

FONKOZE USA, INC.

**Financial Statements Together with
Report of Independent Public Accountants**

For the Year Ended December 31, 2017



SB & COMPANY, LLC
KNOWLEDGE • QUALITY • CLIENT SERVICE

DECEMBER 31, 2017

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors
Fonkoze USA, Inc.

Report on the Financial Statements

We have audited the accompanying statement of financial position of the Fonkoze USA, Inc. (the Organization) as of December 31, 2017, and the related statement of activities and changes in net assets, 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 controls 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 controls 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 controls. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Washington, D.C.
August 8, 2018

SB & Company, LLC

FONKOZE USA, INC.

**Statement of Financial Position
As of December 31, 2017**

| ASSETS | |
|---|----------------------------|
| Cash and cash equivalents | \$ 291,254 |
| Investments | 859,925 |
| Investment in Fonkoze S. A. | 501,600 |
| Grants receivable | 67,135 |
| Loans receivable, related party | 2,995,675 |
| Other receivables | 1,176 |
| Prepaid expenses | 17,824 |
| Property and equipment, net | 1,675 |
| Other assets | 4,696 |
| Total Assets | <u>\$ 4,740,960</u> |
| LIABILITIES AND NET ASSETS | |
| Liabilities | |
| Accounts payable, accrued expenses, and other liabilities | \$ 57,224 |
| Grants payable, related party | 498,927 |
| Loan payable, related parties | 400,000 |
| Loans payable | 3,175,355 |
| Total Liabilities | <u>4,131,506</u> |
| Net Assets | |
| Unrestricted - undesignated | (501,004) |
| Unrestricted - board designated endowment | 615,982 |
| Temporarily restricted | 293,839 |
| Permanently restricted | 200,637 |
| Total Net Assets | <u>609,454</u> |
| Total Liabilities and Net Assets | <u>\$ 4,740,960</u> |

The accompanying notes are an integral part of these financial statements.

FONKOZE USA, INC.

**Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2017**

UNRESTRICTED NET ASSETS

Revenue and Other Support

| | |
|--|------------------|
| Contributions and grants | \$ 920,220 |
| Fundraising events | 90,005 |
| In-kind donations | 39,393 |
| Contracts income | 22,750 |
| Investment income | 70,140 |
| Other income | 31,413 |
| Total Revenue and Other Support | 1,173,921 |
| Net assets released from restrictions | 711,879 |
| Total Revenue and Other Support | 1,885,800 |

Expenses

Program services:

| | |
|-------------------------------|------------------|
| Grants expense | 813,920 |
| Education expense | 173,947 |
| Other program expense | 351,362 |
| Total program services | 1,339,229 |

Supporting services:

| | |
|--|------------------|
| Management and general | 308,789 |
| Fundraising | 323,875 |
| Total Expenses | 1,971,893 |
| Change in Unrestricted Net Assets | (86,093) |

TEMPORARILY RESTRICTED NET ASSETS

| | |
|--|-----------------|
| Contributions and grants | 581,519 |
| Investment income | 39,112 |
| Net assets released from restrictions | (711,879) |
| Change in Temporarily Restricted Net Assets | (91,248) |

PERMANENTLY RESTRICTED NET ASSETS

| | |
|--------------------------------|-------------------|
| Contributions and grants | 1,000 |
| Changes in net assets | (176,341) |
| Net assets, beginning of year | 785,795 |
| Net Assets, End of Year | \$ 609,454 |

The accompanying notes are an integral part of these financial statements.

FONKOZE USA, INC.

