



Financial Statements

For the Year Ended December 31, 2017

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Independent Auditor's Report

To the Board of Directors
MCE Social Capital
San Francisco, California

REPORT ON THE FINANCIAL STATEMENTS

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, 2017, and the related statements of unrestricted activities, changes in net assets, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.



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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, 2017, and its changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 26, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The MFI and SGB Portfolio columns on page 4 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2018, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to solely describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Clark Nuber P.S.

Certified Public Accountants
April 24, 2018

MCE SOCIAL CAPITAL

Statement of Financial Position

December 31, 2017

(With Comparative Totals for 2016)

	<u>2017</u>	<u>2016</u>
Assets		
Assets:		
Cash and cash equivalents	\$ 6,440,472	\$ 3,926,249
Cash held for SGB Portfolio loan loss reserve	1,000,000	
Interest receivable	986,255	503,834
Loans receivable from microfinance institutions, net (Note 6)	52,329,291	41,375,859
Loans receivable from small and growing businesses, net (Note 6)	2,544,278	1,692,288
Guarantor receivables (Note 7)	1,621,296	2,261,907
Grants receivable	150,000	275,000
Derivative instruments (Note 4)	124,630	719,563
Investment in MFX Solutions, LLC (Note 1)	205,000	205,000
Other assets	233,591	33,604
Total Assets	<u>\$ 65,634,813</u>	<u>\$ 50,993,304</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 22,438	\$ 7,836
Accrued liabilities	47,146	40,737
Interest payable	239,770	166,285
Line of credit (Note 8)		1,000,000
Notes payable (Note 9)	59,495,437	44,951,816
Deferred loan origination fees	210,327	230,632
Derivative instruments (Note 4)	1,343,113	304,758
Total Liabilities	61,358,231	46,702,064
Net Assets:		
Unrestricted (Note 11)	2,384,220	2,300,856
Temporarily restricted (Note 12)	1,105,795	1,213,823
Permanently restricted (Note 13)	786,567	776,561
Total Net Assets	<u>4,276,582</u>	<u>4,291,240</u>
Total Liabilities and Net Assets	<u>\$ 65,634,813</u>	<u>\$ 50,993,304</u>

See accompanying notes.

MCE SOCIAL CAPITAL

Statement of Unrestricted Activities For the Year Ended December 31, 2017 (With Comparative Totals for 2016)

	2017 MFI	2017 SGB	2017 Total	2016 Total
Operating Revenue and Support:				
Revenue from lending activities-				
Interest income on loans	\$ 3,624,095	\$ 100,152	\$ 3,724,247	\$ 2,816,683
Amortization of loan origination fee revenue	136,865	7,100	143,965	136,423
Imputed interest expense	(70,505)	(40,736)	(111,241)	(108,560)
Realized (losses) gains on swap transactions	(427,058)		(427,058)	142,640
Realized foreign currency translation gains (Note 3)	420,913		420,913	199,276
Interest expense	(2,076,997)		(2,076,997)	(1,574,566)
Net revenue from lending activities	1,607,313	66,516	1,673,829	1,611,896
Other revenue and support-				
Contributions and grants	3,000	325,000	328,000	275,000
Contributed services (Note 10)	321,583	50,758	372,341	309,067
Interest income	144		144	731
Other income	19,000		19,000	26,314
Net assets released from restrictions	70,505	40,736	111,241	108,560
Total Operating Revenue and Support	2,021,545	483,010	2,504,555	2,331,568
Operating Expenses:				
Program services	1,193,890	226,278	1,420,168	1,081,636
Management and general	471,446	91,318	562,764	444,776
Fundraising	51,785	10,061	61,846	71,546
Total Operating Expenses	1,717,121	327,657	2,044,778	1,597,958
Change in Net Assets From Operating Activities	304,424	155,353	459,777	733,610
Nonoperating Activities				
Unrealized foreign currency translation gains (losses) (Note 3)	1,239,002	17,873	1,256,875	(206,099)
Change in fair value of derivative instruments (Note 4)	(1,633,288)		(1,633,288)	(501,307)
Credit losses (Note 6)	(524,880)	(151,649)	(676,529)	(1,565,309)
Guarantor contributions	524,880	151,649	676,529	1,562,535
Change in Net Assets From Nonoperating Activities	(394,286)	17,873	(376,413)	(710,180)
Total Change in Unrestricted Net Assets	\$ (89,862)	\$ 173,226	\$ 83,364	\$ 23,430

See accompanying notes.

