REPORTS OF INDEPENDENT AUDITORS
AND CONSOLIDATED FINANCIAL STATEMENTS

MCE SOCIAL CAPITAL AND SUBSIDIARY

December 31, 2020 and 2019

MOSSADAMS

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Report of Independent Auditors

The Board of Directors
MCE Social Capital and Subsidiary

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of MCE Social Capital and Subsidiary (Organization), which comprise the consolidated statement of financial position as of December 31, 2020 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 consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of MCE Social Capital and Subsidiary as of December 31, 2020, and its changes in net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

In our opinion, the summarized comparative information presented here in as of and for the year ended December 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Emphasis of Matter

As described in Note 1 of the financial statements, the Organization adopted Accounting Standards Update 2018-08*, Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, during the year ended December 31, 2020. Our opinion is not modified with respect to this matter.

Other Matters – 2019 Consolidated Financial Statements

The consolidated financial statements of MCE Social Capital and Subsidiaries as of and for the year ended December 31, 2019 were audited by other auditors whose report, dated March 25, 2020, expressed an unmodified opinion on those statements.

Other Matters – Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of expenditures of federal awards as *required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is 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 consolidated 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.

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 consolidated 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 27, 2021, 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.

Moss Adams LLP

Albuquerque, New Mexico
April 27, 2021

MCE Social Capital and Subsidiary
Consolidated Statements of Financial Position

ASSETS

	December 31, 2020	December 31, 2019
Cash and cash equivalents	$ 5,520,817	$ 4,299,010
Cash designated for SGB Portfolio loan loss reserve (Note 1)	5,000	1,000,000
Restricted cash from Deutsche Bank MDF for SGB investments (Note 1)	2,573,911	-
Certificate of deposit designated for SGB Portfolio loan loss reserve (Note 1)	995,000	-
Interest receivable	516,182	746,444
Loans receivable from microfinance institutions, net (Note 6)	42,530,146	56,524,396
Loans receivable from small and growing businesses, net (Note 6)	7,229,061	4,995,666
Guarantor receivable (Note 7)	2,983,512	384,930
Derivative instruments (Note 4)	384,476	371,177
Investment in MFX Solutions, LLC (Note 1)	205,000	205,000
Other assets	426,146	439,879
TOTAL ASSETS	$ 63,369,251	$ 68,966,502

LIABILITIES AND NET ASSETS

	2020	2019
LIABILITIES		
Accounts payable	$ 188	$ 4,735
Accrued liabilities	214,176	93,484
Interest payable	574,633	547,160
Notes payable, net (Note 8)	50,268,032	61,745,980
Participating share note payable (Note 9)	2,034,471	475,000
Deferred loan origination fees	284,198	338,492
Total liabilities	53,375,698	63,204,851
NET ASSETS		
Without donor restrictions (Note 12)	4,659,405	3,734,067
With donor restrictions (Note 13)	5,334,148	2,027,584
Total net assets	9,993,553	5,761,651
TOTAL LIABILITIES AND NET ASSETS	$ 63,369,251	$ 68,966,502

MCE Social Capital and Subsidiary
Consolidated Statements of Activities Without Donor Restrictions

