micro CREDIT ENTERPRISES

Financial Statements

For the Year Ended December 31, 2012

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Certified Public
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and Consultants

Independent Auditors' Report

Board of Directors
MicroCredit Enterprises
San Francisco, California

We have audited the accompanying financial statements of MicroCredit Enterprises (a California not-for-profit Organization) which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MicroCredit Enterprises as of December 31, 2012, and the related statements of activities and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Report on 2011 Financial Statements

The financial statements of MicroCredit Enterprises as of December 31, 2011, were audited by other auditors whose report dated April 11, 2012, expressed an unqualified opinion on those statements before the change in accounting principle as described in Note 11.

Clark Nuber PS
Certified Public Accountants
April 17, 2013

MICROCREDIT ENTERPRISES

Statement of Financial Position
December 31, 2012
(With Comparative Totals for 2011)

	2012	*2011*
Assets		
Current Assets:		
Cash and cash equivalents	$ 2,784,474	$ 1,533,391
Current portion of loans receivable from microfinance institutions, net (Note 6)	13,386,749	7,609,310
Guarantor receivables (Note 1)	313,246	
Interest receivable, net	248,795	178,218
Prepaid expenses	5,773	15,908
Other current assets	6,250	1,835
Total Current Assets	**16,745,287**	**9,338,662**
Loans receivable from microfinance institutions, net of current portion (Note 6)	12,889,224	14,809,801
Investment in MFX Solutions, LLC (Note 1)	205,000	205,000
Loan fees	60,899	56,459
Property and equipment net	2,295	2,228
Total Assets	**$ 29,902,705**	**$ 24,412,150**
Liabilities and Net Assets		
Current Liabilities:		
Lines of credit (Note 7)	$ -	$ 1,000,000
Current portion of notes payable (Note 8)	9,687,642	2,000,000
Deposit from co-lender (Note 1)	125,000	
Accounts payable	20,004	10,972
Interest payable	27,081	23,019
Deferred loan origination fees	13,916	66,000
Other payables	4,517	8,395
Total Current Liabilities	**9,878,160**	**3,108,386**
Long-Term Liabilities:		
Deferred loan origination fees	123,176	78,084
Derivative instruments (Note 4)	27,346	
Notes payable, net of current portion (Note 8)	16,838,126	18,750,000
Total Liabilities	**26,866,808**	**21,936,470**
Net Assets:		
Unrestricted-		
Undesignated	1,387,282	1,108,043
Designated by the Board of Directors (Note 10)	269,878	40,000
Total unrestricted	1,657,160	1,148,043
Permanently restricted (Note 11)	1,378,737	1,327,637
Total Net Assets	**3,035,897**	**2,475,680**
Total Liabilities and Net Assets	**$ 29,902,705**	**$ 24,412,150**

See accompanying notes.

MICROCREDIT ENTERPRISES

Statement of Activities
For the Years Ended December 31, 2012
(With Comparative Totals for 2011)

	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*2012 Total*	*2011 Total*
Operating Activities					
Revenue and Support:					
Revenue from microfinance lending activities-					
Interest income:					
Microfinance loans, net	$ 2,119,633	$ -	$ -	$ 2,119,633	$ 1,408,576
Amortization of loan origination fee revenue	81,343			81,343	62,429
Provision for estimated credit losses	(326,866)			(326,866)	
Interest expense	(1,002,804)			(1,002,804)	(682,184)
Net revenue from microfinance lending activities	871,306			871,306	788,821
Other revenue and support-					
Contributions and grants	416,855		51,100	467,955	387,319
Contributed services	1,247,776			1,247,776	1,105,860
Interest income	2,355	710		3,065	13,534
Realized losses on swap transactions	(63,681)			(63,681)	(87,811)
Realized and unrealized foreign currency translation gains (losses)	(475)			(475)	
Change in fair value of derivative instruments	(27,346)			(27,346)	
Other income	20,368			20,368	15,676
Net assets released from restrictions	710	(710)			
Total Revenue and Support	**2,467,158**		**51,100**	**2,518,258**	**2,223,399**
Operating Expenses:					
Program services	1,134,223			1,134,223	1,173,584
Management and general	785,827			785,827	578,091
Fundraising	38,701			38,701	42,854
Total Operating Expenses	**1,958,751**			**1,958,751**	**1,794,529**
Change in Net Assets	**509,117**		**51,100**	**560,217**	**428,870**
Net assets, beginning of year, unadjusted	1,148,043	827,637	500,000	2,475,680	2,046,810
Change in accounting principle (Note 11)		(827,637)	827,637		
Net assets, beginning of year, adjusted	1,148,043		1,327,637	2,475,680	2,046,810
Net Assets, End of Year	**$ 1,657,160**	**$ -**	**$ 1,378,737**	**$ 3,035,897**	**$ 2,475,680**

See accompanying notes.

