MCE SOCIAL CAPITAL

Consolidated Financial Statements

For the Year Ended December 31, 2018

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Clark Nuber PS

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 consolidated financial statements of MCE Social Capital and Subsidiary (collectively, the Organization), which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities without donor restrictions, changes in net assets, functional expenses, 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 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 the Organization as of December 31, 2018, 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.

Effect of Adopting New Accounting Standard

As discussed in Note 1, the Organization adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended December 31, 2018. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Organization's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 24, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Microfinance Institutions Portfolio (MFI) and Small and Growing Business Portfolio (SGB) columns on page 5 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.

Clark Nuber PS

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2019, 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 26, 2019

MCE SOCIAL CAPITAL AND SUBSIDIARY

Consolidated Statement of Financial Position
December 31, 2018
(With Comparative Totals for 2017)

	2018	2017
Assets		
Cash and cash equivalents	$ 5,469,257	$ 6,440,472
Cash designated for SGB Portfolio loan loss reserve (Note 1)	1,000,000	1,000,000
Interest receivable	684,201	986,255
Loans receivable from microfinance institutions, net (Note 6)	56,473,931	52,329,291
Loans receivable from small and growing businesses, net (Note 6)	3,245,766	2,544,278
Guarantor receivable (Note 7)	1,136,967	1,621,296
Grants receivable	75,000	150,000
Derivative instruments (Note 4)	647,496	124,630
Investment in MFX Solutions, LLC (Note 1)	205,000	205,000
Other assets	231,445	233,591
Total Assets	**$ 69,169,063**	**$ 65,634,813**
Liabilities and Net Assets		
Liabilities:		
Accounts payable	$ 8,897	$ 22,438
Accrued liabilities	61,014	47,146
Interest payable	462,453	239,770
Notes payable (Note 9)	62,874,054	59,495,437
Participating share note payable (Note 10)	125,829	
Deferred loan origination fees	291,356	210,327
Derivative instruments (Note 4)	203,062	1,343,113
Total Liabilities	**64,026,665**	**61,358,231**
Net Assets:		
Without donor restrictions (Note 12)	3,106,843	2,384,220
With donor restrictions (Note 13)	2,035,555	1,892,362
Total Net Assets	**5,142,398**	**4,276,582**
Total Liabilities and Net Assets	**$ 69,169,063**	**$ 65,634,813**

See accompanying notes.

MCE SOCIAL CAPITAL AND SUBSIDIARY

Consolidated Statement of Activities Without Donor Restrictions
For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

	2018			2017
	MFI	SGB	Total	Total
Operating Revenue and Support:				
Revenue from lending activities-				
Interest income on loans	$ 3,653,501	$ 240,271	$ 3,893,772	$ 3,724,247
Amortization of loan origination fee revenue	174,932	14,245	189,177	143,965
Imputed interest expense	(38,794)	(74,515)	(113,309)	(111,241)
Realized losses on swap transactions	(1,024,912)		(1,024,912)	(427,058)
Realized foreign currency translation gains (Note 3)	791,446		791,446	420,913
Interest expense	(2,360,612)	(58,437)	(2,419,049)	(2,076,997)
Net revenue from lending activities	1,195,561	121,564	1,317,125	1,673,829
Other revenue and support-				
Contributions and grants	5,232	250,000	255,232	328,000
Contributed services (Note 11)	434,357	151,080	585,437	372,341
Interest income	2,728		2,728	144
Other income	13,000		13,000	19,000
Net assets released from restrictions	190,437	74,515	264,952	111,241
Total Operating Revenue and Support	**1,841,315**	**597,159**	**2,438,474**	**2,504,555**
Operating Expenses:				
Program services	1,285,545	651,880	1,937,425	1,420,168
Management and general	254,056	88,367	342,423	562,764
Fundraising	75,161	26,143	101,304	61,846
Total Operating Expenses	**1,614,762**	**766,390**	**2,381,152**	**2,044,778**
Change in Net Assets From Operating Activities	**226,553**	**(169,231)**	**57,322**	**459,777**
Nonoperating Activities:				
Unrealized foreign currency translation (losses) gains (Note 3)	(999,328)	1,712	(997,616)	1,256,875
Change in fair value of derivative instruments (Note 4)	1,662,917		1,662,917	(1,633,288)
Credit losses (Note 6)	(485,170)	(195,786)	(680,956)	(676,529)
Guarantor contributions (Note 7)	447,335	185,515	632,850	676,529
Net assets released from restrictions	37,835	10,271	48,106	
Change in Net Assets From Nonoperating Activities	**663,589**	**1,712**	**665,301**	**(376,413)**
Total Change in Net Assets Without Donor Restrictions	**$ 890,142**	**$ (167,519)**	**$ 722,623**	**$ 83,364**

