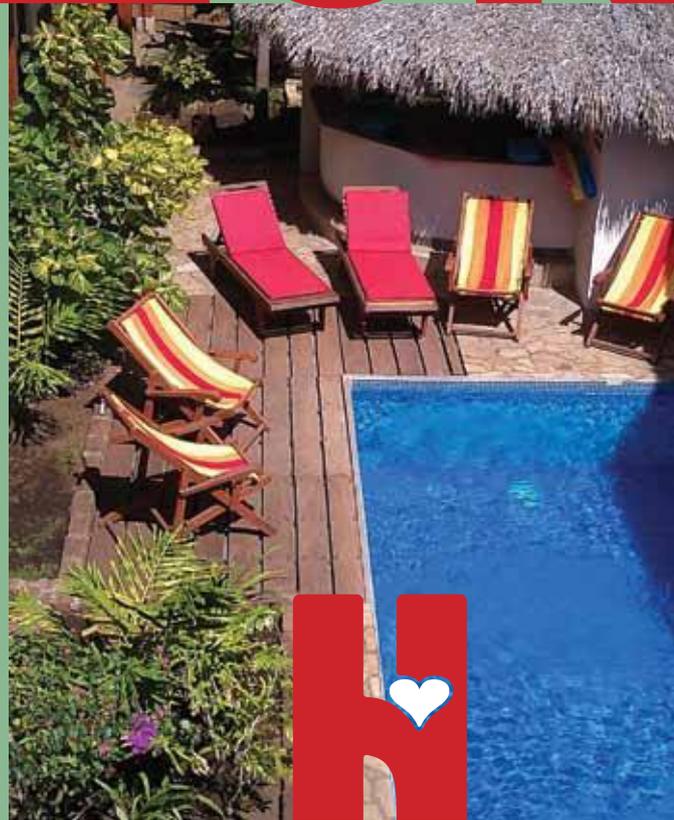
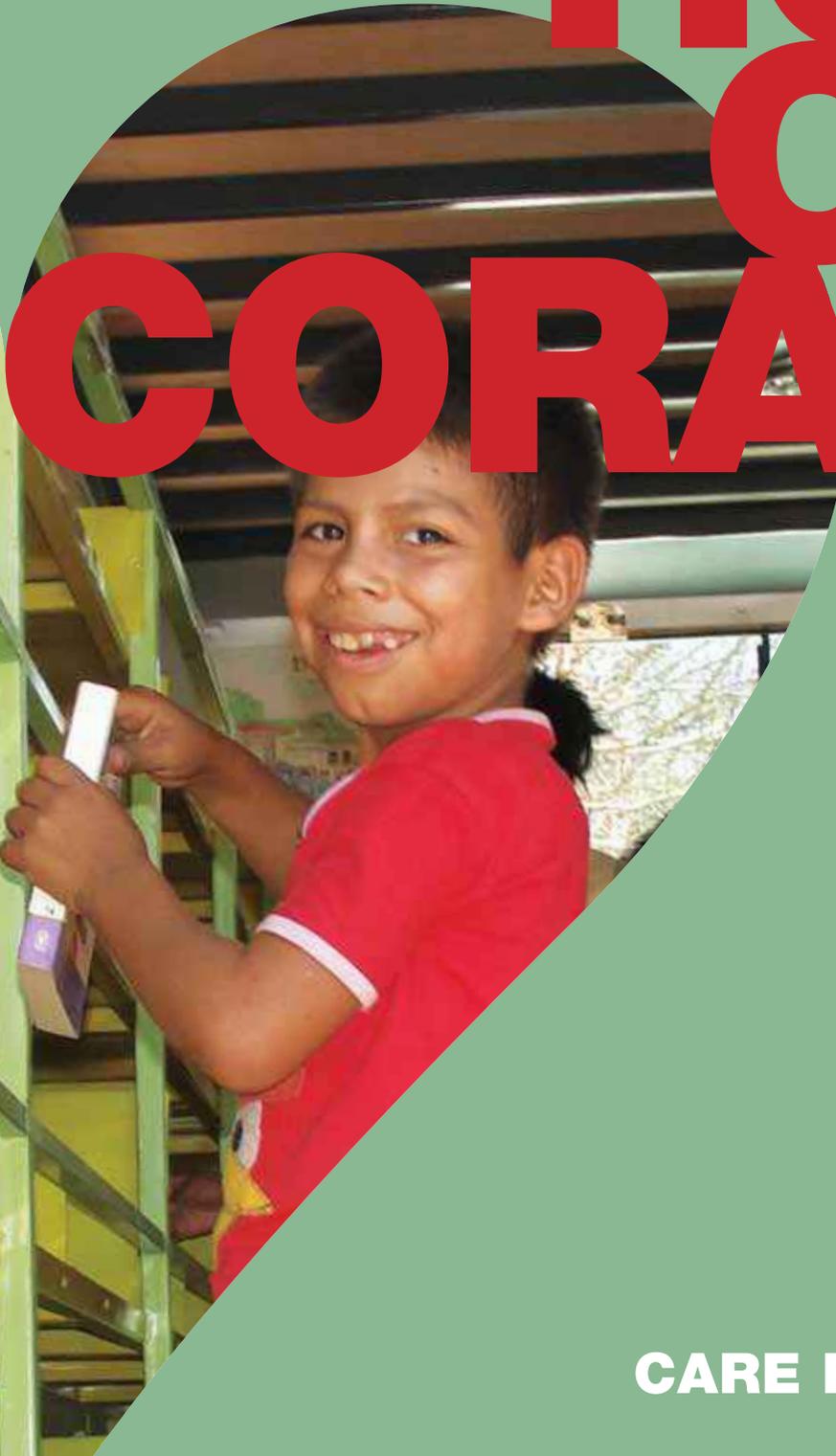


ANNUAL REPORT 2012

HOTEL CON CORAZON



**ENJOY TODAY,
CARE FOR TOMORROW**



EDUCATION IS THE KEY TO A BETTER FUTURE. IT IS ONE OF THE MOST POWERFUL TOOLS FOR REDUCING POVERTY. AT HOTEL CON CORAZÓN WE INVEST 100% OF OUR PROFITS IN EDUCATION AND 100% OF OUR ENERGY IN OFFERING YOU A PLEASANT STAY.

