

FONKOZE USA, INC.

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

For the Years Ended December 31, 2018 and 2017



DECEMBER 31, 2018 AND 2017

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors
Fonkoze USA, Inc.

We have audited the accompanying financial statements of Fonkoze USA, Inc. (the Organization), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, cash flows, and functional expenses 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.

Auditor's 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 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.



SB & COMPANY, LLC
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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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Washington, D.C.
May 31, 2019

SB & Company, LLC

FONKOZE USA, INC.**Statements of Financial Position
As of December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 517,338	\$ 291,254
Investments	812,134	859,925
Investment in Fonkoze S. A.	514,100	501,600
Donations receivable	48,587	-
Grants receivable	242,482	67,135
Loans receivable, related party	2,966,418	2,995,675
Other receivables	-	1,176
Prepaid expenses	14,934	17,824
Property and equipment, net	1,169	1,675
Other assets	18,787	4,696
Total Assets	\$ 5,135,949	\$ 4,740,960
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable, accrued expenses, and other liabilities	\$ 13,429	\$ 57,224
Grants payable, related party	645,242	498,927
Loan payable, related parties	200,000	400,000
Promissory notes	158,000	179,680
Loans payable	2,966,418	2,995,675
Total Liabilities	3,983,089	4,131,506
Net Assets		
Without donor restrictions		
Operational use	(80,983)	(501,004)
Board designated endowment	575,373	615,982
With donor restrictions	658,470	494,476
Total Net Assets	1,152,860	609,454
Total Liabilities and Net Assets	\$ 5,135,949	\$ 4,740,960

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

FONKOZE USA, INC.

**Statements of Activities and Changes in Net Assets
For the Years Ended December 31, 2018, with Comparative Totals for 2017**

	2018			2017 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Revenue and Other Support				
Contributions and grants	\$ 1,583,830	\$ 844,589	\$ 2,428,419	\$ 1,502,739
Fundraising events	74,948	-	74,948	90,005
In-kind donations	121,782	-	121,782	39,393
Contracts income	60,612	-	60,612	22,750
Investment income	(44,257)	(7,182)	(51,439)	109,252
Interest on loan receivable, related party	113,607	-	113,607	-
Other income	11,925	-	11,925	31,413
Net assets released from restrictions	673,413	(673,413)	-	-
Total Revenue and Other Support	2,595,860	163,994	2,759,854	1,795,552
Expenses				
Program services:				
Grants	1,015,578	-	1,015,578	813,920
Education	174,075	-	174,075	173,947
Technical assistance	471,751	-	471,751	351,362
Total program services	1,661,404	-	1,661,404	1,339,229
Supporting services:				
Management and general	267,536	-	267,536	308,789
Fundraising	287,508	-	287,508	323,875
Total supporting services	555,044	-	555,044	632,664
Total Expenses	2,216,448	-	2,216,448	1,971,893
Changes in net assets	379,412	163,994	543,406	(176,341)
Net assets, beginning of year	114,978	494,476	609,454	785,795
Net Assets, End of Year	\$ 494,390	\$ 658,470	\$ 1,152,860	\$ 609,454

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

FONKOZE USA, INC.

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

	Without Donor Restrictions	2017 With Donor Restrictions	Total
Revenue			
Contributions and grants	\$ 920,220	\$ 582,519	\$ 1,502,739
Fundraising events	90,005	-	90,005
In-kind donations	39,393	-	39,393
Contracts income	22,750	-	22,750
Investment income	70,140	39,112	109,252
Other income	31,413	-	31,413
Net assets released from restrictions	711,879	(711,879)	-
Total Revenue and Other Support	1,885,800	(90,248)	1,795,552
Expenses			
Program services:			
Grants	813,920	-	813,920
Education	173,947	-	173,947
Technical assistance	351,362	-	351,362
Total program services	1,339,229	-	1,339,229
Supporting services:			
Management and general	308,789	-	308,789
Fundraising	323,875	-	323,875
Total Expenses	1,971,893	-	1,971,893
Changes in net assets	(86,093)	(90,248)	(176,341)
Net assets, beginning of year	201,071	584,724	785,795
Net Assets, End of Year	\$ 114,978	\$ 494,476	\$ 609,454

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

FONKOZE USA, INC.