MCE SOCIAL CAPITAL

**Statement of Changes in Net Assets
For the Year Ended December 31, 2017
(With Comparative Totals for 2016)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, January 1, 2016	\$ 2,277,426	\$ 1,229,062	\$ 889,558	\$ 4,396,046
Change in unrestricted net assets	23,430			23,430
Contributed revenue from present value discount on low interest debt (Note 9)		93,321		93,321
Contributions and grants			3,013	3,013
Credit losses (Note 6)			(116,010)	(116,010)
Net assets released from restriction		(108,560)		(108,560)
Change in Net Assets	2,300,856	1,213,823	776,561	4,291,240
Net Assets, December 31, 2016	2,300,856	1,213,823	776,561	4,291,240
Change in unrestricted net assets	83,364			83,364
Contributed revenue from present value discount on low interest debt (Note 9)		3,213		3,213
Contributions and grants			10,006	10,006
Net assets released from restriction		(111,241)		(111,241)
Change in Net Assets	83,364	(108,028)	10,006	(14,658)
Net Assets, December 31, 2017	\$ 2,384,220	\$ 1,105,795	\$ 786,567	\$ 4,276,582

See accompanying notes.

MCE SOCIAL CAPITAL

Statement of Cash Flows For the Year Ended December 31, 2017 (With Comparative Totals for 2016)

	2017	2016
Cash Flows From Operating Activities:		
Change in net assets	\$ (14,658)	\$ (104,806)
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities-		
Contributed revenue from present value discount on low interest debt	(3,213)	(93,321)
Imputed interest expense	111,241	108,560
Financing cost amortization	74,595	51,936
Change in provision for estimated credit losses	676,529	447,162
Unrealized losses on change in fair value of derivative instruments	1,633,288	501,307
Realized and unrealized foreign currency translation (gains) losses	(1,677,788)	169,802
(Increase) decrease in:		
Guarantor receivables	640,611	(1,349,721)
Grants receivable	125,000	(275,000)
Interest receivable	(482,421)	43,302
Other assets	(199,987)	(1,867)
Increase (decrease) in:		
Accounts payable	14,602	
Interest payable	73,485	50,735
Accrued liabilities	6,409	40,268
Deferred loan origination fees	(20,305)	30,303
Net Cash Provided by (Used in) Operating Activities	957,388	(381,340)
Cash Flows From Investing Activities:		
Loans receivable repayments received	14,051,789	16,145,423
Loans receivable funded	(24,855,952)	(22,815,000)
Net Cash Used in Investing Activities	(10,804,163)	(6,669,577)
Cash Flows From Financing Activities:		
Principal payments on notes payable	(8,845,804)	(10,922,903)
Payments of loan fees	(193,198)	(50,175)
Net line of credit activity	(1,000,000)	1,000,000
Proceeds from notes payable	23,400,000	15,975,000
Net Cash Provided by Financing Activities	13,360,998	6,001,922
Change in Cash and Cash Equivalents	3,514,223	(1,048,995)
Cash and cash equivalents balance, beginning of year	3,926,249	4,975,244
Cash and Cash Equivalents Balance, End of Year	\$ 7,440,472	\$ 3,926,249
Supplementary Disclosure of Cash Flow Information:		
Cash paid for interest	\$ 2,003,512	\$ 1,523,831

See accompanying notes.

