

KIVA MICROFUNDS
(A NONPROFIT ORGANIZATION)
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2012 AND 2011

KIVA MICROFUNDS
(A NONPROFIT ORGANIZATION)
CONTENTS
December 31, 2012 and 2011

	Page
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Statements of Financial Position	2
Statements of Activities	3
Statements of Functional Expenses	4
Statements of Cash Flows	5
Notes to Financial Statements	6 - 17

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Kiva Microfunds
San Francisco, California

**Report on the Financial Statements**

We have audited the accompanying financial statements of Kiva Microfunds (Kiva), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kiva as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



SingerLewak LLP

San Jose, California
April 18, 2013

KIVA MICROFUNDS
(A NONPROFIT ORGANIZATION)
STATEMENTS OF FINANCIAL POSITION
December 31, 2012 and 2011

	ASSETS	
	2012	2011
Current assets		
Cash and cash equivalents	\$ 8,194,277	\$ 8,327,737
Cash restricted as to use	3,634,069	723,954
Funds held in trust	889	-
Pledges and grants receivable, current	520,114	1,226,871
Unapplied funds	68,097	117,795
Due from Kiva User Funds Account	263,272	260,405
Prepaid expenses and other assets	419,514	284,283
Total current assets	13,100,232	10,941,045
Property and equipment, net	3,764,022	2,668,483
Other assets		
Pledges and grants receivable, less current portion and net of discounts	249,003	45,244
Intangible asset	25,000	25,000
Other assets	56,927	61,652
Total other assets	330,930	131,896
Total assets	\$ 17,195,184	\$ 13,741,424
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 229,521	\$ 180,448
Accrued expenses	527,569	459,280
Other current liabilities	18,664	18,139
Total current liabilities	775,754	657,867
Deferred rent obligation	170,792	63,464
Total liabilities	946,546	721,331
Commitments and contingencies (Note 5)		
Net assets		
Unrestricted	11,992,892	11,171,184
Temporarily restricted	4,255,746	1,848,909
Total net assets	16,248,638	13,020,093
Total liabilities and net assets	\$ 17,195,184	\$ 13,741,424

The accompanying notes are an integral part of these financial statements.

KIVA MICROFUNDS
(A NONPROFIT ORGANIZATION)
STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2012 and 2011

	2012			2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue and support						
Online donations	\$ 6,228,033	\$ -	\$ 6,228,033	\$ 5,890,944	\$ -	\$ 5,890,944
Auto-converted Kiva Cards	1,327,035	-	1,327,035	1,285,879	-	1,285,879
Foundations	487,753	904,388	1,392,141	101,369	2,029,384	2,130,753
Corporate contributions	1,253,137	4,451,678	5,704,815	587,969	726,268	1,314,237
Individual contributions	758,037	76,935	834,972	1,073,761	80,000	1,153,761
Interest income	76,774	-	76,774	95,691	-	95,691
Investment gains, net	-	-	-	464	-	464
Other income (loss)	(486)	-	(486)	3,435	-	3,435
Net assets released from restrictions	3,026,164	(3,026,164)	-	2,918,486	(2,918,486)	-
Total revenue and support	13,156,447	2,406,837	15,563,284	11,957,998	(82,834)	11,875,164
In-kind donations						
Technology	68,111	-	68,111	183,855	-	183,855
Services	1,762,735	-	1,762,735	1,522,590	-	1,522,590
Use of facilities	-	-	-	1,020	-	1,020
Total in-kind donations	1,830,846	-	1,830,846	1,707,465	-	1,707,465
Total revenue and support including in-kind donations	14,987,293	2,406,837	17,394,130	13,665,463	(82,834)	13,582,629
Functional expenses						
Program services	11,885,446	-	11,885,446	9,767,837	-	9,767,837
Management and general	1,652,420	-	1,652,420	1,402,686	-	1,402,686
Fundraising	627,719	-	627,719	513,830	-	513,830
Total functional expenses	14,165,585	-	14,165,585	11,684,353	-	11,684,353
Change in net assets	821,708	2,406,837	3,228,545	1,981,110	(82,834)	1,898,276
Net assets, beginning of year	11,171,184	1,848,909	13,020,093	9,190,074	1,931,743	11,121,817
Net assets, end of year	\$ 11,992,892	\$ 4,255,746	\$ 16,248,638	\$ 11,171,184	\$ 1,848,909	\$ 13,020,093

The accompanying notes are an integral part of these financial statements.