**ENJOY TODAY,
CARE FOR TOMORROW.**

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MISSION

Our mission is to help people in developing countries build a brighter future by investing in education and work.

- We support children to finish their education - all the way from elementary school up to higher education - so they increase their employment prospects.
- We stimulate local economic development by running a profitable business - a healthy enterprise that creates jobs and provides income and professional development opportunities for our employees.

STRATEGY

How do we work?

Hotel con Corazón is an enterprise with a social mission.

- The initial investment capital to launch the business was acquired through fundraising in Europe, between 2006 and 2008.
- Since 2009, the first hotel (in Nicaragua) has provided a healthy stream of revenue: the business is profitable, provides good working conditions and is run with respect for local culture and the environment.
- 100% of the hotel profits are invested in local education projects.
- In time, local operations will be handed over to local management.
- During the next ten years we plan to open up ten more hotels with a heart, in close collaboration with social entrepreneurs all over the world.

PRINCIPLES CON CORAZÓN

Hotel con Corazón adheres to four principles that have become the guidelines for all of our decisions:

Fun and fresh: We want to be a contemporary enterprise with a no-nonsense attitude. We aim for simplicity, try to surprise our guests and our “careholders”, and have fun in our day-to-day operations.

A place to be you: Hotel con Corazón wants to offer all of its guests a home away from home, whether they are young or old, tourists or business travelers, visiting for a short or long stay. We offer simple luxury and warm service. Guests can hang out in the patios, take part in activities or cool down by the pool – whatever suits their desires.

“Color local”: Even though Hotel con Corazón was set up by two Dutch guys, Nicaraguan blood flows through its veins. The building has been restored in colonial style; we employ local staff and purchase from and work together with many (mainly small) local enterprises.

Good business: Hotel con Corazón is true to its name, Hotel with a Heart. We aim to make a profit for a good cause. Our intentions are honest and trustworthy. To be able to act accordingly we work and report as transparently as possible.

MESSAGE TO THE CAREHOLDERS

Amsterdam/Granada, Spring 2013

Dear careholder*,

Another year has passed for Hotel con Corazón and this has been another exceptional year in all aspects. It is with great excitement that we present the results for a year full of progress and learning.

Hotel – Our overall annual room occupancy rate rose to the exceptional high of 67%. This means we are reaching our “ceiling”, given the ultra-low rainy season in September and October (a period that is unlikely ever to show occupancies over 40%). Our continuing good service has allowed us to take maximum advantage of the growth in tourism that Nicaragua experienced in 2012. The net profits of \$84,000 and revenues of \$275,000 mark exceptional annual results. We believe, however, that prudence for the coming years is required. We should not assume that every year will show a similar growth or that we can maintain the high occupancies and revenues of 2012.

Another note of caution should be dedicated to hotel maintenance. After four years of intensive use, some of our installations are starting to show “wear”. Not all the materials used in the building’s construction can stand up to the intense level of usage and harsh climate. We therefore expect an increase in maintenance costs in 2013.

The year 2012 also saw a “change of guard”. In May, Hans and Monique van Hal handed over the hotel and education projects to Joost van Duin and Geertje van der Pas. Hans and Monique had an excellent start to the year, which Joost and Geertje managed to maintain. We’d like to say a big thank you to Hans and Monique, who dedicated over a year and a half to Hotel con Corazón. And, of course, also a huge thank you to our staff! Our stable team of employees makes us stand out on TripAdvisor, where we stayed in top position throughout 2012.

Education - Our education program in Las Lagunas ran for the third year and we are getting better and better at it. The tutoring classes have been reshaped to better cater to the needs of the children and to make it more cost-effective. At the same time, we decided to increase the number of scholarships to support continuous education and foster role models for the younger ones.

Expansion - The board in the Netherlands dedicated their efforts in 2012 largely to preparing the expansion of the Corazón model to ten more hotels over the next ten years. We designed the strategy around one central idea: we want to collaborate with social entrepreneurs who identify themselves with the values of Hotel con Corazón and who want to shape the expansion together with us. Currently we are working with several entrepreneurs on their business plans in a variety of countries, from Cambodia to Nepal and from Brasil to Colombia.

We feel that from both the Nicaraguan and the expansion perspective these are very exciting times for Hotel con Corazón. We are happy to share our progress with you.

Saludos con Corazón!

Members of the Board

Petra de Boer (Branding), Jiska van Duijnhoven (Finance), Joost van Duin (Operations), Onno Oostveen (Business Development), Marcel Zuidhof (Human Resources)

***A Corazón careholder is anyone who supports the goals of Hotel con Corazón, whether this is financially, commercially, in labor or in spirit.**

OPERATIONS HOTEL

Our hotel staff make our guests feel at home, prepare their breakfasts and take them out on discovery with our tour agency Corazón Trips. The staff get rave reviews on TripAdvisor, so we attract even more guests and this year achieved a staggering 67% occupancy rate.

How much do people like working for Hotel con Corazón?

Martiza Pérez (33), receptionist



"I really appreciate the positive feedback from our guests and I also like the opportunity that the hotel offers for university scholarships."

Dennis Mercado (20), cook and receptionist

"What really makes me proud is the level of education of the children and also the way the tutors help them learn new things."

Gloria Peralta (24), chambermaid

"I like working for Hotel con Corazón because the total benefit goes to the education projects. And I also like it because we are one big family!"