	2020 MFI	2020 SGB	2020 Total	2019
OPERATING REVENUE AND SUPPORT				
Revenue from lending activities				
Interest income on loans	$ 3,673,103	$ 420,617	$ 4,093,720	$ 4,199,216
Amortization of loan origination fee revenue	167,797	30,351	198,148	179,387
Imputed interest expense	(72,093)	(47,298)	(119,391)	(116,359)
Realized gain (loss) on derivative instruments	666,096	-	666,096	(575,353)
Realized foreign currency translation (loss) gain (Note 3)	(720,977)	-	(720,977)	917,112
Interest expense	(2,159,287)	(57,890)	(2,217,177)	(2,420,231)
Net revenue from lending activities	1,554,639	345,780	1,900,419	2,183,772
OTHER REVENUE AND SUPPORT				
Contributions and grants	251,104	92,840	343,944	234,622
Contributed services (Note 11)	192,197	68,485	260,682	550,378
Interest income	1,921	1,079	3,000	6,296
Other income	-	-	-	171
Net assets released from restrictions	72,093	292,298	364,391	116,359
Total operating revenue and support	2,071,954	800,482	2,872,436	3,091,598
OPERATING EXPENSES				
Program services	1,101,570	618,849	1,720,419	1,990,878
Management and general	259,042	92,302	351,344	334,806
Fundraising	103,618	36,921	140,539	108,349
Total operating expenses	1,464,230	748,072	2,212,302	2,434,033
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	607,724	52,410	660,134	657,565
NON-OPERATING ACTIVITIES				
Unrealized foreign currency translation gains (losses) (Note 3)	167,462	80,317	247,779	(210,429)
Change in fair value of derivative instruments (Note 4)	61,657	(48,358)	13,299	(73,256)
Credit losses (Note 6)	(2,307,559)	(519,327)	(2,826,886)	(767,466)
Credit loss recoveries (Note 6)	121,428	26,726	148,154	787,195
Guarantor contributions (Note 7)	2,307,559	519,327	2,826,886	752,388
Loss on remeasurement of guarantor contributions (Note 7)	(121,428)	(23,784)	(145,212)	(533,851)
Net assets released from restrictions	745	439	1,184	15,078
CHANGE IN NET ASSETS FROM NON-OPERATING ACTIVITIES	229,864	35,340	265,204	(30,341)
TOTAL CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	$ 837,588	$ 87,750	$ 925,338	$ 627,224

See accompanying notes to these consolidated financial statements.

MCE Social Capital and Subsidiary
Consolidated Statements of Changes in Net Assets

	Without Donor Restrictions	With Donor Restrictions	Total
NET ASSETS, January 1, 2019	$ 3,106,843	$ 2,035,555	$ 5,142,398
Change in net assets without donor restrictions	627,224	-	627,224
Contributed revenue from present value discount on low interest debt (Note 8)	-	85,966	85,966
Guarantor contributions for reserve	-	37,500	37,500
Net assets released from restrictions, operating activities	-	(116,359)	(116,359)
Net assets released from restrictions, non-operating activities	-	(15,078)	(15,078)
Total change in net assets	627,224	(7,971)	619,253
NET ASSETS, December 31, 2019	3,734,067	2,027,584	5,761,651
Change in net assets without donor restrictions	925,338	-	925,338
Contributions and grants	-	3,672,139	3,672,139
Net assets released from restriction, operating activities	-	(364,391)	(364,391)
Net assets released from restriction, non-operating activities	-	(1,184)	(1,184)
Total change in net assets	925,338	3,306,564	4,231,902
NET ASSETS, December 31, 2020	$ 4,659,405	$ 5,334,148	$ 9,993,553

MCE Social Capital and Subsidiary
Consolidated Statements of Functional Expenses

	Program Services	Management and General	Fundraising	2020 Total	2019 Total
OPERATING EXPENSES					
Personnel	$ 1,248,815	$ 217,115	$ 86,847	$ 1,552,777	$ 1,301,096
Contributed services	189,976	50,317	20,389	260,682	550,378
Professional services	61,571	20,822	8,329	90,722	197,355
Business development and guarantor outreach	32,477	2,616	873	35,966	85,228
Travel	26,867	648	170	27,685	134,234
Supplies, software licenses, and administration	58,175	21,307	8,523	88,005	99,043
Miscellaneous	83,636	32,170	12,868	128,674	40,693
Insurance	18,902	6,349	2,540	27,791	26,006
Total operating expenses	1,720,419	351,344	140,539	2,212,302	2,434,033
OPERATING REVENUE AND ACTIVITIES					
LENDING ACTIVITY EXPENSES					
Interest expense	2,217,177	-	-	2,217,177	2,433,356
Imputed interest expense	119,391	-	-	119,391	116,359
Total lending activity expenses	2,336,568	-	-	2,336,568	2,549,715
TOTAL EXPENSES	$ 4,056,987	$ 351,344	$ 140,539	$ 4,548,870	$ 4,983,748

See accompanying notes to these consolidated financial statements.

