

**FONKOZE USA, INC.**

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

**For the Years Ended December 31, 2019 and 2018**



**DECEMBER 31, 2019 AND 2018**

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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, 2019 and 2018, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal 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 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 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.



**SB & COMPANY, LLC**  
KNOWLEDGE • QUALITY • CLIENT SERVICE

***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, 2019 and 2018, 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 27, 2020

*SB & Company, LLC*

**FONKOZE USA, INC.**

**Statements of Financial Position  
As of December 31, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 313,975	\$ 517,338
Investments	972,360	812,134
Investment in Fonkoze S. A.	616,920	514,100
Contributions receivable	13,450	48,587
Grants receivable	495,350	242,482
Loans receivable, related party	2,541,037	2,966,418
Other receivables and assets	58,948	18,787
Prepaid expenses	16,400	14,934
Property and equipment, net	1,900	1,169
<b>Total Assets</b>	<b>\$ 5,030,340</b>	<b>\$ 5,135,949</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable, accrued expenses, and other liabilities	\$ 54,480	\$ 13,429
Grants payable, related party	555,720	645,242
Loan payable, related parties, SFF	200,000	200,000
Promissory notes	150,000	158,000
Loans payable, investors	2,652,037	2,966,418
<b>Total Liabilities</b>	<b>3,612,237</b>	<b>3,983,089</b>
<b>Net Assets</b>		
Without donor restrictions	657,925	494,390
With donor restrictions		
For appropriation	558,941	457,833
To be held in perpetuity	201,237	200,637
Total with donor restrictions	760,178	658,470
<b>Total Net Assets</b>	<b>1,418,103</b>	<b>1,152,860</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 5,030,340</b>	<b>\$ 5,135,949</b>

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, 2019, with Comparative Totals for 2018

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Totals
<b>Revenue and Other Support</b>				
Contributions and grants	\$ 1,049,325	\$ 758,472	\$ 1,807,797	\$ 2,428,419
Fundraising events	233,193	-	233,193	74,948
In-kind donations	30,158	-	30,158	121,782
Contracts income	79,488	-	79,488	60,612
Investment income (loss)	219,485	47,639	267,124	(51,439)
Interest on loan receivable, related party	69,175	-	69,175	113,607
Other income	3,785	-	3,785	11,925
<b>Total Revenue and Other Support</b>	<b>1,684,609</b>	<b>806,111</b>	<b>2,490,720</b>	<b>2,759,854</b>
Net assets released from restrictions	704,403	(704,403)	-	-
<b>Total Revenue and Other Support</b>	<b>2,389,012</b>	<b>101,708</b>	<b>2,490,720</b>	<b>2,759,854</b>
<b>Expenses</b>				
Program services:				
Grants	880,838	-	880,838	1,015,578
Education	230,827	-	230,827	174,075
Technical assistance	440,069	-	440,069	471,751
Total program services	1,551,734	-	1,551,734	1,661,404
Supporting services:				
Management and general	260,825	-	260,825	267,536
Fundraising	412,918	-	412,918	287,508
Total supporting services	673,743	-	673,743	555,044
<b>Total Expenses</b>	<b>2,225,477</b>	<b>-</b>	<b>2,225,477</b>	<b>2,216,448</b>
Changes in Net Assets	163,535	101,708	265,243	543,406
Net assets, Beginning of Year	494,390	658,470	1,152,860	609,454
<b>Net Assets, End of Year</b>	<b>\$ 657,925</b>	<b>\$ 760,178</b>	<b>\$ 1,418,103</b>	<b>\$ 1,152,860</b>

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, 2018

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Revenue and Other Support</b>			
Contributions and grants	\$ 1,583,830	\$ 844,589	\$ 2,428,419
Fundraising events	74,948	-	74,948
In-kind donations	121,782	-	121,782
Contracts income	60,612	-	60,612
Investment loss	(44,257)	(7,182)	(51,439)
Interest on loan receivable, related party	113,607	-	113,607
Other income	11,925	-	11,925
<b>Total Revenue and Other Support</b>	<b>1,922,447</b>	<b>837,407</b>	<b>2,759,854</b>
Net assets released from restrictions	673,413	(673,413)	-
<b>Total Revenue and Other Support</b>	<b>2,595,860</b>	<b>163,994</b>	<b>2,759,854</b>
<b>Expenses</b>			
Program services:			
Grants	1,015,578	-	1,015,578
Education	174,075	-	174,075
Technical assistance	471,751	-	471,751
Total program services	1,661,404	-	1,661,404
Supporting services:			
Management and general	267,536	-	267,536
Fundraising	287,508	-	287,508
<b>Total Expenses</b>	<b>2,216,448</b>	<b>-</b>	<b>2,216,448</b>
Changes in Net Assets	379,412	163,994	543,406
Net assets, beginning of year	114,978	494,476	609,454
<b>Net Assets, End of Year</b>	<b>\$ 494,390</b>	<b>\$ 658,470</b>	<b>\$ 1,152,860</b>

