



Financial Statements

For the Year Ended December 31, 2016

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Independent Auditor's Report

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

We have audited the accompanying financial statements of MCE Social Capital (a California not-for-profit Organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MCE Social Capital as of December 31, 2016, and the related statements of activities and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 27, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Clark Nuber P.S.

Certified Public Accountants
April 26, 2017

MCE SOCIAL CAPITAL

Statement of Financial Position

December 31, 2016

(With Comparative Totals for 2015)

	2016	2015
Assets		
Current Assets:		
Cash and cash equivalents	\$ 3,926,249	\$ 4,975,244
Current portion of loans receivable from microfinance institutions, net (Note 6)	16,343,197	16,394,681
Current portion of guarantor receivables (Note 7)	902,559	
Grants receivable	275,000	
Interest receivable, net	503,834	547,136
Other current assets	33,604	31,737
Total Current Assets	21,984,443	21,948,798
Loans receivable from microfinance institutions, net of current portion (Note 6)	26,724,950	20,620,853
Guarantor receivables, net of current portion (Note 7)	1,359,348	912,186
Derivative instruments (Note 4)	719,563	917,812
Investment in MFX Solutions, LLC (Note 1)	205,000	205,000
Total Assets	\$ 50,993,304	\$ 44,604,649
Liabilities and Net Assets		
Current Liabilities:		
Line of credit (Note 8)	\$ 1,000,000	\$ -
Current portion of notes payable (Note 9)	11,831,208	12,733,305
Accounts payable	7,836	7,836
Interest payable	166,285	115,550
Accrued liabilities	40,737	469
Total Current Liabilities	13,046,066	12,857,160
Long-Term Liabilities:		
Deferred loan origination fees	230,632	200,329
Derivative instruments (Note 4)	304,758	1,700
Notes payable, net of current portion (Note 9)	33,120,608	27,149,414
Total Liabilities	46,702,064	40,208,603
Net Assets:		
Unrestricted-		
Undesignated	1,847,195	1,884,736
Designated by the Board of Directors (Note 11)	453,661	392,690
Total unrestricted	2,300,856	2,277,426
Temporarily restricted (Note 12)	1,213,823	1,229,062
Permanently restricted (Note 13)	776,561	889,558
Total Net Assets	4,291,240	4,396,046
Total Liabilities and Net Assets	\$ 50,993,304	\$ 44,604,649

See accompanying notes.

MCE SOCIAL CAPITAL

Statement of Activities For the Year Ended December 31, 2016 (With Comparative Totals for 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
Operating Activities					
Revenue and Support:					
Revenue from microfinance lending activities-					
Interest income on Microfinance loans, net	\$ 2,979,662	\$ -	\$ -	\$ 2,979,662	\$ 3,145,477
Amortization of loan origination fee revenue	136,423			136,423	120,160
Credit losses	(1,565,309)		(116,010)	(1,681,319)	(912,186)
Imputed interest expense	(108,560)			(108,560)	(105,632)
Interest expense	(1,574,566)			(1,574,566)	(1,615,891)
Net revenue from microfinance lending activities	(132,350)		(116,010)	(248,360)	631,928
Other revenue and support-					
Contributions and grants	1,837,535		3,013	1,840,548	916,231
Contributed revenue from present value discount on low interest debt (Note 9)		93,321		93,321	
Contributed services (Note 10)	309,067			309,067	360,131
Interest income	731			731	1,721
Realized gains on swap transactions	142,640			142,640	180,113
Realized and unrealized foreign currency translation losses (Note 3)	(169,802)			(169,802)	(938,982)
Change in fair value of derivative instruments (Note 4)	(501,307)			(501,307)	345,559
Other income	26,314			26,314	19,000
Net assets released from restrictions	108,560	(108,560)			
Total Revenue and Support	1,621,388	(15,239)	(112,997)	1,493,152	1,515,701
Operating Expenses:					
Program services	1,081,636			1,081,636	1,077,701
Management and general	444,776			444,776	369,790
Fundraising	71,546			71,546	45,653
Total Operating Expenses	1,597,958			1,597,958	1,493,144
Change in Net Assets	23,430	(15,239)	(112,997)	(104,806)	22,557
Net assets, beginning of year	2,277,426	1,229,062	889,558	4,396,046	4,373,489
Net Assets, End of Year	\$ 2,300,856	\$ 1,213,823	\$ 776,561	\$ 4,291,240	\$ 4,396,046

See accompanying notes.