**Statement of Functional Expenses
For the Year Ended December 31, 2018, with Comparative Total for 2017**

	2018							2017 Total
	Grants	Education	Technical Assistance Programs	Total Program Services	Management and General	Fundraising	Total	2017 Total
Salaries	\$ -	\$ 112,653	\$ 187,471	\$ 300,124	\$ 143,692	\$ 106,971	\$ 550,787	\$ 529,512
Retirement plan	-	1,025	6,096	7,121	325	2,050	9,496	21,200
Employee health insurance & benefits	-	80	5,632	5,712	1,636	262	7,610	20,671
Payroll taxes and fees	-	7,955	13,415	21,370	7,586	10,095	39,051	39,709
Promotion, and media	-	-	-	-	-	59,648	59,648	140,330
Grants expense	1,015,578	-	-	1,015,578	-	-	1,015,578	813,920
Travel	-	11,096	9,174	20,270	2,046	22,278	44,594	17,767
Professional services	-	585	114,333	114,918	15,045	665	130,628	51,092
Printing	-	7,176	633	7,809	1,032	31,335	40,176	31,223
Interest	-	-	66,359	66,359	-	-	66,359	41,231
Depreciation	-	76	243	319	98	89	506	3,834
Contract Services	-	690	-	690	4,000	12,935	17,625	55,444
Rent	-	10,957	23,596	34,553	14,153	12,384	61,090	59,486
Office utilities and maintenance	-	93	127	220	117	79	416	361
Miscellaneous	-	-	-	-	18,692	-	18,692	2,837
Postage and delivery	-	948	629	1,577	942	12,170	14,689	14,031
Insurance	-	1,332	3,981	5,313	1,739	1,590	8,642	6,833
Licenses and permits	-	-	-	-	4,916	-	4,916	5,097
Supplies	-	864	686	1,550	1,222	1,691	4,463	2,204
Telephone	-	1,117	2,000	3,117	797	1,619	5,533	5,350
Bank charges	-	-	-	-	11,395	-	11,395	9,019
Training	-	757	1,161	1,918	765	1,022	3,705	620
Technology	-	6,284	4,638	10,922	6,648	10,204	27,774	26,352
Dues and subscriptions	-	-	-	-	2,000	-	2,000	2,000
Board meetings	-	-	-	-	28,690	-	28,690	20,036
Ti Koze Press	-	31	294	325	-	1	326	3,853
Fonkoze family	-	-	-	-	-	-	-	1,592
Education program support in Haiti	-	411	3,873	4,284	-	16	4,300	1
Delegations to Haiti	-	1,200	11,314	12,514	-	49	12,563	22,512
Programmatic expenses	-	8,745	16,096	24,841	-	355	25,196	23,776
Total	\$ 1,015,578	\$ 174,075	\$ 471,751	\$ 1,661,404	\$ 267,536	\$ 287,508	\$ 2,216,448	\$ 1,971,893

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

FONKOZE USA, INC.

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

	Grants	Education	Technical Assistance Programs	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 In & 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
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.