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

**FONKOZE USA, INC.**

**Statement of Functional Expenses  
For the Year Ended December 31, 2019, with Comparative 2018 Totals**

	2019							2018
	Program Services				Administration	Fundraising	Total	Totals
	Grants	Education	Technical Assistance Programs	Total Program Services				
Salaries and related benefits	\$ -	\$ 142,052	\$ 168,041	\$ 310,093	\$ 146,451	\$ 129,545	\$ 586,089	\$ 606,944
Promotion and media	-	7,112	3,874	10,986	130	210,476	221,592	59,648
Grants expense	880,838	-	-	880,838	-	-	880,838	1,015,578
Travel	-	13,742	15,008	28,750	14,724	15,408	58,882	44,594
Professional services	-	5,243	12,235	17,478	12,764	4,843	35,085	130,628
Printing	-	29,264	4,097	33,361	1,324	13,040	47,725	40,176
Interest	-	-	61,515	61,515	-	-	61,515	66,359
Depreciation	-	-	-	-	1,123	-	1,123	506
Contract Services	-	690	-	690	40,018	3,610	44,318	17,625
Rent	-	11,018	26,186	37,204	16,685	10,465	64,354	61,090
Office utilities and maintenance	-	38	87	125	192	35	352	416
Postage and delivery	-	7,351	2,115	9,466	1,673	3,488	14,627	14,689
Insurance	-	1,173	2,720	3,893	1,877	1,076	6,846	8,642
Licenses and permits	-	619	1,293	1,912	1,362	564	3,838	4,916
Supplies	-	1,571	2,495	4,066	2,159	2,409	8,634	4,463
Telephone	-	1,085	1,775	2,860	1,384	1,068	5,312	5,533
Bank charges	-	643	2,251	2,894	3,457	4,740	11,091	11,395
Training	-	577	1,357	1,934	698	1,015	3,647	3,705
Technology	-	4,555	9,011	13,566	7,367	7,617	28,550	27,774
Dues and subscriptions	-	792	3,882	4,674	1,021	1,024	6,719	2,000
Board meetings	-	2,484	5,831	8,315	4,342	2,276	14,933	28,690
Ti Koze Press	-	-	-	-	-	-	-	326
Education program support in Haiti	-	-	773	773	-	-	773	4,300
Delegations to Haiti	-	582	-	582	-	-	582	12,563
Programmatic expenses	-	236	5,912	6,148	403	219	6,770	25,196
Miscellaneous	-	-	-	-	-	-	-	18,692
Bad debt	-	-	109,611	109,611	1,671	-	111,282	-
<b>Total</b>	<b>\$ 880,838</b>	<b>\$ 230,827</b>	<b>\$ 440,069</b>	<b>\$ 1,551,734</b>	<b>\$ 260,825</b>	<b>\$ 412,918</b>	<b>\$ 2,225,477</b>	<b>\$ 2,216,448</b>