Meyling Masis (23), scholarship student from Las Lagunas who works in the bar and anywhere else she is needed in the hotel

"What I appreciate most about working at Hotel con Corazón is that it feels like I am at home, with my family, since all my colleagues are really friendly. Because I study tourism I can apply my academic knowledge every day: how to attend to guests, restaurant skills, and I also learn about the administrative aspects of running a hotel."



"Business control is my natural habitat"

Joost van Duin took over as hotel manager in the spring of 2012. With a background in finance and years of experience as an auditor and financial controller, he gave a boost to the control mechanisms of the hotel operation.

Joost: "One of the main improvements in 2012 was the redesign of our administration processes and documents. Now they are lean and clean, fully integrated and with simple daily checks and all the data easily available for all users. We also reorganized several work spaces, to make storage and daily work easier and more efficient, while taking care of the assets of the hotel.

We were very proud to show that we can accommodate and offer full service to groups of 40 people and more while maintaining the 'home away from home' personal touch. Also to gain several new clients - from universities and NGOs to tour operators from the USA, Europe and Costa Rica."

Life would be boring if there was nothing to improve. So what are the main areas of improvement on the agenda for 2013?

Joost: "To make maintenance part of our daily routine and to take care that the hotel will be brand new again before our fifth birthday in October 2013."



José Luis Alemán (26), barman

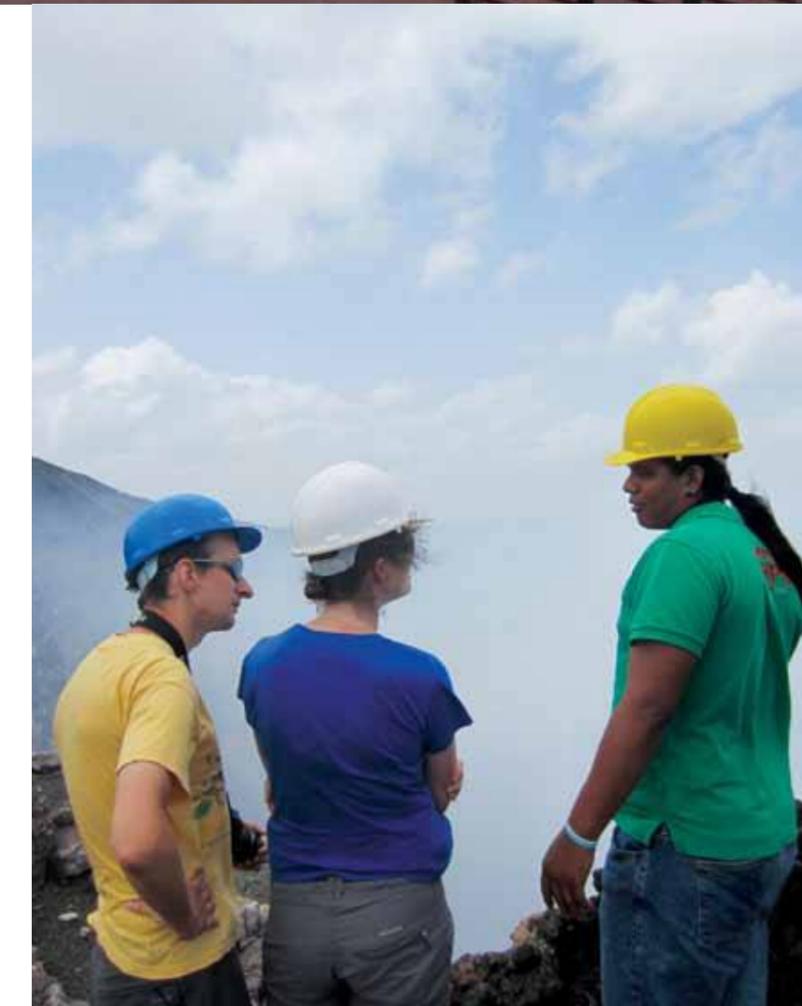
"For me the hotel is an excellent pioneer for opportunities. With the help of the hotel many children improved their homework and it also offers the opportunity for people who cannot pay for their studies to obtain a scholarship. As employees we can also get a small scholarship to obtain a degree. Most courses are too expensive, which is the case for me. I am proud to belong to the Hotel con Corazón family!"

Anyelo Roman (24), waiter and barman

"Without a doubt what I like about working for Hotel con Corazón is meeting and working with people from other countries. I don't mean job wise but in a more personal way, to develop a kind of friendship."

Franklin Luna (25), Corazón

Trips manager and tour guide
"What I love about my job is that I get to visit places and meet foreigners and learn about their culture. My biggest challenge is to help grow Corazón Trips and further improve the quality of the tours."





EDUCATION PROGRAM

Our tutors treasure the children! They work with each and every child to find out what their strengths are, and also what their particular obstacles are - plus how these can be overcome. The tutors give the children praise, they challenge them and they work together to help them get the best out of themselves.

Eva Cristina Sequeira (21), English teacher

"What really makes me proud is that I improved my communication with other people, especially with my students, and at the same time the faith they showed they have in me although they have their difficulties. My biggest challenge is to keep on helping and motivating my students to continue their studies."

Suacxi Gelga Fernández Urbina (29), handicrafts teacher

"I am proud to work in the hotel because I can help the students with their homework. But also because of the

scholarships, which are very important for the students. My biggest challenge is to stay motivated always no matter the circumstances or obstacles that I run into; you always have to look forward and keep going."

Georleny Vallejos (26), tutor responsible for third and fourth grades and the high school program

"I am very proud of the results I reached with my first group. This was a mixed group including children with poor skills in reading, writing and mathematics. At the moment most of them are well prepared to finish elementary school! They have gained enormous self-confidence."



"What a perfect combination"

"What a perfect combination," thought Geertje van der Pas when she saw the twin vacancies for hotel and education managers in Nicaragua on oneworld.nl in the spring of 2011. "What a great opportunity to combine the two careers (almost) of Joost, my husband, and me. My background is in education: I worked for several years making television and print materials for Dutch school television programs. Joost is a financial specialist. We were looking for something to do abroad, and were very open for anything actually."

