,018 | 5,163,467 |
| In-kind donations: | | | |
| Technology | 1,203,369 | - | 1,203,369 |
| Services | 709,896 | - | 709,896 |
| Use of facilities | 10,000 | - | 10,000 |
| Total in-kind donations | 1,923,265 | - | 1,923,265 |
| Total revenue and support | 6,999,714 | 87,018 | 7,086,732 |
| Expenses: | | | |
| Program services | 5,305,152 | - | 5,305,152 |
| General and administrative | 412,934 | - | 412,934 |
| Fundraising | 231,867 | - | 231,867 |
| Total expenses | 5,949,953 | - | 5,949,953 |
| Change in net assets | 1,049,761 | 87,018 | 1,136,779 |
| Net assets, beginning of year | 1,974,074 | 1,767,471 | 3,741,545 |
| Net assets, end of year | $ 3,023,835 | $ 1,854,489 | $ 4,878,324 |

See notes to the financial statements.

KIVA MICROFUNDS

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2008

| | Program Services | General and Administrative | Fundraising | Total |
|---|---|---|---|---|
| Personnel Costs: | | | | |
| Salaries and wages | $ 1,343,230 | $ 238,065 | $ 108,303 | $ 1,689,598 |
| Payroll taxes | 142,818 | 25,312 | 11,515 | 179,645 |
| Benefits | 137,813 | 24,425 | 11,112 | 173,350 |
| Total personnel costs | 1,623,861 | 287,802 | 130,930 | 2,042,593 |
| In-kind expenses | 1,802,333 | 18,391 | 18,391 | 1,839,115 |
| Contractors | 472,596 | 10,616 | 29,642 | 512,854 |
| Professional fees | 75,573 | - | 763 | 76,336 |
| Promotional & communications | 30,692 | - | 245 | 30,937 |
| Office expenses | 10,202 | 1,808 | 823 | 12,833 |
| Utilities, phones and internet | 42,300 | 7,498 | 3,413 | 53,211 |
| Postage and shipping | 2,234 | 396 | 180 | 2,810 |
| Meals | 6,024 | 1,068 | 486 | 7,578 |
| Information technology | 102,033 | 18,086 | 8,232 | 128,351 |
| Occupancy | 130,511 | 23,134 | 10,530 | 164,175 |
| Travel, conferences and meetings | 19,898 | 812 | 19,898 | 40,608 |
| Depreciation and amortization | 318,766 | 6,431 | 2,920 | 328,117 |
| Insurance | 3,799 | 673 | 306 | 4,778 |
| MFI partnerships program | 281,329 | - | - | 281,329 |
| Fellows program | 70,375 | - | - | 70,375 |
| Review and translation program | 6,980 | - | - | 6,980 |
| Office move | 15,665 | 2,777 | 1,264 | 19,706 |
| Refunded donation | 203 | 25,000 | - | 25,203 |
| Banking fees | 31,690 | 5,617 | 2,557 | 39,864 |
| Organization costs | 7,727 | 1,369 | 623 | 9,719 |
| Dues and subscriptions | 515 | 91 | 42 | 648 |
| Indemnification | 242,145 | - | - | 242,145 |
| Miscellaneous | 405 | 72 | 33 | 510 |
| Staff development | 7,296 | 1,293 | 589 | 9,178 |
| Total functional expenses | $ 5,305,152 | $ 412,934 | $ 231,867 | $ 5,949,953 |

See notes to the financial statements.

KIVA MICROFUNDS

STATEMENT OF CASH FLOW

YEAR ENDED DECEMBER 31, 2008

| | |
|---|---|
| Cash Flows from Operating Activities: | |
| Change in net assets | $ 1,136,779 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Depreciation and amortization | 328,117 |
| In-kind donation of fixed assets | (48,150) |
| In-kind donation of supplies | (36,000) |
| Net loss on investments | 1,328 |
| Changes in operating assets and liabilities: | |
| Accounts receivables | (5,107) |
| Pledges receivable | (320,500) |
| Dues from Kiva User Fund account | 292,021 |
| Prepaid expenses | (12,990) |
| Accounts payable | (81,240) |
| Accrued expenses | 152,646 |
| Deferred rent | 28,910 |
| Net cash provided by operating activities | 1,435,814 |
| Cash Flows from Investing Activities: | |
| Purchase of property and equipment | (2,857) |
| Purchase of internet platform software | (604,115) |
| Net cash used in investing activities | (606,972) |
| Net increase in cash and cash equivalents | 828,842 |
| Cash and Cash Equivalents, beginning of year | 1,684,331 |
| Cash and Cash Equivalents, end of year | $ 2,513,173 |

See notes to the financial statements.