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**

	<b>Program Services</b>						
	<b>Grants</b>	<b>Education</b>	<b>Technical Assistance Programs</b>	<b>Total Program Services</b>	<b>Administration</b>	<b>Fundraising</b>	<b>Total</b>
Salaries and related benefits	\$ -	\$ 121,713	\$ 212,614	\$ 334,327	\$ 153,239	\$ 119,378	\$ 606,944
Promotion and media	-	-	-	-	-	59,648	59,648
Grants expense	1,015,578	-	-	1,015,578	-	-	1,015,578
Travel	-	11,096	9,174	20,270	2,046	22,278	44,594
Professional services	-	585	114,333	114,918	15,045	665	130,628
Printing	-	7,176	633	7,809	1,032	31,335	40,176
Interest	-	-	66,359	66,359	-	-	66,359
Depreciation	-	76	243	319	98	89	506
Contract Services	-	690	-	690	4,000	12,935	17,625
Rent	-	10,957	23,596	34,553	14,153	12,384	61,090
Office utilities and maintenance	-	93	127	220	117	79	416
Postage and delivery	-	948	629	1,577	942	12,170	14,689
Insurance	-	1,332	3,981	5,313	1,739	1,590	8,642
Licenses and permits	-	-	-	-	4,916	-	4,916
Supplies	-	864	686	1,550	1,222	1,691	4,463
Telephone	-	1,117	2,000	3,117	797	1,619	5,533
Bank charges	-	-	-	-	11,395	-	11,395
Training	-	757	1,161	1,918	765	1,022	3,705
Technology	-	6,284	4,638	10,922	6,648	10,204	27,774
Dues and subscriptions	-	-	-	-	2,000	-	2,000
Board meetings	-	-	-	-	28,690	-	28,690
Ti Koze Press	-	31	294	325	-	1	326
Education program support in Haiti	-	411	3,873	4,284	-	16	4,300
Delegations to Haiti	-	1,200	11,314	12,514	-	49	12,563
Programmatic expenses	-	8,745	16,096	24,841	-	355	25,196
Miscellaneous	-	-	-	-	18,692	-	18,692
<b>Total</b>	<b>\$ 1,015,578</b>	<b>\$ 174,075</b>	<b>\$ 471,751</b>	<b>\$ 1,661,404</b>	<b>\$ 267,536</b>	<b>\$ 287,508</b>	<b>\$ 2,216,448</b>

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

# FONKOZE USA, INC.

## Statements of Cash Flows For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>Cash Flows from Operating Activities</b>		
Changes in net assets	\$ 265,243	\$ 543,406
Adjustments to reconcile changes in net assets to net cash from operating activities:		
Depreciation	1,123	506
Unrealized (gain) loss on investments	(261,390)	77,712
Donated Stock	-	(12,500)
Effect of changes in non-cash operating assets and liabilities:		
Contributions receivable	35,137	(48,587)
Grants receivable	(252,868)	(175,347)
Other receivables and assets	(40,161)	(12,915)
Prepaid expenses	(1,466)	2,890
Accounts payable, accrued expenses, and other liabilities	41,051	(43,795)
Grants payable, related party	(89,522)	146,315
<b>Net Cash Flow from Operating Activities</b>	<u>(302,853)</u>	<u>477,685</u>
<b>Cash Flow from Investing Activities</b>		
Purchase of investments	(89,486)	(803,789)
Proceeds from sales of investments	87,830	773,868
Purchase of property and equipment	(1,854)	-
<b>Net Cash Flow from Investing Activities</b>	<u>(3,510)</u>	<u>(29,921)</u>
<b>Cash Flow from Financing Activities</b>		
Distribution of loans receivable, related party	(241,618)	(16,565)
Proceeds from loans receivable, related party	666,999	45,822
Payments on loans payable, related parties, SFF	-	(200,000)
Payments on promissory notes	(8,000)	-
Proceeds from loans payable, investors	215,799	42,800
Payment on loans payable, investors	(530,180)	(93,737)
<b>Net Cash Flow from Financing Activities</b>	<u>103,000</u>	<u>(221,680)</u>
Net Change in Cash	(203,363)	226,084
Cash, Beginning of Year	517,338	291,254
<b>Cash, End of Year</b>	<u>\$ 313,975</u>	<u>\$ 517,338</u>
<b>Supplemental Cash Flow Disclosure</b>		
Cash paid for interest	<u>\$ 61,515</u>	<u>\$ 66,359</u>

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

# **FONKOZE USA, INC.**

## **Notes to the Financial Statements December 31, 2019 and 2018**

### **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, 2019 and 2018, 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).

**Notes to the Financial Statements  
December 31, 2019 and 2018**

**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**

Grants receivable represent commitments from grantors that have not yet been received. As of December 31, 2019 and 2018, there was no allowance for doubtful accounts as management believes that all grants receivable 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, 2019 and 2018**

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Loans Receivable (continued)**

The loans receivable maturity dates coincide with the maturity dates of the loans payable to investors. 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 0% 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 on loan receivable, related party 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. No allowance for doubtful accounts was recorded as of December 31, 2019 and 2018. See Note 9 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 to support 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, other than those to be held to perpetuity, 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, 2019 and 2018, there was \$558,941 and \$457,833, respectively, in net assets with donor restrictions for a specific time period or purpose.

The Organization had \$201,237 and \$200,637, to be held in perpetuity as of December 31, 2019 and 2018, respectively.