Having been in the job for over a year now, Geertje reflects on the achievements realized in 2012:

"The longer we are operating at the two schools in Las Lagunas (San Pablo and Bertha Gutierrez), the better the relationship with the parents becomes. Each term we gain their confidence more and more. They come to us with questions, they participate more actively in the School for Parents and they trust their children to go with us on activities outside the community.

This year we decided to increase the number of sponsorships for university students, adding some in 2012 and even more in 2013. Students now come to us to request scholarship support, so we also support students outside Las Lagunas.

During 2012, we did a thorough evaluation of the whole education program, which resulted in some important changes to be implemented in 2013. We aim to improve the quality of the education program by having two tutors per group so that we can give customized programs for smaller groups with more variety in the didactic material."

Ruth Sánchez Gutiérrez (32), third and fourth grade tutor

"What I believe is really good are the scholarships that the hotel offers. These motivate the children to continue studying. Likewise, the School for Parents is really positive and it has led to much more involvement from the parents."

Skarleth Bermúdez Corea (34), education coordinator

"I thought the English lessons for the sixth graders were a big success. It was an important motivator for the fifth graders to apply for these classes the succeeding year. What has been difficult at times is opening up the tutoring team to learn new techniques and strategies. My challenge is to find ways to instigate the desire to keep learning and to trigger their self-motivation."

Yahoska Urbina (26), tutor responsible for first and second grades and the high school program

"I am proud that all my groups passed up to the next grade and improved on every level."

HOTEL FINANCIALS

PROFIT & LOSS 2012

This section gives an overview of the financial situation during the year 2012, Hotel con Corazón's fourth full operational year.

HOTEL – PROFIT & LOSS			
Revenues			
	2012	2011	
	US\$	US\$	
Hotel	\$ 217,106	\$ 166,045	
Restaurant	\$ 10,593	\$ 7,947	
Bar	\$ 12,837	\$ 12,507	
Corazón Trips	\$ 29,788	\$ 15,376	
Other	\$ 4,472	\$ 3,931	
Total revenues hotel	\$ 274,796	\$ 205,806	
Costs			
Personnel	\$ 68,183	\$ 57,366	
Purchases hotel	\$ 24,619	\$ 19,341	
Stocking restaurant	\$ 5,602	\$ 4,452	
Stocking bar	\$ 6,250	\$ 9,762	
Maintenance hotel	\$ 6,496	\$ 6,325	
Gas, water & electricity	\$ 20,808	\$ 18,598	
Administration & promotion	\$ 11,713	\$ 13,208	
Cleaning	\$ 3,207	\$ 4,849	
Transportation	\$ 2,317	\$ 3,251	
Corazón Trips	\$ 19,396	\$ 12,072	
Total expenses hotel	\$ 168,591	\$ 149,224	
Operational profit	\$ 106,205	\$ 56,582	
Income taxes	\$ 8,674	\$ 3,560	
Reservation - maintenance	\$ 7,500	\$ 7,500	
Reservation - installations	\$ 6,000	\$ 6,000	
Net profit	\$ 84,031	\$ 39,522	

HOTEL – ACTUAL 2012 VERSUS 2011			
	Actual 2012	Actual 2011	
	US\$	US\$	
Total revenue	\$ 274,796	\$ 205,806	
Total expenses	\$ 168,591	\$ 149,224	
Operational profit	\$ 106,205	\$ 56,582	
<i>Margin</i>	39%	27%	
<i>Average room occupancy</i>	67%	58%	



ACTUAL 2012 VERSUS 2011

The year 2012 was an extremely satisfying one for Hotel con Corazón. Our room occupancy jumped from 58% in 2011 to a staggering 67% average over the year. This, in combination with stricter cost control, meant that we were able to almost double our operational profit compared to last year and increase our net profit by an astonishing 113%. Our total revenues increased by 34% to US\$ 275,000, while our total costs only increased by 13% to US\$ 169,000. We are proud to say that our in-house tour agency, Corazón Trips, fully matured and accounted for more than 10% of the total revenues and 9% of the operational profit. Total costs in 2012 increased mainly due to an increase in purchases of hotel stock for breakfast (up by US\$ 5,300), higher costs for electricity (up by US\$ 2,200), and organized tours (up by US\$ 7,300). Personnel costs increased by 19%, principally caused by the government's 12% minimum wage increase (indexation of salaries). For the first time we also made a reservation for future payments to personnel who leave their job (a legal obligation in Nicaragua) - for the amount of US\$ 6,700.

Altogether, 2012 resulted in an operational profit of US\$ 106,200 and a net profit, after taxes and reservations for maintenance and installations, of US\$ 84,000 (versus US\$ 39,500 in 2011). The main reason for our

exceptionally high profit level was the increased number of guests we lodged. The hotel business is characterized by very high fixed costs, so occupancy is by far the most important profit driver. Once occupancy surpasses the break-even point (35%), we generate US\$ 3,500 net profit for every extra percentage point of occupancy.

The hotel bar and restaurant do not contribute enough to the operational profit. In 2012, we managed to increase the gross margin from 31% to 49% but we concluded this is still not enough to continue with these services in their current form. Therefore, in 2013, we will reorganize the bar and restaurant and cut back on costs even more.

Hotel con Corazón has been fully operational for four years. The first replacement costs occurred this year and will have an even bigger impact on next year's expenditures. To keep the hotel in good condition, maintenance of the woodwork, equipment and rooms is part of our daily routine. Besides the annual maintenance we also made reservations for future structural maintenance.





OCCUPANCY & CASH FLOW 2012

During 2012, Hotel con Corazón's cash position increased by US\$ 74,000, from US\$ 83,000 to US\$ 157,000.