MCE SOCIAL CAPITAL

Statement of Cash Flows For the Year Ended December 31, 2016 (With Comparative Totals for 2015)

	2016	2015
Reconciliation of Net Increase in Net Assets to		
Net Assets (Used in) Provided by Operating Activities:		
Change in net assets	\$ (104,806)	\$ 22,557
Adjustments to reconcile change in net assets to cash (used in) provided by operating activities-		
Contributed revenue from present value discount on low interest debt	(93,321)	
Imputed interest expense	108,560	105,632
Financing cost amortization	51,936	71,786
Change in provision for estimated credit losses	447,162	912,186
Realized and unrealized losses (gains) on change in fair value of derivative instruments	501,307	(345,559)
Realized and unrealized foreign currency translation losses	169,802	938,982
(Increase) decrease in:		
Guarantor receivables	(1,349,721)	(912,186)
Grants receivable	(275,000)	
Interest receivable	43,302	(180,449)
Other current assets	(1,867)	22,248
Increase (decrease) in:		
Accounts payable		(6,889)
Interest payable	50,735	35,859
Accrued liabilities	40,268	(7,209)
Deferred loan origination fees	30,303	1,719
Net Cash (Used in) Provided by Operating Activities	(381,340)	658,677
Cash Flows From Investing Activities:		
Loans receivable repayments received	16,145,423	11,419,383
Loans receivable funded	(22,815,000)	(12,964,182)
Net Cash Used in Investing Activities	(6,669,577)	(1,544,799)
Cash Flows From Financing Activities:		
Principal payments on notes payable	(10,922,903)	(7,492,915)
Payments of loan fees	(50,175)	(58,972)
Net line of credit activity	1,000,000	
Proceeds from notes payable	15,975,000	10,200,000
Net Cash Provided by Financing Activities	6,001,922	2,648,113
Change in Cash and Cash Equivalents	(1,048,995)	1,761,991
Cash and cash equivalents balance, beginning of year	4,975,244	3,213,253
Cash and Cash Equivalents Balance, End of Year	\$ 3,926,249	\$ 4,975,244
Supplementary Disclosure of Cash Flow Information:		
Cash paid for interest	\$ 1,523,831	\$ 1,580,032

See accompanying notes.

MCE SOCIAL CAPITAL

Notes to Financial Statements For the Year Ended December 31, 2016 (With Comparative Totals 2015)

Note 1 - Nature of Operations and Significant Accounting Policies

Nature of Activities - MCE Social Capital (the Organization) is a California not-for-profit organization which offers an innovative approach to mobilize private capital to help the impoverished. The Organization leverages private capital as collateral for loans to finance micro-businesses throughout the developing world.

The Organization'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, as well as providing a separate guarantor pool 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 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, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted Net Assets - Represents resources, which have met all applicable donor restrictions and are considered to be available for unrestricted use.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that will be met either by actions of the Organization or the passage of time.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization.

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

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

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 December 31, 2016 and 2015. 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, 2016 and 2015.

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.

MCE SOCIAL CAPITAL

Notes to Financial Statements For the Year Ended December 31, 2016 (With Comparative Totals 2015)

Note 1 - Continued

Changes in fair value are recorded in the statement of activities as unrealized gains and losses. Realized gains and losses are recognized on the hedged activity as settlements occur.

