



Financial Statements

For the Year Ended December 31, 2014

## Table of Contents

---

	Page
<b>Independent Auditor's Report</b>	1 - 2
<b>Financial Statements:</b>	
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 20

## **Independent Auditor's Report**

**Board of Directors  
MCE Social Capital  
San Francisco, California**

We have audited the accompanying financial statements of MCE Social Capital (a California not-for-profit Organization), which comprise the statement of financial position as of December 31, 2014, and the related statements of activities and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 MCE Social Capital as of December 31, 2014, and the related statements of activities and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



T: 425-454-4919  
T: 800-504-8747  
F: 425-454-4620

10900 NE 4th St  
Suite 1700  
Bellevue WA  
98004

[clarknuber.com](http://clarknuber.com)

## Report on Summarized Comparative Information

We have previously audited the Organization's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 23, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Certified Public Accountants  
April 23, 2015

## MCE SOCIAL CAPITAL

### Statement of Financial Position

December 31, 2014

(With Comparative Totals for 2013)

	2014	2013
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 3,213,253	\$ 4,632,120
Current portion of loans receivable from microfinance institutions, net (Note 6)	11,808,809	13,931,184
Interest receivable, net	366,687	322,609
Prepaid expenses	53,985	7,709
Other current assets		30,000
<b>Total Current Assets</b>	<b>15,442,734</b>	<b>18,923,622</b>
Loans receivable from microfinance institutions, net of current portion (Note 6)	25,513,094	16,533,672
Derivative instruments (Note 4)	570,553	484,363
Investment in MFX Solutions, LLC (Note 1)	205,000	205,000
Loan fees, net	105,143	63,633
<b>Total Assets</b>	<b>\$ 41,836,524</b>	<b>\$ 36,210,290</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities:</b>		
Current portion of notes payable (Note 8)	\$ 7,492,915	\$ 10,142,817
Accounts payable	14,725	9,716
Interest payable	79,691	62,333
Other payables	7,678	13,562
<b>Total Current Liabilities</b>	<b>7,595,009</b>	<b>10,228,428</b>
<b>Long-Term Liabilities:</b>		
Deferred loan origination fees	198,610	195,001
Notes payable, net of current portion (Note 8)	29,669,416	22,053,067
<b>Total Liabilities</b>	<b>37,463,035</b>	<b>32,476,496</b>
<b>Net Assets:</b>		
Unrestricted-		
Undesignated	1,799,559	1,281,851
Designated by Management (Note 10)		225,378
Designated by the Board of Directors (Note 10)	353,723	347,828
Total unrestricted	2,153,282	1,855,057
Temporarily restricted (Note 11)	1,334,694	1,000,000
Permanently restricted (Note 12)	885,513	878,737
<b>Total Net Assets</b>	<b>4,373,489</b>	<b>3,733,794</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 41,836,524</b>	<b>\$ 36,210,290</b>

See accompanying notes.

## MCE SOCIAL CAPITAL

### Statement of Activities For the Year Ended December 31, 2014 (With Comparative Totals for 2013)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Total	2013 Total
<b>Operating Activities</b>					
<b>Revenue and Support:</b>					
Revenue from microfinance lending activities-					
Interest income on					
Microfinance loans, net	\$ 2,557,910	\$ -	\$ -	\$ 2,557,910	\$ 2,360,333
Amortization of loan origination fee revenue	137,623			137,623	103,389
Provision for estimated credit losses					(12,796)
Imputed interest expense	(46,011)			(46,011)	
Interest expense	(1,357,246)			(1,357,246)	(1,146,040)
Net revenue from microfinance lending activities	1,292,276			1,292,276	1,304,886
Other revenue and support-					
Contributions and grants			6,776	6,776	509,939
Contributed revenue from present value discount on low interest debt (Note 8)		380,705		380,705	
Contributed services (Note 9)	364,466			364,466	1,117,981
Interest income	24,838			24,838	24,409
Realized gains (losses) on swap transactions	355,819			355,819	(119,359)
Realized and unrealized foreign currency translation losses	(453,952)			(453,952)	(681,713)
Change in fair value of derivative instruments	86,190			86,190	526,811
Other income	20,067			20,067	21,439
Net assets released from restrictions	46,011	(46,011)			
<b>Total Revenue and Support</b>	<b>1,735,715</b>	<b>334,694</b>	<b>6,776</b>	<b>2,077,185</b>	<b>2,704,393</b>
<b>Operating Expenses:</b>					
Program services	989,160			989,160	1,264,168
Management and general	408,988			408,988	690,258
Fundraising	39,342			39,342	52,070
<b>Total Operating Expenses</b>	<b>1,437,490</b>			<b>1,437,490</b>	<b>2,006,496</b>
<b>Change in Net Assets</b>	<b>298,225</b>	<b>334,694</b>	<b>6,776</b>	<b>639,695</b>	<b>697,897</b>
Net assets, beginning of year	1,855,057	1,000,000	878,737	3,733,794	3,035,897
<b>Net Assets, End of Year</b>	<b>\$ 2,153,282</b>	<b>\$ 1,334,694</b>	<b>\$ 885,513</b>	<b>\$ 4,373,489</b>	<b>\$ 3,733,794</b>

See accompanying notes.

