Report of Independent Auditors
and Consolidated Financial Statements
with Supplementary Information

MCE Social Capital and Subsidiary

December 31, 2022 and 2021

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Report of Independent Auditors

The Board of Directors
MCE Social Capital and Subsidiary

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of MCE Social Capital and Subsidiary (MCE Social Capital) which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of MCE Social Capital as of December 31, 2022 and 2021, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of MCE Social Capital and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about MCE Social Capital's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 MCE Social Capital's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about MCE Social Capital 's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control–related matters that we identified during the audit.

Supplementary 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2023 on our consideration of MCE Social Capital'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 solely to 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 MCE Social Capital'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 MCE Social Capital's internal control over financial reporting and compliance.

Moss Adams LLP

Albuquerque, New Mexico
April 26, 2023

Consolidated Financial Statements

MCE Social Capital and Subsidiary
Consolidated Statements of Financial Position
December 31, 2022 and 2021

	2022	2021
ASSETS		
ASSETS		
Cash and cash equivalents	$ 9,889,968	$ 8,209,810
Cash designated for SGB Portfolio loan loss reserve (Note 1)	210,057	7,026
Restricted cash from Deutsche Bank MDF for SGB investments (Note 1)	1,488,310	218,669
Total Cash	11,588,335	8,435,505
Certificate of deposit designated for SGB Portfolio loan loss reserve (Note 1)	500,000	700,000
Interest receivable	597,011	796,594
Loans receivable from financial service providers, net (Note 6)	50,781,048	39,009,995
Loans receivable from small and growing businesses, net (Note 6)	7,186,436	9,687,871
Guarantor receivable (Note 7)	5,813,703	3,038,775
Derivative instruments (Note 4)	-	238,125
Investment in MFX Solutions, LLC (Note 1)	205,000	205,000
Other assets	1,082,434	679,732
TOTAL ASSETS	$ 77,753,967	$ 62,791,597
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 12,050	$ 2,608
Accrued liabilities	220,035	375,655
Interest payable	609,141	514,779
Notes payable, net (Note 8)	66,529,446	50,239,110
Participating share notes payable, net (Note 9)	1,436,951	1,753,047
Derivative instruments (Note 4)	41,049	-
Total liabilities	68,848,672	52,885,199
NET ASSETS		
Without donor restrictions (Note 11)	4,438,971	4,785,934
With donor restrictions (Note 12)	4,466,324	5,120,464
Total net assets	8,905,295	9,906,398
TOTAL LIABILITIES AND NET ASSETS	$ 77,753,967	$ 62,791,597

See accompanying notes.

MCE Social Capital and Subsidiary
Consolidated Statements of Activities
Years Ended December 31, 2022 and 2021