MICROCREDIT ENTERPRISES

Statement of Cash Flows
For the Years Ended December 31, 2012
(With Comparative Totals for 2011)

	2012	*2011*
Reconciliation of Net Increase in Net Assets to Net Assets Provided by Operating Activities:		
Change in net assets	$ 560,217	$ 428,870
Adjustments to reconcile change in net assets to cash provided by operating activities-		
Depreciation	847	727
Provision for estimated credit losses	326,866	
Unrealized losses (gains) on change in fair value of derivative instruments	27,346	(21,846)
Unrealized foreign currency translation loss	13,476	
(Increase) decrease in:		
Guarantor receivables	(313,246)	
Interest receivable	(77,471)	
Prepaid expenses	10,135	(38,947)
Other current assets	(4,415)	7,600
Loan fees	(4,440)	1,935
Increase (decrease) in:		
Deposit from co-lender	125,000	3,446
Accounts payable	9,032	(32,385)
Interest payable	4,062	73,154
Deferred loan origination fees	(6,992)	
Other payables	(3,878)	4,447
Net Cash Provided by Operating Activities	**666,539**	**427,001**
Cash Flows from Investing Activities:		
Loans receivable repayments received	4,049,940	7,324,384
Loans receivable funded	(8,240,250)	(16,266,027)
Acquisition of property and equipment	(914)	
Net Cash Used by Investing Activities	**(4,191,224)**	**(8,941,643)**
Cash Flows from Financing Activities:		
Net line of credit activity	(1,000,000)	(3,875,000)
Principal payments on notes payable	(3,500,000)	(8,497,724)
Proceeds from notes payable	9,275,768	19,250,000
Net Cash Provided by Financing Activities	**4,775,768**	**6,877,276**
Change in Cash and Cash Equivalents	**1,251,083**	**(1,637,366)**
Cash and cash equivalents balance, beginning of year	1,533,391	3,170,757
Cash and Cash Equivalents Balance, End of Year	**$ 2,784,474**	**$ 1,533,391**
Supplementary Disclosure of Cash Flow Information:		
Noncash contributed services	$ 1,247,776	$ 1,105,860
Cash paid for interest	$ 998,742	$ 714,569

See accompanying notes.

Note 1 - Nature of Operations and Significant Accounting Policies

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

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

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

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

> <u>Unrestricted Net Assets</u> - Represents resources, which have met all applicable donor restrictions and are considered to be available for unrestricted use.
>
> <u>Temporarily Restricted Net Assets</u> - Net assets subject to donor-imposed stipulations that will be met either by actions of the Organization or the passage of time.
>
> <u>Permanently Restricted Net Assets</u> - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization.

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

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

Property and Equipment - Property and equipment are recorded at cost. The Organization capitalizes all expenditures for property and equipment in excess on $1,000. Property and equipment are depreciated using the straight-line method of accounting over useful lives of 5 to 25 years.

Note 1 - Continued

Guarantor Receivables - Philanthropic guarantees are considered conditional promises to give until a default occurs with the Organization requiring payment from the pool of guarantors in accordance with the philanthropic guarantee agreement. At the time default occurs and the guarantor payment required can be reasonably estimated, the Organization considers the philanthropic guarantees to be unconditional promises to give and recognizes a contribution. As further discussed in Note 6, the Organization experienced defaults on two loans from a single microfinance institution (MFI) requiring the Organization to require payments from guarantors totaling $313,246 and is reported as guarantor receivables in the statement of financial position at December 31, 2012.

Investment in MFX Solutions, LLC - The Organization's investment in MFX Solutions, LLC is carried at cost. The cost of the Organization's cost method investment totaled $205,000 at December 31, 2012 and 2011. 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, 2012 and 2011.