MCE Social Capital and Subsidiary
Consolidated Statements of Cash Flows

	Years Ended December 31, 2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ 4,231,902	$ 619,253
Adjustments to reconcile change in net assets to cash provided by operating activities		
Contributed revenue from present value discount on low interest debt	-	(85,966)
Imputed interest expense	119,391	116,359
Financing cost amortization	148,848	95,681
Provision for estimated credit losses	2,826,886	696,747
Unrealized (gain) loss on change in fair value of derivative instruments	(13,299)	73,256
Unrealized foreign currency translation (gain) loss	(247,779)	210,429
(Increase) decrease in		
Interest receivable	230,262	(62,243)
Guarantor receivables	(2,598,582)	752,037
Grants receivable	-	75,000
Other assets	13,733	(208,434)
Accounts payable	(4,547)	(4,162)
Accrued liabilities	120,692	32,470
Interest payable	27,473	84,707
Deferred loan origination fees	(54,294)	47,136
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,800,686	2,442,270
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificate of deposit	(995,000)	-
Loans receivable repayments received	27,772,888	23,135,135
Loans receivable funded	(18,591,140)	(25,842,675)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	8,186,748	(2,707,540)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes payable	(25,833,333)	(26,442,495)
Payments of loan fees	(62,854)	(37,482)
Proceeds from notes payable	15,709,471	25,575,000
NET CASH USED IN FINANCING ACTIVITIES	(10,186,716)	(904,977)
CHANGE IN CASH AND CASH EQUIVALENTS, DESIGNATED CASH, AND RESTRICTED CASH	2,800,718	(1,170,247)
CASH AND CASH EQUIVALENTS, DESIGNATED CASH, AND RESTRICTED CASH beginning of year	5,299,010	6,469,257
CASH AND CASH EQUIVALENTS, DESIGNATED CASH, RESTRICTED CASH, end of year	$ 8,099,728	$ 5,299,010
SUPPLEMENTAL DISCLOSURES OF CASH INFORMATION		
Cash paid for interest	$ 1,940,751	$ 2,252,968

See accompanying notes to these consolidated financial statements.

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 statements include the accounts of MCE Social Capital and MCE Social Capital's controlled subsidiary, MCE Social Capital Stichting, a Dutch Foundation. MCE Social Capital appoints members to the Board of Directors of MCE Social Capital Stichting. As MCE Social Capital also has an economic interest in this organization as such, it is 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 and clean energy; other nonfinancial services like health and education; and bottom of pyramid financial institutions targeting SGBs. Loans will be in Sub-Saharan Africa, Latin America, and other 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 subsidiary. 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.

Note 1 – Nature of Operations and Significant Accounting Policies (continued)

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.

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. 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, Designated Cash, Restricted Cash, and Certificate of Deposit

Cash equivalents are considered to be short-term, highly liquid investments with original maturities of three months or less. The Organization maintains cash and cash equivalents and a certificate of deposit for the board designated purpose of funding an SGB portfolio loan loss reserve which is included in cash designated for SGB Portfolio loan loss reserve and an investment in certificate of deposit on the consolidated statements of financial position at December 31. The restricted cash is from the Deutsche Bank MDF for SGB investments.

	2020	2019
Cash and cash equivalents	$ 5,520,817	$ 4,299,010
Cash and certificate of deposit designated for SGB Portfolio loan loss reserve	1,000,000	1,000,000
Restricted cash from Deutsche MDF for SGB Investments	2,573,911	-
Total cash and cash equivalents, designated cash, restricted cash, and certificate of deposit	$ 9,094,728	$ 5,299,010

Certificate of Deposit

The investment is recorded at cost. The Organization maintains the certificate of deposit for the board-designated purpose of funding an SGB portfolio loan loss reserve which is separately presented on the consolidated statements of financial position. The balance is $995,000 as of December 31, 2020. The certificate of deposit matures in 2021.

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, 2020 and 2019. 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, 2020 and 2019.

Note 1 – Nature of Operations and Significant Accounting Policies (continued)

Accounting for Derivative Instruments
Derivative instruments are recorded in the consolidated statements of financial position at fair value and represent cross-currency interest rate swap agreements and forward contracts. 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 statements 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
Interest income is recognized as it accrues based upon rates in the underlying agreements. 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.

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 or loan loss reserve is established 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, 2020 and 2019.

Note 1 – Nature of Operations and Significant Accounting Policies (continued)

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.