KIVA MICROFUNDS
(A NONPROFIT ORGANIZATION)
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended December 31, 2012 and 2011

	2012				2011			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Personnel expenses								
Salaries	\$ 4,713,552	\$ 523,246	\$ 309,902	\$ 5,546,700	\$ 3,568,268	\$ 486,745	\$ 257,314	\$ 4,312,327
Payroll taxes	532,757	61,289	35,979	630,025	405,218	56,104	31,238	492,560
Benefits	876,846	113,120	57,882	1,047,848	606,876	82,827	45,856	735,559
Total personnel expenses	6,123,155	697,655	403,763	7,224,573	4,580,362	625,676	334,408	5,540,446
Other functional expenses								
In-kind expenses	1,585,758	133,996	6,550	1,726,304	1,553,826	58,220	4,076	1,616,122
Contractors	394,598	82,344	18,718	495,660	1,063,526	126,369	-	1,189,895
Professional fees	2,189	144,033	-	146,222	11,387	99,379	-	110,766
Occupancy	503,077	78,750	31,548	613,375	266,726	36,397	20,897	324,020
Depreciation and amortization	1,525,475	172,013	100,248	1,797,736	906,196	123,834	74,868	1,104,898
Information technology	155,260	52,522	10,210	217,992	154,339	34,753	8,744	197,836
Marketing and communications	197,816	58,908	-	256,724	262,463	34,280	15,500	312,243
Promotional loan funding	800,000	-	-	800,000	325,000	-	-	325,000
Portfolio related expenses	265,025	-	-	265,025	276,617	-	-	276,617
Volunteer program	65,878	-	-	65,878	48,323	-	-	48,323
Travel, conferences, and meetings	96,437	7,705	35,897	140,039	137,997	2,613	39,485	180,095
Organization costs	86,180	20,277	6,596	113,053	54,830	45,121	1,727	101,678
Office expense	47,550	55,180	5,034	107,764	74,095	107,749	4,721	186,565
Phones and internet	30,700	3,404	1,988	36,092	35,149	4,737	2,670	42,556
Staff development	4,704	145,633	132	150,469	16,643	103,558	710	120,911
External events	1,644	-	7,035	8,679	358	-	6,024	6,382
Total other functional expenses	5,762,291	954,765	223,956	6,941,012	5,187,475	777,010	179,422	6,143,907
Total functional expenses	\$ 11,885,446	\$ 1,652,420	\$ 627,719	\$ 14,165,585	\$ 9,767,837	\$ 1,402,686	\$ 513,830	\$ 11,684,353

The accompanying notes are an integral part of these financial statements.

