KIVA MICROFUNDS

FINANCIAL STATEMENTS

DECEMBER 31, 2009 and 2008

KIVA MICROFUNDS

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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 statements of financial position of Kiva Microfunds, a nonprofit organization, as of December 31, 2009 and 2008, and the related statements of activities, functional expenses, 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 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 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 Kiva Microfunds as of December 31, 2009 and 2008, 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.

April 26, 2010

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KIVA MICROFUNDS

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2009 AND 2008

ASSETS

		2009		2008
Current Assets:				
Cash and cash equivalents	$	3,900,482	$	2,513,173
Accounts receivable		18,491		5,107
Pledges receivable		238,000		1,493,000
Due from Kiva User Funds Account		1,013,938		498,756
Investments		5,875		3,752
Prepaid expenses		121,461		71,489
Total current assets		5,298,247		4,585,277
Property and Equipment, net		857,765		597,080
Other Assets:				
Website domain name		25,000		25,000
Deposits		14,421		6,049
Total other assets		39,421		31,049
Total assets	$	6,195,433	$	5,213,406

LIABILITIES AND NET ASSETS

		2009		2008
Current Liabilities:				
Accounts payable	$	50,020	$	52,081
Accrued expenses		354,479		254,091
Total current liabilities		404,499		306,172
Long-Term Liabilities:				
Deferred rent		23,079		28,910
Total liabilities		427,578		335,082
Net Assets:				
Unrestricted		4,987,770		3,023,835
Temporarily restricted		780,085		1,854,489
Total net assets		5,767,855		4,878,324
Total liabilities and net assets	$	6,195,433	$	5,213,406

See notes to the financial statements.

KIVA MICROFUNDS

STATEMENTS OF ACTIVIES

YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009			2008		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue and Support:						
Pledges	$ 503,487	$ 496,513	$ 1,000,000	$ 540,000	$ 1,256,000	$ 1,796,000
Online donations	3,590,420	-	3,590,420	2,214,755	-	2,214,755
Gift certificate auto-conversion	364,600	-	364,600	261,250	-	261,250
Corporate contributions	216,640	-	216,640	57,354	50,000	107,354
Individual contributions	450,936	3,558	454,494	312,406	-	312,406
Interest income	132,771	-	132,771	370,820	-	370,820
Partnership income	-	-	-	100,000	-	100,000
Investment gain (loss)	2,123	-	2,123	(1,224)	-	(1,224)
Other income	2,984	-	2,984	2,106	-	2,106
Net assets released from restrictions	1,574,475	(1,574,475)	-	1,218,982	(1,218,982)	-
Total revenue and support before in-kind donations	6,838,436	(1,074,404)	5,764,032	5,076,449	87,018	5,163,467
In-kind donations:						
Technology	139,622	-	139,622	157,612	-	157,612
Services	3,223,401	-	3,223,401	1,755,653	-	1,755,653
Use of facilities	-	-	-	10,000	-	10,000
Total in-kind donations	3,363,023	-	3,363,023	1,923,265	-	1,923,265
Total revenue and support	10,201,459	(1,074,404)	9,127,055	6,999,714	87,018	7,086,732
Expenses:						
Program services	7,457,758	-	7,457,758	5,305,152	-	5,305,152
General and administrative	600,876	-	600,876	412,934	-	412,934
Fundraising	178,890	-	178,890	231,867	-	231,867
Total expenses	8,237,524	-	8,237,524	5,949,953	-	5,949,953
Change in net assets	1,963,935	(1,074,404)	889,531	1,049,761	87,018	1,136,779
Net assets, beginning of year	3,023,835	1,854,489	4,878,324	1,974,074	1,767,471	3,741,545
Net assets, end of year	$ 4,987,770	$ 780,085	$ 5,767,855	$ 3,023,835	$ 1,854,489	$ 4,878,324

See notes to the financial statements.