Income Taxes
The Organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the "Code") and, therefore, there is no provision for income taxes. In addition, the Organization qualifies for the charitable contribution deduction under Section 170 of the Code and has been classified as an organization that is not a private foundation. Income determined to be unrelated business taxable income (UBIT) would be taxable.

The Organization evaluates its uncertain tax positions, if any, on a continual basis through review of its policies and procedures, review of its regular tax filings, and discussions with outside experts. As of December 31, 2020 and 2019, the Organization had no uncertain tax positions.

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, 2020 and 2019.

Financing Costs
Financing costs are recorded as a direct deduction to the related debt liability on the consolidated statements of financial position (Note 8). 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 consolidated financial statements report contains 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 study 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 recoveries, guarantor contributions, and related net asset releases.

Note 1 – Nature of Operations and Significant Accounting Policies (continued)

Use of Estimates
The preparation of the consolidated 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.

Uncertainty
On March 11, 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic. Subsequent to the declaration of a pandemic, a governments worldwide have taken actions in response to the pandemic, which have range by jurisdiction, but are generally resulting in a variety of negative economic consequences, the scope of which are not currently known or quantifiable. As of December 31, 2020, the impact to the Organization resulted in eliminating all non-essential business travel, making it more difficult to assess the performance and capabilities of present and potential clients. The extend of the impact of COVID-19 on the Organization's operational and financial performance will continue to depend on the duration and spread of the outbreak, the continued measures to combat the spread of the outbreak put in place in the countries served by Organization's customers and in those countries that provide a market for goods or material produced by the Organization's customer. The duration and intensity of the impact of the coronavirus and resulting impact to the Organization is unknown.

Upcoming Accounting Pronouncements
ASC 2016-13 – *Financial Instruments – Credit Losses (Topic 326) (FASB CECL Model)* – the pronouncement which creates a new credit impairment standard for financial assets measured at amortized cost and available for sale debt securities. The Accounting Standards Update (ASU) requires financial assets measured at amortized cost (including loans, trade receivables, and held-to maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the life of the asset, rather than incurred losses.

Subsequently, the Financial Accounting Standards Board (FASB) has issued Codification Improvements to Topic 326, *Financial Instruments-Credit Losses*, making the ASU effective for fiscal years beginning after December 15, 2022. The Organization does not intend to early adopt. Management is currently evaluating the impact of this new guidance on its consolidated financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Organization's net assets or changes in net assets.

Accounting Pronouncements Adopted
The FASB issued Accounting Standards Update 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This ASU provides clarification in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and determining whether a contribution is conditional. The Organization applied 2018-18 using the modified retrospective method. However, the adoption of the new standard did not have a significant effect on earnings or on the timing of the Organizations' most significant types of transactions, but had an impact on the classification between grant and contribution revenue. In review of the prior year grants and contributions, the balances were not material and the Organization did not adopt the standard. The Organization has decided to adopt the standard in 2020 due to material contributions.

Note 1 – Nature of Operations and Significant Accounting Policies (continued)

Subsequent Events

Subsequent events are events or transactions that occur after the consolidated statements of financial position date but before the consolidated financial statements are issued or are available to be issued. The Organization recognizes the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the consolidated financial statements.

The Organization's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before consolidated financial statements are available to be issued. The Organization has evaluated subsequent events through April 27, 2021, which is the date when the consolidated financial statements are available to be issued.

Note 2 – Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to concentration of credit risk consist principally of cash, cash equivalents, designated cash 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 MFIs 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 statements of financial position date rate of exchange. Loans denominated in foreign currencies accrue interest at rates ranging from 4.79% to 24.18% annually and mature between March 2021 and January 2025. Unrealized foreign currency translation gains (losses) of $247,779 and $(210,429) were recognized during the years ended December 31, 2020 and 2019, respectively. Realized foreign currency translation (loss) gains of $(720,977) and $917,112 were recognized for the years ended December 31, 2020 and 2019, 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 and forward contracts, 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 derivative 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, 2020 and 2019, derivative instrument totaled $384,476 and $371,177, respectively. The change in fair value of the derivative instrument was a gain (loss) of $13,299 and $(73,256) as of December 31, 2020 and 2019, 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 may include use of matrix pricing, discounted cash flow model and similar techniques.

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, 2020.

> *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.