See accompanying notes.

MCE SOCIAL CAPITAL AND SUBSIDIARY

Consolidated Statement of Changes in Net Assets
For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, January 1, 2017	$ 2,300,856	$ 1,990,384	$ 4,291,240
Change in net assets without donor restrictions	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 - operating activities		(111,241)	(111,241)
Total Change in Net Assets	**83,364**	**(98,022)**	**(14,658)**
Net Assets, December 31, 2017	**2,384,220**	**1,892,362**	**4,276,582**
Change in net assets without donor restrictions	722,623		722,623
Contributed revenue from present value discount on low interest debt (Note 9)		370,548	370,548
Guarantor contributions for reserve		85,703	85,703
Net assets released from restriction - operating activities		(264,952)	(264,952)
Net assets released from restriction - non-operating activities		(48,106)	(48,106)
Total Change in Net Assets	**722,623**	**143,193**	**865,816**
Net Assets, December 31, 2018	**$ 3,106,843**	**$ 2,035,555**	**$ 5,142,398**

See accompanying notes.

MCE SOCIAL CAPITAL AND SUBSIDIARY

Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2018

	Program Services	Management and General	Fundraising	2018 Total
Operating Expenses:				
Personnel	$ 1,019,934	$ 148,472	$ 59,388	$ 1,227,794
In-Kind	476,109	103,270	6,058	585,437
Professional services	126,230	44,419	17,768	188,417
Business development and guarantor outreach	115,781	2,026	663	118,470
Travel	92,643	5,285	1,847	99,775
Supplies, software licenses, and administration	57,292	21,077	8,431	86,800
Miscellaneous	36,618	12,944	5,177	54,739
Insurance	12,818	4,930	1,972	19,720
Total Operating Expenses	**1,937,425**	**342,423**	**101,304**	**2,381,152**
Lending Activity Expenses:				
Interest expense	2,419,049			2,419,049
Imputed interest expense	113,309			113,309
Total Lending Activity Expenses	**2,532,358**			**2,532,358**
Total Expenses	**$ 4,469,783**	**$ 342,423**	**$ 101,304**	**$ 4,913,510**

See accompanying notes.

MCE SOCIAL CAPITAL AND SUBSIDIARY

Consolidated Statement of Cash Flows
For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

	2018	2017
Cash Flows From Operating Activities:		
Change in net assets	$ 865,816	$ (14,658)
Adjustments to reconcile change in net assets		
to cash provided by operating activities-		
Contributed revenue from present value discount on low interest debt	(370,548)	(3,213)
Imputed interest expense	113,309	111,241
Financing cost amortization	107,955	74,595
Provision for estimated credit losses	680,956	676,529
Unrealized (gains) losses on change in		
fair value of derivative instruments	(1,662,917)	1,633,288
Realized and unrealized foreign currency translation losses (gains)	207,882	(1,677,788)
(Increase) decrease in:		
Interest receivable	302,054	(482,421)
Guarantor receivables	484,329	640,611
Grants receivable	75,000	125,000
Other assets	2,146	(199,987)
Increase (decrease) in:		
Accounts payable	(13,541)	14,602
Accrued liabilities	13,868	6,409
Interest payable	222,683	73,485
Deferred loan origination fees	81,029	(20,305)
Net Cash Provided by Operating Activities	**1,110,021**	**957,388**
Cash Flows From Investing Activities:		
Loans receivable repayments received	23,199,858	14,051,789
Loans receivable funded	(28,934,824)	(24,855,952)
Net Cash Used in Investing Activities	**(5,734,966)**	**(10,804,163)**
Cash Flows From Financing Activities:		
Principal payments on notes payable	(24,297,902)	(8,845,804)
Payments of loan fees	(111,695)	(193,198)
Net line of credit activity		(1,000,000)
Proceeds from notes payable	28,063,327	23,400,000
Net Cash Provided by Financing Activities	**3,653,730**	**13,360,998**
Change in Cash and Cash Equivalents	**(971,215)**	**3,514,223**
Cash and cash equivalents balance, beginning of year	7,440,472	3,926,249
Cash and Cash Equivalents Balance, End of Year	**$ 6,469,257**	**$ 7,440,472**
Supplementary Disclosure of Cash Flow Information:		
Cash paid for interest	$ 2,133,460	$ 2,003,512