**Statement of Functional Expenses
For the Year Ended December 31, 2017**

| | Grants | Education | Other Program | Total Program Services | Management and General | Fundraising | Total |
|--------------------------------------|-------------------|-------------------|-------------------|------------------------------|---------------------------|-------------------|---------------------|
| Salaries | \$ - | \$ 108,677 | \$ 179,024 | \$ 287,701 | \$ 139,433 | \$ 102,378 | \$ 529,512 |
| Retirement plan | - | 2,790 | 6,190 | 8,980 | 8,470 | 3,750 | 21,200 |
| Employee health insurance & benefits | - | 4,977 | 8,243 | 13,220 | 3,515 | 3,936 | 20,671 |
| Payroll taxes and fees | - | 8,157 | 13,375 | 21,532 | 10,482 | 7,695 | 39,709 |
| Fundraising, promotion, and media | - | 819 | 1,283 | 2,102 | 160 | 138,068 | 140,330 |
| Grants expense | 813,920 | - | - | 813,920 | - | - | 813,920 |
| Travel | - | 2,732 | 7,480 | 10,212 | 2,057 | 5,498 | 17,767 |
| Professional services | - | 245 | 33,417 | 33,662 | 17,325 | 105 | 51,092 |
| Printing | - | 1,026 | 1,001 | 2,027 | 1,141 | 28,055 | 31,223 |
| Interest | - | - | 41,231 | 41,231 | - | - | 41,231 |
| Depreciation | - | 921 | 729 | 1,650 | 1,187 | 997 | 3,834 |
| Contract Services | - | 949 | - | 949 | 50,121 | 4,374 | 55,444 |
| Rent | - | 12,612 | 16,600 | 29,212 | 20,397 | 9,877 | 59,486 |
| Office utilities and maintenance | - | 76 | 126 | 202 | 104 | 55 | 361 |
| Miscellaneous | - | 36 | 29 | 65 | 2,733 | 39 | 2,837 |
| Postage and delivery | - | 1,428 | 902 | 2,330 | 712 | 10,989 | 14,031 |
| Insurance | - | 1,012 | 3,130 | 4,142 | 1,797 | 894 | 6,833 |
| Licenses and permits | - | - | - | - | 5,097 | - | 5,097 |
| Supplies | - | 333 | 450 | 783 | 825 | 596 | 2,204 |
| Telephone | - | 1,276 | 1,408 | 2,684 | 1,417 | 1,249 | 5,350 |
| Bank charges | - | - | - | - | 9,019 | - | 9,019 |
| Training | - | 118 | 217 | 335 | 186 | 99 | 620 |
| Technology | - | 4,788 | 7,582 | 12,370 | 8,983 | 4,999 | 26,352 |
| Dues and subscriptions | - | - | - | - | 2,000 | - | 2,000 |
| Board meetings | - | - | - | - | 20,036 | - | 20,036 |
| Ti Koze Press | - | - | 3,853 | 3,853 | - | - | 3,853 |
| Fonkoze family | - | - | - | - | 1,592 | - | 1,592 |
| Education program support in Haiti | - | - | 1 | 1 | - | - | 1 |
| Delegations to Haiti | - | 16,884 | 5,628 | 22,512 | - | - | 22,512 |
| Programmatic expenses | - | 4,091 | 19,463 | 23,554 | - | 222 | 23,776 |
| Total | \$ 813,920 | \$ 173,947 | \$ 351,362 | \$ 1,339,229 | \$ 308,789 | \$ 323,875 | \$ 1,971,893 |

The accompanying notes are an integral part of this financial statement.

FONKOZE USA, INC.

Statement of Cash Flows For the Year Ended December 31, 2017

Cash Flows from Operating Activities

| | |
|---|-----------------|
| Changes in net assets | \$ (176,341) |
| Adjustments to reconcile changes in net assets to net cash from operating activities: | |
| Depreciation | 3,834 |
| Unrealized gain on investments | (94,583) |
| Effect of changes in non-cash operating assets and liabilities: | |
| Donations receivable | 76,322 |
| Grants receivable | 120,002 |
| Interest receivable | 25,522 |
| Other receivables | 6,374 |
| Prepaid expenses | (224) |
| Other assets | 1,100 |
| Accounts payable, accrued expenses, and other liabilities | (33,847) |
| Grants payable, related party | 28,927 |
| Net Cash Flow from Operating Activities | (42,914) |

Cash Flow from Investing Activities

| | |
|--|-----------------|
| Purchase of investments | (35,177) |
| Proceeds from sales of investments | 17,336 |
| Net Cash Flow from Investing Activities | (17,841) |

Cash Flows from Financing Activities

| | |
|--|---------------|
| Distribution of loans receivable | (302,000) |
| Proceeds from loans payable | 364,000 |
| Payment on loans payable | (34,820) |
| Net Cash Flow from Financing Activities | 27,180 |

| | |
|--------------------------|-------------------|
| Net change in cash | (33,575) |
| Cash, beginning of year | 324,829 |
| Cash, End of Year | \$ 291,254 |

Supplemental Cash Flow Disclosure

| | |
|------------------------|-----------|
| Cash paid for interest | \$ 41,231 |
|------------------------|-----------|

FONKOZE USA, INC.