CASH FLOW STATEMENT			
Cash in		US\$	US\$
	Operational profit	\$	106,205
	Reservation personal	\$	6,700
	Donations	\$	5,280
	Total cash in	\$	118,185
Cash out			
	Education program	\$	35,287
	Income taxes	\$	8,674
	Losses on foreign exchange	\$	326
	Total cash out	\$	44,287
	Cash result	\$	73,898

BALANCE 2012

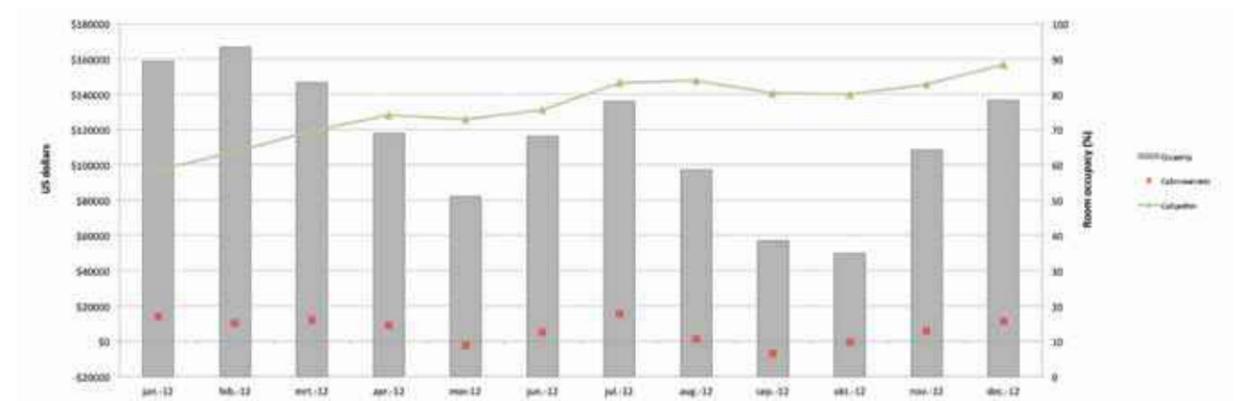
BALANCE SHEET AS AT DECEMBER 31 ST 2012			
	US\$		US\$
Building	224,289	Equity	705,127
Reconstruction	315,917	Reservations	137,217
Other tangible assets	149,481		
Banks and cash	84,385	Taxes and costs to be paid	4,885
Current account NL	72,056	Savings accounts employees	838
Other short term assets	1,939		
Total	848,067	Total	848,067

Our equity consists of the initial investment of US\$ 699,194, increased by the retained profit from operating years 2009 and 2010 (US\$ 9,585) and decreased by the loss from 2008 (US\$ 3,652). The reservations include structural maintenance, installations maintenance and education reservations. The maintenance reservations serve as provision for the conservation of the facilities, including the foundations, walls, roof, ceilings, doors, windows and swimming pool, as well as the building's utilities installations, such as pool pumps, air-conditioning units, electrical systems, kitchen and cleaning appliances, and warm- and cold-water installations.

We created a savings account for the employees to allow them to save part of their salary for education purposes. The money can be used, for example, to pay for the final education year, which is very expensive in Nicaragua. At this moment three employees (from both the hotel and the education program) are using our savings system. In addition, ten employees take advantage of the 10% (of salary) study support arrangement. Other tangible assets include materials and decoration (US\$ 91,728), car (US\$ 9,500) and other general investments to equip the hotel (US\$ 48,253).

The table below shows the cash position and cash movement relative to the room occupancy rate of the hotel throughout the year. The cash movement in 2012 followed the pattern of occupation: dropping in the slow months of May, September and October. The cash flow includes the cash-out for the educational projects. Excluding the education cash out, September was the only month which had a negative cash flow.

CASH MOVEMENTS & OCCUPANCY



Cash position shown in the graph above is the position on the last day of each month.

PROFIT APPROPRIATION & RESERVATIONS 2012

The profit appropriation for the year 2012 is displayed in the table below.

PROFIT APPROPRIATION		US\$
Net profit	\$	84,031
Education investment	\$	30,007
Education reservations	\$	54,024
Result	\$	0

The education investment in 2012 was US\$ 30,007, compared to \$37,029 in 2011. We invested less money in improvement of the schools and through our education partner Empowerment International.

As part of the reservation scheme, Hotel con Corazón makes three kinds of provisions: for major structural maintenance, for installations maintenance and for education (to have funds available in case of future calamity or low hotel occupancy rates). In 2012 we reserved US\$ 74,224. Reservations for all purposes now amount to a total of US\$ 137,217.

We make high reservations due to the volatility of our profit figures. We have chosen a conservative approach and spent only part of our net profit on education. This allows us to expand the program year by year and to guarantee continuous funding for new activities. For the coming years, we aim for a net profit between US\$ 50,000 and US\$ 90,000 per year, which allows us to structurally invest US\$ 50,000 a year in education. The remainder will be used for reservations for maintenance and calamities. We also have to take into account that six years from now we will lose the tax exemption from which we have been benefitting for the last four years. As a result our tax payments will be much higher.

RESERVATIONS		US\$	US\$
Reservations 2009–2011		\$	62,993
Reservations 2012			
Major structural maintenance	\$	7,500	
Installations maintenance	\$	6,000	
Reservation personnel	\$	6,000	
Education reservations	\$	54,024	
Total reservations 2011		\$	74,224
Total reservations		\$	137,217

WHAT THEY SAY

We keep on blushing every time we read what our guests write about us on TripAdvisor:

- **“Best hotel in Nicaragua!! Want to go back as soon as possible!”**
- Sabrina, New Orleans, USA
- **“A wee gem”** - Doofer
- **“Lovely hotel in great location”**
- samo82, Oslo, Norway

- **“Perfect w/ Great Staff & Great Cause”**
- kylewmartin
- **“Funky, Modern Hotel”**
- Robotmonster, Belfast, Ireland



Want to read more reviews?
Go to TripAdvisor and search for Hotel con Corazón.