See accompanying notes.

MCE SOCIAL CAPITAL AND SUBSIDIARY

Notes to Consolidated Financial Statements
For the Year Ended December 31, 2018
(With Comparative Totals 2017)

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 consolidated financial statement includes the accounts of MCE Social Capital and MCE Social Capital's controlled subsidiary, MCE Social Capital Stitching, a Dutch Foundation. MCE Social Capital appoints members to the Board of Directors of MCE Social Capital Stitching. As MCE Social Capital also has an economic interest in this organization, they are consolidated with MCE Social Capital in the accompanying consolidated financial statements.

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). An 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.

Principles of Consolidation - The accompanying consolidated financial statements include the accounts of MCE Social Capital and its subsidiaries. Inter-entity transactions and balances have been eliminated in consolidation. The consolidated entity is referred to as the Organization in the notes to the consolidated financial statements.

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:

> Net Assets Without Donor Restrictions - Net assets that are not subject to or are no longer subject to donor-imposed stipulations.
>
> Net Assets With Donor Restrictions - Net assets whose use is limited by donor-imposed time and/ or purpose restrictions.

Note 1 - Continued

Revenues are reported as increases in net assets without donor restrictions unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor restrictions on net assets (i.e., the donor stipulated purpose has been fulfilled or the stipulated time period has lapsed) 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.

Cash Designated 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, 2018 and 2017. 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, 2018 and 2017.

Accounting for Derivative Instruments - Derivative instruments are recorded in the consolidated 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 consolidated 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 consolidated 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. 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 their net realizable value. At December 31, 2018 and 2017, 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, 2018 and 2017.

Note 1 - Continued

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.

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 a loan impairment 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, 2018 and 2017.

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 11 for further discussion of contributed services recognized during the years ended December 31, 2018 and 2017.

Financing Costs - Financing costs are recorded as a direct deduction to the related debt liability on the consolidated 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 consolidated statement of activities.

Allocation of Functional Expenses - The financial statements report certain categories of expenses that are attributable to one or more program or supporting services of the Organization. Those expenses include the expenses of the office of the CEO, compensation expenses of certain shared services staff, and contributed services. These expenditures are allocated based on a time studies of where efforts are made.

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

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.

Adoption of New Accounting Pronouncement - For the year ended December 31, 2018, the Organization adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-14 - *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return amongst not-for-profit entities. The changes required by the update have been applied retrospectively to all periods presented. A key change required by ASU 2016-14 are the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets, if applicable, are now reported as net assets with donor restrictions.

Subsequent Events - Management has evaluated subsequent events through April 26, 2019, 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 consolidated statement of financial position date rate of exchange. Loans denominated in foreign currencies accrue interest at rates ranging from 5.25% to 25.98% annually and mature between July 2018 and January 2022. Unrealized foreign currency translation losses of $997,616 and gains of $1,256,875 were recognized during the years ended December 31, 2018 and 2017, respectively. Realized foreign currency translation gains of $791,446 and $420,913 were recognized for the years ended December 31, 2018 and 2017, 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.