Notes to the Financial Statements December 31, 2017

1. DESCRIPTION OF THE ORGANIZATION

Fonkoze USA, Inc. (the Organization) was established at the initiative of individuals in the United States of America to raise both donated and invested funds in order to provide grants, loans, and technical assistance to the organized poor of Haiti, and to promote education in the United States of America about alternative approaches to democratic and sustainable economic development in Haiti. At the first organizational meeting, the Board of Directors (the Board) of the Organization voted that Fondasyon Kole Zepòl (the Foundation) would be a recipient of such grants and loans approved by the Board to support programs and activities benefiting the poor. At subsequent meetings of the Board, additional Haitian organizations, called Development Partners and Sèvis Finansye Fonkoze (SFF), a wholly owned subsidiary of Fonkoze S.A., were approved as the Organization grant recipients. In addition, SFF was approved as a loan recipient.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include amounts invested in short-term investments with original maturities of 90 days or less. Cash equivalents as of December 31, 2017, consisted of money market funds.

Fair Value Measurements

Generally accepted accounting principles establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

FONKOZE USA, INC.

Notes to the Financial Statements December 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements (continued)

The three levels of the fair value hierarchy under generally accepted accounting principles are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Fund has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Receivables

Receivables are valued at management's estimate of the amount that will ultimately be collected. An allowance for doubtful accounts, if needed, is based on specific identification of uncollectible accounts and the Organization's historical collection experience. Management believes all receivables are fully collectible; therefore, no allowance for doubtful accounts is recorded as of December 31, 2017.

Grants Receivable

Revenue from grants are recognized only to the extent of actual expenses incurred in compliance with the grant. Grant expenses incurred in excess of funds collected are recorded as grant receivable. As of December 31, 2017, there was no allowance for doubtful accounts as management believes that all contributions outstanding are fully collectible.

FONKOZE USA, INC.

Notes to the Financial Statements December 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans Receivable

Loans receivable are loans issued to SFF, a related party, who loans them to various entities in Haiti. Loans that management has the intent and ability to hold until maturity are reported at the principal amount outstanding. The amount loaned to SFF is based on investment loans received from external parties. The loans receivable maturity dates coincide with the maturity dates of the loans payable. The Organization has reviewed the financial statements and cash reserves of SFF and has determined that these outstanding loans are collectible. An allowance for doubtful accounts, if needed, is also based on specific identification of uncollectible accounts and the Organization's historical collection experience. See footnote 8 for more information.

Property and Equipment, Net

Property and equipment purchases in excess of \$1,500, and an estimated useful life of more than one year are capitalized at cost and depreciated over the estimated useful lives of the assets using the straight-line method. Gifts of long-lived assets are recorded at their fair values when donated. Expenditures for major repairs and improvements are capitalized, and expenditures for minor repairs and maintenance are expensed as incurred.

Grants Payable, Related Party

Grants payable represent unpaid grant funds committed to be paid to grantees as part of the Organization's programs.

Net Assets

Unrestricted net assets are assets and contributions that are not restricted by donors or for which restrictions have expired.

Temporarily restricted net assets are those whose use by the Organization has been restricted by donors primarily for a specific time period or purpose. When a donor restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets. As of December 31, 2017, temporarily restricted net assets was \$293,839.

Permanently restricted net assets are those that are restricted by donors to be maintained by the Organization in perpetuity. As of December 31, 2017, permanently restricted net assets was \$200,637, and were restricted for the endowment.

FONKOZE USA, INC.

Notes to the Financial Statements December 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restricted and Unrestricted Support and Revenue

Contributions and grants received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor-imposed restrictions. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction.

Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when some stipulated time restriction ends or purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities and changes in net assets as net assets released from restrictions.

In-Kind Contributions

In-kind contributions for the year ended December 31, 2017 was \$39,393, and relate to legal services related to the Organization's loan program and goods and services related to fundraising events. Management estimated the value of the in-kind services based on the hours donated and the market rate for the value of the time.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the program and supporting services that benefit from those costs. Fundraising costs are that which are specific to the related activity. Management and general expenses include those expenses that are not directly identified with any other specific function but provide for the overall support and direction of the Organization.

Fundraising Events

Direct expenses related to fundraising events was \$131,717, for the year ended December 31, 2017, and are recorded as fundraising expense on the accompany statement of activities and changes in net assets.

Income Tax

The Organization is exempt from the payment of income taxes on income other than net unrelated business income under Section 501(c) (3) of the Internal Revenue Code.

FONKOZE USA, INC.

Notes to the Financial Statements December 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Tax (continued)

The provisions included in accounting principles generally accepted in the United States of America provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition of tax positions taken or expected to be taken in a tax return.