KIVA MICROFUNDS

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009				2008			
	Program Services	General and Administrative	Fundraising	Total	Program Services	General and Administrative	Fundraising	Total
Personnel Costs:								
Salaries and wages	$ 1,952,092	$ 373,413	$ 112,381	$ 2,437,886	$ 1,343,230	$ 238,065	$ 108,303	$ 1,689,598
Payroll taxes	199,158	38,097	11,465	248,720	142,818	25,312	11,515	179,645
Benefits	204,777	39,172	11,789	255,738	137,813	24,425	11,112	173,350
Total personnel costs	2,356,027	450,682	135,635	2,942,344	1,623,861	287,802	130,930	2,042,593
In-kind expenses	3,242,976	4,306	1,296	3,248,578	1,802,333	18,391	18,391	1,839,115
Contractors	429,089	33,962	-	463,051	472,596	10,616	29,642	512,854
Professional fees	13,590	25,794	5,000	44,384	75,573	-	763	76,336
Occupancy	147,846	28,281	8,512	184,639	130,511	23,134	10,530	164,175
Information technology	102,669	19,639	5,911	128,219	102,033	18,086	8,232	128,351
Depreciation and amortization	552,080	9,829	2,958	564,867	318,766	6,431	2,920	328,117
Indemnification	110,456	-	-	110,456	242,145	-	-	242,145
MFI partnerships program	145,355	-	-	145,355	281,329	-	-	281,329
Fellows program	75,015	-	-	75,015	70,375	-	-	70,375
Marketing & communications	85,446	1,591	-	87,037	30,692	-	245	30,937
Travel, conferences and meetings	67,709	2,083	12,043	81,835	19,898	812	19,898	40,608
Organization costs	29,726	5,686	1,711	37,123	59,396	10,527	4,792	74,715
Office expenses	13,513	2,585	778	16,876	12,436	2,204	1,003	15,643
Utilities, phones and internet	40,000	7,651	2,303	49,954	42,300	7,498	3,413	53,211
Staff development	29,935	5,726	1,723	37,384	13,320	2,361	1,075	16,756
Miscellaneous	16,326	3,061	1,020	20,407	405	72	33	510
Review and translation program	-	-	-	-	6,980	-	-	6,980
Refunded donations	-	-	-	-	203	25,000	-	25,203
Total functional expenses	$ 7,457,758	$ 600,876	$ 178,890	$ 8,237,524	$ 5,305,152	$ 412,934	$ 231,867	$ 5,949,953

See notes to the financial statements.

KIVA MICROFUNDS

STATEMENTS OF CASH FLOW

YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Cash Flows from Operating Activities:		
Change in net assets	$ 889,531	$ 1,136,779
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	564,867	328,117
In-kind donation of fixed assets	(94,615)	(48,150)
In-kind donation of supplies	(18,848)	(36,000)
Net (gain) loss on investments	(2,123)	1,328
Changes in operating assets and liabilities:		
Accounts receivables	(13,384)	(5,107)
Pledges receivable	1,255,000	(320,500)
Dues from Kiva User Fund account	(515,182)	292,021
Prepaid expenses	(31,124)	(12,990)
Security Deposits	(8,372)	-
Accounts payable	(2,061)	(81,240)
Accrued expenses	100,388	152,646
Deferred rent	(5,831)	28,910
Net cash provided by operating activities	2,118,246	1,435,814
Cash Flows from Investing Activities:		
Purchase of property and equipment	(57,310)	(2,857)
Purchase of internet platform software	(673,627)	(604,115)
Net cash used in investing activities	(730,937)	(606,972)
Net increase in cash and cash equivalents	1,387,309	828,842
Cash and Cash Equivalents, beginning of year	2,513,173	1,684,331
Cash and Cash Equivalents, end of year	$ 3,900,482	$ 2,513,173
Supplemental Schedule of Non-Cash Investing Activities:		
In-kind donation of fixed assets	$ (94,615)	$ (48,150)
In-kind donation of supplies	$ (54,848)	$ (36,000)

See notes to the financial statements.

KIVA MICROFUNDS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009 and 2008

NOTE 1 – Nature of Activities

Kiva Microfunds ("Kiva") is a nonprofit, tax-exempt organization founded in 2005 to connect people through lending for the sake of alleviating poverty. Kiva empowers individuals to lend to low-income entrepreneurs around the world. Kiva 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, Kiva sends the money (via a net billing process) to the MFI, who uses the funds to replenish the loan that has been pre-disbursed to the entrepreneur and administers the loan. To date, Kiva has facilitated over US$110 million in loans from lenders through the website. Kiva is supported primarily through individual and corporate contributions and grants from foundations.

NOTE 2 – Summary of Significant Accounting Policies

Basis of Presentation: Kiva 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, Kiva'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 Kiva 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, 2009 and 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 Kiva.

Sources of Revenue: Kiva earns revenue from a variety of sources. Online donations are contributions made by lenders through Kiva'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 Kiva at that point in time. 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 States 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: Kiva 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 are reported at fair value based on quoted market prices. 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 Kiva 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 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 Kiva. Kiva 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: Kiva 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 Kiva 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: Kiva 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.

Kiva 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.

In-Kind Support: Kiva 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.

Additionally, Kiva receives a significant amount of contributed time, which does not meet the recognition criteria described above. Accordingly, the value of this contributed 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 Kiva of $1 million, over three years, to provide borrower verifications. This service will begin in 2010.

Income Taxes: Kiva 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, Kiva received its determination letter from the Internal Revenue Service confirming its tax exempt status under IRC Section 501(c)(3) and classifying Kiva as a public charity under IRC Section 170(b)(1)(A)(vi).

Reclassification: Certain reclassifications in the 2008 financial statements have been reclassified to conform to the 2009 financial statement presentation.