MCE SOCIAL CAPITAL

Notes to Financial Statements For the Year Ended December 31, 2017 (With Comparative Totals 2016)

Note 1 - Nature of Operations and Significant Accounting Policies

Nature of Activities - MCE Social Capital (the Organization) is a California not-for-profit 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 provides the following loan programs:

Microfinance Institutions Portfolio (MFI) - The Organization provides loans to microfinance institutions (MFIs). A MFI is an organization that provides finance services to self-employed, low-income entrepreneurs in both urban and rural areas who are not being served by mainstream financial providers. The core service of microfinance is the provision of microcredit, which is the extension of small loans to impoverished borrowers who typically lack collateral, steady employment, and a verifiable credit history.

Small and Growing Business Portfolio (SGB) - The Organization launched its Small and Growing Business (SGB) Portfolio to provide loans on flexible, customized terms and at affordable interest rates to SGBs. SGBs constitute the dominant form of job creation and entrepreneurial activity in the developing world. The SGB Portfolio will be diversified among the following sectors: agriculture value chain; water, waste, and sanitation & clean energy; other non-financial services like health & education; and bottom of pyramid financial institutions targeting SGBs. Loans will be in Sub-Saharan Africa, Latin America, and others emerging economies.

The Organization's principal financial partners are guarantors. Support is provided to the Organization by guarantors in the form of philanthropic guarantees providing two separate guarantor pools to make contributions towards covering loan losses up to limits in the philanthropic guarantee agreement. The philanthropic guarantors are comprised of accredited individuals, foundations and organizations or institutions. The Organization borrows money in order to lend to microfinance institutions and small and growing business in developing countries. Guarantors accept the risk of providing guarantees in exchange for achieving a social purpose and receive no compensation in exchange for their philanthropic guarantees.

Basis of Presentation - Net assets, revenues, 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.

MCE SOCIAL CAPITAL

Notes to Financial Statements For the Year Ended December 31, 2017 (With Comparative Totals 2016)

Note 1 - Continued

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

Cash Held for SGB Portfolio Loan Loss Reserve - The organization maintains cash and cash equivalents for the board designated purpose of funding a SGB portfolio loan loss reserve.

Investment in MFX Solutions, LLC - The Organization's investment in MFX Solutions, LLC is carried at cost. The cost of the Organization's investment totaled \$205,000 at both December 31, 2017 and 2016. 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, 2017 and 2016.

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 statement of financial position date rate of exchange. Changes in foreign currency denominated transactions are recorded in the statement of activities in the period the change occurs.

Revenue Recognition - Support from exchange transactions is recognized when earned as the related services are provided. Payments under such transactions are generally received on a cost-reimbursement basis. Contributions are recognized as revenue when they are unconditionally received or promised. Unconditional promises to give that are expected to be collected in future years are included in accounts receivable and discounted to present value based on estimated future cash flows. The discounts on those amounts are computed using appropriate interest rates applicable in the years in which the promises were received. Unconditional promises to give expected to be collected within one year are recorded at their net realizable value.

Other Assets - Other assets consist primarily of prepaid expenses and refundable deposits.

Grants Receivable - Grants receivable expected to be collected within one year are recorded at net realizable value. At December 31, 2017 and 2016, grants receivable consisted of amounts due from one grant. Management considers the grant fully collectible; therefore, an allowance for doubtful accounts was not deemed necessary at December 31, 2017 and 2016.

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. Amounts are included as past due if principal repayment has not been made in accordance with the latest amended loan agreements payment terms. See Note 6 for further description of the Organization's loan portfolio, the estimated allowance for credit losses and past due loan amounts.

MCE SOCIAL CAPITAL

Notes to Financial Statements For the Year Ended December 31, 2017 (With Comparative Totals 2016)

Note 1 - Continued

Guarantor Receivables - Philanthropic guarantees are considered conditional promises to give until a default occurs with the Organization requiring payment from the pool of guarantors in accordance with the philanthropic guarantee agreement. 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 based on estimated losses. See Note 7 for further discussion of the guarantor receivables recorded at December 31, 2017 and 2016.