## MCE SOCIAL CAPITAL

### Statement of Cash Flows For the Year Ended December 31, 2014 (With Comparative Totals for 2013)

	2014	2013
<b>Reconciliation of Net Increase in Net Assets to</b>		
<b>Net Assets Provided by Operating Activities:</b>		
Change in net assets	\$ 639,695	\$ 697,897
Adjustments to reconcile change in net assets to cash provided by operating activities-		
Depreciation		3,230
Contributed revenue from present value discount on low interest debt	(380,705)	
Imputed interest expense	46,011	
Loan fee amortization	50,779	36,891
Provision for estimated credit losses		12,796
Forgiveness of debt		(500,000)
Realized and unrealized (gains) on change in fair value of derivative instruments	(86,190)	(511,709)
Realized and unrealized foreign currency translation losses	453,952	631,285
(Increase) decrease in:		
Guarantor receivables		313,246
Interest receivable	(44,078)	(73,814)
Prepaid expenses	(46,276)	(1,936)
Other current assets	30,000	(23,750)
Increase (decrease) in:		
Deposit from co-lender		(125,000)
Accounts payable	5,009	(10,288)
Interest payable	17,358	35,252
Deferred loan origination fees	3,609	57,909
Other payables	(5,884)	9,045
<b>Net Cash Provided by Operating Activities</b>	<b>683,280</b>	<b>551,054</b>
<b>Cash Flows From Investing Activities:</b>		
Loans receivable repayments received	13,387,503	10,947,077
Loans receivable funded	(20,698,502)	(15,780,041)
Acquisition of property and equipment		(935)
<b>Net Cash Used in Investing Activities</b>	<b>(7,310,999)</b>	<b>(4,833,899)</b>
<b>Cash Flows From Financing Activities:</b>		
Principal payments on notes payable	(10,140,469)	(9,187,122)
Payments of loan fees	(92,289)	(39,625)
Proceeds from notes payable	15,441,610	15,357,238
<b>Net Cash Provided by Financing Activities</b>	<b>5,208,852</b>	<b>6,130,491</b>
<b>Change in Cash and Cash Equivalents</b>	<b>(1,418,867)</b>	<b>1,847,646</b>
Cash and cash equivalents balance, beginning of year	4,632,120	2,784,474
<b>Cash and Cash Equivalents Balance, End of Year</b>	<b>\$ 3,213,253</b>	<b>\$ 4,632,120</b>
<b>Supplementary Disclosure of Cash Flow Information:</b>		
Noncash contributed services	\$ 364,466	\$ 1,117,981
Noncash forgiveness of debt	\$ -	\$ 500,000
Cash paid for interest	\$ 1,339,888	\$ 1,110,788

See accompanying notes.

## MCE SOCIAL CAPITAL

### Notes to Financial Statements For the Year Ended December 31, 2014

---

#### Note 1 - Nature of Operations and Significant Accounting Policies

**Nature of Activities** - MCE Social Capital (the Organization) is a California nonprofit organization which offers an innovative approach to mobilize private capital to help the impoverished. The Organization leverages private capital as collateral for loans to finance micro-businesses throughout the developing world.

The Organization's principal financial partners are guarantors. Support is provided to the Organization by guarantors in the form of philanthropic guarantees of a line of credit or notes payable with a financial institution or foundation, as well as providing a separate guarantor pool to make contributions towards covering loan losses. The philanthropic guarantors are comprised of accredited individuals, foundations, and organizations or institutions with assets. The Organization borrows money against this guarantee in order to lend to microfinance institutions in developing countries. The microfinance institutions, in turn, lend to individuals, mostly women living in extreme poverty in developing countries, to start businesses. The impoverished loan recipients generally have no credit history, no collateral and no formal education, but with microloans they can create and build home-based businesses.

Guarantors accept the risk of providing guarantees in exchange for achieving a social purpose and receive no compensation in exchange for their philanthropic guarantees.

During the year ended December 31, 2014 the Organization changed its name from MicroCredit Enterprises to MCE Social Capital.

**Basis of Presentation** - Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted Net Assets - Represents resources, which have met all applicable donor restrictions and are considered to be available for unrestricted use.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that will be met either by actions of the Organization or the passage of time.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on the net assets are reported as releases between the applicable classes of net assets.

**Cash and Cash Equivalents** - Cash equivalents are considered to be short-term, highly liquid investments with original maturities of three months or less.

**Investment in MFX Solutions, LLC** - The Organization's investment in MFX Solutions, LLC is carried at cost. The cost of the Organization's cost method investment totaled \$205,000 at December 31, 2014 and 2013. The Organization did not identify any events or changes in circumstances that may have had a significant adverse effect on the value of those investments and therefore, no impairment has been recorded for the years ended December 31, 2014 and 2013.