	Without Donor Restrictions			With Donor Restrictions			Years Ended December 31,	
	2022			2022				
	FSP	SGB	Total	FSP	SGB	Total	2022	2021
OPERATING REVENUE AND SUPPORT								
Revenue from lending activities								
Interest income on loans	$ 3,523,361	$ 616,155	$ 4,139,516	$ -	$ -	$ -	$ 4,139,516	$ 3,694,539
Amortization of loan origination fee revenue	180,778	99,584	280,362	-	-	-	280,362	232,419
Imputed interest expense	(71,087)	(42,549)	(113,636)	-	-	-	(113,636)	(123,961)
Realized gain on derivative instruments	651,469	-	651,469	-	-	-	651,469	767,080
Realized foreign currency translation loss (Note 3)	(642,971)	101,070	(541,901)	-	-	-	(541,901)	(717,461)
Interest expense	(1,561,881)	(180,603)	(1,742,484)	-	-	-	(1,742,484)	(1,511,655)
Net revenue from lending activities	2,079,669	593,657	2,673,326	-	-	-	2,673,326	2,340,961
OTHER REVENUE AND SUPPORT								
Contributions and grants	405,032	171,842	576,874	128,615	25,673	154,288	731,162	641,899
Contributed services (Note 10)	136,834	54,008	190,842	-	-	-	190,842	193,065
Interest income	2,579	1,018	3,597	-	10,240	10,240	13,837	3,862
Net assets released from restrictions	62,584	26,685	89,269	(62,584)	(26,685)	(89,269)	-	-
Total other revenue and support	607,029	253,553	860,582	66,031	9,228	75,259	935,841	838,826
Total operating revenue and support	2,686,698	847,210	3,533,908	66,031	9,228	75,259	3,609,167	3,179,787
OPERATING EXPENSES								
Program services	1,761,885	936,664	2,698,549	-	-	-	2,698,549	2,016,264
Management and general	436,513	172,308	608,821	-	-	-	608,821	444,717
Fundraising	179,836	70,988	250,824	-	-	-	250,824	186,897
Total operating expenses	2,378,234	1,179,960	3,558,194	-	-	-	3,558,194	2,647,878
NON-OPERATING ACTIVITIES								
Unrealized foreign currency translation gains (losses) (Note 3)	49,011	23,017	72,028	-	-	-	72,028	(130,349)
Change in fair value of derivative instruments (Note 4)	(234,535)	(44,639)	(279,174)	-	-	-	(279,174)	(146,351)
Credit losses (Note 6)	(4,136,877)	(1,456,588)	(5,593,465)	-	-	-	(5,593,465)	(1,158,848)
Credit loss recoveries (Note 6)	965,628	8,889	974,517	-	-	-	974,517	405,064
Guarantor contributions (Note 7)	4,052,501	767,550	4,820,051	-	-	-	4,820,051	1,018,257
Loss on remeasurement of guarantor contributions (Note 7)	(905,233)	(140,800)	(1,046,033)	-	-	-	(1,046,033)	(606,837)
Net assets released from restrictions	-	729,399	729,399	-	(729,399)	(729,399)	-	-
Net change in non-operating activities	(209,505)	(113,172)	(322,677)	-	(729,399)	(729,399)	(1,052,076)	(619,064)
CHANGE IN NET ASSETS	98,959	(445,922)	(346,963)	66,031	(720,171)	(654,140)	(1,001,103)	(87,155)
NET ASSETS AT BEGINNING OF YEAR	5,438,421	(652,487)	4,785,934	1,253,534	3,866,930	5,120,464	9,906,398	9,993,553
NET ASSETS AT END OF YEAR	$ 5,537,380	$ (1,098,409)	$ 4,438,971	$ 1,319,565	$ 3,146,759	$ 4,466,324	$ 8,905,295	$ 9,906,398

See accompanying notes.

MCE Social Capital and Subsidiary
Consolidated Statements of Functional Expenses
Years Ended December 31, 2022 and 2021

	Program Services	Management and General	Fundraising	2022 Total	2021 Total
OPERATING EXPENSES					
Personnel	$ 1,865,347	$ 399,022	$ 159,609	$ 2,423,978	$ 1,892,801
Strategic initiatives	184,253	70,867	28,347	283,467	142,063
Contributed services	158,817	16,950	15,075	190,842	193,065
Supplies, software licenses, and administration	96,514	36,359	14,544	147,417	58,993
Travel	120,996	9,292	3,717	134,005	17,737
Professional services	83,585	27,949	11,178	122,712	152,021
Miscellaneous	99,724	6,232	1,660	107,616	70,352
Insurance	26,369	38,355	15,342	80,066	30,994
Business development and guarantor outreach	62,944	3,795	1,352	68,091	89,852
Total operating expenses	2,698,549	608,821	250,824	3,558,194	2,647,878
LENDING ACTIVITY EXPENSES					
Interest expense	1,742,484	-	-	1,742,484	1,511,655
Imputed interest expense	113,636	-	-	113,636	123,961
Total lending activity expenses	1,856,120	-	-	1,856,120	1,635,616
TOTAL EXPENSES	$ 4,554,669	$ 608,821	$ 250,824	$ 5,414,314	$ 4,283,494

See accompanying notes.