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 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.

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 10 for further discussion of contributed services recognized during the years ended December 31, 2017 and 2016.

Financing Costs - Financing costs are recorded as a direct deduction to the related debt liability on the statement of financial position (Note 9). Financing costs are amortized over the term of the applicable debt using the straight-line method. U.S. GAAP requires the effective yield method be used to amortize financing costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective yield method. Amortization of the financing costs are included as a component of interest expense in the statement of activities.

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. Interest expense reported in the statement of activities is considered program services for functional reporting purposes.

Operating and Nonoperating Activities - All activities are considered operating except for unrealized gains and losses on derivative financial instruments, unrealized gains and losses on foreign currency translation, credit losses, and guarantor contributions.

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.

Reclassifications - Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 presentation. Such reclassifications had no effect on the change in net assets or total assets, liabilities or net assets previously reported.

MCE SOCIAL CAPITAL

Notes to Financial Statements For the Year Ended December 31, 2017 (With Comparative Totals 2016)

Note 1 - Continued

Subsequent Events - Management has evaluated subsequent events through April 24, 2018, 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 and SGBs located in developing regions (presently, Latin America, Africa, Eastern Europe, Southeast and Central Asia). 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 5.25% to 25.98% annually, and mature between February 2018 and December 2020. Unrealized foreign currency translation gains of \$1,256,875 and losses of \$206,099 were recognized during the years ended December 31, 2017 and 2016, respectively. Realized foreign currency translation gains \$420,913 and \$199,276 were recognized for the years ended December 31, 2017 and 2016, respectively.

Note 4 - Derivative Instruments

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, 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.

The derivative instruments were recorded at their fair value. At December 31, 2017 and 2016, derivative instrument assets totaled \$124,630 and \$719,563, respectively. At December 31, 2017 and 2016, derivative instrument liabilities totaled \$1,343,113 and \$304,758, 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.

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).

MCE SOCIAL CAPITAL

Notes to Financial Statements For the Year Ended December 31, 2017 (With Comparative Totals 2016)

Note 5 - Continued

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, 2017.

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, 2017.

Derivative Instruments - 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:

	Derivative Financial Instruments, Net
Balance, December 31, 2016	\$ 414,805
Unrealized losses, net	<u>(1,633,288)</u>
Balance, December 31, 2017	<u><u>\$ (1,218,483)</u></u>

Note 6 - Loans Receivable

Lending Policy - The Organization's lending policy gives priority to 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, 2017 (With Comparative Totals 2016)

Note 6 - Continued

The Organization assesses certain eligibility criteria to evaluate the creditworthiness of a microfinance institution. 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 for MFIs 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 MFIs at fixed interest rates ranging from 5.00% to 25.98%. 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.

The Organization assesses certain eligibility criteria to evaluate the creditworthiness of a SGB. These include the that SGB is a for-profit legal entity with at least 3 years of operations, positive equity with review of debt to equity and debt-service coverage ratios, sustainable and scalable sources of revenue greater than \$200,000 per year, provides audited financial statements for at least one year, financial statements produced at least quarterly, and fewer than 250 employees.

The Organization loans money to SGBs at fixed interest rates ranging from 5.00% to 9.00%. For agricultural value chain loans, interest and principal are due in full in 12 months from the disbursement date. These loans are repaid through a 3rd party purchaser of the exported agricultural goods. For SGB business growth loans, terms range from 2 to 4 years, with interest due quarterly and principal payments commencing 18 months after disbursement in equal installments through the maturity of the loan.