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 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 24.18%. 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 an 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 5.50% to 15.00%. 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

Loan receivables were as follows as of December 31:

	2020			
	SGB	MFI	Total	2019 Total
Loans receivable	$ 8,248,999	$ 44,837,705	$ 53,086,704	$ 62,312,764
Less provision for estimated credit losses	(1,019,937)	(2,307,560)	(3,327,497)	(792,702)
Loss receivable, net	$ 7,229,062	$ 42,530,145	$ 49,759,207	$ 61,520,062

Note 6 – Loans Receivable (continued)

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

	2020			
	SGB	MFI	Total	2019 Total
Provision for estimated credit losses, beginning balance	$ 634,345	$ 158,357	$ 792,702	$ 1,129,426
Direct write-downs	(133,735)	(158,356)	(292,091)	(1,033,471)
Provision for estimated credit losses	519,327	2,307,559	2,826,886	696,747
Provision for estimated credit losses, ending balance	$ 1,019,937	$ 2,307,560	$ 3,327,497	$ 792,702

Maturities on loan receivables from microfinance institutions and SGB's for the years subsequent to December 31, 2020, are as follows:

	SGB	MFI	Total
For the Years Ending December 31,			
2021	$ 1,565,558	$ 12,543,488	$ 14,109,046
2022	4,308,441	22,557,116	26,865,557
2023	2,375,000	8,737,101	11,112,101
2024	-	-	-
2025	-	-	-
Thereafter	-	1,000,000	1,000,000
	$ 8,248,999	$ 44,837,705	$ 53,086,704

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 Watch List, there is no potential loss that 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 fully 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 – Loans Receivable (continued)

The outstanding loans receivable categorized by the Organization's credit risk rating were as follows:

	2020			
	SGB	MFI	Total	2019 Total
Watch list	$ 2,750,000	$ 4,500,000	$ 7,250,000	$ 1,154,099
Impaired list	934,558	4,150,000	5,084,558	634,345
Remaining loans	4,564,441	36,187,705	40,752,146	60,524,320
	$ 8,248,999	$ 44,837,705	$ 53,086,704	$ 62,312,764

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, 2020 and 2019, the Organization's provision for estimated credit losses was $3,327,497 and $792,702, respectively. The provision for estimated credit losses was the result of impairments on outstanding loans receivable by three MFI's and two SGB's included on the watch and impaired lists. 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:

	2020			
	SGB	MFI	Total	2019 Total
0 to 89 days past due	$ 7,314,441	$ 43,837,705	$ 51,152,146	$ 61,740,662
90 to 179 days past due	64,558	-	64,558	327,018
Greater than 180 days past due	870,000	1,000,000	1,870,000	245,084
	$ 8,248,999	$ 44,837,705	$ 53,086,704	$ 62,312,764

Note 7 – Guarantor Model

The MFI and SGB portfolios are backed by separate pools of guarantors. 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 a credit loss 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. 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.

During the year ended December 31, 2020, the Organization recognized credit losses on loans from three MFI's and two SGB's requiring the Organization to recognize guarantor contributions and releases of restricted net assets from guarantor reserve contributions totaling $2,826,886 and $1,184, which are reported as guarantor contributions and nonoperating net assets released from restriction in the consolidated statement of activities for the year-end December 31, 2020. In addition, the Organization received principal payments on loans that were previously impaired. As a result, a reduction to the guarantor receivable and loss on remeasurement of guarantor contributions of $145,212 was recognized during the year ended December 31, 2020. Calls are expected to be made on the guarantors which total the net guarantor receivable of $2,983,512.

During the year ended December 31, 2019, the Organization recognized credit losses on loans from one MFI and two SGB's requiring the Organization to recognize guarantor contributions and releases of restricted net assets from guarantor reserve contributions totaling $752,388 and $15,078, respectively, which are reported as guarantor contributions and nonoperating net assets released from restriction in the consolidated statement of activities, respectively. In addition, the Organization received principal payments on loans that were previously impaired.

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, 2020 and 2019 are fully collectible.