MCE Social Capital and Subsidiary
Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ (1,001,103)	$ (87,155)
Adjustments to reconcile change in net assets to cash from operating activities		
Contributed revenue from present value discount on low interest debt	(101,421)	-
Imputed interest expense	113,636	123,961
Financing cost amortization	125,955	60,115
Provision for estimated credit losses	5,593,465	1,158,848
Amortization of deferred loan origination fees	280,362	232,419
Unrealized loss on change in fair value of derivative instruments	279,174	146,351
Unrealized foreign currency translation (gain) loss	(72,028)	130,349
Changes in operating assets and liabilities		
Interest receivable	199,583	(280,412)
Guarantor receivable	(2,774,928)	(55,263)
Other assets	(402,702)	(253,586)
Accounts payable	9,442	2,420
Accrued liabilities	(155,620)	161,479
Interest payable	94,362	(59,854)
NET CASH FROM OPERATING ACTIVITIES	2,188,177	1,279,672
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from certificate of deposit	200,000	295,000
Loans receivable repayments received	28,213,328	24,325,323
Loans receivable funded	(43,284,745)	(25,069,796)
NET CASH FROM INVESTING ACTIVITIES	(14,871,417)	(449,473)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes payable	(12,223,983)	(13,363,592)
Payments of loan fees	(77,833)	(88,000)
Proceeds from notes payable	28,137,886	12,957,170
NET CASH FROM FINANCING ACTIVITIES	15,836,070	(494,422)
CHANGE IN CASH AND CASH EQUIVALENTS, DESIGNATED CASH, AND RESTRICTED CASH	3,152,830	335,777
CASH AND CASH EQUIVALENTS, DESIGNATED CASH, AND RESTRICTED CASH beginning of year	8,435,505	8,099,728
CASH AND CASH EQUIVALENTS, DESIGNATED CASH, RESTRICTED CASH, end of year	$ 11,588,335	$ 8,435,505
SUPPLEMENTAL DISCLOSURES OF CASH INFORMATION		
Cash paid for interest	$ 1,648,122	$ 1,511,655

See accompanying notes.

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:

Financial Service Providers (FSP) – The Organization provides loans to financial service providers (FSPs). An FSP 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 are 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 financial service providers 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.

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 Microcredit Development Fund, Inc. (Deutsche Bank MDF) for SGB investments.

	2022	2021
Cash and cash equivalents	$ 9,889,968	$ 8,209,810
Cash and certificate of deposit designated for SGB Portfolio loan loss reserve	710,057	707,026
Restricted cash from Deutsche MDF for SGB Investments	1,488,310	218,669
Total cash and cash equivalents, designated cash, restricted cash, and certificate of deposit	$ 12,088,335	$ 9,135,505

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 $500,000 and $700,000 as of December 31, 2022 and 2021, respectively. The certificate of deposit matures in 2023.

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, 2022 and 2021. 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, 2022 and 2021.

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 statements 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, refundable deposits, and accounts receivable.

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. Recoveries on loans are not added back into the allowance. See Note 6 for further description of the Organization's loan portfolio, the estimated allowance for credit losses, and past due loan amounts.

Guarantor receivable – 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, 2022 and 2021.

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, 2022 and 2021, 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 10 for further discussion of contributed services recognized during the years ended December 31, 2022 and 2021.

Financing costs – Financing costs are recorded as a direct deduction to the related debt liability on the consolidated statements of financial position (see 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 statements 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.

Strategic initiatives – In 2021, the Organization's board approved a strategic plan to scale its impact and meet demand for the Organization's capital in the developing world. Recognizing the need to make internal investments in key areas such as systems and processes, communications, risk management, and skills development, the Organization launched a strategic fundraising campaign to fund the related operational and foundational expenses. The Organization generated 100% board participation in a successful matching grant campaign and raised $460,000 for these important initiatives, in addition to $200,000 received in grants from DAI Global LLC. The funds will be spent over the next two to three years. As of December 31, 2022 and 2021, strategic funds expended were $283,467 and $142,063, respectively.