KIVA MICROFUNDS
(A NONPROFIT ORGANIZATION)
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Change in net assets	\$ 3,228,545	\$ 1,898,276
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,797,736	1,104,898
In-kind donation of fixed assets	(16,093)	(132,679)
In-kind donation of supplies	(86,502)	42,184
Unrealized/realized gains on investments	-	(464)
Changes in operating assets and liabilities:		
Cash restricted as to use	(2,910,115)	277,519
Funds held in trust	(889)	-
Pledges receivable, net discounts	502,998	(349,095)
Unapplied funds	49,698	(114,525)
Due from Kiva User Funds Account	(2,867)	523,307
Prepaid expenses	(48,729)	(82,118)
Other assets	4,725	(47,231)
Accounts payable	49,073	53,117
Accrued expenses	68,289	162,673
Other liabilities	525	10,329
Deferred rent obligation	107,328	51,805
Net cash provided by operating activities	<u>2,743,722</u>	<u>3,397,996</u>
Cash flows from investing activities		
Purchases of property and equipment	(141,035)	(323,333)
Capitalization of website and internet platform software development costs	(2,736,147)	(2,037,985)
Proceeds from sales of investment	-	7,714
Net cash used in investing activities	<u>(2,877,182)</u>	<u>(2,353,604)</u>
Net (decrease) increase in cash and cash equivalents	(133,460)	1,044,392
Cash and cash equivalents, beginning of year	<u>8,327,737</u>	<u>7,283,345</u>
Cash and cash equivalents, end of year	<u>\$ 8,194,277</u>	<u>\$ 8,327,737</u>
Supplemental cash flows information:		
In-kind donation of fixed assets	\$ 16,093	\$ 132,679
In-kind donation of supplies	\$ 86,502	\$ (42,184)

The accompanying notes are an integral part of these financial statements.

KIVA MICROFUNDS
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 1 – ORGANIZATION AND 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 and creating opportunity. Kiva empowers individuals to lend to low-income borrowers around the world. Kiva partners with over 173 global Microfinance Institutions ("MFIs") and other socially minded organizations and enterprises in more than sixty-four (64) countries. Partner organizations are responsible for selecting borrowers, reviewing the loan applications, and uploading the loan requests to Kiva's website once they have approved the loans. When the loan funds are raised, Kiva sends the money (via a net billing process) to the partner, which uses the funds to replenish the loan that has been pre-disbursed to the borrower, and administers the loan. To date, Kiva has facilitated over US \$383 million in loans from lenders through the website. In 2012, Kiva initiated more concerted work on a pilot program ("Kiva Zip") in the United States and Kenya. Kiva Zip, established on a separate website URL (zip.kiva.org), is designed to test the feasibility of facilitating microfinance loans from Kiva users more directly to Kiva borrowers, independent of an intermediary, credit-administering partner organization. The loan amounts under the Kiva Zip are not currently deemed material to Kiva operations.

Kiva User Funds, LLC (referred hereinafter as "KUF") was established to hold user funds in several pooled accounts for the benefit of the applicable users who have transactional credits (e.g., funds deposited by a lender to make a microloan or repayments made to a lender by a borrower). The lending activities that take place on Kiva's website are transacted through the KUF accounts in order to maintain a separation between the two entities' holdings and ensure that funds belonging to KUF's users are distinct from funds that are designated for Kiva's operations. KUF is a California LLC whose sole member is Kiva.

Funds of KUF's users are held in FBO ("for the benefit of") bank accounts at Wells Fargo Bank. KUF maintains the FBO accounts, which are held separate and apart from the operational funds accounts of Kiva. Kiva performs administrative functions and record-keeping duties that reflect individual user balances and transactions (such as microloans made or repayments received) relating to KUF's users' participation utilizing the Kiva platform, and accounts for the users' corresponding funds held in, or transacted via, the FBO accounts.

Kiva is supported primarily through individual and corporate contributions and grants from foundations.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of Kiva have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

KIVA MICROFUNDS
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation

The accompanying financial statements include a statement of financial position that presents the amounts for each of the three classes of net assets: unrestricted, temporarily restricted and permanently restricted. These net assets are classified based on the existence or absence of donor-imposed restrictions and a statement of activities that reflects the changes in those categories of net assets.

Permanently Restricted Net Assets - result from contributions and other inflows of assets whose use by Kiva is permanently restricted by the donor, which require the assets to be maintained in perpetuity but permit the organization to expend all or part of the income derived from the donated assets. At December 31, 2012 and 2011, Kiva had no permanently restricted net assets.

Temporarily Restricted Net Assets - result from contributions and other inflows of assets whose use by Kiva is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by action of Kiva pursuant to those stipulations.