Note 8 – Notes Payable

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

	2020	2019
Unsecured notes payable to First Republic Bank, with annual interest rates ranging from 4.00% to 4.86%, and guaranteed by individual guarantors. Monthly interest payments with semiannual principal payments. Maturity rates ranging through December 2022.	$ 5,775,000	$ 14,050,000
Unsecured notes payable to Calvert Social; Investment Foundation, Inc., with annual interest rates of 4.25%, with quarterly interest payments. The note payable was paid in full during 2020.	-	1,450,000
Unsecured notes payable to United States International Development Finance Corporation (formally Overseas Private Investment Corporation (OPIC)), with annual interest rates of 3.49% Quarterly interest payments and semi-annual principal payments. The note matures in December 2022.	2,000,000	3,950,000
Unsecured note payable to RSF Social Finance, with interest rates ranging from 1.50% to 4.50%. Quarterly interest payments with semi-annual principal payments. A note payable renewed in March 2021 and matures in March 2022. A second note of $1,000,000 was paid off during 2020.	2,000,000	3,000,000
Unsecured privately placed notes, with annual interest rates ranging from 1.75% to 3.50%. Annual interest payments with principal due upon maturity. Maturity dates ranging through July 2027.	31,975,000	22,250,000
Unsecured privately placed notes, with annual interest rates of 3.00%. Quarterly interest payments with principal due upon maturity. The loan was paid off in January 2021.	300,000	800,000
Unsecured privately placed note, with annual interest rate of 4.65%. Monthly interest and principal payments. The note payable was paid in full during 2020.	-	233,333
Noninterest bearing notes payable to individual guarantors including foundations. Principal due upon maturity dates ranging through October 2022.	3,500,000	3,500,000

Note 8 – Notes Payable (continued)

	2020	2019
Unsecured notes payable to Proparco Lending, with annual interest rates ranging from 5.59% to 5.86%. Semi-annual interest and principal payments. The note payable was paid in full during 2020.	-	8,000,000
Unsecured notes payable to Metropolitan Life Insurance Company, with annual interest rate of 3.59%. Quarterly interest payments with principal due upon maturity in November 2022.	5,000,000	5,000,000
	50,550,000	62,233,333
Less unamortized financing costs	(68,719)	(154,713)
Less present value discount	(213,249)	(332,640)
Notes payable, net	$ 50,268,032	$ 61,745,980

Guarantors and private foundations have provided interest-free loans totaling $3,500,000 at both December 31, 2020 and 2019. The Organization recorded a loan discount using rates ranging from 3.0% to 4.0%. The loans are reported in the consolidated statements of financial position net of unamortized discount of $213,249 and $332,640 at December 31, 2020 and 2019, respectively. The discount on the loans is being amortized to imputed interest expense over the lives of the loans.

Certain notes payable require the Organization to comply with negative covenants, which the Organization is in compliance with at December 31, 2020.

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

For the Years Ending December 31,	
2021	$ 10,650,000
2022	16,125,000
2023	11,380,000
2024	7,400,000
2025	3,655,000
Thereafter	1,340,000
	$ 50,550,000

Note 9 – Participating Share Notes Payable

The Organization entered into notes payable with foundations for the purpose of participating in the funding of an identifiable loan receivable. The principal and interest on the note are only repayable from the proceeds of the capital invested. The notes have annual interest rate ranging from 5.38% to 10% and mature through November 2023. The participating share note payable had an outstanding balance of $2,034,471 and $475,000 as of December 31, 2020 and 2019, respectively.

Note 9 – Participating Share Notes Payable (continued)

Maturities of participating share notes payable for future years ending December 31 are as follows:

For the Years Ending December 31,	
2021	$ 820,853
2022	951,118
2023	262,500
	$ 2,034,471

Note 10 – Small Business Administration Paycheck Protection Program Loan

On April 25, 2020, the Organization received a Small Business Administration Paycheck Protection Program (SBA PPP) loan for $207,500 for payroll and certain operating expenses realized in 2020. All conditions of the loan were substantially met and the loan was forgiven. The Organization recognized the $207,500 as contribution revenue at December 31, 2020.