EDUCATION FINANCIALS

INCOME & INVESTMENTS

PROFIT AND LOSS EDUCATION PROGRAM		
Revenues	2012 US\$	2011 US\$
Hotel con Corazón investments	\$ 30.007	\$ 37.029
Hotel guests donations	\$ 2.030	\$ 1.250
Other donations	\$ 3.250	\$ 5.000
Total revenues education	\$ 35.287	\$ 43.279
Costs		
Las Lagunas		
Personnel costs	\$ 24.088	\$ 21.422
Transport costs	\$ 2.023	\$ 1.782
Other project costs	\$ 3.845	\$ 4.892
Improvement schools		\$ 5.195
Subtotal Las Lagunas	\$ 29.956	\$ 33.291
Other contributions and expenses		
Contribution Empowerment International	\$ 3.000	\$ 8.375
Contribution La Esperanza	\$ 1.200	\$ 1.200
Other contributions and expenses	\$ 1.131	\$ 413
Subtotal other	\$ 5.331	\$ 9.988
Total costs education	\$ 35.287	\$ 43.279
Result	\$ 0	\$ 0

Income

During 2012, Hotel con Corazón invested a total of US\$ 35,287 in education projects. The majority of this sum came from hotel profits - US\$ 30,007. We also received US\$ 5,280 in donations from hotel guests and other sponsors.

Investment in Las Lagunas

As in previous years, the majority of the education budget was dedicated to our education activities in Las Lagunas, a rural neighborhood on the outskirts of Granada. The total cost of the education program at the two elementary schools in Las Lagunas was US\$ 29,956, slightly (10%) less than in 2011. This enabled us to employ ten teaching professionals: six general tutors, two creative tutors, one English teacher and a coordinator. This was the first year that we contracted a local English teacher instead of working with a volunteer from the Netherlands. Salaries and fringe benefits account for the bulk of our education expenses (US\$ 24,088). This includes an

additional 10% of salary spent on study costs for our employees and a severance package for one tutor who left Hotel con Corazón's employ. Other costs for the Las Lagunas program include special activities like a visit to the zoo and a boat tour for the parents.

Additional education costs

- We supported four university students at a total cost of US\$ 1,131. In the coming years we will significantly increase support for university students.
- Empowerment International received US\$ 3,000 for tutoring classes.
- La Esperanza Granada received support for one university scholarship (US\$ 1,200).
- We provided weekly music classes for all the students in the elementary schools in the Las Lagunas program (US\$ 1,109) and paid the transport costs for the Bibliobus mobile library to visit Las Lagunas once a month (US\$ 536).

Education financial reserves

You might wonder why we only spent one third of our profits on education as opposed to the full 100%. The main reason is that - due to exceptional occupancy rates - profits significantly exceeded expectations this year, and obviously we did not budget for this. Because we value long-term stable growth over short-term

unsustainable gains, we decided to add the extra profit to our education reservation (see hotel financials). Another reason is that our education expenses are expected to increase in the future. We are slowly expanding our focus also to support high school and university students. This means that the number of students will be growing as well as the number of years that they can receive support.



ACTIVITIES

Hotel con Corazón supported a total of 142 students in different educational programs in 2012 - from elementary school all the way up to university. This year we decided to slowly but surely expand our focus from just elementary school to also support continuous education in high school and at university level. The older students provide a great example as role models for the younger children.

Elementary and secondary schools

In the Las Lagunas elementary schools, we provided tutoring classes in Spanish and math, we gave creative lessons to improve motor skills, and for the higher grades we started with English classes. This year we also

began to provide workshops on social subjects such as environmental issues, discrimination and career planning to fourth- and fifth-grade students. For secondary school students we provided English classes. We are proud to say that in total our education activities reached 115 students in the two communities of Las Lagunas in 2012.

Unfortunately Soccer without Borders (Fútbol sin Fronteras) was no longer available to give sports classes in Las Lagunas. Fortunately, this situation has been resolved by training two youngsters from the community to become sports teachers themselves. The training was given by Soccer without Borders.

As in previous years, some of our students in the program in Las Lagunas did not reach the end of the school year. This year twenty students in elementary and nine students

in secondary school did not continue with our program. The majority came from one school (Bertha Gutierrez). The main reasons for the dropouts are either family related - they have had to help at home, working in the fields, or looking after brothers and sisters - or have to do with the health of the student (the extra classes are too tiring, sometimes because of the distance), or because the student was not motivated, in which case we ask them to stop, because they are distracting other children in the program. This year we allowed ten students to start our program after the semester holiday in July, mostly in the first and second grades.

University

We supported four students in 2012 with university scholarships; they are studying the following subjects:

- Meyling - *Tourism and Hospitality (Universidad Centroamericana, Managua)*
- Anielka - *Tourism and Hospitality (American College, Managua)*
- Yubelka - *Psychology (Universidad Centroamericana, Managua)*
- Conny - *Business Administration and Marketing (Universidad Hispanoamericana, Granada)*

In return for the scholarships, the students work a few days each month for the hotel. Depending on their skills and professional ambitions, they either work in the bar, the restaurant (breakfast or dinner) or housekeeping.

OTHER NGOS

Empowerment International

Empowerment International is a non-profit organization that works since 2004 in two different communities in Granada. Currently they support 323 students between the ages of 3 and 21. Its mission is to break the cycle of poverty before it is transferred to yet another generation, by building more educated and productive communities.