Unrestricted Net Assets - are neither permanently restricted nor temporarily restricted by donor-imposed stipulations. The only limits on unrestricted net assets are broad limits resulting from the nature of Kiva and the purposes specified in its articles of incorporation or bylaws.

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 disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Kiva considers cash on deposit and temporary investments with financial institutions with an original maturity of three months or less at the time of purchase to be cash equivalents.

Cash Restricted as to Use

Cash restricted as to use represents amounts related to two separate restrictions. The first amount represents segregated funds in the amount of \$147,440 and \$147,160 for the years ended December 31, 2012 and 2011, respectively, to support the letter of credit issued on July 28, 2011 related to the operating lease agreement for the new office lease entered into effective December 2011. The remaining amount represents segregated funds to meet donor obligations that have been temporarily restricted by time or purpose.

KIVA MICROFUNDS
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments in marketable equity securities are stated at fair market value. Investment income (including interest and dividends) and unrealized gains and losses are reflected in the statement of activities as increases or decreases in unrestricted net assets unless their use has been temporarily restricted by donors.

Accounting for Ownership Interest in KUF

Though Kiva is the sole member of KUF, a California Limited Liability Company (“LLC”), KIVA has not consolidated KUF’s assets, liabilities or results of operations in these financial statements. KIVA does not retain the rights, obligations or benefits typically afforded to a sole member of a LLC and, therefore, has elected to account for its investment in KUF on the equity basis. As of December 31, 2012 and 2011 KUF’s equity balance is zero, and therefore there is no investment in KUF reflected within the statements of financial position of Kiva.

KUF’s unaudited balance sheets consisted of the following at December 31, 2012 and 2011:

	2012	2011
Cash	\$ 46,918,039	\$ 39,041,056
Accounts receivable	70,904	38,270
Loans receivable	35,294,559	27,900,591
Total Assets	\$ 82,283,502	\$ 66,979,917
Accounts payable	\$ 62,213	\$ 119,543
Due to Kiva Microfunds	252,242	247,355
Unsettled loan transactions	46,763,924	39,448,548
Funds held on behalf of lenders	31,309,698	23,062,217
Unredeemed Gift Cards	3,895,425	4,102,254
Total Liabilities	\$ 82,283,502	\$ 66,979,917

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Conditional contributions are recorded as support in the period the condition is met. Such contributions are required to be reported as temporarily restricted support and are then reclassified to unrestricted net assets upon expiration of the restriction, usually when the funds are spent.

KIVA MICROFUNDS
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Kiva earns revenue from a variety of sources. Online donations are contributions made by lenders through Kiva's online lending platform. Kiva Card Auto-conversion revenue is recognized when a Kiva Card holder fails to redeem a Kiva Card 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 and grants from foundations, corporations, and individual donors.

Pledges and Grants Receivable

Kiva records pledges and grants receivable, net of discounts, when there is sufficient evidence in the form of verifiable documentation that a promise was made and received. Pledges receivable include loan repayment amounts which are promised to Kiva post completion of designated lending cycles in the KUF system. These pledges are discounted to reflect the default rate on the KUF lending platform.

Kiva discounts receivables that are expected to be collected in future periods using an appropriate discount rate commensurate with the risks involved. Kiva uses the 5-year Treasury bond rate of approximately 0.72% as of December 31, 2012 and the 10-year Treasury bond rate of approximately 2.0% as of December 31, 2011, respectively to record the discount.

In-Kind Support

Kiva records various types of in-kind support including professional services, and donations and 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. Contributions 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 from volunteers, 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.

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 MICROFUNDS
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment (Continued)

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

Intangible Asset

Kiva capitalized the costs incurred to obtain Kiva's website domain name. Kiva has determined the domain name has an indefinite useful life.

Impairment of Long-Lived Assets

Kiva reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or the fair value less costs to sell.

Promotional Loan Funding Expense

In conjunction with the efforts of Kiva to increase the KUF lender base, Kiva will expend funds on a periodic basis to be used for creating and offering promotional loans that can be utilized by users. All such funds will be used for this purpose on a revolving basis to users only. Users are not allowed to withdraw these funds.