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

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

Loan Fees - Loan fees are amortized over the term of the loan using the straight-line method. For the years ended December 31, 2012 and 2011, amortization costs of $44,432 and $43,250, respectively, were included in interest expense.

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. Management considers the specific operational and performance metrics and liquidity positions of each MFI to determine the amount of the allowance.

Deferred Loan Origination Fees - Loan origination fees on loans are deferred and recognized as revenue over the contractual lives of the related loans.

Deposit From Co-Lender - During the year ended December 31, 2012, the Organization entered into a co-lending agreement with a third party. The co-lending agreement calls for a total loan of $250,000 with $125,000 being funded by each co-lender. The Organization received loan funding from the co-lender of $125,000 which is reported as a deposit from co-lender on the statement of financial position as of December 31, 2012.

Note 1 - Continued

Federal Income Tax - The Internal Revenue Service (IRS) has determined that the Organization is exempt from federal income tax under Internal Revenue Code Section 501(c)(3); accordingly, no provision has been made for federal income tax in the accompanying financial statements. The Organization files income tax returns with the U.S. government. The Organization is subject to income tax examinations for the current year and certain prior years based on the applicable laws and regulations.

Contributions and Grants - Contributions and grants are recorded as revenue at the date when an unconditional promise is made. Donor-restricted contributions and grants are recorded as temporarily restricted revenues and are reclassified to unrestricted net assets when a stipulated time restriction ends or purpose restriction is accomplished.

Contributed Services - The Organization receives a significant amount of donated professional services from executives and attorneys. Donated goods and services are recorded at fair market value at the date of receipt. Donated services are recorded only if specific professional expertise is provided or the services are for constructing a fixed asset, in accordance with generally accepted accounting principles in the United States (U.S. GAAP). See Note 9 for further discussion of contributed services recognized during the years ended December 31, 2012 and 2011.

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

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

Reclassifications - Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 financial statements presentation. Such reclassifications had no effect on the change in net assets as previously reported.

Subsequent Events - Management has evaluated subsequent events through April 17, 2013, the date which the financial statements were available for issue.

Note 2 - Concentrations of Credit Risk

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

Note 3 - Foreign Currency Translation

The Organization from time to time issues loans denominated in a foreign currency. Loans receivable denominated in foreign currencies are translated into U.S. dollars at the balance sheet date rate of exchange. Loans denominated in foreign currencies accrue interest at rates ranging from 8.65% to 15.0% annually, and mature between February 2013 and June 2015.

During 2012, the Organization began recognizing the unrealized currency gains and (losses) from the change in the fair value of derivative instruments. Prior to 2012, management determined that the change in the value of foreign currency denominated assets offset the unrealized gain or losses in the change in the value of derivative instruments so neither was recognized. Unrealized foreign currency translation losses of $13,476 were recognized during the year ended December 31, 2012, with realized foreign currency translation gains of $13,001.

Note 4 - Derivative Financial Instrument

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

The Organization does not enter into derivative financial instrument agreements for trading or speculative purposes. At December 31, 2012, the net position of the currency swaps is recorded as derivative financial instruments in the statement of financial position. The derivative instruments were recorded at their fair value resulting in a change in fair value of derivative instruments of ($27,346) for the year ended December 31, 2012. As further discussed in Note 3, the Organization began recognizing the fair value of derivative instruments during 2012. Embedded in the currency swap is a forward contract which creates the obligation for both parties to close the swap agreement at the agreed upon maturity date.

Note 5 - Fair Value Measurements

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

Valuation Techniques - Financial assets and liabilities valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets and liabilities valued using Level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. Financial assets and liabilities using Level 3 inputs were primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability. Valuation techniques utilized to determine fair value are consistently applied. As noted below, there was no change in the valuation of investments using Level 3 inputs during the year ended December 31, 2012.

Note 5 - Fair Value Measurements

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, 2012.

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

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

	Derivative Financial Instruments
Balance, December 31, 2011	$ -
Unrealized losses	(27,346)
Balance, December 31, 2012	**$ (27,346)**

Note 6 - Loans Receivable

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

The Organization assesses certain eligibility criteria to evaluate the creditworthiness of an MFI. These include quality and integrity of the management and Board of Directors, quality of the client-borrower loan portfolio, financial performance and prospects for growth, stability of the political, economic and legal environment of the country. Some of the specific financial qualification 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, present a credit rating or other similar external evaluation/recommendation.