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

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

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

Grants Receivable - Grants receivable expected to be collected within one year are recorded at net realizable value. Grants receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. At December 31, 2016, grants receivable consisted of one grant. Management considers the grant fully collectible; therefore, an allowance for doubtful accounts was not deemed necessary at December 31, 2016. There were no grants receivable at December 31, 2015.

Loans Receivable - Loans receivable are stated at the amount management expects to collect of the outstanding balance. An allowance for credit losses, if required, is based on management's assessment of the current status of an individual loan that is anticipated to be partially or fully uncollectible. Amounts are included as past due if principal repayment has not been made in accordance with the latest amended loan agreements payment terms. See Note 6 for further description of the Organization's loan portfolio, the estimated allowance for credit losses and past due loan amounts.

Guarantor Receivables - Philanthropic guarantees are considered conditional promises to give until a default occurs with the Organization requiring payment from the pool of guarantors in accordance with the philanthropic guarantee agreement. At the time default occurs and the guarantor payment required can be reasonably estimated, the Organization considers the philanthropic guarantees to be unconditional promises to give and recognizes a contribution based on estimated losses. See Note 7 for further discussion of the guarantor receivables recorded at December 31, 2016 and 2015.

Deferred Loan Origination Fees - Loan origination fees on loans are deferred and recognized as revenue over the contractual lives of the related loans. Amortization of deferred loan fees is discontinued when a loan is placed on nonaccrual status.

Federal Income Tax - The Internal Revenue Service has determined that the Organization is exempt from federal income tax under Internal Revenue Code Section 501(c)(3); accordingly, no provision has been made for federal income tax in the accompanying financial statements.

MCE SOCIAL CAPITAL

Notes to Financial Statements For the Year Ended December 31, 2016 (With Comparative Totals 2015)

Note 1 - Continued

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, 2016 and 2015.

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

Change in Accounting Principle - During 2016, the Organization implemented the requirements of the Financial Accounting Standards Board's Accounting Standards Update No. 2015-03 - *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03). ASU 2015-03 changes the accounting for debt issuance costs (financing costs) by requiring that such costs be reported on the statement of financial position as a direct deduction to the related liability. Previously, loan fees were reported as a deferred charge asset on the statement of financial position. The Organization has restated the 2015 financial statements to conform to the 2016 presentation and as a result \$92,329 of unamortized financing costs were reclassified from capitalized costs to long-term debt on the statement of financial position as of December 31, 2015.

Allocation of Functional Expenses - The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Interest expense reported in the statement of activities is considered program services for functional reporting purposes.

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 2015 financial statements to conform to the 2016 presentation. Such reclassifications had no effect on the change in net assets previously reported.

Subsequent Events - Management has evaluated subsequent events through April 26, 2017, 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.

MCE SOCIAL CAPITAL

Notes to Financial Statements For the Year Ended December 31, 2016 (With Comparative Totals 2015)

Note 3 - Foreign Currency Translation

The Organization from time to time issues loans denominated in a foreign currency. Loans receivable denominated in foreign currencies are translated into U.S. dollars at the balance sheet date rate of exchange. Loans denominated in foreign currencies accrue interest at rates ranging from 5.25% to 25.98% annually, and mature between January 2017 and December 2019. Unrealized foreign currency translation losses of \$206,099 and \$897,040 were recognized during the years ended December 31, 2016 and 2015, respectively. Realized foreign currency translation gains of \$36,297 and losses of \$41,942 were recognized for the years ended December 31, 2016 and 2015, 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 (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.

The derivative instruments were recorded at their fair value. At December 31, 2016 and 2015, derivative instrument assets totaled \$719,563 and \$917,812, respectively. At December 31, 2016 and 2015, derivative instrument liabilities totaled \$304,758 and \$1,700, respectively. Embedded in the currency swap is a forward contract which creates the obligation for both parties to close the swap agreement at the agreed upon maturity date.