The Organization currently believes that its use of the loan proceeds met the conditions for forgiveness of the loan under the Small Business Administration's (SBA) safe harbor provisions for borrowers of less than $2 million. A safe harbor applies to SBA's review of PPP loans for borrowers who, along with their affiliates, received PPP loans with an original principal amount of less than $2 million. The SBA presumes the borrower's required certification concerning the necessity of the loan was made in good faith under the CARES Act, Section 1102 Lender agreement. Under the agreement, the SBA has five years to audit any applicant. The Organization, at the time of submitting its application, evaluated the economic uncertainty resulting from the COVID-19 pandemic and the potential impact of that uncertainly on the ongoing operations of the business. Based on the risk of the Organization having to limit or close its operations and unavailability of other sources of liquidity, it was determined that the loan request was necessary.

Note 11 – Contributed Services

The value of donated services included as contributions in the consolidated financial statements and the corresponding program service and management expenses for the year ended December 31, 2020, are as follows:

	Program Services	Management and General	Fundraising	Total Contributed Services
Officer services provided pro bono	$ 129,988	$ 42,818	$ 12,890	$ 185,696
Legal and professional services	59,988	7,499	7,499	74,986
	$ 189,976	$ 50,317	$ 20,389	$ 260,682

Note 11 – Contributed Services (continued)

The value of donated services included as contributions in the consolidated financial statements and the corresponding program service and management expenses for the year ended December 31, 2019, are as follows:

	Program Services	Management and General	Fundraising	Total Contributed Services
Officer services provided pro bono	$ 187,077	$ 52,635	$ 8,077	$ 247,789
Legal and professional services	272,794	29,795	-	302,589
	$ 459,871	$ 82,430	$ 8,077	$ 550,378

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:

	2020	2019
Undesignated and available for operations	$ 3,024,947	$ 2,097,024
Board designated funds		
Operating reserve	583,992	597,043
SGB loan loss reserve	1,000,000	1,000,000
Interest income from Deutsche Bank MDF	10,466	-
Permanent Fund to Alleviate Extreme Poverty and Frontier Fund	40,000	40,000
Total Without Donor Restrictions	$ 4,659,405	$ 3,734,067

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 Permanent Fund to alleviate Extreme Poverty and 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.

The interest income from the Deutsche Bank MDF is intended to fund any liability that is not covered by the SGB guarantors.

Note 13 – Net Assets with Donor Restrictions

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

	2020	2019
Kore Fund	$ 500,000	$ 500,000
Hunter Douglas Microfinance Sustainability Fund	500,000	500,000
Permanent Fund to Alleviate Extreme Poverty	208,477	208,477
Frontier Fund	426,447	426,447
Guarantor reserves	58,835	60,020
Deutsche Bank MDF	3,427,139	-
Unamortized discount on long-term debt (Note 8)	213,250	332,640
	$ 5,334,148	$ 2,027,584

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 fund 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.

Deutsche Bank Microcredit Development Fund, Inc.
The Deutsche Bank Microcredit Development Fund, Inc. (Deutsche Bank MDF) supports loans to small and growing businesses in Africa and Latin America.

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 statements of financial position date, reduced by amounts not available for general use within one year of the consolidated 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.

	2020	2019
Cash and cash equivalents, designated cash and restricted cash	$ 8,099,728	$ 5,299,010
Certificate of deposit	995,000	-
Interest receivable	516,182	746,444
Loans receivable, net	49,759,207	61,520,062
Guarantor receivables (Note 7)	2,983,512	384,930
Total financial assets	62,353,629	67,950,446
Loans receivables scheduled to be collected in more than one year	(38,977,658)	(36,932,699)
Guarantor receivables scheduled to be collected in more than one year	(336,319)	(94,930)
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)	(208,477)
Frontier Fund	(426,447)	(426,447)
Deutsche Bank MDF	(3,427,139)	-
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)
Interest income from Deutsche Bank MDF	(10,466)	-
Financial assets available to meet cash needs for general expenditures within one year	$ 16,927,123	$ 28,247,893

Note 14 – Liquidity and Availability of Financial Assets (continued)

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 $583,992 and $597,043 at December 31, 2020 and 2019, 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.

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 $30,103 and $25,673 for the years ended December 31, 2020 and 2019, respectively.

Note 16 – Commitments and Contingencies

Grants and contracts require the fulfillment of certain conditions as set forth in the terms of the agreements and are subject to audit by the grantor. Failure to comply with the conditions of the agreements could result in the return of funds to the grantor. Although possible, management believes that it has complied with conditions of its grants and contracts and no significant liability, if any, will result from an audit.