## MCE SOCIAL CAPITAL

### Notes to Financial Statements For the Year Ended December 31, 2014

---

#### Note 1 - Continued

**Accounting for Derivative Instruments** - Derivative instruments are recorded in the statement of financial position at fair value and represent cross-currency interest rate swap agreements. Fair values for the Organization's derivative instruments are based on the present value of the expected future cash flows. Changes in fair value are recorded in the statement of activities as unrealized gains and losses. Realized gains and losses are recognized on the hedged activity as settlements occur.

**Accounting for Foreign Currency Denominated Transactions** - The books and records of the Organization are maintained in U.S. dollars. Transactions denominated in foreign currencies are translated into U.S. dollars at the balance sheet date rate of exchange. Changes in foreign currency denominated transactions are recorded in the statement of activities in the period the change occurs.

**Loan Fees** - Loan fees are amortized over the term of the loan using the straight-line method. For the years ended December 31, 2014 and 2013, amortization costs and loan commitment fees of \$50,779 and \$68,667, respectively, were included in operating expenses as presented in the statement of activities.

**Loans Receivable** - Loans receivable are stated at the amount management expects to collect of the outstanding balance. An allowance for credit losses, if required, is based on management's assessment of the current status of an individual loan that is anticipated to be partially or fully uncollectible. See Note 6 for further description of the Organization's loan portfolio and the estimated allowance for credit losses.

**Deferred Loan Origination Fees** - Loan origination fees on loans are deferred and recognized as revenue over the contractual lives of the related loans. Amortization of deferred loan fees is discontinued when a loan is placed on nonaccrual status.

**Federal Income Tax** - The Internal Revenue Service (IRS) has determined that the Organization is exempt from federal income tax under Internal Revenue Code Section 501(c)(3); accordingly, no provision has been made for federal income tax in the accompanying financial statements.

**Contributions and Grants** - Contributions and grants are recorded as revenue at the date when an unconditional promise is made. Donor-restricted contributions and grants are recorded as temporarily restricted revenues and are reclassified to unrestricted net assets when a stipulated time restriction ends or purpose restriction is accomplished. During the year ended December 31, 2013, contributions and grants revenue included \$500,000 of long-term debt forgiven and temporarily restricted for the Kore Fund.

**Contributed Services** - The Organization receives a significant amount of donated professional services from executives and attorneys. Donated goods and services are recorded at fair market value at the date of receipt. Donated services are recorded only if specific professional expertise is provided or the services are for constructing a fixed asset, in accordance with generally accepted accounting principles in the United States (U.S. GAAP). See Note 9 for further discussion of contributed services recognized during the years ended December 31, 2014 and 2013 including the current year change in estimate of the fair value of contributed services.

**Allocation of Functional Expenses** - The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

## **MCE SOCIAL CAPITAL**

### **Notes to Financial Statements For the Year Ended December 31, 2014**

---

#### **Note 1 - Continued**

**Use of Estimates** - The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Subsequent Events** - Management has evaluated subsequent events through April 23, 2015, the date which the financial statements were available for issue.

#### **Note 2 - Concentrations of Credit Risk**

Financial instruments that potentially subject the Organization to concentration of credit risk consist principally of cash and cash equivalents and loans receivable from microfinance institutions. The Organization places its cash and cash equivalents with high credit quality financial institutions. At times, the account balances may exceed federally insured limits. The Organization has not experienced any losses in such accounts. Loans receivable consist of loans made to microfinance institutions located in developing regions (presently, Latin America, Africa, Eastern Europe, Southeast and Central Asia). These institutions loan the money to finance micro businesses in the local countries. The Organization's policy is to diversify loans across countries and geographic regions.

#### **Note 3 - Foreign Currency Translation**

The Organization from time to time issues loans denominated in a foreign currency. Loans receivable denominated in foreign currencies are translated into U.S. dollars at the balance sheet date rate of exchange. Loans denominated in foreign currencies accrue interest at rates ranging from 8.65% to 25.98% annually, and mature between January 2015 and December 2017. Unrealized foreign currency translation losses of \$259,307 were recognized during the year ended December 31, 2014, with realized foreign currency translation losses of \$194,645.

#### **Note 4 - Derivative Financial Instrument**

To manage fluctuations of foreign currency values related to all loans denominated in foreign currencies, the Organization enters into cross-currency interest rate swap agreements (the currency swap), which mature in concert with the outstanding foreign currency denominated loans to microfinance institutions. A currency swap is a foreign exchange agreement between two parties to exchange principal and fixed rate interest payments on a loan in one currency for principal and fixed rate interest payments on an equal loan in another currency. As a result of the currency swap agreements, the Organization has reduced the risk of loan repayments falling short of expected amounts due to foreign exchange rate fluctuation.