Outstanding Loans Receivable - Long-term receivables were as follows as of December 31:

	<u>SGB</u>	<u>MFI</u>	<u>2017</u>	<u>2016</u>
Loans receivable	\$ 2,695,927	\$ 54,213,519	\$ 56,909,446	\$ 44,427,495
Less provision for estimated credit losses	<u>(151,649)</u>	<u>(1,884,228)</u>	<u>(2,035,877)</u>	<u>(1,359,348)</u>
Loans Receivable, Net	<u>\$ 2,544,278</u>	<u>\$ 52,329,291</u>	<u>\$ 54,873,569</u>	<u>\$ 43,068,147</u>

A reconciliation of the provision for estimated credit losses were as follows as of December 31:

	<u>SGB</u>	<u>MFI</u>	<u>2017</u>	<u>2016</u>
Provision for estimated credit losses, beginning balance	\$ -	\$ 1,359,348	\$ 1,359,348	\$ 912,186
Direct write-downs				(1,234,157)
Provision for estimated credit losses	<u>151,649</u>	<u>524,880</u>	<u>676,529</u>	<u>1,681,319</u>
Provision for Estimated Credit Losses, Ending Balance	<u>\$ 151,649</u>	<u>\$ 1,884,228</u>	<u>\$ 2,035,877</u>	<u>\$ 1,359,348</u>

MCE SOCIAL CAPITAL

Notes to Financial Statements For the Year Ended December 31, 2017 (With Comparative Totals 2016)

Note 6 - Continued

Maturities on long-term receivables from microfinance institutions and SGB's for the years subsequent to December 31, 2017, are as follows:

For the Year Ending December 31,	<u>SGB</u>	<u>MFI</u>	<u>Total</u>
2018	\$ 1,795,926	\$ 23,147,357	\$ 24,943,283
2019	900,000	19,932,549	20,832,549
2020		8,878,662	8,878,662
2021		2,254,952	2,254,952
	<u>\$ 2,695,926</u>	<u>\$ 54,213,520</u>	<u>\$ 56,909,446</u>

Credit Risk Assessment - Management considers the specific operational and performance metrics and liquidity positions of each MFI on a quarterly 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.

The Watch List includes loans that the portfolio management team identifies for regular, additional scrutiny, based upon client, country, and other risk factors. Loans move on and off the Watch List as deemed appropriate by the portfolio management team. At the point a loan is identified for the watchlist there is no potential loss that is can be estimated. When a loan is anticipated to be a partial or full loss and the Loan Committee approves the loan for Impaired List designation, the loan moves from the Watch List to the Impaired List. No additional interest is accrued once a loan is assessed as impaired. Once a loan is added to the Impaired List, new guarantors after the impairment date are not responsible for losses on that loan.

At December 31, 2017, the outstanding loans receivable categorized by the Organization's credit risk rating were as follows:

	<u>SGB</u>	<u>MFI</u>	<u>Total</u>
Watch list	\$ 148,404	\$ 2,610,127	\$ 2,758,531
Impaired list		1,437,179	1,437,179
Remaining loans	<u>2,547,523</u>	<u>50,166,213</u>	<u>52,713,736</u>
	<u>\$ 2,695,927</u>	<u>\$ 54,213,519</u>	<u>\$ 56,909,446</u>

The Organization estimates an allowance for credit losses based on the quarterly credit risk assessment performed as previously described. In most cases, a provision for estimated credit losses is only recorded at the point a loan is impaired. As of December 31, 2017 the Organization's provision for estimated credit losses was \$2,035,877. The provision for estimated credit losses was the result of defaults on outstanding loans receivable during the year by three MFIs included on the impaired list, one MFI included on the watch list, and one SGB included on the watch list. There is at least a reasonable possibility that the recorded estimate will change by a material amount in the near term. The Organization does not accrue interest on impaired loans.