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.

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 will be adopting the accounting pronouncement in 2023.

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.

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 in 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 26, 2023, 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 FSP and SGB's. 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 FSPs and SGBs located in developing regions (presently, Latin America, Africa, Eastern Europe, and Southeast and Central Asia). The Organization's policy is to diversify loans across countries and geographic regions.

Cash, cash equivalents, and investments are exposed to interest rate, market, and credit risks. The Organization maintains its cash and cash equivalents in various bank deposit accounts that, at times, may exceed federally insured limits. The Federal Deposit Insurance Corporation (FDIC) secures interest-bearing accounts in insured institutions up to $250,000 per depositor. The Dutch Deposit Guarantee Scheme (DGS) secures account in insured institutions up to €100,000. The Organization had $11,568,582 and $8,600,212 in uninsured cash balances and investments as of December 31, 2022 and 2021, respectively. If any of the financial institutions with whom we do business were to be placed into receivership, we may be unable to access the cash we have on deposit with such institutions. If we are unable to access our cash and cash equivalents as needed, our financial position and ability to operate our business could be adversely affected.

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 in USD at rates ranging from 5.00% to 10.10% annually and mature between February 2023 and December 2025. Unrealized foreign currency translation gain (losses) of $72,028 and ($130,349) were recognized during the years ended December 31, 2022 and 2021, respectively. Realized foreign currency translation loss of $541,901 and $717,461 were recognized for the years ended December 31, 2022 and 2021, 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 FSP and SGB's. 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, 2022 and 2021, derivative instrument (liability) assets totaled ($41,049) and $238,125, respectively. The change in fair value of the derivative instrument was a loss of ($279,174) and ($146,351) as of December 31, 2022 and 2021, 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 information that 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, 2022.

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 an FSP or SGB. 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, and stability of the political, economic, and legal environment of the country. Some of the specific financial qualifications for FSPs 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 prioritizes loans to FSP and SGB organizations that support both adaptation and mitigation approaches in response to climate change and environmental degradation.

The Organization loans money to FSPs at fixed interest rates ranging from 5.00% to 10.10%. 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 whether the SGB is a for-profit legal entity with at least three 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, providing 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 6.00% to 9.50%. 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 third-party purchaser of the exported agricultural goods. For SGB business growth loans, terms range from two to four 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 – Loans receivable were as follows as of December 31:

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

	2022			
	FSP	SGB	Total	2021 Total
Loans receivable	$ 54,138,809	$ 9,881,090	$ 64,019,899	$ 52,419,721
Less provision for estimated credit losses	(3,042,278)	(2,663,245)	(5,705,523)	(3,476,898)
Deferred loan fees	(315,483)	(31,409)	(346,892)	(244,957)
Loans receivable, net	$ 50,781,048	$ 7,186,436	$ 57,967,484	$ 48,697,866

	2022			
	FSP	SGB	Total	2021 Total
Provision for estimated credit losses, beginning balance	$ 2,676,389	$ 800,509	$ 3,476,898	$ 3,327,497
Direct write-downs	(3,770,988)	406,148	(3,364,840)	(1,009,447)
Provision for estimated credit losses	4,136,877	1,456,588	5,593,465	1,158,848
Provision for estimated credit losses, ending balance	$ 3,042,278	$ 2,663,245	$ 5,705,523	$ 3,476,898

Credit loss recoveries were $974,517 and $405,064 as of December 31, 2022 and 2021, respectively.