The Organization performed an evaluation of uncertain tax positions as of December 31, 2017, and determined that there were no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status. As of December 31, 2017, the statute of limitations for fiscal years 2014 through 2017 remain open with the U.S. Federal jurisdiction or the state and local jurisdiction in which the Organization files tax returns. It is the Organization's policy to recognize interest and/or penalties related to uncertain tax positions, if any, as income tax expense.

New Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases*, that creates a singular reporting model for leases. This standard will require the entity to record changes to its statement of financial position to reflect balances for current leases that are not shown in the statement of financial position. In July 2018, the FASB issued ASU No. 2018-10, *Codification Improvements to Topic 842, Leases and Leases (Topic 842): Targeted Improvements*, which provide further clarity and transition options for adoption of FASB ASU N. 2016-02. These standards will be effective for periods beginning after December 15, 2019.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* and ASU No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments*. ASU No 2016-14 provides updated guidance on the reporting model for not-for-profits and is effective for periods beginning after December 15, 2018. ASU No. 2016-15 provides guidance on the statement of cash flows and is effective for periods beginning after December 15, 2017.

In September 2017, the FASB issued ASU No. 2017-13, *Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842)*, that provides clarification on certain topics related to these topics. These standards are effective when the related previous amended standards become effective.

FONKOZE USA, INC.

Notes to the Financial Statements December 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncements (continued)

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, that improves the scope and accounting guidance around contributions of cash and other assets received and made by not-for-profit organizations and business enterprise. This standard is effective for periods beginning after December 15, 2019.

Management is evaluating the effects of these pronouncements on the financial statements, and will implement these pronouncements by their effective dates. Management does not believe the adoption of these pronouncements will have a material effect on the financial statements.

Subsequent Events

The Organization evaluated the accompanying financial statements for subsequent events and transactions through August 8, 2018, the date these financial statements were available for issue and have determined that no material subsequent events have occurred that would affect the information presented in the accompanying financial statements or require additional disclosure.

3. CASH

As of December 31, 2017, the Organization had a deposit held at SFF, a related party for \$14,985. These funds are held outside of the United States of America and are not insured.

4. INVESTMENTS

The following is a description of the valuation methodologies used for investments measured at fair value. There have been no changes in the methodologies used as of December 31, 2017.

Mutual funds and securities: Valued at the closing price reported on the active market on which the individual securities are traded.

Investment in Fonkoze, S.A.: Valued at fair market discounted for the limited distribution available for the investment.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Fund believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

FONKOZE USA, INC.

**Notes to the Financial Statements
December 31, 2017**

4. INVESTMENTS

The following table sets forth, by level, the fair value hierarchy of the Organization's investments at fair value as of December 31, 2017:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|-----------------------------|-------------------|----------------|-------------------|---------------------|
| Mutual funds | \$ 601,795 | \$ - | \$ - | \$ 601,795 |
| Securities | 258,130 | - | - | 258,130 |
| Investment in Fonkoze S. A. | - | - | 501,600 | 501,600 |
| | <u>\$ 859,925</u> | <u>\$ -</u> | <u>\$ 501,600</u> | <u>\$ 1,361,525</u> |

As of December 31, 2017, investments consisted of the following fair values:

| | <u>Cost</u> | <u>Unrealized Gain/(Loss)</u> | <u>Market Value</u> |
|-----------------------------|---------------------|-----------------------------------|---------------------|
| Mutual funds | \$ 535,582 | \$ 66,213 | \$ 601,795 |
| Securities | 226,077 | 32,053 | 258,130 |
| Investment in Fonkoze S. A. | 501,600 | - | 501,600 |
| | <u>\$ 1,263,259</u> | <u>\$ 98,266</u> | <u>\$ 1,361,525</u> |

Investment income for the year ended December 31, 2017, consisted of the following:

| | |
|--------------------------------|-------------------|
| Interest and dividends, net | \$ 20,131 |
| Unrealized gain on investments | 94,583 |
| Realized loss on investments | (5,462) |
| | <u>\$ 109,252</u> |

The investment in Fonkoze S.A. level 3 roll forward consisted of the following:

| | <u>Level 3</u> |
|-----------------------|-------------------|
| Beginning balance | \$ - |
| Transfer from level 2 | 501,600 |
| Ending balance | <u>\$ 501,600</u> |

For the year ended December 31, 2017, investment income consisted of the following:

FONKOZE USA, INC.

Notes to the Financial Statements December 31, 2017

4. INVESTMENTS (continued)

Transfers between Levels

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

We evaluate the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total net assets available for benefits.