The Organization does not enter into derivative financial instrument agreements for trading or speculative purposes. At December 31, 2014, the net position of the currency swaps is recorded as derivative instruments in the statement of financial position. The derivative instruments were recorded at their fair value which was \$570,553 and \$484,363 for the years ended December 31, 2014 and 2013, respectively. Embedded in the currency swap is a forward contract which creates the obligation for both parties to close the swap agreement at the agreed upon maturity date.

**MCE SOCIAL CAPITAL**

**Notes to Financial Statements  
For the Year Ended December 31, 2014**

---

**Note 5 - Fair Value Measurements**

U.S. GAAP defines fair value, establishes a framework for measuring fair value, and requires certain disclosures about fair value measurements. To increase consistency and comparability in fair value measurements, GAAP defines a fair value hierarchy that prioritizes the inputs to valuation approaches into three broad levels. The hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3).

**Valuation Techniques** - Financial assets and liabilities valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets and liabilities valued using Level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. Financial assets and liabilities using Level 3 inputs were primarily valued using management’s assumptions about the assumptions market participants would utilize in pricing the asset or liability. Valuation techniques utilized to determine fair value are consistently applied. As noted below, there was no change in the valuation of investments using Level 3 inputs during the year ended December 31, 2014.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2014.

Derivative Financial Instrument - Determined to be Level 3 and the value based on the present value of projected future cash flows given currency rates in effect as of a given measurement date.

A reconciliation of the beginning and ending balances, by each major category of assets and liabilities, for fair value measurements made using significant unobservable inputs (Level 3) is as follows:

	<u>Derivative Financial Instruments</u>
Balance, December 31, 2013	\$ 484,363
Unrealized gains	<u>86,190</u>
<b>Balance, December 31, 2014</b>	<b><u>\$ 570,553</u></b>

**Note 6 - Loans Receivable**

**Lending Policy** - The Organization’s lending policy gives priority to microfinance organizations that serve a high percentage of deeply-impooverished individuals and families, serve a high percentage of women, extend operations to isolated rural communities, operate or provide linkages to comprehensive social service programs, such as women's empowerment, financial literacy, health education or services and business training for micro-entrepreneurs, and demonstrate a track record of lowering interest rates to impoverished client-borrowers. These loans mature at various times over the life of the loans and are disbursed and repaid in either U.S. Dollars or a local foreign currency. Interest income is recognized when earned based on established rates.

## MCE SOCIAL CAPITAL

### Notes to Financial Statements For the Year Ended December 31, 2014

---

#### Note 6 - Continued

The Organization assesses certain eligibility criteria to evaluate the creditworthiness of an MFI. These include quality and integrity of the management and Board of Directors, quality of the client-borrower loan portfolio, financial performance and prospects for growth, stability of the political, economic and legal environment of the country. Some of the specific financial qualifications include; serve at least 5,000 borrowers or have a minimum US \$1,000,000 gross loan portfolio, maintain portfolio-at-risk (i.e., outstanding balance of all loans with payments in arrears beyond 30 days) below 10%, be operationally self-sufficient or demonstrate a clear plan to achieve operational self-sufficiency, provide independent audit reports covering at least the two most recent years, have a business plan with three years of financial projections or present a credit rating or other similar external evaluation/recommendation.

The Organization loans money to MFI's at fixed interest rates ranging from 6% to 26%. In most cases, interest is payable quarterly until the loan is paid in full, principal payments commence 18 months after the disbursement date and are made semiannually in equal installments through the maturity date of the loan.

**Outstanding Loans Receivable** - Long-term receivables from microfinance institutions were as follows as of December 31:

	<u>2014</u>	<u>2013</u>
Loans receivable from microfinance institutions	\$ 37,321,903	\$ 30,464,856
Current portion of loans receivable from microfinance institutions	<u>(11,808,809)</u>	<u>(13,931,184)</u>
Loans receivable from microfinance institutions, net of current portion	<u><u>\$ 25,513,094</u></u>	<u><u>\$ 16,533,672</u></u>

Maturities on long-term receivables from microfinance institutions for the years subsequent to December 31, 2014, are as follows:

For the Year Ending December 31,

2015	\$ 11,808,809
2016	13,658,073
2017	9,617,521
2018	<u>2,237,500</u>
<b>Total</b>	<u><u>\$ 37,321,903</u></u>

## MCE SOCIAL CAPITAL

### Notes to Financial Statements For the Year Ended December 31, 2014

---

#### Note 6 - Continued

**Credit Risk Assessment** - Management considers the specific operational and performance metrics and liquidity positions of each MFI on a monthly basis to assess the MFIs' credit risk. Based on the assessment of credit risk, the Organization may classify a loan as either being on the Watch List or Impaired List. Outstanding loans qualify for the Watch List when there are out of the ordinary activities going on internally at the MFI or externally to the MFI, or where such activities are not occurring but are very likely, that may increase the risk of default and thus, require extra attention of portfolio managers. Outstanding loans are placed on the Impaired List when the risk of default is more significant than for those MFIs on the Watch List; the Impaired List is also used to protect Guarantors who join MCE's Guarantee program after an MFI has been added to the Impaired List from being asked to contribute should that particular MFI default on their loan to MCE.