## **FONKOZE USA, INC.**

### **Notes to the Financial Statements December 31, 2019 and 2018**

#### **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, 2019 and 2018, was \$30,158 and \$121,782, 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 those 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.

The organization allocates all expense into one of five classes: Grants, Education, Technical Assistance Program, Administration and Fundraising. Administration and Fundraising are overhead classes, Grants, Education, and Technical Assistance Program relate to the direct delivery of services and program and thus are disclosed as Program Services.

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.

## FONKOZE USA, INC.

### Notes to the Financial Statements December 31, 2019 and 2018

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Fundraising Events

Direct expenses related to fundraising events was \$214,395 and \$48,065, for the years ended December 31, 2019 and 2018, respectively, and are recorded as fundraising expense on the accompanying statements 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, 2019, 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, 2019, the statute of limitations for fiscal years 2016 through 2019 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 and Availability of Resources

The following reflects the Organization's financial assets as of December 31, 2019, reduced by amounts not available for general use within one year because of donor-imposed restrictions.

	<u>Amount</u>
Cash and cash equivalents	\$ 313,975
Investments	972,360
Contributions receivable	13,450
Grants receivable	495,350
	<u>1,795,135</u>
With donor restrictions	
For appropriation	154,952
To be held to perpetuity	201,237
	<u>356,189</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 1,438,946</u></u>

## FONKOZE USA, INC.

### Notes to the Financial Statements December 31, 2019 and 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Liquidity and Availability of Resources (continued)

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 fund consists of net assets with donor restrictions to be held to perpetuity. Income from the endowment is restricted for specific purposes and, therefore, is not available for general expenditure. There is no formal spending policy for the endowment.

### Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (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, 2021.

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, 2020.

Due to the COVID-19 pandemic, (see Subsequent Events for more detail), the FASB has deferred the effective dates of the above pronouncements. 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 2018 amounts have been reclassified to conform with the 2019 presentation. These reclassifications had no effect on the changes in net assets.



## **FONKOZE USA, INC.**

### **Notes to the Financial Statements December 31, 2019 and 2018**

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **Subsequent Events**

The Organization evaluated the accompanying financial statements for subsequent events and transactions through May 27, 2020, the date these financial statements were available for issue and have determined that other than the paragraph below regarding the COVID-19 pandemic, no material subsequent events have occurred that would affect the information presented in the accompanying financial statements or require additional disclosure.

In February 2020, an outbreak of a new coronavirus, COVID-19, emerged in the United States. In March 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic and recommended containment and mitigation measures worldwide. As a result, widespread shutdowns of states, cities, schools, and businesses began to take place, impacting the United States as the number of people infected grows at an unprecedented rate. The COVID-19 outbreak is still evolving, and its financial impact on the global economy, duration of business disruptions, and financial and operating viability of entities in Washington, D.C., and the United States related to COVID-19. Therefore, the Organization is currently unable to determine the extent of the impact to its future condition and operating results.

#### **3. CASH**

As of December 31, 2019 and 2018, the Organization had a deposit held at SFF, a related party for \$54,702 and \$20,405, 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, 2019 and 2018.

*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 December 31, 2019 and 2018

### 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, 2019 and 2018:

	2019			
	Level 1	Level 2	Level 3	Total
U.S. Treasury Notes	\$ 135,052	\$ -	\$ -	\$ 135,052
Mutual Funds	741,856	-	-	741,856
Exchange Traded Funds	95,452	-	-	95,452
Investment in Fonkoze S. A.	-	-	616,920	616,920
	<u>\$ 972,360</u>	<u>\$ -</u>	<u>\$ 616,920</u>	<u>\$ 1,589,280</u>

  

	2018			
	Level 1	Level 2	Level 3	Total
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>

### Level 3 Investments

Financial instruments classified as Level 3 in the fair value hierarchy represent the Organization's investment in Fonkoze, S.A, which management has used at least one significant unobservable input in the valuation model. The following table presents a reconciliation of the activity for the Level 3 financial instruments:

	Amount
Fair Value as of January 1, 2018	\$ 501,600
Unrealized gain	12,500
Fair Value as of December 31, 2018	514,100
<b>Unrealized gain</b>	<b>102,820</b>
<b>Fair Value as of December 31, 2019</b>	<b><u>\$ 616,920</u></b>

The Organization's Level 3 investments have been valued using a discounted cash flow model. Unobservable inputs used in the valuation are equity risk premiums and discounts for lack of marketability.