Note 4 - Continued

The derivative instruments were recorded at their fair value. At December 31, 2018 and 2017, derivative instrument assets totaled $647,496 and $124,630, respectively. At December 31, 2018 and 2017, derivative instrument liabilities totaled $203,062 and $1,343,113, 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).

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, 2018.

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, 2018.

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, January 1, 2017	$ 414,805
Unrealized losses, net	(1,633,288)
Balance, December 31, 2017	**(1,218,483)**
Unrealized gains, net	1,662,917
Balance, December 31, 2018	**$ 444,434**

Note 6 - Loans Receivable

Lending Policy - The Organization's lending policy gives priority to organizations that serve a high percentage of deeply-impoverished 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.

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 4.79% 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 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:

	2018			
	SGB	MFI	Total	2017
Loans receivable	$ 3,571,140	$ 57,277,983	$ 60,849,123	$ 56,909,446
Less provision for estimated credit losses	(325,374)	(804,052)	(1,129,426)	(2,035,877)
Loans Receivable, Net	**$ 3,245,766**	**$ 56,473,931**	**$ 59,719,697**	**$ 54,873,569**

Note 6 - Continued

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

	2018			
	SGB	MFI	Total	2017
Provision for estimated credit losses, beginning balance	$ 151,649	$ 1,884,228	$ 2,035,877	$ 1,359,348
Direct write-downs	(22,061)	(1,565,346)	(1,587,407)	
Provision for estimated credit losses	195,786	485,170	680,956	676,529
Provision for Estimated Credit Losses, Ending Balance	**$ 325,374**	**$ 804,052**	**$ 1,129,426**	**$ 2,035,877**

Maturities on long-term receivables from microfinance institutions and SGB's for the years subsequent to December 31, 2018, are as follows:

For the Year Ending December 31,	SGB	MFI	Total
2019	$ 2,678,640	$ 22,344,901	$ 25,023,541
2020	492,500	20,330,328	20,822,828
2021	400,000	13,902,754	14,302,754
2022		700,000	700,000
	$ 3,571,140	**$ 57,277,983**	**$ 60,849,123**

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.

Note 6 - Continued

At December 31, 2018, the outstanding loans receivable categorized by the Organization's credit risk rating were as follows:

	SGB	MFI	Total
Watch list	$ 51,429	$ 1,912,033	$ 1,963,462
Impaired list	325,374	832,592	1,157,966
Remaining loans	3,194,337	54,533,358	57,727,695
	$ 3,571,140	**$ 57,277,983**	**$ 60,849,123**

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, 2018 the Organization's provision for estimated credit losses was $1,129,426. The provision for estimated credit losses was the result of impairments on outstanding loans receivable during the year by two MFI's and two SGB's included on the impaired 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.

Past Due Loans - The following loans were past due as of December 31, 2018:

	SGB	MFI	Total
0 to 90 days past due	$ 25,714	$ 1,285,295	$ 1,311,009
90 to 180 days past due	275,714	781,380	1,057,094
Greater than 180 days past due	145,374	463,719	609,093
	$ 446,802	**$ 2,530,394**	**$ 2,977,196**

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.

Note 7 - Continued

During the year ended December 31, 2018, the Organization recognized credit losses on loans from two MFI's and two SGB's requiring the Organization to recognize guarantor contributions and releases of restricted net assets from guarantor reserve contributions totaling $632,850 and $48,106, respectively, which are reported as guarantor contributions and nonoperating net assets released from restriction in the consolidated statement of activities, respectively. Due to $490,276 of current year loan losses and $541,376 of prior year loan losses, a call is expected to be made on the guarantors during 2019 which totals $1,031,652. Guarantor payments were received in advance of the expected 2019 call resulting in the remaining balance due for the expected 2019 call on guarantors of $983,546. Management expects to request the remaining $153,421 of amounts due from guarantors in 2020 or later.

During the year ended December 31, 2017, the Organization recognized credit losses 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.