At December 31, 2014, the outstanding loans receivable categorized by the Organization's credit risk rating were as follows:

Watch list	\$ 984,774
Impaired list	1,500,000
Remaining loans	<u>34,837,129</u>
<b>Total</b>	<b><u>\$ 37,321,903</u></b>

As of December 31, 2014, one outstanding loan was classified in the Organization's Impaired List credit risk category.

The Organization estimates an allowance for credit losses based on the quarterly credit risk assessment performed as described above. In most cases, an allowance for credit losses is only recorded at the point a loan is classified as impaired. As of December 31, 2014 and 2013, the Organization estimated no allowance for credit losses.

**Guarantor Model** - The Organization has developed a pool of guarantors (donors) who have entered into philanthropic guarantee agreements (the Agreement) with the Organization. By entering into the Agreements, the Organization is able to solicit and receive contributions from the guarantors in the case that a default occurs limiting the impact of a default on the Organization's financial position.

At the time default occurs and the guarantor payment required can be reasonably estimated, the Organization considers the philanthropic guarantees to be unconditional promises to give and recognizes a contribution.

#### Note 7 - Line of Credit

The Organization has a line of credit with New Resource Bank, which is not to exceed \$1,000,000. Interest is charged at the prime rate plus 1.25% per annum and is paid monthly. The principal plus any unpaid interest is payable at maturity in May 2016. There was no outstanding balance on the line of credit at December 31, 2014 or 2013.

## MCE SOCIAL CAPITAL

### Notes to Financial Statements For the Year Ended December 31, 2014

---

#### Note 8 - Notes Payable

The Organization's notes payable are summarized as follows at December 31:

	<u>2014</u>	<u>2013</u>
Note payable to First Republic Bank, with an interest rate of 4.28%, guaranteed by guarantors. Semi-annual principal payments of \$2,000,000 with first payment due on December 29, 2012 with monthly interest payments payable through June 29, 2014. The note payable was paid in full during 2014.	\$ -	\$ 2,000,478
Note payable to First Republic Bank, with an interest rate of 3.97%, guaranteed by guarantors. Semi-annual principal payments of \$250,000 with first payment due on February 28, 2013 with monthly interest payments payable through August 31, 2014. The note payable was paid in full during 2014.		500,000
Note payable to First Republic Bank, with an interest rate of 3.96%, guaranteed by guarantors. Semi-annual principal payments of \$1,500,000 with first payment due on March 31, 2013 with monthly interest payments payable through September 30, 2014. The note payable was paid in full during 2014.		3,000,000
Note payable to First Republic Bank, with an interest rate of 4.00%, guaranteed by guarantors. Semi-annual principal payments of \$500,000 with first payment due on May 31, 2013 with monthly interest payments payable through November 30, 2014. The note payable was paid in full during 2014.		1,000,000
Note payable to First Republic Bank, with an interest rate of 3.91%, guaranteed by guarantors. Semi-annual principal payments of \$375,000 with first payment due on August 31, 2013 with monthly interest payments payable through February 28, 2015.	375,000	1,125,000
Note payable to First Republic Bank, with an interest rate of 4.01%, guaranteed by guarantors. Semi-annual principal payments of \$250,000 with first payment due on December 31, 2014 with monthly interest payments payable through June 30, 2016.	750,000	1,000,000
Note payable to First Republic Bank, with an interest rate of 4.01%, guaranteed by guarantors. Semi-annual principal payments of \$500,000 with first payment due on April 30, 2015 with monthly interest payments payable through October 31, 2016.	2,000,000	2,000,000

## MCE SOCIAL CAPITAL

### Notes to Financial Statements For the Year Ended December 31, 2014

---

#### Note 8 - Continued

	<u>2014</u>	<u>2013</u>
Note payable to First Republic Bank, with an interest rate of 4.01%, guaranteed by guarantors. Semi-annual principal payments of \$437,500 with first payment due on April 30, 2013 with monthly interest payments payable through November 30, 2015.	1,750,000	1,750,000
Note payable to First Republic Bank, with an interest rate of 4.01%, guaranteed by guarantors. Semi-annual principal payments of \$500,000 with first payment due on June 30, 2015 with monthly interest payments payable through December 31, 2015.	2,000,000	2,000,000
Note payable to First Republic Bank, with an interest rate of 4.25%, guaranteed by guarantors. Semi-annual principal payments of \$612,500 with first payment due on December 6, 2015 with monthly interest payments payable through December 6, 2017.	2,450,000	
Note payable to First Republic Bank, with an interest rate of 4.11%, guaranteed by guarantors. Semi-annual principal payments of \$275,000 with first payment due on May 31, 2015 with monthly interest payments payable through November 30, 2017.	1,100,000	
Note payable to First Republic Bank, with an interest rate of 4.14%, guaranteed by guarantors. Semi-annual principal payments of \$429,153 with first payment due on June 30, 2016 with monthly interest payments payable through December 31, 2017.	1,716,610	
Note payable to First Republic Bank, with an interest rate of 4.11%, guaranteed by guarantors. Semi-annual principal payments of \$381,250 with first payment due on June 30, 2016 with monthly interest payments payable through December 31, 2017.	1,525,000	
Unsecured note payable to Calvert Social Investment Foundation, Inc., with an interest rate of 4.5%. Quarterly interest payments with first payment due June 30, 2013. Principal due upon maturity on May 31, 2016.	500,000	500,000
Unsecured note payable to Calvert Social Investment Foundation, Inc., with an interest rate of 4.5%. Quarterly interest payments with first payment due December 30, 2013. Principal due upon maturity on June 17, 2016.	1,000,000	1,000,000