**FONKOZE USA, INC.****Notes to the Financial Statements  
December 31, 2019 and 2018****4. INVESTMENTS (continued)****Level 3 Investments (continued)**

As of December 31, 2019, investments consisted of the following fair values:

	<b>2019</b>		
	<b>Cost</b>	<b>Unrealized Gain</b>	<b>Market Value</b>
U.S. Treasury Notes	\$ 132,590	\$ 2,462	\$ 135,052
Mutual Funds	645,555	96,301	741,856
Exchange Traded Funds	83,402	12,050	95,452
Investment in Fonkoze S. A.	514,100	102,820	616,920
	<u>\$ 1,375,647</u>	<u>\$ 213,633</u>	<u>\$ 1,589,280</u>

As of December 31, 2018, investments consisted of the following fair values:

	<b>2018</b>		
	<b>Cost</b>	<b>Unrealized Gain/(Loss)</b>	<b>Market Value</b>
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>

Investment income for the years ended December 31, 2019 and 2018, consisted of the following:

	<b>2019</b>	<b>2018</b>
Interest and dividends, net	\$ 5,835	\$ 25,790
Unrealized gain (loss) on investments	158,570	(77,712)
Unrealized gain on investment in Fonkoze S.A.	102,820	-
Realized (loss) gain on investments	(101)	483
	<u>\$ 267,124</u>	<u>\$ (51,439)</u>

## FONKOZE USA, INC.

### Notes to the Financial Statements December 31, 2019 and 2018

#### 5. PROPERTY AND EQUIPMENT

As of December 31, 2019 and 2018, net property and equipment consisted of the following:

	<b>2019</b>	<b>2018</b>	<b>Useful Life</b>
Leasehold improvements	\$ 3,035	\$ 3,035	10 years
Computer equipment	6,224	4,370	3-7 years
Software	11,741	11,741	3-7 years
Website upgrade	13,850	13,850	3-7 years
	<b>34,850</b>	<b>32,996</b>	
Less: accumulated depreciation	<b>32,950</b>	<b>31,827</b>	
Property, Plant, and Equipment, Net	<b>\$ 1,900</b>	<b>\$ 1,169</b>	

Depreciation expense was \$1,123 and \$506, for the years ended December 31, 2019 and 2018, respectively.

#### 6. LOANS PAYABLE

##### Related Party – SFF

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. There was no payment made during the year ended December 31, 2019. The balance due as of December 31, 2019 and 2018 was \$200,000.

##### Promissory Notes

Promissory notes as of December 31, 2019 and 2018, were comprised of two individual loans in the amounts of \$100,000 and \$50,000 and \$100,000 and \$58,000, respectively. These promissory notes have maturity dates of April 2020 and management is working with the individuals on extension of the notes.

##### 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. The interest rates on the investor loans vary between 0% and 3% with maturity dates varying up to July 2024. As of December 31, 2019 and 2018, the outstanding balance was \$2,652,037 and \$2,966,418, respectively.

Interest expense was \$61,515 and \$66,359, for the years ended December 31, 2019 and 2018, respectively.

## FONKOZE USA, INC.

### Notes to the Financial Statements December 31, 2019 and 2018

#### 6. LOANS PAYABLE (continued)

Future minimum payments of the investor's loans payable are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2020	\$ 1,368,937
2021	734,500
2022	203,600
2023	285,000
2024	60,000
<b>Total</b>	<b><u>\$ 2,652,037</u></b>

#### 7. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as of December 31, 2019 and 2018, were available for the following purposes:

	<u>2019</u>	<u>2018</u>
Development partners	\$ 241,675	\$ 389,386
Education	17,628	29,832
Endowment earnings	81,949	36,124
Health	179,080	-
Other	38,609	2,491
<b>Total</b>	<b><u>\$ 558,941</u></b>	<b><u>\$ 457,833</u></b>

#### 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 both the Foundation and SFF. Also, one board member is a member of both the Fonkoze USA and SFF Board of Directors.

## FONKOZE USA, INC.

### Notes to the Financial Statements December 31, 2019 and 2018

#### 8. RELATED PARTY TRANSACTIONS (continued)

##### Fondasyon Kole Zepòl (The Foundation)

The Organization owed the Foundation for outstanding grants of \$555,720 and \$645,242 for the years ended December 31, 2019 and 2018, respectively.

For the years ended December 31, 2019 and 2018, the Organization made grants to the Foundation totaling \$572,779 and \$825,120, respectively.