Maturities on loans receivable from FSPs and SGBs for the years subsequent to December 31, 2022, are as follows:

For the Years Ending December 31,	FSP	SGB	Total
2023	$ 10,000,696	$ 8,881,090	$ 18,881,786
2024	16,573,099	500,000	17,073,099
2025	22,065,014	500,000	22,565,014
2026	5,000,000	-	5,000,000
2027	500,000	-	500,000
Total	$ 54,138,809	$ 9,881,090	$ 64,019,899

Credit risk assessment – Management considers the specific operational and performance metrics and liquidity positions of each FSP and SGB on a quarterly basis to assess the client's 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 investment 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 management 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 who sign up after the impairment date are not responsible for losses on that loan.

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

	2022			
	FSP	SGB	Total	2021 Total
Watch list	$ 17,877,310	$ 1,251,453	$ 19,128,763	$ 8,244,564
Impaired list	3,878,844	1,294,740	5,173,584	3,476,898
Remaining loans	32,382,655	7,334,897	39,717,552	40,698,259
Total	$ 54,138,809	$ 9,881,090	$ 64,019,899	$ 52,419,721
Allowance related to impaired loans	$ 3,042,278	$ 2,663,245	$ 5,705,523	$ 3,476,898

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. The provision for estimated credit losses was the result of impairments on outstanding loans receivable by three FSP and three SGB loans included on the 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.

The following are the loans that are current and past due as of December 31:

	2022			
	FSP	SGB	Total	2021 Total
Current	$ 54,006,576	$ 8,488,817	$ 62,495,393	$ 42,754,250
1 to 89 days past due	110,226	-	110,226	6,310,807
90 to 179 days past due	22,007	653,320	675,327	535,865
Greater than 180 days past due	-	738,953	738,953	2,818,799
Total	$ 54,138,809	$ 9,881,090	$ 64,019,899	$ 52,419,721

Note 7 – Guarantor Model

The FSP 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 until the SGB loan loss reserve (Note 11) is depleted.

During the year ended December 31, 2022, the Organization recognized credit losses on loans from three FSPs and two SGBs requiring the Organization to recognize guarantor contributions of $4,820,051, which is reported as guarantor contributions on the consolidated statement of activities. During 2022, there was a release of restricted net assets from guarantor reserve contributions related to defaulted loans of $89,269, which is reported in other revenue and support as net assets released from restriction in the consolidated statement of activities. 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 $1,046,033 was recognized during the year ended December 31, 2022. Calls are expected to be made on the guarantors which total the net guarantor receivable of $5,813,703.

During the year ended December 31, 2021, the Organization recognized credit losses on loans from one FSP and one SGB requiring the Organization to recognize guarantor contributions of $1,018,257, which is reported as guarantor contributions on the consolidated statement of activities. During 2021, there was a release of restricted net assets from guarantor reserve contribution related to defaulted loans of $28,390, which is reported in other revenue and support as net assets released from restriction in the consolidated statement of activities. 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 $606,837 was recognized during the year ended December 31, 2021. Calls are expected to be made on the guarantors which total the net guarantor receivable of $3,038,775.

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, 2022 and 2021 are fully collectible.

Note 8 – Notes Payable

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

	2022	2021
Unsecured notes payable to First Republic Bank, with annual interest rates ranging from 4.00% to 5.12%, and guaranteed by individual guarantors. Monthly interest payments with semiannual principal payments. Maturity rates ranging through July 2025.	$ 8,000,000	$ 1,625,000
Unsecured notes payable to United States International Development Finance Corporation (formerly Overseas Private Investment Corporation (OPIC), with annual interest rates of 2.54% to 5.19% Quarterly interest payments and semi-annual principal payments. Maturity dates ranging through December 2025.	10,000,000	7,000,000
Unsecured note payable to RSF Social Finance, with interest rates of 1.00%. Quarterly interest payments with semi-annual principal payments. Matures in June 2023.	2,000,000	2,000,000
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 March 2029.	40,305,000	30,950,000
Noninterest bearing notes payable to individual guarantors including foundations. Principal due upon maturity dates ranging through March 2025.	1,000,000	3,500,000
Unsecured notes payable to Metropolitan Life Insurance Company, with annual interest rate of 6.50%. Quarterly interest payments with principal due upon maturity in December 2025.	5,000,000	5,000,000
Recoverable grants/loans from third parties will be paid back unless the Organization ceases operations or is unable to meet the obligations. Interest rates from 1.75% to 2.75%. Annual interest payments with payment due upon maturity. Maturity dates ranging through May 2028.	350,000	350,000
	66,655,000	50,425,000
Less unamortized financing costs	(48,480)	(96,602)
Less present value discount	(77,074)	(89,288)
Notes payable, net	$ 66,529,446	$ 50,239,110