Empowerment wants to enable every child to go to school and achieve the level of education they desire. It has achieved a student retention rate of over 90%. The staff works with the students and their families to instill the value of education. The staff makes daily home visits to encourage the parents to send their children to school and teach them how to improve their children's educational experience. They also offer support to help them remove the barriers that prevent their children to attend school. Hotel con Corazón supports Empowerment International since 2010 with a yearly donation, (equivalent to supporting

about 10 students per year) and has stepped up its efforts this year by also giving grants to students to attend high schools and universities.

empowermentinternational.org

La Esperanza Granada

One student, Ramón, received a scholarship via La Esperanza, which is a non-profit organization improving children's education in poor areas of Granada. Ramón is studying to be a computer engineer and is in his third year at university now. In return he gives computer classes for the students of La Esperanza.

In 2012, Ramón also ran a workshop for Hotel con Corazón tutors about the didactic materials that La Esperanza is using. We made copies and are ourselves now using the materials as well.

la-esperanza-granada.org



Employees of Hotel con Corazón

We encourage all Hotel con Corazón employees to study or take English classes. Additionally we have implemented a savings system for employees who want to finish their studies. In Nicaragua the last year of university is very expensive. The savings program allows each employee to save one third of the required amount out of their salaries, to borrow another third (which is to be paid back in one year) and the remaining third is provided as a donation by the hotel. In total, twelve of our employees have used this or another of our study opportunities in 2012 to improve their skills and knowledge.

Activities carried out in 2012

Number of students participating

Tutoring and creative classes (1 st , 2 nd & 3 rd grades)	52
Homework classes (4 th & 5 th grades)	20
English classes (5 th & 6 th grades)	33
Secondary school English classes	10
Scholarship university students	4
Employees receiving education support	12
Empowerment International	10
Scholarship student La Esperanza Granada	1

Total number of students and employees benefitting in 2012 **142**

Additional support activities

Bibliobus book exchange for all grades above preschool in Las Lagunas	261
Music lessons to all grades, including preschool, in Las Lagunas	326

Parents' involvement

We strongly believe in the importance of parents' participation. It is the parents who decide whether their children will go to school to begin with, they encourage them (or not) to attend the tutoring or English programs and see whether they do their homework. We conduct home visits and organize the School for Parents to raise awareness about the value of education and to help parents support their children with schoolwork.

"Randomized evaluations have shown that simple interventions, such as informing parents about the returns to education, can dramatically improve attendance at a low cost."

(Source: www.povertyactionlab.org, a research center at the Economics Department of the Massachusetts Institute of Technology)

Home visits

Every Friday, except when the tutors have capacity workshops in the hotel (around ten times a year), the education team visits the parents of the students that participate in our program. Subjects discussed include the progress and behavior of their children, and the consequences of being eliminated from the program due to lack of attendance. Most importantly, though, we talk about the importance of education, learning to read and write, and continuing at school.



School for Parents

Once a month we invite all the parents to attend our Escuela de los Padres (School for Parents). For each meeting, the tutors prepare a talk on a subject related to the situation of the families and their children, such as the environment, discrimination, and, of course, the importance of education. We invited Ixchen, a women's rights organization, to send representatives to come and talk at two of these meetings in 2012, which was a great success. The average attending number of parents is around thirtyfive per meeting.



RESULTS

	2010	2011	2012
Average reading speed in 2 nd grade (words/minute)	26	34	52
Average reading speed in 3 rd grade (words/minute) ¹	58	86	66
Average score math test results in 2 nd grade ²	-	-	83%
Average score math test results in 3 rd grade ²	-	-	65%
Average attendance 2 nd & 3 rd grades ³	95%	90%	83%
Average attendance across all elementary school grades (1 st to 6 th grade) in the tutoring and English program	-	-	78%
Number of children who left the program ⁴	0	11	20
Number of parents participating in the 'School for Parents'	33	31	35
Number of tutors	8	8	9

¹ Third grade average reading speed decreased this year because of two reasons:

1. We allowed new students to enter the program partway through the school year, which caused the average level to go down.
2. The third grade in 2011 was a group of already quite good readers (having shown particular ability from the first grade). This year the third grade class has some children who still have many difficulties with reading, which additionally caused the average reading speed to go down.

² This year started using a math test. The scores for students in our education program were higher than those of children who weren't in our program: the second grade average test score outside our program was 43% (compared to 83% in our program) and the third grade average test score outside our program was 30% (compared to 65% in our program).

³ The attendance rate is lower than before. One reason is that we improved the monitoring system, so we have more accurate percentages. The distance of the schools from children's homes - and the associated fatigue of travelling - particularly for one school, is still a reason that some students do not to show up. At the same time we have applied stricter rules: two no-shows means that a student is off the program.

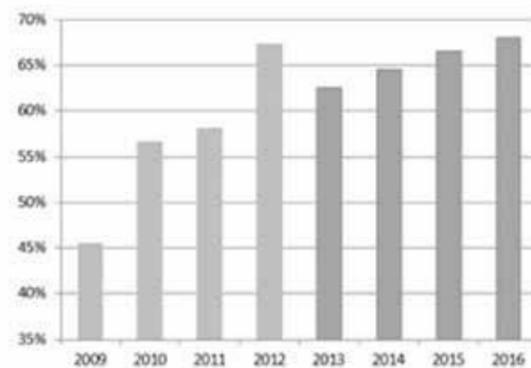
⁴ The high number of dropouts (twenty) from our program - although these students did not necessarily leave school - is due to the fact that we now give classes to higher grades (English classes in fifth and sixth grades). Older pupils decide to stop coming more easily and their parents have less say in the matter. This is one aspect that the Hotel con Corazón education program has to stay focused on: how to motivate the older students to continue and how to motivate the parents to let them continue. The positive impact of the English classes is that the group of students interested in this subject is very large.

OUTLOOK

HOTEL

The year 2012 was an exceptionally good one in terms of room occupancy – and we achieved an average of 67% occupancy. The main increase was realized in the usually slow months of May and June. Since we are not sure that we will be able to continue this growth in the future, we prefer to budget conservatively at a 63% average rate for 2013, slowly increasing to 67% over the next four years. Room prices will increase by 3% in line with market levels.