## MCE SOCIAL CAPITAL

### Notes to Financial Statements For the Year Ended December 31, 2014

---

#### Note 8 - Continued

	<u>2014</u>	<u>2013</u>
Unsecured note payable to Calvert Social Investment Foundation, Inc., with an interest rate of 4.5%. Quarterly interest payments with first payment due December 31, 2012. Principal due upon maturity on July 31, 2015.	500,000	500,000
Unsecured note payable to Calvert Social Investment Foundation, Inc., with an interest rate of 4.5%. Quarterly interest payments with first payment due December 31, 2012. Principal due upon maturity on December 19, 2015.	975,000	975,000
Note payable to New Resource Bank, with an interest rate of 4.63%, guaranteed by guarantors. Semi-annual principal payments of \$62,500 with first payment due on November 4, 2013 with monthly interest payments payable through May 4, 2015.	62,500	187,500
Note payable to New Resource Bank, with an interest rate of 4.63%, guaranteed by guarantors. Semi-annual principal payments of \$250,000 with first payment due on December 15, 2013 with monthly interest payments payable through June 15, 2015.	250,000	750,000
Note payable to New Resource Bank, with an interest rate of 4.63%, guaranteed by guarantors. Semi-annual principal payments of \$125,000 with first payment due on March 4, 2014 with monthly interest payments payable through September 4, 2015.	250,000	500,000
Note payable to New Resource Bank, with an interest rate of 4.63%, guaranteed by guarantors. Semi-annual principal payments of \$62,500 with first payment due on March 17, 2014 with monthly interest payments payable through September 17, 2015.	125,000	250,000
Note payable to New Resource Bank, with an interest rate of 4.38%, guaranteed by guarantors. Semi-annual principal payments of \$425,000 with first payment due on February 19, 2016 with monthly interest payments payable through August 19, 2017.	1,700,000	
Secured notes payable on the MicroPlace web portal offered to retail investors, with interest rates ranging from 2.5% to 3.5% paid to investors and a 1% fee paid to MicroPlace with maturities ranging from March 2014 to November 2015.	367,915	1,257,906



## MCE SOCIAL CAPITAL

### Notes to Financial Statements For the Year Ended December 31, 2014

---

#### Note 8 - Continued

	<u>2014</u>	<u>2013</u>
Unsecured note payable to Vittana, with an interest rate of 3.0%. Quarterly interest payments with first payment due September 15, 2012. The loan was paid in full during 2014.		500,000
Note payable to Overseas Private Investment Corporation (OPIC), with an interest rate of 3.87%. Quarterly interest payments and semi-annual principal payments. Principal payments in the amount of \$375,000 with first payment due on December 3, 2016, first interest payment being made on December 3, 2012 with quarterly interest payments payable through June 3, 2019.	2,250,000	2,250,000
Note payable to Overseas Private Investment Corporation (OPIC), with an interest rate of 3.90%. Quarterly interest payments and semi-annual principal payments. Principal payments in the amount of \$250,000 with first payment due on December 3, 2016, first interest payment being made on June 3, 2013 with quarterly interest payments payable through June 3, 2019.	1,500,000	1,500,000
Note payable to Overseas Private Investment Corporation (OPIC), with an interest rate of 4.46%. Quarterly interest payments and semi-annual principal payments. Principal payments in the amount of \$166,667 with first payment due on December 3, 2016, first interest payment being made on September 3, 2013 with quarterly interest payments payable through June 3, 2019.	1,000,000	1,000,000
Note payable to Overseas Private Investment Corporation (OPIC), with an interest rate of 4.97%. Quarterly interest payments and semi-annual principal payments. Principal payments in the amount of \$716,667 with first payment due on December 3, 2016, first interest payment being made on December 3, 2013 with quarterly interest payments payable through June 3, 2019.	4,300,000	4,300,000
Note payable to Overseas Private Investment Corporation (OPIC), with an interest rate of 4.90%. Quarterly interest payments and semi-annual principal payments. Principal payments in the amount of \$366,666 with first payment due on December 3, 2016, first interest payment being made on June 3, 2014 with quarterly interest payments payable through June 3, 2019.	2,200,000	