Statements of Cash Flows For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Changes in net assets	\$ 543,406	\$ (176,341)
Adjustments to reconcile changes in net assets to net cash from operating activities:		
Depreciation	506	3,834
Unrealized loss (gain) on investments	77,712	(94,583)
Donated Stock	(12,500)	-
Effect of changes in non-cash operating assets and liabilities:		
Donations receivable	(48,587)	76,322
Grants receivable	(175,347)	120,002
Interest receivable	-	25,522
Other receivables	1,176	6,374
Prepaid expenses	2,890	(224)
Other assets	(14,091)	1,100
Accounts payable, accrued expenses, and other liabilities	(43,795)	(33,847)
Grants payable, related party	146,315	28,927
Net Cash Flow from Operating Activities	<u>477,685</u>	<u>(42,914)</u>
Cash Flow from Investing Activities		
Purchase of investments	(803,789)	(35,177)
Proceeds from sales of investments	773,868	17,336
Net Cash Flow from Investing Activities	<u>(29,921)</u>	<u>(17,841)</u>
Cash Flows from Financing Activities		
Distribution of loans receivable	(16,565)	(302,000)
Proceeds from loans receivable	45,822	-
Proceeds from loans payable	42,800	364,000
Payment on loans payable	(93,737)	(34,820)
Payments on loans payable, related parties	(200,000)	-
Net Cash Flow from Financing Activities	<u>(221,680)</u>	<u>27,180</u>
Net change in cash	226,084	(33,575)
Cash, beginning of year	291,254	324,829
Cash, End of Year	<u>\$ 517,338</u>	<u>\$ 291,254</u>
Supplemental Cash Flow Disclosure		
Cash paid for interest	<u>\$ 66,359</u>	<u>\$ 41,231</u>

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

FONKOZE USA, INC.

Notes to the Financial Statements December 31, 2018 and 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, 2018 and 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, 2018 and 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.

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, 2018 and 2017, there was no allowance for doubtful accounts as management believes that all contributions outstanding are fully collectible.

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.

FONKOZE USA, INC.

Notes to the Financial Statements December 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans Receivable (continued)

The loans receivable maturity dates coincide with the maturity dates of the loans payable. The Organization charges SFF an interest rate for each loan that is the same as the rate charged to the Organization by the external lending party. Those interest rates range from zero to 3%. The Organization also charges SFF an annual administration fee of 1% of the outstanding balance of each loan. Interest and administration fee payments received from SFF are recognized as interest income by the Organization.

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 the Foundation for administrative and communication as part of the Foundation's programs.

Net Assets

Net assets without donor restrictions are assets and contributions that are not restricted by donors, or for which restrictions have expired.

Net assets with donor restrictions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions. As of December 31, 2018 and 2017, there was \$753,227 and \$494,476, respectively, in net assets with donor restrictions for a specific time period or purpose.

Net assets with donor restrictions also consist of contributions received from donors to be maintained by the Organization in perpetuity. Included in net assets with donor restrictions, the Organization had \$200,637, to be held in perpetuity as of December 31, 2018 and 2017.

FONKOZE USA, INC.

Notes to the Financial Statements December 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Support and Revenue

Contributions and grants received are recorded as net assets without donor restrictions, or with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Donor-restricted support is reported as an increase in net assets with donor restrictions.

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, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 years ended December 31, 2018 and 2017 was \$121,782 and \$39,393, respectively, 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 and in the statements of functional expenses. 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.

Fonkoze allocates all expense into one of five classes; Administration, Fundraising, Education, Program and Grants. Administration and Fundraising are overhead classes, Education, Program, and Grants relate to the direct delivery of services and program.

Certain expense is directly attributable to a particular class (i.e. postage for an appeal mailing), other expenses are allocated across more than a single class. For general allocation purposes, each employee's hours are allocated based on the time that the employee normally dedicates to that activity category. The time allocation for all employees is consolidated to arrive at a company-wide cost allocation. Note that grants to Haiti are allocated entirely to Grants expense with no overhead component, and no general expense will have a Grants allocation.

FONKOZE USA, INC.

Notes to the Financial Statements December 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fundraising Events

Direct expenses related to fundraising events was \$48,065 and \$131,717, for the years ended December 31, 2018 and 2017, respectively, and are recorded as fundraising expense on the accompanying 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.

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, 2018, 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, 2018, the statute of limitations for fiscal years 2015 through 2018 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.