Functional Allocation of Expenses

The costs of providing various program services, management and general, and fundraising expenses have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services provided. 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.

Major Grantor

During 2012, Kiva had grants from one significant grantor that represented 18% of total revenue and support. Kiva had outstanding receivables from three significant grantors that represented 32%, 16% and 13% of pledges and grants receivable as of December 31, 2012.

During 2011, Kiva had a grant from one significant grantor that represented 14% of total revenue and support. Kiva had outstanding grant receivables from the same grantor representing 74% of pledges and grants receivable as of December 31, 2011.

KIVA MICROFUNDS
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentration of Credit Risk

Credit risk is the failure of another party to perform in accordance with the contract terms. Financial instruments which potentially subject Kiva to concentrations of credit risk consist primarily of cash and cash equivalents, and pledges, grants, and accounts receivable.

Kiva maintains its cash balances with one high-credit, quality financial institution. Kiva believes its credit policies do not result in significant adverse risk, and historically has not experienced significant credit-related losses. In addition, effective December 31, 2010 through December 31, 2012, the Federal Deposit Insurance Corporation (“FDIC”) is providing unlimited insurance coverage on non-interest-bearing accounts.

Beginning January 1, 2013, noninterest-bearing transaction accounts will no longer be insured separately from Kiva’s other accounts at the same financial institution. Noninterest-bearing accounts will be added to any of the Kiva’s account in the applicable ownership category with an aggregate balance insured up to at least the standard Maximum Deposit Insurance Amount (SMDIA) of \$250,000.

Accounts receivable consist primarily of reimbursement of expenses from grantors. Pledges receivable represent amounts committed by donors that have not been received. 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.

Income Taxes

Kiva is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the Revenue and Taxation Code of the State of California. Accordingly, no provisions for income taxes or related credits are included in these financial statements.

Effective January 1, 2009, Kiva adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic No. 740, “Uncertainty in Income Taxes” (“ASC 740”) (formerly FASB Interpretation No. 48 (“FIN 48”), “Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement 109”). ASC 740 clarifies the uncertainty in income taxes recognized in the enterprise’s financial statements. Kiva has determined that the adoption of ASC 740 did not result in the recognition of any liability for uncertain tax positions. Kiva’s federal and state income tax returns remain subject to examination for all tax years ended on or after December 31, 2008 through 2012 respectively, with regard to all tax positions and results reported.

KIVA MICROFUNDS
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments

As defined in FASB ASC Topic No. 820, “Fair Value Measurements and Disclosures” (“ASC 820”) (formerly SFAS No. 157, “Fair Value Measurements”), fair value is the price that would be received to sell an asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. In determining fair value, Kiva uses the market approach. Based on this approach, Kiva utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques Kiva is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and the reliability of the information used to determine fair values.

As a basis for considering such assumptions, ASC 820 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

- Level 1 – Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – Include other inputs that are directly or indirectly observable in the marketplace.
- Level 3 – Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. For the fiscal years ended December 31, 2012 and 2011, the application of valuation techniques applied to similar assets and liabilities has been consistent.

Recently Adopted Accounting Pronouncement

In May 2011, the FASB issued ASU No. 2011-04, “Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs” (“ASU No. 2011-04”), which amends ASC Topic 820, “Fair Value Measurement”. ASU No. 2011-04 does not extend the use of fair value accounting, but provides guidance on how it should be applied where its use is already required or permitted by other standards within U.S. GAAP or International Financial Reporting Standards. ASU No. 2011-14 changes the wording used to describe many requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. Additionally, ASU No. 2011-14 clarifies the FASB's intent about the application of existing fair value measurements. ASU No. 2011-04 is effective for interim and annual periods beginning after December 15, 2011, and is applied prospectively. Kiva adopted this guidance at the beginning of the first quarter of 2012. The adoption of ASU No. 2011-04 did not have a material impact on Kiva’s financial position, results of operations, or cash flows.