5. PROPERTY AND EQUIPMENT, NET

As of December 31, 2017, property and equipment, net consisted of the following:

| | <u>Amount</u> | <u>Useful Life</u> |
|-------------------------------------|-----------------|--------------------|
| Leasehold improvements | \$ 3,035 | 10 years |
| Computer equipment | 6,252 | 3-7 years |
| Software | 11,741 | 3-7 years |
| Website upgrade | 13,850 | 3-7 years |
| | <u>34,878</u> | |
| Less: accumulated depreciation | 33,203 | |
| Property, Plant, and Equipment, Net | <u>\$ 1,675</u> | |

Depreciation expense was \$3,834, for the year ended December 31, 2017.

6. LOANS PAYABLE

Loans payable are made up of multiple loans from various investors who have made loans to the Organization to support its programs and activities as a result of the Fonkoze Family Debt Facility Agreement (the Agreement). The interest rates on the investor loans vary between 0% and 3% with maturity dates varying up to December 2021.

On December 30, 2015, the Organization signed the Agreement whereby \$500,000 of debt owed to SFF by the Foundation was transferred to the Organization. The transfer was treated as a grant by the Organization to the Foundation. The Agreement has an interest rate of 0% and expires on December 31, 2020, with annual payments of \$100,000. In 2016, an additional \$174,900 was transferred to the Organization.

Interest expense was \$41,231, for the year ended December 31, 2017. The principal balance outstanding as of December 31, 2017, was \$3,575,355.

FONKOZE USA, INC.

Notes to the Financial Statements December 31, 2017

6. LOANS PAYABLE (continued)

Future minimum payments for the loans payables were as follows:

| <u>Years Ending December 31,</u> | <u>Amount</u> |
|----------------------------------|-----------------------------------|
| 2018 | \$ 951,555 |
| 2019 | 649,000 |
| 2020 | 1,365,000 |
| 2021 | 609,800 |
| Total | <u><u>\$ 3,575,355</u></u> |

7. RESTRICTION OF NET ASSETS

Temporarily Restricted Net Assets

Temporarily restricted net assets as of December 31, 2017, consisted of the following:

| | |
|----------------------|---------------------------------|
| Fondasyon Kole Zepòl | \$ 129,155 |
| Education | 100,000 |
| Kay Lasante | 17,788 |
| N. A. Sonje | 80 |
| Hurricane Relief | 2,995 |
| Endowment | 43,306 |
| Other | 515 |
| Total | <u><u>\$ 293,839</u></u> |

8. RELATED PARTY TRANSACTIONS

The Organization shares a common mission with the Foundation and SFF, a wholly owned subsidiary of Fonkoze S.A. The Foundation has representation on the Board of Directors of the Organization and the Organization has representation on the Board of the Foundation. Further, two Board members and the Executive Director of each of the three entities participate in periodic Fonkoze Family Council meetings to coordinate entity activities. Donations and loans acquired by the Organization are donated through grants and loans to the Foundation and SFF.

FONKOZE USA, INC.

Notes to the Financial Statements December 31, 2017

8. RELATED PARTY TRANSACTIONS

The Foundation

As of December 31, 2016, loans receivable from the Foundation was \$316,007. Interest income from the loans to the Foundation for the year ended December 31, 2017, was \$4,567.

As of December 31, 2016, the Organization owed the Foundation \$9,015, for various expenses paid by the Foundation for the benefit of the Organization, and \$484,596 for the year ended December 31, 2017, for grants outstanding.

For the year ended December 31, 2017, the Organization made grants to the Foundation totaling \$581,625.

The Organization has a contract with the Foundation wherein the Organization contracts to provide the services of an Organization employee in Haiti full time to the Foundation and the Organization is reimbursed for the cost of that employee. During the year ended December 31, 2017, the amount reimbursed to the Organization by the Foundation was \$22,750.

SFF

As of December 31, 2017, loans receivable from SFF was \$2,995,675. Management believes these loans are fully collectable and therefore no allowance for uncollectable loans has been recorded for the year ended December 31, 2017. These loans are associated with the loans received from investors to provide for the advancement of loans to SFF. The amounts received from lenders are recorded as loans payable in the statement of financial position. As these loans become due from the lenders the funds are immediately demanded from SFF. There is a direct correlation for each loan from external investors to the amounts extended as loans from SFF.