Note 5 - Fair Value Measurements

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

Valuation Techniques - Financial assets and liabilities valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets and liabilities valued using Level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. Financial assets and liabilities using Level 3 inputs were primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability. Valuation techniques utilized to determine fair value are consistently applied. As noted below, there was no change in the valuation of investments using Level 3 inputs during the year ended December 31, 2016.

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, 2016.

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.

MCE SOCIAL CAPITAL

Notes to Financial Statements For the Year Ended December 31, 2016 (With Comparative Totals 2015)

Note 5 - Continued

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

	Derivative Financial Instruments, Net
Balance, December 31, 2015	\$ 916,112
Unrealized losses, net	<u>(501,307)</u>
Balance, December 31, 2016	<u>\$ 414,805</u>

Note 6 - Loans Receivable

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

The Organization assesses certain eligibility criteria to evaluate the creditworthiness of a microfinance institution. These include quality and integrity of the management and Board of Directors, quality of the client-borrower loan portfolio, financial performance and prospects for growth, stability of the political, economic and legal environment of the country. Some of the specific financial qualifications include; serve at least 5,000 borrowers or have a minimum US \$1,000,000 gross loan portfolio, maintain portfolio-at-risk (i.e., outstanding balance of all loans with payments in arrears beyond 30 days) below 10%, be operationally self-sufficient or demonstrate a clear plan to achieve operational self-sufficiency, provide independent audit reports covering at least the two most recent years, have a business plan with three years of financial projections or present a credit rating or other similar external evaluation/recommendation.

The Organization loans money to MFI's at fixed interest rates ranging from 5.00% to 25.98%. In most cases, interest is payable quarterly until the loan is paid in full, principal payments commence 18 months after the disbursement date and are made semiannually in equal installments through the maturity date of the loan.

MCE SOCIAL CAPITAL

Notes to Financial Statements For the Year Ended December 31, 2016 (With Comparative Totals 2015)

Note 6 - Continued

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

	<u>2016</u>	<u>2015</u>
Loans receivable from microfinance institutions	\$ 44,427,495	\$ 37,927,720
Less provision for estimated credit losses	<u>(1,359,348)</u>	<u>(912,186)</u>
Loans receivable from microfinance institutions, net	43,068,147	37,015,534
Current portion of loans receivable from microfinance institutions	<u>(16,343,197)</u>	<u>(16,394,681)</u>
Loans Receivable From Microfinance Institutions, Net of Current Portion	<u>\$ 26,724,950</u>	<u>\$ 20,620,853</u>

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

	<u>2016</u>	<u>2015</u>
Provision for estimated credit losses, beginning balance	\$ 912,186	\$ -
Direct write-downs	(1,234,157)	
Provision for estimated credit losses	<u>1,681,319</u>	<u>912,186</u>
Provision for Estimated Credit Losses, Ending Balance	<u>\$ 1,359,348</u>	<u>\$ 912,186</u>

Maturities on long-term receivables from microfinance institutions for the years subsequent to December 31, 2016, are as follows:

For the Year Ending December 31,

2017	\$ 16,343,197
2018	19,213,952
2019	8,155,346
2020	
2021	<u>715,000</u>
	<u>\$ 44,427,495</u>

Credit Risk Assessment - Management considers the specific operational and performance metrics and liquidity positions of each MFI on a quarterly basis to assess the MFIs' credit risk. Based on the assessment of credit risk, the Organization may classify a loan as either being on the Watch List or Impaired List.

MCE SOCIAL CAPITAL

Notes to Financial Statements For the Year Ended December 31, 2016 (With Comparative Totals 2015)

Note 6 - Continued

Outstanding loans qualify for the Watch List when there are out of the ordinary activities going on internally at the MFI or externally to the MFI, or where such activities are not occurring but are very likely, that may increase the risk of default and thus, require extra attention of portfolio managers. Outstanding loans are placed on the Impaired List when the risk of default is more significant than for those MFIs on the Watch List; the Impaired List is also used to protect Guarantors who join MCE's Guarantee program after an MFI has been added to the Impaired List from being asked to contribute should that particular MFI default on their loan to MCE.