Guarantors and private foundations have provided interest-free loans totaling $1,000,000 and $3,500,000 as of December 31, 2022 and 2021, respectively. The Organization recorded a loan discount using rates ranging from 3.00% to 4.00%. The loans are reported in the consolidated statements of financial position net of unamortized discount of $77,074 and $89,288 at December 31, 2022 and 2021, 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, 2022.

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

For the Years Ending December 31,	
2023	$ 18,130,000
2024	13,050,000
2025	31,765,000
2026	1,050,000
2027	2,200,000
Thereafter	460,000
Total	$ 66,655,000

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 5.00% to 7.50% and mature through October 2025. The participating share notes payable had an outstanding balance of $1,436,951 and $1,753,047 as of December 31, 2022 and 2021, respectively.

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

For the Years Ending December 31,	
2023	$ 1,086,951
2024	200,000
2025	150,000
Total	$ 1,436,951

Note 10 – 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, 2022, are as follows:

	Program Services	Management and General	Fundraising	Total Contributed Services
Officer services provided pro bono	$ 13,125	$ 3,750	$ 1,875	$ 18,750
Legal and professional services	145,692	13,200	13,200	172,092
Total	$ 158,817	$ 16,950	$ 15,075	$ 190,842

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, 2021, are as follows:

	Program Services	Management and General	Fundraising	Total Contributed Services
Officer services provided pro bono	$ 32,813	$ 9,375	$ 4,688	$ 46,876
Legal and professional services	118,973	13,608	13,608	146,189
Total	$ 151,786	$ 22,983	$ 18,296	$ 193,065

Note 11 – 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:

	2022	2021
Undesignated and available for operations	$ 2,309,204	$ 2,829,210
Board designated funds		
Operating reserve	901,139	765,695
SGB loan loss reserve	536,957	704,501
Interest income from Deutsche Bank MDF	91,566	53,838
Board/Guarantor matching grant	235,962	392,690
MESA investment funds	324,143	-
Permanent Fund to Alleviate Extreme Poverty and Frontier Fund	40,000	40,000
Total Without Donor Restrictions	$ 4,438,971	$ 4,785,934

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

The MESA Investment Funds are designated for funding MCE's $1,000,000 debt investment in MESA, the new debt fund launching in February 2023.

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.

Note 12 – Net Assets with Donor Restrictions

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

	2022	2021
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	143,562	108,878
Deutsche Bank MDF	2,610,764	3,287,374
Unamortized discount on long-term debt (Note 8)	77,074	89,288
Total	$ 4,466,324	$ 5,120,464

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 FSPs 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 FSPs 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.

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.

Note 13 – 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 statements 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.

	2022	2021
Cash and cash equivalents, designated cash and restricted cash	$ 11,588,335	$ 8,435,505
Certificate of deposit	500,000	700,000
Interest receivable	597,011	796,594
Loans receivable, net	57,967,484	48,697,866
Guarantor receivables	5,813,703	3,038,775
Total financial assets	76,466,533	61,668,740
Loans receivable scheduled to be collected in more than one year	(45,138,113)	(15,093,714)
Guarantor receivables scheduled to be collected in more than one year	(3,982,059)	(2,519,447)
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	(2,610,764)	(3,287,374)
Board designations		
SGB loan loss reserve	(536,957)	(704,501)
Permanent Fund to Alleviate Extreme Poverty and Frontier Fund	(40,000)	(40,000)
Board/Guarantor matching grant	(235,962)	(392,690)
Interest income from Deutsche Bank MDF	(91,566)	(53,838)
Financial assets available to meet cash needs for general expenditures within one year	$ 22,196,188	$ 37,942,252