## KIVA MICROFUNDS

## NOTES TO FINANCIAL STATEMENTS

## DECEMBER 31, 2008

### NOTE 1 – Nature of Activities

Kiva Microfunds (the "Organization") is a nonprofit, tax-exempt organization founded in 2005 to connect people through lending for the sake of alleviating poverty. The Organization is the world's first person-to-person micro-lending website, empowering individuals to lend to low-income entrepreneurs around the world. The Organization partners with global Microfinance Institutions ("MFIs") who are responsible for selecting borrowers, reviewing the loan applications and uploading the loan requests to Kiva's website once they have approved the loan. When the loan funds are raised, the Organization sends the money to the MFI, who delivers it to the entrepreneur and administers the loan. To date, the Organization has facilitated over US$50 million in loans from lenders through the website. The Organization is supported primarily through individual and corporate contributions and grants from foundations.

### NOTE 2 – Summary of Significant Accounting Policies

Basis of Presentation: The Organization prepares its financial statements in accordance with provisions of Statement of Financial Accounting Standards 117 (SFAS 117), Financial Statements of Not-for-Profit Organizations. SFAS 117 requires not-for-profit organizations to segregate their assets and liabilities and operations into three categories: unrestricted, temporarily restricted and permanently restricted. Currently, the Organization's net assets and changes therein are classified and reported as follows:

Unrestricted net assets consist of net assets, for which there are no donor-imposed restrictions, or such donor-imposed restrictions were temporary and expired during the current or previous year.

Temporarily restricted net assets consist of amounts receivable or received that are restricted for specific purposes or for subsequent periods. When a donor 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.

Permanently restricted net assets consist of net assets whose use by the organization is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the organization. At December 31, 2008, Kiva had no permanently restricted net assets.

Functional Expenses: Directly identifiable expenses are charged to program and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of time allocation. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Sources of Revenue: The Organization earns revenue from a variety of sources. Online donations are contributions made by lenders through the Organization's online lending platform. Gift Certificate Auto-conversion arises when a gift certificate holder fails to redeem a gift certificate that includes a provision for an auto-conversion-to-donation after a 12 month period, and becomes a donation to the Organization at that point in time. Partnership income was derived from a one-time agreement with Advanta Bank Corp ("ABC") to establish the "Kiva Rewards Business Card Matching Fund". ABC paid $100,000 to the Organization to secure marketing rights and exclusivity. Revenue is also earned through contributions from foundations, corporations and individual donors.

**NOTE 2 – Summary of Significant Accounting Policies (continued)**

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United State 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 the estimates.

Cash and Cash Equivalents: The Organization considers all short-term, highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Investments: Investments in marketable securities with readily determinable fair values are reported at fair value. Unrealized gains and losses are included in investment income or loss. Income and gains on restricted investments are reported as increases in unrestricted net assets unless otherwise restricted by the donor.

Investments classified as current assets are readily marketable and are available for conversion to cash within one year of the date of the Statement of Financial Position.

Concentration of Credit Risk: Financial instruments that potentially subject the Organization to concentration of credit risk consist principally of cash and cash equivalents, pledges, and accounts receivables. Risks associated with cash and cash equivalents are mitigated by maintaining deposits with a credit worthy financial institution. From time to time, the cash balances at the financial institution are in excess of the $250,000 Federal Deposit Insurable Corporation insurable limit.

Accounts receivable consist primarily of reimbursement of expenses from grantors. Pledges receivable represent amounts committed by donors that have not been received by the Organization. The Organization makes judgments as to the ability to collect all of its outstanding receivables and provides allowances for amounts when collection becomes doubtful. Provisions are made based upon a specific review of past due and other outstanding balances for which collection is considered uncertain.

Contributions: The Organization accounts for contributions and promises to give in accordance with provisions of Statement of Financial Accounting Standards No. 116 (SFAS 116), Accounting for Contributions Received and Contributions Made. SFAS 116 requires that contributions received, including unconditional promises to give (pledges), be recognized as revenue at their fair value in the period the contribution or pledge is made. SFAS 116 also requires not-for-profit organizations to distinguish between contributions that increase any of the three categories of net assets, with recognition being made of the expiration of donor-imposed restrictions in the period in which the restrictions expire.

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

**NOTE 2 – Summary of Significant Accounting Policies (continued)**

Property and Equipment: The Organization capitalizes property and equipment acquisitions over $1,000. Purchased property and equipment are recorded at cost. Donated property and equipment are recorded at their estimated fair value. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets ranging from three to seven years. Leasehold improvements are amortized over the shorter of the asset life or the remaining lease term. Gifts of property and equipment are reported as unrestricted support unless the donor stipulates specifically how the donated asset must be used.