KIVA MICROFUNDS
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncement

In October 2012, the FASB issued Accounting Standards Update No. 2012-05, Not-for-Profit Entities (“NFP”): Classification of the Sales Proceeds of Donated Financial Assets in the Statement of Cash Flows (“ASU 2012-05”), which require a NFP to classify cash receipt from the sale of donated financial assets consistently with cash donations received in the statement of cash flows, if those cash receipts were from the sale of donated financial assets that, upon receipt, were directed without and NFP-imposed limitations for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes in which case those cash receipts should be classified as cash flows from financing activities. Otherwise, cash receipts from the sale of donated securities should be classified as cash flow from investing activities by the NFP. ASU 2012-05 is effective prospectively for fiscal years and interim periods within those years beginning after June 15, 2013. Retrospective application to all prior periods presented upon the date of adoption is permitted. Kiva’s management does not expect this pronouncement will have a material impact on Kiva’s financial statements.

Reclassification

Certain amounts in the prior year financial statements have been reclassified to conform to the current year financial statement presentation. These reclassifications had no effect on net assets or changes in net assets.

NOTE 3 – PLEDGES AND GRANTS RECEIVABLE

Promises to give are scheduled to be realized in the following periods:

	<u>2012</u>	<u>2011</u>
In less than one year	<u>\$ 520,114</u>	<u>\$ 1,226,871</u>
In one to five years	251,391	50,000
Less discounts	<u>(2,388)</u>	<u>(4,756)</u>
Total pledges and grants receivable – noncurrent portion, net of discounts	<u>249,003</u>	<u>45,244</u>
Total pledges and grants receivable, net of discounts	<u>\$ 769,117</u>	<u>\$ 1,272,115</u>

KIVA MICROFUNDS
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 4 – PROPERTY AND EQUIPMENT

	2012	2011
Leasehold improvements	\$ 167,993	\$ 156,972
Furniture and fixtures	125,563	124,380
Computer equipment	711,264	566,337
Web site and internet platform software development costs	7,388,356	4,652,210
	8,393,176	5,499,899
Less accumulated depreciation and amortization	(4,629,154)	(2,831,416)
Total	\$ 3,764,022	\$ 2,668,483

Depreciation and amortization expense for the years ended December 31, 2012 and 2011 was \$1,797,736 and \$1,104,898, respectively.

NOTE 5 – COMMITMENTS AND CONTINGENCIES

Lease Agreements

In November 2011, Kiva entered into an operating lease agreement for new office space which expires in March 2017. The lease agreement calls for minimum monthly lease payments of \$43,307, and includes five months of rent abatement along with escalating rent payments beginning December 2012, and increasing annually thereafter. Kiva is recording rent expense on a straight-line basis, and has recorded a deferred rent liability of \$170,792 and \$63,464 as of December 31, 2012 and 2011, respectively.

Future minimum lease payments under this noncancelable facility lease are as follows:

For the Years Ending December 31,	
2013	\$ 493,421
2014	555,187
2015	572,226
2016	587,846
2017	146,961
Total	\$ 2,355,641

Rent expense, which includes Kiva's portion of common area expenses, amounted to \$496,420 and \$300,278 for the years ended December 31, 2012 and 2011, respectively.

KIVA MICROFUNDS
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 5 – COMMITMENTS AND CONTINGENCIES (Continued)

Groupon Agreement

In late 2010, Kiva entered into a promotional campaign with Groupon to attract new users. In this campaign, discounted promotional vouchers were issued. A user could purchase a voucher, with a face value of \$25, for \$15. In November 2010, 9,964 vouchers were sold, and Groupon participated by contributing \$10 to each user's account to complete the \$25 loan credit value. These vouchers have no restrictions other than they expired in May 2011, at which time the full \$25 credit value auto-converted to a Kiva donation.