## MCE SOCIAL CAPITAL

### Notes to Financial Statements For the Year Ended December 31, 2014

---

#### Note 8 - Continued

	<u>2014</u>	<u>2013</u>
Note payable to Overseas Private Investment Corporation (OPIC), with an interest rate of 4.37%. Quarterly interest payments and semi-annual principal payments. Principal payments in the amount of \$191,666 with first payment due on December 3, 2016, first interest payment being made on March 3, 2015 with quarterly interest payments payable through June 3, 2019.	1,150,000	
Unsecured, noninterest bearing note payable to Benito & Frances C. Gaguine Foundation. Note is payable upon maturity on March 31, 2016. A present value discount of \$39,998 has been recognized and reported at December 31, 2014 on this note due to the below market interest rate.	1,000,000	1,000,000
Unsecured notes payable to a Related Party Guarantor, with an interest rate of 3.50%. Quarterly interest payments began May 31, 2011. Principal due upon maturity on February 28, 2014.		250,000
Unsecured notes payable to Guarantor, with an interest rate of 3.00%. Quarterly interest payments began May 31, 2011. Principal due upon maturity on February 28, 2017.	500,000	500,000
Unsecured notes payable to Guarantor, with an interest rate of 2.50%. Quarterly interest payments began June 30, 2012. Principal due upon maturity on March 31, 2015.	500,000	500,000
Unsecured, noninterest bearing note Payable to Tides Foundation. Note is payable upon maturity on March 2, 2015. A present value discount of \$543 has been recognized and reported at December 31, 2014 on this note due to the below market interest rate.	100,000	100,000
Unsecured notes payable to a Related Party Guarantor, with an interest rate of 3.60%. Quarterly interest payments began December 30, 2014. Principal due upon maturity on December 30, 2018.	500,000	

**MCE SOCIAL CAPITAL**

**Notes to Financial Statements  
For the Year Ended December 31, 2014**

**Note 8 - Continued**

	<u>2014</u>	<u>2013</u>
Unsecured notes payable to a Guarantor, with an interest rate of 3.60%. Quarterly interest payments began March 16, 2015. Principal due upon maturity on December 30, 2017.	500,000	
Unsecured, noninterest bearing notes payable to a Related Party Guarantor. Principal due upon maturity on October 31, 2018. A present value discount of \$294,154 has been recognized and reported at December 31, 2014 on this note due to the below market interest rate.	2,500,000	
Unsecured notes payable to a Guarantor, with an interest rate of 2.50%. Quarterly interest payments began March 30, 2015. Principal due upon maturity on December 31, 2017.	<u>100,000</u>	
<b>Total</b>	<b>37,497,025</b>	<b>32,195,884</b>
Less present value discount	(334,694)	
Less current portion of notes payable	<u>(7,492,915)</u>	<u>(10,142,817)</u>
<b>Long-Term Debt, Net of Current Portion</b>	<b><u>\$ 29,669,416</u></b>	<b><u>\$ 22,053,067</u></b>

Guarantors and private foundations have provided interest-free loans totaling \$3,600,000. The Organization recorded contribution revenue and a loan discount using a rate of 3.3%. The loans are reported in the statement of financial position net of unamortized discount of \$334,694 at December 31, 2014. The discount on the loans is being amortized to imputed interest expense over the lives of the loans.

Maturities of long-term notes for future years ending December 31 are as follows:

For the Year Ending December 31,

2015	\$ 7,492,915
2016	11,937,473
2017	8,866,639
2018	7,133,335
2019	<u>2,066,663</u>
<b>Total</b>	<b><u>\$ 37,497,025</u></b>

## MCE SOCIAL CAPITAL

### Notes to Financial Statements For the Year Ended December 31, 2014

#### Note 9 - Contributed Services

The value of donated services included as contributions in the financial statements and the corresponding program service and management expenses for the year ended December 31, 2014, are as follows:

	Program Services	Management and General	Fundraising	Total Pro Bono Services
Officer services provided pro bono	\$ 65,812	\$ 60,938	\$ 7,000	\$ 133,750
Legal and professional services	230,716			230,716
	<b><u>\$ 296,528</u></b>	<b><u>\$ 60,938</u></b>	<b><u>\$ 7,000</u></b>	<b><u>\$ 364,466</u></b>

The value of donated services included as contributions in the financial statements and the corresponding program service and management expenses for the year ended December 31, 2013, are as follows:

	Program Services	Management and General	Fundraising	Total Pro Bono Services
Officer services provided pro bono	\$ 320,992	\$ 311,906	\$ 40,344	\$ 673,242
Legal and professional services	390,248	54,491		444,739
	<b><u>\$ 711,240</u></b>	<b><u>\$ 366,397</u></b>	<b><u>\$ 40,344</u></b>	<b><u>\$ 1,117,981</u></b>

During the year-end December 31, 2014, the Organization changed the estimate utilized to determine the fair value of donated staff services. The change in estimate methodology if applied to the year ended December 31, 2013 would have resulted in total in-kind contributions of \$618,606.