The table below shows the actual average room occupation for 2010 to 2012 and the projected occupancy rates for the coming years.



Our main cost drivers (personnel and electricity) are increasing continuously. In 2013, we also expect increased maintenance costs; we have already started several large maintenance jobs including new tiles in the swimming pool and bathrooms.

For 2013 we have budgeted a 63% average occupancy rate versus the actual 67% from 2012, therefore we expect the hotel's operational profit in 2013 to be lower than that of 2012 (US\$ 81,100 versus US\$ 106,200).

EDUCATION

“To increase student learning, matching instruction to students’ ability levels has proven to be very effective. Incentives, such as merit scholarships for students, and performance- or attendance-based pay for teachers, have also improved learning outcomes in some contexts. There is little evidence that simply providing more inputs (such as textbooks) has much impact on learning.”

Source: povertyactionlab.org

In 2012, we analyzed the quality, efficiency and effectiveness of the education programs of Hotel con Corazón.

Our main conclusions were:

- We support almost all children in the elementary school program in Las Lagunas that need support.
- Some tutoring groups are very small, making the cost per student too high.
- Four afternoons of tutoring is exhausting for some students, especially the ones who live far away from school.
- Many students have concentration problems.
- The quality of the classes can be variable, depending on the tutor.
- The parents and teachers have shown confidence in our program and if they want their children to have extra classes, they know where to go.
- The scholarship system is working very well and the students’ results through this are good.
- Most students in Nicaragua drop out at the start of secondary school, often because they have more duties at home. Only elementary school is currently obligatory in Nicaragua.

As a result of our analysis, we have decided to implement the following adjustments to our education programs in 2013:

1. Reduce the direct tutoring contact time from four to two afternoons per week, so the children are less tired, more enthusiastic, and more able to concentrate.
2. Implement fewer hours, but of higher quality: the size of the tutoring team will be reduced and we will only keep on the best tutors. Group sizes will be larger, but every group will get two tutors (one responsible for the class and one assistant). This measure also ensures that the tutors can be more responsive to the specific learning needs of the individual students because they can work in small groups on special issues. In addition, they will have better control over each group.
3. Increase direct tutoring contact hours for fifth and sixth grades, including English classes and homework support. These are the students who need to be convinced to keep on studying. English is a real motivator, considering the growth of tourism in Nicaragua, and especially in Granada.
4. Offer a new program for secondary school students on Saturday mornings, which will include not only English, but also math and computer classes - these are the classes the children are really interested in.
5. Increase the number of scholarships or financial support options provided for university students, because we believe that this will have a faster and better effect on improving lives in Nicaragua. Also, by showing younger students that there is an opportunity to keep on studying, we expect to encourage more children to continue with the program and/or their own schooling.

Actual and projected total number of students supported per year

	Actual				Projected	
	2009	2010	2011	2012	2013	2014
Elementary school (Las Lagunas)	48	86	96	105	120	120
Secondary school	0	0	7	10	25	30
University	0	1	2	4	10	15
Via other NGOs	11	11	21	11	19	20
Employees in educational program		12	12	12	12	12
TOTAL	59	98	126	142	186	197

Slow process

Constructing and running a hotel is one thing, but implementing an education program is a whole different - and slower - ball game. Everyone involved has to get used to one another, to the ways of working and why we do the things we do. Having said that, we are making significant progress. Therefore, on top of the measures outlined above, in 2013 we will start to formalize our conditions of entry into the program and draw up a set of rules that students, parents and the Corazón education team agree upon once they have entered the program.

Partner program

Hotel con Corazón has explored further collaboration with our partner Empowerment International, which has resulted in a commitment to increase our annual investment in their activities. This will increase the number of children supported as well. An associated benefit of working with other educational programs is the ability to establish ongoing improvement of our tutoring methods and results, through collaborative learning and continuous evaluation.

EXPANSION: 10X10

In 2011, we decided to expand the Hotel con Corazón concept and have set an ambitious goal - to open up ten new hotels over the next ten years. The concept stays the same: a hospitality business to generate income and create employment, with the profits invested in local education programs.



Hotel con Corazón seeks social entrepreneurs - who share the Corazón business values - to set up new hotels anywhere in the world. Each entrepreneur will be responsible for his or her own business. They will choose the country, the exact tourist activity and education project, and also raise at least 10% of the needed investment. The Corazón team will provide

the entrepreneurs with the remaining funding, marketing communications and operational experience. Ownership of the hotels will remain with the Corazón Foundation and 100% of profits will go to the education projects.

By the end of 2012, we had started the execution of our expansion strategy with the search for partners: both entrepreneurs to implement the new operations and social investors to finance them. The initial response was overwhelming. Our Facebook group exploded and around 75 people showed up for the first information session held in Amsterdam in February 2013.

As we speak, the first business ideas have been submitted to the Corazón Foundation’s Board. We expect the first business plans to be ready to be presented to investors in the summer of 2013. If everything goes well, Hotel con Corazón number two could be a reality in 2015!

**TO USE OUR RESOURCES WISELY AND SAVE A TREE OR TWO,
WE ONLY PRINT A LIMITED EDITION OF THIS REPORT EACH YEAR.
PLEASE NOTE THAT THE REPORT IS ALSO AVAILABLE ONLINE AT HOTELCONCORAZON.COM.**

**ENJOY TODAY,
CARE FOR TOMORROW**

HOTEL CON CORAZÓN

Colophon

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HOTEL CON CORAZÓN

Calle Santa Lucía 141
GRANADA
Nicaragua
+505 2552 8852
correo@hotelconcorazon.com

STICHTING (FOUNDATION) HOTEL CON CORAZÓN

Tweede Kostverlorenkade 65
1053 SB AMSTERDAM
The Netherlands
+31 6 10446833
communication@hotelconcorazon.com

www.hotelconcorazon.com

- Follow us on Twitter: @hotelconcorazon
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