Future minimum payments on the loans receivable were as follows:

| <u>Years Ending December 31,</u> | <u>Amount</u> |
|----------------------------------|----------------------------|
| 2018 | \$ 401,555 |
| 2019 | 649,000 |
| 2020 | 1,365,000 |
| 2021 | 580,120 |
| Total | <u>\$ 2,995,675</u> |

Fonkoze S.A. did not pay any dividends on its outstanding shares for the year ended December 31, 2017.

FONKOZE USA, INC.

Notes to the Financial Statements December 31, 2017

8. RELATED PARTY TRANSACTIONS (continued)

As of December 31, 2017, the Organization owed SFF \$400,000, as a loan payable, and \$14,331, for grants outstanding. No payments was made on the loan outstanding for the year ended December 31, 2017.

As of December 31, 2017, the Organization owed SFF \$2,330, for various expenses paid by SFF for the benefit of the Organization.

For the year ended December 31, 2017, the Organization made grants to SFF totaling \$44,127.

9. ENDOWMENT

The Board of Directors has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring 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 assets the original value of gifts to the permanent endowment. The permanent endowment fund currently consists of a general endowment fund and an education endowment fund.

The donor of the general endowment didn't specify how earnings should be used. The donor of the education portion of the permanent endowment fund wanted the earnings on those funds to support education programming. Therefore, such earnings (or losses) are recorded as part of the Temporarily Restricted Endowment fund.

The remaining investment earnings are allocated to the Board's quasi-endowment fund. The balance of the endowment fund consists of unrestricted contributions that have been designated by the Board of Directors to be included in the endowment.

In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of the Organization and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the Organization; and
- The investment policies of the Organization.

FONKOZE USA, INC.

Notes to the Financial Statements December 31, 2017

9. ENDOWMENT (continued)

Return Objectives and Risk Parameters

The Organization's investment policy states the following Endowment objectives:

- To protect the donated assets and preserve their purchasing power over time
- To provide a reasonable rate of return to support the Organization
- To achieve maximum prudent total return without regard to whether that return consists of interest and dividends or realized and unrealized capital gain
- The Investment Committee may honor requests from endowment donors to set aside the above objectives in order to invest their gift(s) directly in the work of Fonkoze Haiti.

The Organization balances investment risk by diversifying among bonds and stocks, large and small cap, domestic and foreign, with no-load mutual funds purchased through a mutual fund.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The policy further states that endowment income may be transferred annually to the operations account of the Organization, or retained in the endowment, at the discretion of the Organization's Board of Directors. When endowment income reaches \$10,000 or more a year, it may be transferred to the operations account quarterly. Endowment income includes actual income (interest and dividends) and attributed income (5% of the market value of investable assets in the endowment account on January 1 of each year).

As of December 31, 2017, the composition of the endowment was as follows:

| | <u>Amount</u> |
|------------------------|-------------------|
| Board designated | \$ 615,982 |
| Temporarily restricted | 43,306 |
| Permanently restricted | 200,637 |
| Total Endowment | \$ 859,925 |

FONKOZE USA, INC.

Notes to the Financial Statements December 31, 2017

9. ENDOWMENT (continued)

For the year ended December 31, 2017, the changes in the endowment net assets were as follows:

| | Board Designated | Temporarily Restricted | Permanently Restricted | Total |
|-------------------------------------|-----------------------------|-----------------------------------|-----------------------------------|-------------------|
| Balance at January 1, 2017 | \$ 550,322 | \$ 4,194 | \$ 199,637 | \$ 754,153 |
| Interest and dividends | 4,608 | 15,523 | - | 20,131 |
| Net appreciation | 61,052 | 23,589 | - | 84,641 |
| Contributions | - | - | 1,000 | 1,000 |
| Balance at December 31, 2017 | \$ 615,982 | \$ 43,306 | \$ 200,637 | \$ 859,925 |

10. COMMITMENTS AND CONTINGENCIES

During April 2015, the Organization signed a five year and four month lease for office space.

Future minimum rental payments under the agreement as of December 31, 2017, were as follows:

| Years Ending December 31, | Amount |
|----------------------------------|-------------------|
| 2018 | \$ 60,679 |
| 2019 | 62,499 |
| 2020 | 53,487 |
| Total | \$ 176,664 |

Rent expense for the year ended December 31, 2017, was \$59,485.

11. DEFINED CONTRIBUTION PLAN

The Organization provided benefits to all eligible employees under a 403(b) defined contribution plan. The Organization matches 50% of the employee contribution up to \$6,000 per year. The employer's contribution for the year ended December 31, 2017, was \$21,200.