#### Note 10 - Net Assets Designated by the Board and Management

Management and the Organization's Board of Directors has made specific designations of its unrestricted net assets as follows at December 31:

	2014	2013
Unrestricted and undesignated	\$ 1,799,559	\$ 1,281,851
Management Designated - Operating reserve		225,378
Board Designated - Operating reserve	313,723	307,828
Permanent Fund to Alleviate Extreme Poverty and Frontier Fund	40,000	40,000
<b>Total Unrestricted Net Assets</b>	<b><u>\$ 2,153,282</u></b>	<b><u>\$ 1,855,057</u></b>

## MCE SOCIAL CAPITAL

### Notes to Financial Statements For the Year Ended December 31, 2014

---

#### Note 10 - Continued

The Organization's Board of Directors adopted an unrestricted net asset policy during 2012 which established an operating reserve. The operating reserve is intended to cover three months of operating expenditures. In addition, management designated unrestricted net assets as an operating reserve during 2013 to cover projected operating losses to be incurred during the year ended December 31, 2014.

#### Note 11 - Temporarily Restricted Net Assets and Change in Accounting Policy

**Kore Fund** - During the year ended December 31, 2013, \$500,000 of previously reported long-term debt was forgiven by the lender with the amounts forgiven to be restricted for use in a newly-established fund called the Kore Fund. As a result, during the year ended December 31, 2013, the Organization's Board of Directors (the Board) established the Kore Fund to provide a liquidity reserve. Any amount drawn from the Kore Fund must be used to guarantee short-term financing opportunities and must be reimbursed in full within 365 days. In view of the Board's role in setting the purpose of the Kore Fund, U.S. GAAP requires that donor contributions to the Kore Fund be presented as temporarily restricted.

**Hunter Douglas Microfinance Sustainability Fund** - The Hunter Douglas Microfinance Sustainability Fund (the Hunter Douglas Fund) is maintained as a revolving account to temporarily fund any of the Organization's liquidity demands when MFIs are temporarily late with payments as a result of challenges encountered by operating in a developing country. The Hunter Douglas Fund ensures the Organization can meet all of its obligations until payment is made. As of December 31, 2014 and 2013, assets reserved under the Hunter Douglas Fund consisted of a \$500,000 temporarily restricted donor contribution.

The Organization's temporarily restricted net assets are comprised of the following at December 31:

	<u>2014</u>	<u>2013</u>
Kore Fund	\$ 500,000	\$ 500,000
Hunter Douglas Microfinance Sustainability Fund	500,000	500,000
Unamortized discount on long-term debt (Note 8)	<u>334,694</u>	
<b>Total</b>	<b><u>\$ 1,334,694</u></b>	<b><u>\$ 1,000,000</u></b>

## MCE SOCIAL CAPITAL

### Notes to Financial Statements For the Year Ended December 31, 2014

---

#### Note 12 - Permanently Restricted Net Assets

The Organization's permanently restricted net assets are comprised of the following at December 31:

	<u>2014</u>	<u>2013</u>
Permanent Fund to Alleviate Extreme Poverty	\$ 378,737	\$ 878,737
Frontier Fund	<u>506,776</u>	
<b>Total</b>	<b><u>\$ 885,513</u></b>	<b><u>\$ 878,737</u></b>

**Permanent Fund to Alleviate Extreme Poverty** - The Permanent Fund to Alleviate Extreme Poverty (the Permanent Fund) directly supports microloans from tax-deductible contributions. Every gift to the Permanent Fund provides perpetual benefits. As loans are repaid, the money is loaned out in perpetuity.

**Frontier Fund** - The Frontier Fund is supported principally by grants and donations and funds investments in Small and Medium Sized Enterprises spurring job creation in Sub-Saharan Africa and MFIs operating in Sub-Saharan Africa and other challenging parts of the world. During the year ended December 31, 2014, a donor requested a transfer of \$500,000 from the Permanent Fund to the Frontier Fund.

#### Note 13 - Employee Retirement Plan

The Organization has a Savings Incentive Match Plan for Employees (SIMPLE) - IRA Plan. Eligible employees can elect to defer up to the maximum allowable subject to current regulatory limits. The Organization provides matching contributions of 100% of deferrals by each participating employee up to 3% of eligible compensation. The Organization's total retirement expense was \$13,870 and \$8,440 for the years ended December 31, 2014 and 2013, respectively.

#### Note 14 - Related Parties

Certain unsecured notes payable by the Organization are held with the Organization's board members and other related parties with outstanding balances of \$3,000,000 and \$250,000 as of December 31, 2014 and 2013, respectively.

The Organization also received contributed services from the Organization's board members and other related parties totaling \$108,070 and \$607,445 for the years ending December 31, 2014 and 2013, respectively.