In December 2010, an additional 11,269 of Groupon promotional vouchers were sold. For these vouchers, Kiva agreed to fund the \$10 credit for each voucher that was redeemed by the user in order to make a \$25 loan. This \$10 credit will revert to Kiva upon repayment of the respective loan made by the user. These purchased but unredeemed vouchers have no other restrictions other than they too expired in May 2011, at which time the \$15 dollar purchased value auto-converted to a Kiva donation.

There were 4,649 promotional vouchers redeemed in 2011. As of December 31, 2012 and 2011, there was a promotional receivable due Kiva in the amount of \$2,481, and 21,438, respectively, and is included in Due from Kiva User Funds Account on the accompanying statements of financial position. These amounts due relate to the promotional credit portion (funded by Kiva) which are a component of the respective users' outstanding loan balances.

Also at December 31, 2010, there remained 8,414 unredeemed vouchers which amounted to an additional \$84,410 of promotional credits to be issued to these users. All vouchers were either redeemed or expired during 2011.

Litigation

In the normal course of business, Kiva has not become a party to litigation. Management believes there are no asserted or unasserted claims or contingencies that would have a significant impact on the financial statements of Kiva as of December 31, 2012, and through April 18, 2013.

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. All matching and/or discretionary amounts fully vest upon contribution. During the years ended December 31, 2012 and 2011, matching and discretionary contributions of \$196,905 and \$146,758, respectively, were made to the Plan.

KIVA MICROFUNDS
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 7 – KIVA USER FUNDS BANK ACCOUNT

As discussed in Note 1, KUF maintains FBO accounts, which are held separate and apart from the operational fund 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 the auto-converted donations from Kiva Cards held in these accounts, and online donations intended for Kiva that are processed to these accounts. Interest income, and donations from auto-converted Kiva Cards and online donations disbursed from these bank accounts for the years ended December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Interest income	\$ 61,267	\$ 74,222
Auto-Converted Kiva Cards	\$ 1,327,035	\$ 1,285,879
Online donations	\$ 6,228,033	\$ 5,890,944

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 both years ended December 31, 2012 and 2011, Kiva indemnified, in the amount of \$0, the KUF bank accounts for a set of repayments that were credited to various users, for which certain MFI's ultimately failed to make the contractually required corresponding repayments.

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes:

	<u>December 31, 2011</u>	<u>Additions</u>	<u>Released from Restrictions</u>	<u>December 31, 2012</u>
Geographical	\$ 534,505	\$ 463,000	\$ (651,915)	\$ 345,590
Product innovation	192,288	3,638,000	(639,249)	3,191,039
Time restricted	<u>1,122,116</u>	<u>1,332,001</u>	<u>(1,735,000)</u>	<u>719,117</u>
	<u>\$ 1,848,909</u>	<u>\$ 5,433,001</u>	<u>\$(3,026,164)</u>	<u>\$ 4,255,746</u>

KIVA MICROFUNDS
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS (Continued)

	December 31, 2010	Additions	Released from Restrictions	December 31, 2011
Organizational capacity	\$ 420,413	\$ -	\$ (420,413)	\$ -
Geographical	474,136	713,000	(652,631)	534,505
Product innovation	181,169	150,000	(138,881)	192,288
Time restricted	856,025	1,972,652	(1,706,561)	1,122,116
	<u>\$ 1,931,743</u>	<u>\$ 2,835,652</u>	<u>\$(2,918,486)</u>	<u>\$ 1,848,909</u>

NOTE 9 – RELATED PARTY TRANSACTIONS

During the year ended December 31, 2012 and 2011, certain members of Kiva's Board of Directors and Advisory Board and/or their companies, made pledges to Kiva to help fund its mission. This contribution revenue totaled \$1,133,209 and \$1,929,383 for the years ended December 31, 2012 and 2011, respectively. Pledges receivable due from these parties as of December 31, 2012 and 2011 totaled \$0 and \$941,871, respectively.

NOTE 10 – SUBSEQUENT EVENTS

Kiva has evaluated subsequent events through April 18, 2013, the date the financial statements were issued.