The Organization has a contract with the Foundation wherein the Organization contracts to provide the services of two Organization employees, in Haiti full time to the Foundation and the Organization is reimbursed for the cost of those employees. During the years ended December 31, 2019 and 2018, the amount reimbursed to the Organization by the Foundation was \$79,488 and \$60,612, respectively.

##### Sèvis Finansye Fonkoze (SFF)

As of December 31, 2019 and 2018, loans receivable from SFF was \$2,541,037 and \$2,966,418, respectively. The loans receivable, related party are associated with the loans payable from investors to provide for the advancement of loans to SFF. The amounts received from investors are recorded as loans payable, investors in the statements of financial position. As these loans become due from the lenders the funds are immediately demanded from SFF.

Future minimum payments on the loans receivable, related party were as follows:

<b>Years Ending December 31,</b>	<b>Amount</b>
2020	\$ 1,257,937
2021	734,500
2022	203,600
2023	285,000
2024	60,000
<b>Total</b>	<b>\$ 2,541,037</b>

Fonkoze S.A. did not pay any dividends on its outstanding shares for the year ended December 31, 2019 and 2018.

For the years ended December 31, 2019 and 2018, the Organization made grants to Development Partners and SFF totaling \$308,059 and \$190,458, respectively.

As of December 31, 2019 and 2018, the Organization owed the Foundation \$555,720 and \$645,242, as a grant payable.

## **FONKOZE USA, INC.**

### **Notes to the Financial Statements December 31, 2019 and 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 net assets to be held in perpetuity the original value of gifts to the perpetual endowment. The perpetual endowment fund currently consists of a general endowment fund.

The donor of the general endowment did not specify how earnings should be used. The donor of the education portion of the perpetual endowment fund specified that the earnings on those funds support education programming during fiscal year 2019.

The remaining investment earnings are allocated to general operations. Funds previously disclosed as board-designated net assets have been reclassified as net assets without donor restrictions, as resolved by the board of directors during fiscal year 2019.

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 (the 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.

## FONKOZE USA, INC.

### Notes to the Financial Statements December 31, 2019 and 2018

#### 9. ENDOWMENT (continued)

##### Return Objectives and Risk Parameters (continued)

The Organization balances investment risk by diversifying among bonds, stocks, large and small cap, and 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, 2019 and 2018, the composition of the endowment was as follows:

	2019	2018
With Donor Restrictions for Appropriation	\$ 81,949	\$ 36,124
With Donor Restrictions to be Held to Perpetuity	201,237	200,637
	<u>\$ 283,186</u>	<u>\$ 236,761</u>

For the year ended December 31, 2019, the changes in the endowment net assets were as follows:

	With Donor Restrictions for Appropriation	With Donor Restrictions to be Held to Perpetuity	Total
Balance as of January 1, 2019	\$ 36,124	\$ 200,637	\$ 236,761
Interest and dividends	1,634	-	1,634
Net appreciation	44,191	-	44,191
Contributions	-	600	600
Balance as of December 31, 2019	<u>\$ 81,949</u>	<u>\$ 201,237</u>	<u>\$ 283,186</u>



## FONKOZE USA, INC.

### Notes to the Financial Statements December 31, 2019 and 2018

#### 9. ENDOWMENT (continued)

##### Spending Policy and How the Investment Objectives Relate to Spending Policy (continued)

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

	<b>With Donor Restrictions for Appropriation</b>	<b>With Donor Restrictions to be Held to Perpetuity</b>	<b>Total</b>
Balance as of January 1, 2018	\$ 43,306	\$ 200,637	\$ 243,943
Interest and dividends	7,221	-	7,221
Net depreciation	(14,403)	-	(14,403)
<b>Balance as of December 31, 2018</b>	<b>\$ 36,124</b>	<b>\$ 200,637</b>	<b>\$ 236,761</b>

#### 10. COMMITMENTS AND CONTINGENCIES

In April 2015, the Organization signed a five-year and four-month lease for office space in Washington, D.C., which expires in October 2020. In October 2019, the Organization signed a five-year lease for a printer, which expires in October 2024. Future minimum rental payments under the agreements as of December 31, 2019, were as follows:

<b>Years Ending December 31,</b>	<b>Amount</b>
2020	\$ 55,395
2021	1,908
2022	1,908
2023	1,908
2024	1,590
<b>Total</b>	<b>\$ 62,709</b>

Rent expense for the years ended December 31, 2019 and 2018, was \$64,354 and \$61,090, 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 Organization's contribution for the years ended December 31, 2019 and 2018, was \$11,274 and \$9,496, respectively.