At December 31, 2016, the outstanding loans receivable categorized by the Organization's credit risk rating were as follows:

Watch list	\$ 2,507,138
Impaired list	2,100,000
Remaining loans	<u>39,820,357</u>
	<u><u>\$ 44,427,495</u></u>

The Organization estimates an allowance for credit losses based on the quarterly credit risk assessment performed as previously described. In most cases, a provision for estimated credit losses is only recorded at the point a loan is classified as impaired. As of December 31, 2016 the Organization's provision for estimated credit losses was \$1,359,348. The provision for estimated credit losses was the result of defaults by two MFIs included on the Impaired List on outstanding loans receivable during the year. The provision does not include \$740,652 of estimated future principal payments to be received from the MFIs included on impaired list. There is at least a reasonable possibility that the recorded estimate will change by a material amount in the near term. The average recorded investment in the impaired loans totaled \$2,100,000 in 2016 with \$12,268 of interest income recognized following impairment of the loans. The Organization accrues interest income on impaired loans at the Organizations cost of capital plus a 3% margin, with payments received being applied to the outstanding principal and interest balances.

Past Due Loans - The following loans were past due as of December 31, 2016:

0 to 90 days past due	\$ 254,106
90 to 180 days past due	351,590
Greater than 180 days past due	<u>578,263</u>
	<u><u>\$ 1,183,959</u></u>

During the year-ended December 31, 2016 there was one MFI that was given a one year extension to the original loan payment terms as part of a debt restructuring. Amounts originally due in 2016 totaled \$331,250.

Note 7 - Guarantor Model

The Organization has developed a pool of guarantors (donors) who have entered into philanthropic guarantee agreements (the Agreement) with the Organization. By entering into the Agreements, the Organization is able to solicit and receive contributions from the guarantors in the case that a default occurs limiting the impact of a default on the Organization's financial position. At the time default occurs and the guarantor payment required can be reasonably estimated, the Organization considers the philanthropic guarantees to be unconditional promises to give and recognizes a contribution. Management expects to request the amounts from guarantors in fiscal year 2018 and has, therefore, reported the corresponding guarantor receivables in the statement of financial position as long-term.

MCE SOCIAL CAPITAL

Notes to Financial Statements For the Year Ended December 31, 2016 (With Comparative Totals 2015)

Note 7 - Continued

As noted previously, the Organization experienced defaults on loans from two microfinance institutions (MFI's) requiring the Organization to recognize payments due from guarantors totaling \$1,359,348 which are reported as long-term guarantor receivables in the statement of financial position at December 31, 2016. In addition, due to the default of two loans impaired during 2015, a call was made on the guarantors during 2016 which totaled \$1,115,355. The remaining balance due from the 2016 call on guarantors totaled \$902,559, which is reported as current portion of guarantor receivables at December 31, 2016.

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, 2016 are fully collectible.

Note 8 - Line of Credit

The Organization has a line of credit with New Resource Bank, which is not to exceed \$1,000,000. Interest is charged at the prime rate plus 1.25% per annum and is paid monthly. The principal plus any unpaid interest is payable at maturity in January 2019. There was an outstanding balance on the line of credit at December 31, 2016 of \$1,000,000. There was no outstanding balance on the line of credit at December 31, 2015.