Under the terms of the SGB portfolio Agreement guarantors are limited to calls of $10,000 per guarantor unit per calendar year. Amounts called in excess of the initial contribution limit would be funded by the Organization's SGB loan loss reserve (Note 12) until the reserve is depleted. As of December 31, 2018, the Organization has recognized $107,435 of receivables from SGB portfolio guarantors that could be called in one calendar year. Management plans to call the guarantors for these funds in multiple 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, 2018 and 2017 are fully collectible.

Note 8 - Line of Credit

The Organization has a line of credit with Amalgamated 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 2020. There was no outstanding balance on the line of credit at December 31, 2018 and 2017.

Note 9 - Notes Payable

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

	2018	2017
Unsecured notes payable to First Republic Bank, with annual interest rates ranging from 4.01% to 4.86%, and guaranteed by individual guarantors. Monthly interest payments with semi-annual principal payments. Maturity dates range between January 2019 through December 2021.	$ 18,000,000	$ 18,072,903
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.	2,325,000	4,000,000
Unsecured note payable to Amalgamated Bank, with annual interest rates ranging from 4.00% to 5.20%, guaranteed by individual guarantors. Quarterly interest payments with semi-annual principal payments. Maturity dates range between February 2019 through April 2021.	2,500,000	1,000,000
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.	9,449,999	17,500,000
Unsecured note payable to RSF Social Finance, with interest rates ranging from 2.25% to 4.50%. Quarterly interest payments with semi-annual principal payments. Notes matures during January 2019 and November 2020.	3,875,000	3,125,000
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 January 2019 through April 2024.	12,600,000	4,625,000

Note 9 - Continued

	2018	2017
Unsecured privately placed note, with annual interest rate of 2.25%. Semi-annual interest and principal payments until maturity during July 2019.	1,000,000	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 2019 through January 2021.	1,650,000	5,437,500
Noninterest bearing notes payable to individuals guarantors including foundations. Principal due upon maturity dates ranging from March 2019 and October 2022.	3,550,000	3,550,000
Notes payable to Proparco Lending, with annual interest rates ranging from 5.59% to 5.86%. Semi-annual interest and principal payments until maturity during May 2022.	8,000,000	
	63,449,999	59,810,403
Less unamortized financing costs	(212,911)	(209,171)
Less present value discount	(363,034)	(105,795)
Long-Term Debt, Net	**$ 62,874,054**	**$ 59,495,437**

Guarantors and private foundations have provided interest-free loans totaling $3,550,000 and $3,550,000 as of December 31, 2018 and 2017, respectively. The Organization recorded a loan discount using rates ranging from 3.3% to 4.0%. The loans are reported in the consolidated statement of financial position net of unamortized discount of $363,034 and $105,795 at December 31, 2018 and 2017, respectively. The discount on the loans is being amortized to imputed interest expense over the lives of the loans.

The Organization is required to meet certain financial covenants to be in compliance with the terms of the First Republic Bank and Amalgamated Bank loan agreements. The Organization was not in compliance with the financial ratio as of December 31, 2018. Subsequent to December 31, 2018, the Organization entered into a forbearance agreement or received a waiver of the noncompliance from the lenders. The agreements further modified the terms of the financial covenant ratio calculation for future reporting periods.

Note 9 - Continued

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

For the Year Ending December 31,	
2019	$ 25,523,666
2020	16,548,668
2021	11,627,665
2022	5,125,000
2023	4,525,000
Thereafter	100,000
	$ 63,449,999

Note 10 - Participating Share Note Payable

The Organization entered into a note payable to a foundation that was for the purpose of participating in the funding of an identifiable loan receivable. The principal and interest on the note is only repayable from the proceeds of the capital invested. The note has an annual interest rate of 8% and matures in April 2019. The participating share note payable had an outstanding balance of $125,829 as of December 31, 2018. There were no participating share notes payable as of December 31, 2017.