Liquidity

The following reflects the Organization's financial assets as of December 31, 2018, reduced by amounts not available for general use because of donor-imposed restrictions.

FONKOZE USA, INC.

Notes to the Financial Statements December 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Liquidity (continued)

Amounts not available include amounts set aside for donor restrictions and Board-designated operating funds.

Cash and cash equivalents	\$ 517,338
Investments	812,134
Donations receivable	48,587
Grants receivable	242,482
	<u>1,620,541</u>
Donor-imposed restrictions:	
Endowment funds	(236,761)
Donor contributions restricted to specific purposes	(421,709)
	<u>962,071</u>
Board-designated operating reserves	(575,373)
Financial assets available to meet cash needs for general expenditures within one year after board designations	<u>\$ 386,698</u>

Because a donor's restriction requires resources to be used in a particular manner or future period, the Organization must maintain sufficient resources to meet those responsibilities to its donors. The Organization's endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes and, therefore, is not available for general expenditure. There is no formal spending policy for the endowment.

The Organization also has a board designated endowment that had a balance of \$550,784 and \$615,982, as of June 30, 2018 and 2017, respectively. This is a governing board-designated reserve with the objective of setting funds aside to be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities. The operating reserve funds are held in US Treasury Notes, mutual funds and exchange traded funds. The operating reserve balance is included in investments in the accompany statements of financial position.

Fonkoze's goal is to generally maintain financial assets to meet 60-90 days of operating expenses approximately (\$360,000 - \$450,000) before considering its board designated endowment.

FONKOZE USA, INC.

Notes to the Financial Statements December 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncements

In August 2016, the FASB issued Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). These amendments change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: The amendments in this ASU are effective for fiscal years beginning after December 15, 2017. The Organization implemented ASU 2016-14 for the year ended December 31, 2018. Due to the adoption of this ASU, the presentation of these financial statements and footnotes were updated accordingly.

In August 2016, the FASB issued ASU No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments*. ASU No 2016-15 provides cash flow statement classification guidance. This standard is effective for periods beginning after December 15, 2018.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which creates a singular reporting model for leases. This standard will require the Organization 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 ASU No. 2018-11 *Targeted Improvements, to Topic 842, Leases*, which provide further clarity and transition options for adoption of FASB ASU No. 2016-02. These standards will be effective for periods beginning after December 15, 2019.

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*, which improves the scope and accounting guidance around contributions of cash and other assets received and made by not-for-profit organizations and business enterprises. 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.

Reclassification

Certain amounts have been reclassified from their prior year presentation in order to confirm to the current year. These reclassifications did not affect the results of operations.

FONKOZE USA, INC.

Notes to the Financial Statements December 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent Events

The Organization evaluated the accompanying financial statements for subsequent events and transactions through May 31, 2019, 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, 2018 and 2017, the Organization had a deposit held at SFF, a related party for \$20,405 and \$14,985, respectively. 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, 2018 and 2017.

U.S. Treasury Notes, 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
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4. INVESTMENTS (continued)

The following table sets forth, by level, the fair value hierarchy of the Organization's investments at fair value as of December 31, 2018 and 2017:

	December 31, 2018			Total
	Level 1	Level 2	Level 3	
U.S. Treasury Notes	\$ 132,515	\$ -	\$ -	\$ 132,515
Mutual funds	600,988	-	-	600,988
Exchange Traded Funds	78,631	-	-	78,631
Investment in Fonkoze S. A.	-	-	514,100	514,100
	<u>\$ 812,134</u>	<u>\$ -</u>	<u>\$ 514,100</u>	<u>\$ 1,326,234</u>

	December 31, 2017			Total
	Level 1	Level 2	Level 3	
Mutual funds	\$ 601,795	\$ -	\$ -	\$ 601,795
Exchange Traded Funds	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, 2018 and 2017, investments consisted of the following fair values:

	December 31, 2018		
	Cost	Unrealized	
		Gain/(Loss)	Market Value
U.S. Treasury Notes	\$ 131,903	\$ 612	\$ 132,515
Mutual funds	647,575	(46,587)	600,988
Exchange Traded Funds	80,413	(1,782)	78,631
Investment in Fonkoze S. A.	514,100	-	514,100
	<u>\$ 1,373,991</u>	<u>\$ (47,757)</u>	<u>\$ 1,326,234</u>

	December 31, 2017		
	Cost	Unrealized	
		Gain/(Loss)	Market Value
Mutual funds	\$ 535,582	\$ 66,213	\$ 601,795
Exchange Traded Funds	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>

FONKOZE USA, INC.

Notes to the Financial Statements December 31, 2018 and 2017

4. INVESTMENTS (continued)

Investment income for the years ended December 31, 2018 and 2017, consisted of the following:

	<u>2018</u>	<u>2017</u>
Interest and dividends, net	\$ 25,790	\$ 20,131
Unrealized (loss) gain on investments	(77,712)	94,583
Realized gain (loss) on investments	483	(5,462)
	<u>\$ (51,439)</u>	<u>\$ 109,252</u>

5. PROPERTY AND EQUIPMENT, NET

As of December 31, 2018 and 2017, property and equipment, net consisted of the following:

	<u>2018</u>	<u>2017</u>	<u>Useful Life</u>
Leasehold improvements	\$ 3,035	\$ 3,035	10 years
Computer equipment	4,370	6,252	3-7 years
Software	11,741	11,741	3-7 years
Website upgrade	13,850	13,850	3-7 years
	<u>32,996</u>	<u>34,878</u>	
Less: accumulated depreciation	31,827	33,203	
Property, Plant, and Equipment, Net	<u>\$ 1,169</u>	<u>\$ 1,675</u>	

Depreciation expense was \$506 and \$3,834, for the years ended December 31, 2018 and 2017, respectively.

6. LOANS PAYABLE

Investors

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 2023. As of December 31, 2018 and 2017, the outstanding balance was \$3,124,418 and \$3,175,355, respectively.

Related Party, Foundation

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

FONKOZE USA, INC.

Notes to the Financial Statements December 31, 2018 and 2017

6. LOANS PAYABLE (continued)

Related Party, Foundation (continued)

There was no payment made during the year ended December 31, 2017. The Agreement has an interest rate of 0% and expires on December 31, 2020, with annual payments of \$100,000. There was no payment made during the year ended December 31, 2017. During the year ended December 31, 2018, the Organization made two payments totaling \$200,000. The balance due as of December 31, 2018 and 2017 was \$200,000 and \$400,000, respectively.

Interest expense was \$66,359 and \$41,231, for the years ended December 31, 2018 and 2017, respectively. The principal balance outstanding as of December 31, 2018 and 2017, was \$3,324,418 and \$3,575,355, respectively.

Future minimum payments for the loans payables were as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2019	\$ 1,371,298
2020	1,145,000
2021	508,000
2022	36,800
2023	285,000
Total	\$ 3,346,098

7. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as of December 31, 2018 and 2017, consisted of the following:

	<u>2018</u>	<u>2017</u>
Fondasyon Kole Zepòl	\$ 254,096	\$ 129,155
Education	29,832	100,000
Kay Lasante	133,545	17,788
N. A. Sonje	1,745	80
Hurricane Relief	1,120	2,995
Assets Restricted in Perpetuity	200,637	200,637
Endowment earnings	36,124	43,306
Other	1,371	515
Total	\$ 658,470	\$ 494,476

FONKOZE USA, INC.

Notes to the Financial Statements December 31, 2018 and 2017

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. Also, Charles Petty (one board member) is a member of the Fonkoze USA and SFF Board of Directors.