The Organization is subject to litigation in the normal and ordinary course of business, which, in the opinion of management and based upon advice of counsel, would not have a material effect on its financial position or operations.

Note 17 – 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 $4,959,471 and $4,000,000 as of both December 31, 2020 and 2019, respectively.

The Organization also received contributed services from the Organization’s board members and other related parties totaling $113,582 and $191,538 for the years ending December 31, 2020 and 2019, respectively.

Supplementary Information

MCE Social Capital and Subsidiary
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2020

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Award/Pass-Through Number	Loan and Loan Guarantees	Expenditures	Total Federal
United States Agency for International Development:					
Loan Portfolio Guarantee Agreement	98.U01	099-DCA-17-017	$ 1,231,250	$ 487,500	$ 1,718,750
Loan Guarantee Agreement	98.U02	521-DCA-15-041A	375,000	363,208	738,208
Total United States Agency for International Development			1,606,250	850,708	2,456,958
Total Federal Expenditures			$ 1,606,250	$ 850,708	$ 2,456,958

See notes to schedule of expenditures of federal awards

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of MCE Social Capital (the Organization) under programs of the federal government for the year ended December 31, 2020. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowance or are limited as to reimbursement. The Organization has not elected to use the de minimis indirect cost rate allowed under the Uniform Guidance as the Schedule only includes loan guarantees, which are not subject to indirect costs recoveries.

Note 3 – Loans Guarantees with Ongoing Compliance Requirements

The Organization has two loan guarantees from the United States Agency for International Development (USAID) with continuing compliance requirements. The agreements have compliance periods through July 2022 and September 2029 unless the guarantee is terminated at an earlier date by USAID or the Organization.

The Organization had the following loan guarantees outstanding at December 31, 2020:

Program Title	Award Identifying Number	CFDA Number	Amount Outstanding
Loan Portfolio Guarantee Agreement	98.U01	099-DCA-17-017	$ 1,643,750
Loan Guarantee Agreement	98.U02	521-DCA-15-041A	$ 738,208

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
MCE Social Capital and Subsidiary

We have audited, in accordance with the 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, the consolidated financial statements of MCE Social Capital and Subsidiary (the Organization), which comprise the consolidated statement of financial position as of December 31, 2020, and the related consolidated statements of activities without donor restrictions, changes in net assets, functional expenses and cash flow for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 27, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss Adams LLP

Albuquerque, New Mexico
April 27, 2021

Report of Independent Auditors on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

The Board of Directors
MCE Social Capital and Subsidiary

Report on Compliance for the Major Federal Program

We have audited MCE Social Capital and Subsidiary's (the Organization) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on MCE Social Capital's major federal program for the year ended December 31, 2020. MCE Social Capital's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for MCE Social Capital's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about MCE Social Capital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of MCE Social Capital's compliance.

Opinion on the Major Federal Program

In our opinion, MCE Social Capital and Subsidiary complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2020.

Report on Internal Control Over Compliance

Management of MCE Social Capital is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered MCE Social Capital's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of MCE Social Capital's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Moss Adams LLP

Albuquerque, New Mexico
April 27, 2021

Section I - Summary of Auditor's Results

Consolidated Financial Statements

Type of report the auditor issued on whether the consolidated Financial statements audited were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	☐ Yes ☒ No
• Significant deficiency(ies) identified?	☐ Yes ☒ None reported
Noncompliance material to consolidated financial statements noted?	☐ Yes ☒ No

Federal Awards

Internal control over major federal programs:	
• Material weakness(es) identified?	☐ Yes ☒ No
• Significant deficiency(ies) identified?	☐ Yes ☒ None reported
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	☐ Yes ☒ No

Identification of major federal programs and type of auditor's report issued on compliance for the major federal program:

CFDA Number(s)	*Name of Federal Program or Cluster*	*Type of Auditor's Report Issued on Compliance for the Major Federal Program*
98.U01	Loan Portfolio Guarantee Agreement	Unmodified

Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as low-risk auditee?	☐Yes ☒ No

Section II - Financial Statement Findings

No matters reported

Section III – Federal Aware Findings and Questioned Costs

No matters reported