Note 11 - 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, 2018, are as follows:

	Program Services	Management and General	Fundraising	Total Pro Bono Services
Officer services provided pro bono	$ 145,245	$ 73,101	$ 6,058	$ 224,404
Legal and professional services	330,864	30,169		361,033
	$ 476,109	**$ 103,270**	**$ 6,058**	**$ 585,437**

Note 11 - Continued

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
	$ 265,876	**$ 99,628**	**$ 6,837**	**$ 372,341**

Note 12 - Net Assets Without Donor Restrictions

Management and the Organization's Board of Directors has made specific designations of its net assets without donor restrictions as follows at December 31:

	2018	2017
Undesignated and available for operations	$ 1,531,921	$ 783,927
Board designated funds-		
Operating reserve	534,922	560,293
SGB loan loss reserve	1,000,000	1,000,000
Permanent Fund to Alleviate Extreme Poverty and Frontier Fund	40,000	40,000
Total Without Donor Restrictions	**$ 3,106,843**	**$ 2,384,220**

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

The SGB loan loss reserve is established to cover actual losses in the SGB portfolio and limit guarantor contributions at the election of the Organization.

The Frontier Fund is intended to fund investments in small and medium sized enterprises spurring job creation in Sub-Saharan Africa and other challenging parts of the world.

Note 13 - Net Assets With Donor Restrictions

The Organization's net assets with donor restrictions are comprised of the following at December 31:

	2018	2017
Kore Fund	$ 500,000	$ 500,000
Hunter Douglas Microfinance Sustainability Fund	500,000	500,000
Permanent Fund to Alleviate Extreme Poverty	208,477	353,737
Frontier Fund	426,447	432,830
Guarantor reserves	37,597	
Unamortized discount on long-term debt (Note 9)	363,034	105,795
	$ 2,035,555	**$ 1,892,362**

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 with donor restrictions.

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.

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.

Guarantor Reserves - Guarantor reserves represent contributions received from guarantors for the purpose of funding amounts due under future guarantor calls.

Note 14 - Liquidity and Availability of Financial Assets

The following reflects the Organization's financial assets as of the consolidated statement of financial position date, reduced by amounts not available for general use within one year of the statement of financial position date because of contractual or donor-imposed restrictions or internal designations. Amounts not available include amounts set aside by the governing board for loan loss and long-term investing reserves that could be drawn upon if the governing board approves that action.

	2018	2017
Cash	$ 6,469,257	$ 7,440,472
Interest receivable	684,201	986,255
Loans receivable, net	59,719,697	54,873,569
Guarantor receivables (Note 7)	1,136,967	1,621,296
Grants receivable	75,000	150,000
Total Financial Assets	**68,085,122**	**65,071,592**
Loans receivables scheduled to be collected in more than one year	(35,825,582)	(31,966,163)
Guarantor receivables scheduled to be collected in more than one year	(153,424)	(541,376)
Donor-imposed restrictions:		
Kore Fund	(500,000)	(500,000)
Hunter Douglas Microfinance Sustainability Fund	(500,000)	(500,000)
Permanent Fund to Alleviate Extreme Poverty	(208,477)	(353,737)
Frontier Fund	(426,447)	(432,830)
Board designations:		
SGB loan loss reserve	(1,000,000)	(1,000,000)
Permanent Fund to Alleviate Extreme Poverty and Frontier Fund	(40,000)	(40,000)
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	**$ 29,431,192**	**$ 29,737,486**

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization has received funds from donors stipulated to be for the purposes of the Hunter Douglas Microfinance Sustainability Fund and Kore Fund. These funds are to be utilized to provide short term liquidity to the Organization when loan receivable repayments are not remitted upon scheduled dates. In addition, the Organization has an operating reserve that had a balance of $534,922 and $560,293 at December 31, 2018 and 2017, respectively. This is a governing board-designated reserve with the objective of setting funds aside equal to three months of operating expenditures to be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities. In the event of an unanticipated liquidity need, the Organization also could draw upon a $1,000,000 available line of credit (as further discussed in Note 8).

Note 15 - 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 $25,253 and $20,436 for the years ended December 31, 2018 and 2017, respectively.

Note 16 - 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 $4,000,000 and $4,500,000 as of December 31, 2018 and 2017, respectively.

The Organization also received contributed services from the Organization’s board members and other related parties totaling $180,404 and $188,942 for the years ending December 31, 2018 and 2017, respectively.