The Foundation

As of December 31, 2017, the Organization owed the Foundation \$9,015, for various expenses paid by the Foundation for the benefit of the Organization. Additionally, the Organization owed the Foundation for outstanding grants of \$645,242 and \$484,596 for the years ended December 31, 2018 and 2017, respectively.

For the years ended December 31, 2018 and 2017, the Organization made grants to the Foundation totaling \$825,120 and \$581,625, respectively.

The Organization has a contract with the Foundation wherein the Organization contracts to provide the services of two Organization employee in Haiti full time to the Foundation and the Organization is reimbursed for the cost of those employees. During the years ended December 31, 2018 and 2017, the amount reimbursed to the Organization by the Foundation was \$60,612 and \$22,750, respectively.

SFF

As of December 31, 2018 and 2017, loans receivable from SFF was \$2,966,418 and \$2,995,675, respectively. Management believes these loans are fully collectable and therefore no allowance for uncollectable loans has been recorded for the year ended December 31, 2018 and 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.

FONKOZE USA, INC.

Notes to the Financial Statements December 31, 2018 and 2017

8. RELATED PARTY TRANSACTIONS (continued)

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>
2019	\$ 1,021,298
2020	1,145,000
2021	508,000
2022	36,800
2023	255,320
Total	<u>\$ 2,966,418</u>

Fonkoze S.A. did not pay any dividends on its outstanding shares for the year ended December 31, 2018 and 2017.

As of December 31, 2018 and 2017, the Organization owed SFF \$200,000 and \$400,000, respectively, as a grant payable and \$14,331 relates to grant receivable as of December 31, 2017.

As of December 31, 2017, the Organization owed SFF \$2,330, respectively, for various expenses paid by SFF for the benefit of the Organization. There were no such amount owed as of December 31, 2018.

For the year ended December 31, 2017, the Organization made grants to SFF totaling \$44,127. The Organization did not make grants to SFF for the year ended December 31, 2018.

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.

FONKOZE USA, INC.

Notes to the Financial Statements December 31, 2018 and 2017

9. ENDOWMENT (continued)

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.

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.

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.

FONKOZE USA, INC.

**Notes to the Financial Statements
December 31, 2018 and 2017**

9. ENDOWMENT (continued)

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, 2018 and 2017, the composition of the endowment was as follows:

	<u>2018</u>	<u>2017</u>
Without donor restrictions	\$ 575,373	\$ 615,982
With donor restrictions	236,761	243,943
Total Endowment	\$ 812,134	\$ 859,925

For the years ended December 31, 2018 and 2017, the changes in the endowment net assets were as follows:

	<u>2018</u>		
	<u>Net Assets Without Donor Restrictions</u>	<u>Net Assets With Donor Restrictions</u>	<u>Total</u>
Balance at January 1, 2018	\$ 615,982	\$ 243,943	\$ 859,925
Interest and dividends	18,569	7,221	25,790
Net depreciation	(59,178)	(14,403)	(73,581)
Balance at December 31, 2018	\$ 575,373	\$ 236,761	\$ 812,134

	<u>2017</u>		
	<u>Net Assets Without Donor Restrictions</u>	<u>Net Assets With Donor Restrictions</u>	<u>Total</u>
Balance at January 1, 2017	\$ 550,322	\$ 203,831	\$ 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	\$ 243,943	\$ 859,925

FONKOZE USA, INC.

Notes to the Financial Statements December 31, 2018 and 2017

10. COMMITMENTS AND CONTINGENCIES

During April 2015, the Organization signed a five year and four-month lease for office space which expires in October 2020.

Future minimum rental payments under the agreement as of December 31, 2018, were as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2019	\$ 62,499
2020	53,487
Total	<u><u>\$ 115,986</u></u>

Rent expense for the years ended December 31, 2018 and 2017, was \$61,090 and \$59,485, respectively.

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 years ended December 31, 2018 and 2017, was \$9,496 and \$21,200, respectively.