The Organization loans money to MFI's at fixed interest rates ranging from 6.0% to 15%. 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.

Note 6 - Continued

As of December 31, 2012, the Organization estimated the allowance for credit losses to be $319,972. The allowance for credit losses was the result of a default by a MFI on two outstanding loans receivable during the year. The allowance estimate incorporates terms of the settlement agreement where the Organization will be paid 40% of the outstanding principal amount from a third party acquiring the borrower.

Long-term receivables from microfinance institutions were as follows as of December 31:

	2012	*2011*
Loans receivable from microfinance institutions	$ 26,595,945	$ 22,419,111
Less allowance for credit losses	(319,972)	
Loans receivable from microfinance institutions, net	26,275,973	22,419,111
Current portion of loans receivable from microfinance institutions	(13,386,749)	(7,609,310)
Loans receivable from microfinance institutions, net of current portion	**$ 12,889,224**	**$ 14,809,801**

Maturities on long-term receivables from microfinance institutions for the years subsequent to December 31, 2012, are as follows:

For the Year Ending December 31,	
2013	$ 13,386,749
2014	9,903,614
2015	3,305,582
Total	**$ 26,595,945**

At December 31, 2012, the outstanding loans receivable by the Organization's credit risk rating were as follows:

Solid	$ 3,792,417
Good	11,485,877
Acceptable	10,287,954
Weak	734,167
Risky	295,530
Total	**$ 26,595,945**

At December 31, 2012, there was an agreement signed for a loan to an MFI for $250,000, however the funds were not disbursed until subsequent to year-end.

Note 7 - Lines of Credit

The Organization has the following lines of credit at December 31, 2012 and 2011. Repayment of the lines of credit is supported by the guarantees of the Organization's guarantors.

The Organization had a line of credit with The Tokyo Star Bank, a bank organized under the laws of Japan, which was not to exceed $4,800,000. Interest was charged at the U.S. treasury rate plus 0.25% per annum and is payable quarterly. The principal plus any unpaid interest was payable at maturity on February 28, 2012. The line of credit was not renewed. The balance on the line of credit at December 31, 2012 and 2011 was $0 and $1,000,000, respectively.

During the year ended December 31, 2012, the Organization entered into a line of credit with New Resource Bank, which is not to exceed $1,000,000. Interest is charged at the prime rate plus 1.25% per annum and is paid monthly. The principal plus any unpaid interest is payable at maturity on November 30, 2013. There was no outstanding balance at December 31, 2012.

Note 8 - Notes Payable

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

	2012	*2011*
Unsecured note payable to a not-for-profit public benefit entity with no interest. The note, which is annually renewable, is payable upon maturity on July 6, 2016, unless the due date is extended.	$ 500,000	$ 500,000
Note payable to First Republic Bank, with an interest rate of 4.28%, guaranteed by guarantors. Semi-annual principal payments of $2,000,000 with first payment due on December 29, 2012 with monthly interest payments payable through June 29, 2014.	6,000,000	8,000,000
Note payable to First Republic Bank, with an interest rate of 3.97%, guaranteed by guarantors. Semi-annual principal payments of $250,000 with first payment due on February 28, 2013 with monthly interest payments payable through August 31, 2014.	1,000,000	1,000,000
Note payable to First Republic Bank, with an interest rate of 3.96%, guaranteed by guarantors. Semi-annual principal payments of $1,500,000 with first payment due on March 31, 2013 with monthly interest payments payable through September 30, 2014.	6,000,000	6,000,000