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Notes to Financial Statements For the Year Ended December 31, 2017 (With Comparative Totals 2016)

Note 6 - Continued

Past Due Loans - The following loans were past due as of December 31, 2017:

	<u>SGB</u>	<u>MFI</u>	<u>Total</u>
0 to 90 days past due	\$ 42,000	\$ 324,450	\$ 366,450
90 to 180 days past due	70,000	628,059	698,059
Greater than 180 days past due	<u>36,404</u>	<u>1,672,342</u>	<u>1,708,746</u>
	<u>\$ 148,404</u>	<u>\$ 2,624,851</u>	<u>\$ 2,773,255</u>

Note 7 - Guarantor Model

The Organization has developed a pool of guarantors (donors) for the MFI portfolio and a pool of guarantors for the SGB portfolio. Guarantors have entered into philanthropic guarantee agreements (the Agreements) with the Organization. By entering into the Agreements, the Organization has received conditional pledges 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. The Organization may charge carrying costs associated with loan defaults to the guarantor pool.

During the year ended December 31, 2017, the Organization experienced defaults on loans from two MFI's and one SGB requiring the Organization to recognize payments due from guarantors totaling \$676,529 which are reported as guarantor contributions in the statement of activities for the year-end December 31, 2017. In addition, due to \$135,153 of current year loan defaults and \$1,359,348 of prior year loan defaults a call is expected to be made on the guarantors in January 2018 which totals \$1,523,376. Guarantor payments were received in advance of the expected 2018 call resulting in the remaining balance due for the expected 2018 call on guarantors of \$1,079,920. Management expects to request the remaining \$541,376 of amounts due from guarantors in future periods.

The allowance for doubtful guarantor receivables is maintained at a level considered adequate to provide for potential uncollected guarantor receivables. There is currently no allowance accrued because the Organization's management believes the guarantor receivables at December 31, 2017 are fully collectible.

Note 8 - 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 January 2019. There was no outstanding balance on the line of credit at December 31, 2017. There was an outstanding balance on the line of credit at December 31, 2016 of \$1,000,000.

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Notes to Financial Statements For the Year Ended December 31, 2017 (With Comparative Totals 2016)

Note 9 - Notes Payable

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

	<u>2017</u>	<u>2016</u>
Unsecured notes payable to First Republic Bank, with annual interest rates ranging from 4.01% to 4.44%, and guaranteed by individual guarantors. Monthly interest payments with semi-annual principal payments. Maturity dates range between January 2018 through August 2020.	\$ 18,072,903	\$ 11,581,207
Note payable to First Republic Bank, with an annual interest rate of 2.65%, secured by the intermediaries securities account. Monthly interest payments with principal due upon maturity during January 2019.	500,000	500,000
Unsecured notes payable to Calvert Social Investment Foundation, Inc., with annual interest rates of 4.25%. Quarterly interest payments with principal due upon maturity dates ranging between July 2018 and December 2021.	4,000,000	2,550,000
Unsecured note payable to New Resource Bank, with annual interest rate of 4.00%, guaranteed by individual guarantors. Quarterly interest payments with semi-annual principal payments. Note matures during February 2019.	1,000,000	850,000
Unsecured notes payable to Overseas Private Investment Corporation (OPIC), with annual interest rates ranging from 2.75% to 4.97%. Quarterly interest payments and semi-annual principal payments. Notes mature during June 2019, December 2019 and December 2023.	17,500,000	14,700,000
Unsecured note payable to RSF Social Finance, with an interest rate of 4.50%. Quarterly interest payments with semi-annual principal payments. Notes matures during January 2019 and November 2020.	3,125,000	1,500,000
Unsecured privately placed notes, with annual interest rates ranging from 2.00% to 3.60%. Annual interest payments with principal due upon maturity. Maturity dates range between February 2018 through April 2024.	4,625,000	2,075,000

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**Notes to Financial Statements
For the Year Ended December 31, 2017
(With Comparative Totals 2016)**