The Organization develops in-house internet platform software to enable lending activities. Personnel costs including taxes, workers compensation, and benefit allocations associated with the development of the software are amortized over three years. The allocation of personnel costs is based on development time spent and is examined on a quarterly basis.

Donated Services: The Organization records various types of in-kind support including professional services, tangible assets and the use of tangible assets. Contributed professional services are recognized if the services received, (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contribution of tangible assets or the use thereof, is recognized when promised or received, whichever is earlier. The amounts reflected in the accompanying financial statements as in-kind support are offset by like amounts included in expenses or in the case of long-term assets, over the period benefited.

In-kind donations of technology include $699,673 for payment processing and $346,084 for online advertising. In-kind donations of services include $552,254 for legal services and $64,675 for a Web Application Security Posture Assessment. Additionally, the Organization receives a significant amount of contributed time, which does not meet the recognition criteria described above. Accordingly, the value of this contribution time has not been determined and is not reflected in the accompanying financial statements. During 2008, Ernst & Young, a public accounting firm, has publicly committed to an in-kind contribution to the Organization of $1 million, over three years, to provide borrower verifications. This service will begin in 2009.

Income Taxes: The Organization is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3) and State of California Section 23701(d); therefore, no income taxes have been provided for in the financial statements. On August 16, 2006, the Organization received its determination letter from the Internal Revenue Service confirming its tax exempt status under IRC Section 501(c)(3) and classifying the Organization as a public charity under IRC Section 170(b)(1)(A)(vi).

**NOTE 3 – Property and Equipment**

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

| | | |
|---|---|---|
| Leasehold improvements | $ | 68,875 |
| Furniture | | 3,662 |
| Computer equipment | | 115,674 |
| Software | | 871,462 |
| | | 1,060,673 |
| Less accumulated depreciation | | (463,593) |
| | $ | 597,080 |

Depreciation and amortization expense for the year ended December 31, 2008 was $328,117.

**NOTE 4 – Line of Credit**

The Organization has an $100,000 line of credit with a bank that bears interest at the bank's prime rate plus 6.5%. There were no amounts outstanding under the line of credit as of December 31, 2008.

**NOTE 5 – Lease Arrangements**

The Organization leases office space under an operating lease agreement that expires in August 2011. The agreement calls for below market rent for the first four months of the lease and minimum monthly lease payments of $11,039 with annual increases beginning September 2008. The Organization is recording rent expense on a straight-line basis which results in deferred rent of $28,910.

Rent expense paid under this lease was $164,175 for the year ended December 31, 2008. Future minimum lease payments under this arrangement are as follows:

| Year ending December 31 | | |
|---|---|---|
| 2009 | $ | 137,800 |
| 2010 | | 141,934 |
| 2011 | | 96,497 |
| | $ | 376,231 |

**NOTE 6 – 401 (K) Plan**

The Organization has a 401(K)Plan (the "Plan") for employees who meet certain service and eligibility requirements. Each eligible employee may elect to contribute to the Plan, and the Organization may make matching and/or discretionary contributions. The benefits vest upon contribution. During the year ending December 31, 2008 the Organization made matching and discretionary contributions of $44,145 to the Plan.

**NOTE 7 – Microfinance Partnerships**

The Organization is partnered with over 80 MFIs in more than forty countries across the globe. This network of partnerships enables the Organization to connect with entrepreneurs seeking micro-loans . The Organization's MFI partners are responsible for selecting and vetting the entrepreneurs and administering the loans. The Organization's online platform connects these entrepreneurs with individuals who want to contribute loan funds via the internet.

**NOTE 8 – Kiva User Funds Bank Account**

The Organization is the holder of the Kiva User Funds bank account at Wells Fargo Bank. The Organization is entitled to the interest earned on the funds held in this account, pursuant to the binding terms of use with individual users at the time a user account is established. The Organization is also entitled to gift certificates held in this account that are auto-converted into donations and online donations intended for the Organization that are processed to this account. Donations from interest income, auto-converted gift certificates, and online donations on this bank account for the year ended December 31, 2008 were $333,386, $261,250, and $2,214,755, respectively.

For the year ended December 31, 2008, the Organization indemnified, in the approximate amount of $242,000, the Kiva User Funds bank account for a set of repayments that were credited to various users, but for which certain MFI's ultimately failed to make the contractually required corresponding repayments.

**NOTE 9 – Subsequent Events**

In February 2009, the Organization received a grant from the John D. and Catherine T. MacArthur Foundation in the amount of $250,000.