NOTE 3 – Investments

In September 2006, the Financial Accounting Standards Board issued SFAS No. 157 (SFAS 157), *Fair Value Measurements*, which Kiva adopted for its financial statements on January 1, 2009. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The new standard provides a consistent definition of fair value, which focuses on an exit price, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard also prioritizes, within the measurement of fair value, the use of market-based information over entity specific information and establishes a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability as of the measurement date. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

NOTE 3 – Investments (continued)

The three-level hierarchy for fair value measurements is defined as follows:

Level 1: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

An investment's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

As of and for the year ended December 31, 2009, all of Kiva's financial instruments were carried at fair value under the Level 1 valuation hierarchy based on quoted prices in an active market.

The investments are classified as unrestricted investments and unrestricted investment gain (loss) is comprised of net unrealized gain (loss).

NOTE 4 – Property and Equipment

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

	2009	2008
Leasehold improvements	$ 70,942	$ 69,875
Furniture	7,177	3,662
Computer equipment	263,017	115,674
Software	1,545,089	871,462
	1,886,225	1,060,673
Less accumulated depreciation	(1,028,460)	(463,593)
	$ 857,765	$ 597,080

Depreciation and amortization expense for the years ended December 31, 2009 and 2008 was $564,867 and $328,117 respectively.

NOTE 5 – Lease Arrangements

Kiva 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 $14,159 with annual increases beginning September 2008. Kiva is recording rent expense on a straight-line basis which results in deferred rent of $23,079.

NOTE 5 – Lease Arrangements (continued)

Rent expense paid under this lease was $177,468 and $160,327 for the years ended December 31, 2009 and 2008, respectively. Future minimum lease payments under this arrangement are as follows:

Year ending December 31		
2010	$	180,201
2011		124,368
	$	304,569

NOTE 6 – 401 (K) Plan

Kiva 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 Kiva may make matching and/or discretionary contributions. The benefits vest upon contribution. During the years ending December 31, 2009 and 2008 Kiva made matching and discretionary contributions of $64,623 and $ 44,145 to the Plan, respectively.

NOTE 7 – Microfinance Partnerships

Kiva is partnered with over 110 MFIs in more than fifty countries across the globe. This network of partnerships enables Kiva to connect with entrepreneurs seeking micro-loans. Kiva's MFI partners are responsible for selecting and vetting the entrepreneurs and administering the loans. Kiva's online platform connects these entrepreneurs with individuals who want to contribute loan funds via the internet.

NOTE 8 – Kiva User Funds Bank Account

Funds of Kiva's users are held in bank accounts at Wells Fargo Bank by Kiva User Funds LLC. Kiva User Funds LLC was established to hold user funds in several pooled accounts for the benefit of the applicable Kiva users who have credits in the Kiva system (e.g., funds deposited by a Kiva lender to make a microloan or repayments made to a Kiva lender by a borrower/micro-entrepreneur). Kiva is the sole member of Kiva User Funds LLC. Kiva User Funds LLC maintains the FBO accounts, which are held separate and apart from the operational funds accounts of Kiva. Kiva is entitled to the interest earned on the funds held in the FBO accounts, pursuant to the binding terms of use with individual users at the time a user account is established. Kiva is also entitled to gift certificates held in these accounts that are auto-converted into donations and online donations intended for Kiva that are processed to these accounts. Donations from interest income, auto-converted gift certificates, and online donations on these bank accounts for the years ended December 31, are as follows:

	2009	2008
Interest Income	$ 122,381	$ 333,386
Auto-Converted Gift Certificates	364,600	261,250
Online Donations	3,590,420	2,214,755

Kiva maintains administrative records to reflect individual user balances and transactions (such as microloans made or repayments received) relating to Kiva users' participation in the Kiva microloan platform and their corresponding funds held in, or transacted via, the FBO accounts. In the event an administrative processing/recording issue results in a difference between such user-account records and the FBO account balances, Kiva may be expected to cover any such resulting variance for the FBO accounts. For the years ended December 31, 2009 and 2008, Kiva indemnified, in the approximate amount of $110,000 and $242,000 respectively, the Kiva User Funds bank accounts 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.

KIVA MICROFUNDS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009 and 2008

NOTE 9 – In Kind Donations

Kiva received the following in-kind donations during the year ended December 31:

	2009	2008
Technology	$ 139,622	$ 157,612
Use of Facilities	-	10,000
Services	3,223,401	1,755,653
Total in-kind donations	$ 3,363,023	$ 1,923,265

NOTE 10 – Net Assets

Temporarily restricted net assets are restricted by donors generally due to time and operating milestones. Temporarily restricted net assets restricted due to time totaled $50,000 and $1,005,000 for the years ended December 31, 2009 and 2008, repectively. Temporarily restricted net assets restricted due to conditions that needed to be met totaled $730,085 and $849,489 for the years ended December 31, 2009 and 2008, respectively. Temporarily restricted net assets released during the period ended December 31, 2009 and 2008 totaled $1,574,475 and $1,218,982, respectively.

NOTE 11 – Subsequent Events

Management of Kiva has evaluated events and transactions subsequent to December 31, 2009 for potential recognition or disclosure in the financial statements. Subsequent events have been evaluated through the date the financial statements became available to be issued, April 26, 2010, and no event has occurred that requires recognition or disclosure in these financial statements.