Note 9 - Continued

	<u>2017</u>	<u>2016</u>
Unsecured privately placed note, with annual interest rate of 2.25%. Semi-annual interest and principal payments until maturity during July 2019.	2,000,000	2,000,000
Unsecured privately placed notes, with annual interest rates ranging from 2.00% to 3.60%. Quarterly interest payments with principal due upon maturity. Maturity dates range between January 2018 through March 2020.	5,437,500	6,000,000
Noninterest bearing notes payable to individuals guarantors including foundations. Principal due upon maturity dates ranging from October 2018 and March 2019.	<u>3,550,000</u>	<u>3,500,000</u>
	59,810,403	45,256,207
Less unamortized financing costs	(209,171)	(90,568)
Less present value discount	<u>(105,795)</u>	<u>(213,823)</u>
Long-Term Debt, Net	<u>\$ 59,495,437</u>	<u>\$ 44,951,816</u>

Guarantors and private foundations have provided interest-free loans totaling \$3,550,000 and \$3,500,000 as of December 31, 2017 and 2016, respectively. The Organization recorded a loan discount using rates ranging from 3.2% to 3.3%. The loans are reported in the statement of financial position net of unamortized discount of \$105,795 and \$213,823 at December 31, 2017 and 2016, respectively. 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,

2018	\$ 24,522,903
2019	23,411,167
2020	9,698,668
2021	752,665
2022	1,025,000
Thereafter	<u>400,000</u>
	<u>\$ 59,810,403</u>

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Notes to Financial Statements For the Year Ended December 31, 2017 (With Comparative Totals 2016)

Note 10 - 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, 2017, are as follows:

	Program Services	Management and General	Fundraising	Total Pro Bono Services
Officer services provided pro bono	\$ 154,817	\$ 87,288	\$ 6,837	\$ 248,942
Legal and professional services	111,059	12,340		123,399
	<u>\$ 265,876</u>	<u>\$ 99,628</u>	<u>\$ 6,837</u>	<u>\$ 372,341</u>

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, 2016, are as follows:

	Program Services	Management and General	Fundraising	Total Pro Bono Services
Officer services provided pro bono	\$ 122,677	\$ 68,100	\$ 8,331	\$ 199,108
Legal and professional services	98,963	10,996		310,327
	<u>\$ 221,640</u>	<u>\$ 79,096</u>	<u>\$ 8,331</u>	<u>\$ 309,067</u>

Note 11 - 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:

	2017	2016
Unrestricted and undesignated	\$ 783,927	\$ 1,847,195
Board designated funds-		
Operating reserve	560,293	413,661
SGB loan loss reserve	1,000,000	
Permanent Fund to Alleviate Extreme Poverty and Frontier Fund	40,000	40,000
Total Unrestricted Net Assets	<u>\$ 2,384,220</u>	<u>\$ 2,300,856</u>

The board designated operating reserve is intended to cover three months of operating expenditures.

MCE SOCIAL CAPITAL

Notes to Financial Statements For the Year Ended December 31, 2017 (With Comparative Totals 2016)

Note 12 - Temporarily Restricted Net Assets

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

	<u>2017</u>	<u>2016</u>
Kore Fund	\$ 500,000	\$ 500,000
Hunter Douglas Microfinance Sustainability Fund	500,000	500,000
Unamortized discount on long-term debt (Note 9)	<u>105,795</u>	<u>213,823</u>
	<u><u>\$ 1,105,795</u></u>	<u><u>\$ 1,213,823</u></u>

Kore Fund - 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.

Note 13 - Permanently Restricted Net Assets

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

	<u>2017</u>	<u>2016</u>
Permanent Fund to Alleviate Extreme Poverty	\$ 353,737	\$ 353,737
Frontier Fund	<u>432,830</u>	<u>422,824</u>
	<u><u>\$ 786,567</u></u>	<u><u>\$ 776,561</u></u>

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.

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Notes to Financial Statements For the Year Ended December 31, 2017 (With Comparative Totals 2016)

Note 14 - 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 \$20,436 and \$19,199 for the years ended December 31, 2017 and 2016, respectively.

Note 15 - 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 \$4,250,000 as of December 31, 2017 and 2016.

The Organization also received contributed services from the Organization's board members and other related parties totaling \$188,942 and \$199,108 for the years ending December 31, 2017 and 2016, respectively.