Note 9 - Notes Payable

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

	<u>2016</u>	<u>2015</u>
Unsecured notes payable to First Republic Bank, with annual interest rates ranging from 4.01% to 4.36%, and guaranteed by individual guarantors. Monthly interest payments with semi-annual principal payments. Maturity dates range between June 2017 through November 2019.	\$ 11,581,207	\$ 10,754,110
Note payable to First Republic Bank, with an annual interest rate of 2.65%, secured by the intermediaries securities account. Monthly interest payments with principal due upon maturity during January 2019.	500,000	500,000
Unsecured notes payable to Calvert Social Investment Foundation, Inc., with annual interest rates ranging from 4.25% to 4.50%. Quarterly interest payments with principal due upon maturity dates during July 2018 and December 2019.	2,550,000	1,500,000
Unsecured note payable to New Resource Bank, with annual interest rate of 4.38%, guaranteed by individual guarantors. Quarterly interest payments with semi-annual principal payments. Note matures during August 2017.	850,000	1,700,000

MCE SOCIAL CAPITAL

Notes to Financial Statements For the Year Ended December 31, 2016 (With Comparative Totals 2015)

Note 9 - Continued

	<u>2016</u>	<u>2015</u>
Unsecured notes payable to Overseas Private Investment Corporation (OPIC), with annual interest rates ranging from 3.43% to 4.97%. Quarterly interest payments and semi-annual principal payments. Notes mature during June 2019 and December 2019.	14,700,000	15,000,000
Unsecured note payable to RSF Social Finance, with an interest rate of 4.50%. Quarterly interest payments with semi-annual principal payments. Note matures during January 2019.	1,500,000	1,500,000
Unsecured privately placed notes, with annual interest rates ranging from 2.25% to 3.60%. Annual interest payments with principal due upon maturity. Maturity dates range between December 2017 through June 2023.	2,075,000	350,000
Unsecured privately placed note, with annual interest rate of 2.25%. Semi-annual interest and principal payments until maturity during July 2019.	2,000,000	
Unsecured privately placed notes, with annual interest rates ranging from 2.00% to 3.60%. Quarterly interest payments with principal due upon maturity. Maturity dates range between February 2017 through March 2020.	6,000,000	5,400,000
Noninterest bearing notes payable to individuals guarantors including foundations. Principal due upon maturity dates ranging from October 2018 and March 2019.	<u>3,500,000</u>	<u>3,500,000</u>
	45,256,207	40,204,110
Less unamortized financing costs	(90,568)	(92,329)
Less present value discount	(213,823)	(229,062)
Less current portion of notes payable	<u>(11,831,208)</u>	<u>(12,733,305)</u>
Long-Term Debt, Net of Current Portion	<u>\$ 33,120,608</u>	<u>\$ 27,149,414</u>

Guarantors and private foundations have provided interest-free loans totaling \$3,500,000 as of December 31, 2016 and 2015. The Organization recorded a loan discount using rates ranging from 3.2% to 3.3%. The loans are reported in the statement of financial position net of unamortized discount of \$213,823 and \$229,062 at December 31, 2016 and 2015, respectively. The discount on the loans is being amortized to imputed interest expense over the lives of the loans.

MCE SOCIAL CAPITAL

**Notes to Financial Statements
For the Year Ended December 31, 2016
(With Comparative Totals 2015)**

Note 9 - Continued

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

For the Year Ending December 31,

2017	\$ 11,831,208
2018	20,487,500
2019	11,262,499
2020	250,000
2021	
Thereafter	<u>1,425,000</u>
	<u><u>\$ 45,256,207</u></u>

Note 10 - Contributed Services

The value of donated services included as contributions in the financial statements and the corresponding program service and management expenses for the year ended December 31, 2016, are as follows:

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Pro Bono Services</u>
Officer services provided pro bono	\$ 122,677	\$ 68,100	\$ 8,331	\$ 199,108
Legal and professional services	<u>98,963</u>	<u>10,996</u>	<u> </u>	<u>109,959</u>
	<u><u>\$ 221,640</u></u>	<u><u>\$ 79,096</u></u>	<u><u>\$ 8,331</u></u>	<u><u>\$ 309,067</u></u>