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 $901,139 and $765,695 at December 31, 2022 and 2021, 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 14 – Employee Retirement Plan

The Organization has a Savings Incentive Match Plan for Employees (SIMPLE) – IRA Plan. Eligible employees can elect to defer up to the maximum allowable subject to current regulatory limits. The Organization provides matching contributions of 100% of deferrals by each participating employee up to 3% of eligible compensation. The Organization’s total retirement expense was $44,838 and $37,629 for the years ended December 31, 2022 and 2021, respectively.

Note 15 – 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 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 approximately $5,948,000 and $4,600,000 as of both December 31, 2022 and 2021, respectively.

Note 17 – Subsequent Events

In February 2023, the Organization, in partnership with U.S. International Development Finance Corporation (USAID) and several other respected investors, and with fund-design support from USAID, officially launched MCE's Empowering Sustainable Agriculture Fund (MESA) with the first close of $19,500,000. MESA expects a second close of similar size to follow later in 2023 for a total target raise of $40,000,000 in senior and catalytic investments. Organization's MESA fund will provide transformative debt capital to gender-inclusive agribusinesses throughout their lifecycle, either through direct lending to "missing middle" enterprises or to financial services providers, partnering with these companies as they grow. The goal is to scale economic opportunities within local communities, enhance the climate resilience of smallholder farmers, and empower women throughout the agricultural sector in emerging markets.

Supplementary Information

MCE Social Capital and Subsidiary
Schedule of Expenditures for Federal Awards
December 31, 2022

Federal Grantor/Pass-through Grantor/Program Title	Assistance Listing 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	$ 2,071,875	$ 4,828,961	$ 6,900,836
Loan Guarantee Agreement	98.U02	521-DCA-15-041A	738,208	-	738,208
Total United States Agency for International Development			2,810,083	4,828,961	7,639,044
Total Federal Expenditures			$ 2,810,083	$ 4,828,961	$ 7,639,044

See notes to schedule of expenditures of federal awards

MCE Social Capital and Subsidiary
Notes to Schedule of Expenditures of Federal Awards
December 31, 2022

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, 2022. 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, functional expenses 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 allowed 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 – Loan 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 September 2026 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, 2022:

Program Title	Award Identifying Number	Assistance Listing Number	Amount Outstanding	
Loan Portfolio Guarantee Agreement	98.U01	099-DCA-17-017	$	6,225,346
Loan Guarantee Agreement	98.U02	521-DCA-15-041A	$	363,208

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 (MCE Social Capital), which comprise the consolidated statement of financial position as of December 31, 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the year ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 26, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered MCE Social Capital '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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of MCE Social Capital 's internal control. Accordingly, we do not express an opinion on the effectiveness of MCE Social Capital'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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether MCE Social Capital's consolidated 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 consolidated 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 MCE Social Capital's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MCE Social Capital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss Adams LLP

Albuquerque, New Mexico
April 26, 2023

MOSSADAMS

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

Opinion on the Major Federal Program

We have audited MCE Social Capital and Subsidiary's (MCE Social Capital) compliance with the types of compliance requirements identified as subject to audit 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, 2022. MCE Social Capital major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, MCE Social Capital complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2022.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States *(Government Auditing Standards)*; 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of MCE Social Capital and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of MCE Social Capital's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to MCE Social Capital's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on MCE Social Capital's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about MCE Social Capital's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards,* and the Uniform Guidance, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding MCE Social Capital's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of MCE Social Capital's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 MCE Social Capital's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 26, 2023

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:

Assistance Listing 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 Award Findings and Questioned Costs

No matters reported.