Note 8 - Continued

	2012	*2011*
Note payable to First Republic Bank, with an interest rate of 4.00%, guaranteed by guarantors. Semi-annual principal payments of $500,000 with first payment due on May 31, 2013 with monthly interest payments payable through November 30, 2014.	2,000,000	2,000,000
Note payable to First Republic Bank, with an interest rate of 3.91%, guaranteed by guarantors. Semi-annual principal payments of $375,000 with first payment due on August 31, 2013 with monthly interest payments payable through February 28, 2015.	1,500,000	
Unsecured note payable to Calvert Social Investment Foundation, Inc., with an interest rate of 4.5%. Quarterly interest payments with first payment due December 31, 2011. Principal due upon maturity on October 11, 2014. The note payable was refinanced during 2012 and paid in full.		1,500,000
Unsecured note payable to Calvert Social Investment Foundation, Inc., with an interest rate of 4.5%. Quarterly interest payments with first payment due December 31, 2012. Principal due upon maturity on July 31, 2015.	500,000	
Unsecured note payable to Calvert Social Investment Foundation, Inc., with an interest rate of 4.5%. Quarterly interest payments with first payment due December 31, 2012. Principal due upon maturity on December 19, 2015.	975,000	
Note payable to New Resource Bank, with an interest rate of 4.63%, guaranteed by guarantors. Semi-annual principal payments of $62,500 with first payment due on November 4, 2013 with monthly interest payments payable through May 4, 2015.	250,000	
Note payable to New Resource Bank, with an interest rate of 4.63%, guaranteed by guarantors. Semi-annual principal payments of $250,000 with first payment due on December 15, 2013 with monthly interest payments payable through June 15, 2015.	1,000,000	

Note 8 - Continued

	2012	*2011*
Note payable to New Resource Bank, with an interest rate of 4.63%, guaranteed by guarantors. Semi-annual principal payments of $125,000 with first payment due on March 4, 2014 with monthly interest payments payable through September 4, 2015.	500,000	
Note payable to New Resource Bank, with an interest rate of 4.63%, guaranteed by guarantors. Semi-annual principal payments of $62,500 with first payment due on March 17, 2014 with monthly interest payments payable through September 17, 2015.	250,000	
Secured notes payable on the MicroPlace web portal offered to retail investors, with interest rates ranging from 2.5% to 3.5% paid to investors and a 1% fee paid to MicroPlace.	950,768	
Unsecured note payable to Vittana, with an interest rate of 3.0%. Quarterly interest payments with first payment due September 15, 2012. Principal due upon maturity on July 17, 2014.	500,000	
Note payable to Overseas Private Investment Corporation (OPIC), with an interest rate of 3.87%. Quarterly principal and interest payments. Principal payments in the amount of $375,000 with first payment due on December 3, 2016, first interest payment being made on December 3, 2012 with quarterly interest payments payable through June 3, 2019.	2,250,000	
Unsecured note payable to Benito & Frances C. Gaguine Foundation, with no interest. Note is payable upon maturity on February 1, 2013. Subsequent to year end, the maturity date was extended to March 31, 2016.	1,000,000	1,000,000
Unsecured notes payable to a Related Party Guarantor, with an interest rate of 3.50%. Quarterly interest payments began May 31, 2011. Principal due upon maturity on February 28, 2014.	250,000	250,000

Note 8 - Continued

	2012	*2011*
Unsecured notes payable to Guarantor, with an interest rate of 3.50%. Quarterly interest payments began May 31, 2011. Principal due upon maturity on February 28, 2014.	500,000	500,000
Unsecured notes payable to Guarantor, with an interest rate of 2.50%. Quarterly interest payments began June 30, 2012. Principal due upon maturity on March 31, 2015.	500,000	
Unsecured note Payable to Tides Foundation, with no interest. Note is payable upon maturity on March 2, 2015.	100,000	
	26,525,768	20,750,000
Less current portion of notes payable	(9,687,642)	(2,000,000)
Long-Term Debt, Net of Current Portion	**$ 16,838,126**	**$ 18,750,000**

Maturities of long-term notes for the years subsequent to December 31, 2012, are as follows:

For the Year Ending December 31,

2013	$ 9,687,642
2014	10,081,714
2015	3,506,412
2016	1,375,000
2017	750,000
Thereafter	1,125,000
Total	**$ 26,525,768**

Note 9 - Contributed Services

The value of donated services included as contributions in the financial statements and the corresponding program service and management expenses for the year ended December 31, 2012, are as follows:

	Program Services	*Management and General*	*Fundraising*	*Total Pro Bono Services*
Officer services provided pro bono	$ 284,604	$ 204,906	$ 38,701	$ 528,211
Legal and professional services	545,073	174,492		719,565
	$ 829,677	**$ 379,398**	**$ 38,701**	**$ 1,247,776**

The value of donated services included as contributions in the financial statements and the corresponding program service and management expenses for the year ended December 31, 2011, are as follows:

	Program Services	*Management and General*	*Fundraising*	*Total Pro Bono Services*
Officer services provided pro bono	$ 297,795	$ 198,632	$ 42,854	$ 539,281
Legal and professional services	474,578	92,001		566,579
	$ 772,373	**$ 290,633**	**$ 42,854**	**$ 1,105,860**

Note 10 - Net Assets Designated by the Board

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

	2012	*2011*
Unrestricted and undesignated	$ 1,387,282	$ 1,108,043
Operating reserve	229,878	
Permanent Fund to Alleviate Extreme Poverty	40,000	40,000
Total Unrestricted Net Assets	**$ 1,657,160**	**$ 1,148,043**

The Organization adopted an unrestricted net asset policy during 2012 which established an operating reserve. The operating reserve is intended to cover three months of operating expenditures.

Note 11 - Permanently Restricted Net Assets and Change in Accounting Policy

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

	2012	*2011*
Permanent Fund to Alleviate Extreme Poverty	$ 878,737	$ 827,637
Hunter Douglas Endowment for Microfinance Sustainability Fund	500,000	500,000
Total	**$ 1,378,737**	**$ 1,327,637**

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.

During the year ended December 31, 2012, the Organization implemented a change in accounting principle in how the net assets of the Permanent Fund are reflected in the financial statements. Prior to fiscal year 2012, the Organization reported net assets of the Permanent Fund as temporarily restricted. As the purpose of the Permanent Fund is to maintain a perpetual revolving loan fund, the Organization changed their policy to report the net assets of the Permanent Fund as permanently restricted. As a result of the change in accounting principle, temporarily restricted net assets decreased and permanently restricted net assets increased by $827,637 at December 31, 2011.

Hunter Douglas Endowment for Microfinance Sustainability Fund - The Hunter Douglas Endowment for Microfinance Sustainability Fund (the Endowment Fund) is maintained as a permanent 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 Endowment Fund ensures the Organization can meet all of its obligations until payment is made. As of December 31, 2012 and 2011, assets reserved under the Endowment Fund totaled $1,000,000 consisting of a $500,000 donor-restricted contribution and a $500,000, 5-year, annually-renewable, interest-free loan intended for this purpose. The Endowment Fund has been deposited in cash and cash equivalents.

Note 12 - Endowments

The Organization's endowment consists of the Hunter Douglas Endowment for Microfinance Sustainability Fund. The original amounts of this endowment are held in perpetuity and temporarily fund any of the Organization's liquidity demands when microfinance institutions default on loan payments. The fund ensures the Organization can meet all of its financial obligations in the period until the Guarantors fulfill their legal obligation and cover the amount of the default. The related income on the endowment is spent to support the activities of the Organization.

The Organization's endowments consist of one individual fund established for short-term liquidity purposes. Its endowment consists of donor-restricted funds. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Note 12 - Continued

The Organization has interpreted the California State Uniform Prudent Management of Investment Funds Act (UPMIFA) as making it available for the Organization to track the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

At the end of each fiscal year, the Board authorizes that any net increase in assets (investment returns for the year) of The Hunter Douglas Endowment for Microfinance Sustainability fund be released to provide funding for general programs and services. The Organization's investment goals for endowment funds focus on capital preservation. Investment choices are generally limited to cash, money market accounts and government-backed securities.

Endowment net asset composition for year ended December 31, 2012:

	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*2012 Total*	*2011 Total*
Donor restricted endowment funds	$ -	$ -	$ 500,000	$ 500,000	$ 500,000

Net changes in endowment funds for the year ended December 31, 2012, were as follows:

	Unrestricted	*Temporarily Restricted*	*Permanently Restricted*	*2012 Total*	*2011 Total*
Beginning balance	$ -	$ -	$ 500,000	$ 500,000	$ 500,000
Investment return		710		710	3,598
Appropriations		(710)		(710)	(3,598)
Ending Balance	**$ -**	**$ -**	**$ 500,000**	**$ 500,000**	**$ 500,000**

Note 13 - Employee Retirement Plan

The Organization has a Savings Incentive Match Plan for Employees (SIMPLE) - IRA Plan. Eligible employees can elect to defer up to the maximum allowable subject to current regulatory limits. The Organization provides matching contributions of 100% of deferrals by each participating employee up to 3% of eligible compensation. The Organization’s total retirement expense was $8,956 and $8,170 for the years ended December 31, 2012 and 2011, respectively.