The value of donated services included as contributions in the financial statements and the corresponding program service and management expenses for the year ended December 31, 2015, are as follows:

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Pro Bono Services</u>
Officer services provided pro bono	\$ 66,750	\$ 63,750	\$ 7,000	\$ 137,500
Legal and professional services	<u>200,368</u>	<u>22,263</u>	<u> </u>	<u>422,999</u>
	<u><u>\$ 267,118</u></u>	<u><u>\$ 86,013</u></u>	<u><u>\$ 7,000</u></u>	<u><u>\$ 360,131</u></u>

MCE SOCIAL CAPITAL

Notes to Financial Statements For the Year Ended December 31, 2016 (With Comparative Totals 2015)

Note 11 - Net Assets Designated by the Board and Management

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

	<u>2016</u>	<u>2015</u>
Unrestricted and undesignated	\$ 1,847,195	\$ 1,884,736
Board designated - operating reserve	413,661	352,690
Permanent Fund to Alleviate Extreme Poverty and Frontier Fund	<u>40,000</u>	<u>40,000</u>
Total Unrestricted Net Assets	<u>\$ 2,300,856</u>	<u>\$ 2,277,426</u>

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

Note 12 - Temporarily Restricted Net Assets

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

	<u>2016</u>	<u>2015</u>
Kore Fund	\$ 500,000	\$ 500,000
Hunter Douglas Microfinance Sustainability Fund	500,000	500,000
Unamortized discount on long-term debt (Note 9)	<u>213,823</u>	<u>229,062</u>
	<u>\$ 1,213,823</u>	<u>\$ 1,229,062</u>

Kore Fund - The Organization's Board of Directors (the Board) established the Kore Fund to provide a liquidity reserve. Any amount drawn from the Kore Fund must be used to guarantee short-term financing opportunities and must be reimbursed in full within 365 days. In view of the Board's role in setting the purpose of the Kore Fund, U.S. GAAP requires that donor contributions to the Kore Fund be presented as temporarily restricted.

Hunter Douglas Microfinance Sustainability Fund - The Hunter Douglas Microfinance Sustainability Fund (the Hunter Douglas Fund) is maintained as a revolving account to temporarily fund any of the Organization's liquidity demands when MFIs are temporarily late with payments as a result of challenges encountered by operating in a developing country. The Hunter Douglas Fund ensures the Organization can meet all of its obligations until payment is made.

MCE SOCIAL CAPITAL

Notes to Financial Statements For the Year Ended December 31, 2016 (With Comparative Totals 2015)

Note 13 - Permanently Restricted Net Assets

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

	<u>2016</u>	<u>2015</u>
Permanent Fund to Alleviate Extreme Poverty	\$ 353,737	\$ 378,737
Frontier Fund	<u>422,824</u>	<u>510,821</u>
	<u>\$ 776,561</u>	<u>\$ 889,558</u>

Both funds decreased during the year ended December 31, 2016 due to credit losses incurred on the related loans.

Permanent Fund to Alleviate Extreme Poverty - The Permanent Fund to Alleviate Extreme Poverty (the Permanent Fund) directly supports microloans from tax-deductible contributions. Every gift to the Permanent Fund provides perpetual benefits. As loans are repaid, the money is loaned out in perpetuity.

Frontier Fund - The Frontier Fund is supported principally by grants and donations and funds investments in Small and Medium Sized Enterprises spurring job creation in Sub-Saharan Africa and MFIs operating in Sub-Saharan Africa and other challenging parts of the world.

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 \$19,199 and \$20,383 for the years ended December 31, 2016 and 2015, respectively.

Note 15 - Related Parties

Certain unsecured notes payable by the Organization are held with the Organization's board members and other related parties with outstanding balances of \$4,250,000 as of December 31, 2016 and 2015.

The Organization also received contributed services from the Organization's board members and other related parties totaling \$199,108 and \$137,500 for the years ending December 31, 2016 and 2015, respectively.