

FONKOZE USA, INC.

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

For the Years Ended December 31, 2020 and 2019



SB & COMPANY, LLC
KNOWLEDGE • QUALITY • CLIENT SERVICE

DECEMBER 31, 2020 AND 2019

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors
Fonkoze USA, Inc.

We have audited the accompanying statements of financial position of Fonkoze USA, Inc. (the Organization) as of December 31, 2020 and 2019, 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.



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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, 2020 and 2019, 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.
April 30, 2021

SB & Company, LLC

FONKOZE USA, INC.**Statements of Financial Position
As of December 31, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and cash equivalents	\$ 133,599	\$ 313,975
Investments	1,063,870	972,360
Investment in Fonkoze S. A.	616,920	616,920
Contributions receivable	42,642	13,450
Grants receivable	596,480	495,350
Loans receivable, related party	2,600,522	2,541,037
Other receivables	23,215	58,948
Prepaid expenses and other assets	18,390	16,400
Property and equipment, net	-	1,900
Total Assets	\$ 5,095,638	\$ 5,030,340
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable, accrued expenses, and other liabilities	\$ 77,630	\$ 54,480
Grants payable, related party	549,000	555,720
Loan payable, related parties, SFF	-	200,000
Promissory notes	106,000	150,000
Loan payable, payroll protection program	99,207	-
Loans payable, investors	2,618,734	2,652,037
Total Liabilities	3,450,571	3,612,237
Net Assets		
Without donor restrictions	591,222	657,925
With donor restrictions		
For appropriation	852,608	558,941
To be held in perpetuity	201,237	201,237
Total with donor restrictions	1,053,845	760,178
Total Net Assets	1,645,067	1,418,103
Total Liabilities and Net Assets	\$ 5,095,638	\$ 5,030,340

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, 2020, with Comparative Totals for 2019**

	2020			2019 Totals
	Without Donor Restrictions	With Donor Restrictions	Total	
Revenue and Other Support				
Contributions and grants	\$ 1,159,421	\$ 1,116,425	\$ 2,275,846	\$ 1,807,797
Fundraising events	-	-	-	233,193
In-kind donations	-	-	-	30,158
Contracts income	86,958	-	86,958	83,273
Investment income	91,557	-	91,557	267,124
Interest on loan receivable, related party	130,733	-	130,733	69,175
Total Revenue and Other Support	1,468,669	1,116,425	2,585,094	2,490,720
Net assets released from restrictions	822,758	(822,758)	-	-
Total Revenue and Other Support	2,291,427	293,667	2,585,094	2,490,720
Expenses				
Program services:				
Grants	1,216,276	-	1,216,276	880,838
Education	283,333	-	283,333	230,827
Technical assistance	435,220	-	435,220	440,069
Total program services	1,934,829	-	1,934,829	1,551,734
Supporting services:				
Management and general	239,088	-	239,088	260,825
Fundraising	184,213	-	184,213	412,918
Total supporting services	423,301	-	423,301	673,743
Total Expenses	2,358,130	-	2,358,130	2,225,477
Changes in Net Assets	(66,703)	293,667	226,964	265,243
Net assets, Beginning of Year	657,925	760,178	1,418,103	1,152,860
Net Assets, End of Year	\$ 591,222	\$ 1,053,845	\$ 1,645,067	\$ 1,418,103

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, 2019**

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Other Support			
Contributions and grants	\$ 1,049,325	\$ 758,472	\$ 1,807,797
Fundraising events	233,193	-	233,193
In-kind donations	30,158	-	30,158
Contracts income	79,488	-	79,488
Investment income	219,485	47,639	267,124
Interest on loan receivable, related party	69,175	-	69,175
Other income	3,785	-	3,785
Total Revenue	<u>1,684,609</u>	<u>806,111</u>	<u>2,490,720</u>
Net assets released from restrictions	704,403	(704,403)	-
Total Revenue and Other Support	<u>2,389,012</u>	<u>101,708</u>	<u>2,490,720</u>
Expenses			
Program services:			
Grants	880,838	-	880,838
Education	230,827	-	230,827
Technical assistance	440,069	-	440,069
Total program services	<u>1,551,734</u>	<u>-</u>	<u>1,551,734</u>
Supporting services:			
Management and general	260,825	-	260,825
Fundraising	412,918	-	412,918
Total Expenses	<u>2,225,477</u>	<u>-</u>	<u>2,225,477</u>
Changes in Net Assets	163,535	101,708	265,243
Net assets, beginning of year	494,390	658,470	1,152,860
Net Assets, End of Year	<u>\$ 657,925</u>	<u>\$ 760,178</u>	<u>\$ 1,418,103</u>

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

FONKOZE USA, INC.

**Statement of Functional Expenses
For the Year Ended December 31, 2020, with Comparative 2019 Totals**

	2020							2019 Totals
	Program Services			Administration	Fundraising	Total		
Grants	Education	Technical Assistance Programs	Total Program Services					
Salaries and related benefits	\$ -	\$ 185,203	\$ 249,962	\$ 435,165	\$ 129,293	\$ 118,190	\$ 682,648	\$ 586,089
Promotion and media	-	6,155	1,208	7,363	922	8,351	16,636	221,592
Grants expense	1,216,276	-	30,417	1,246,693	-	-	1,246,693	880,838
Travel	-	6,736	3,704	10,440	12,210	4,765	27,415	58,882
Professional services	-	10,991	9,429	20,420	19,220	6,321	45,961	35,085
Printing	-	37,451	7,242	44,693	2,051	6,670	53,414	47,725
Interest	-	-	58,714	58,714	400	-	59,114	61,515
Depreciation	-	-	-	-	1,900	-	1,900	1,123
Contract Services	-	1,957	28,716	30,673	15,661	13,641	59,975	44,318
Rent	-	9,799	23,338	33,137	23,904	8,865	65,906	64,354
Office utilities and maintenance	-	-	-	-	319	-	319	352
Postage and delivery	-	14,411	2,087	16,498	2,838	2,193	21,529	14,627
Insurance	-	938	2,153	3,091	1,642	868	5,601	6,846
Licenses and permits	-	29	69	98	513	3,083	3,694	3,838
Supplies	-	720	346	1,066	1,173	543	2,782	8,634
Telephone	-	336	111	447	6,134	223	6,804	5,312
Bank charges	-	-	-	-	4,193	-	4,193	11,091
Training	-	2,068	1,989	4,057	1,312	1,458	6,827	3,647
Technology	-	3,869	8,545	12,414	8,351	7,738	28,503	28,550
Dues and subscriptions	-	2,358	5,860	8,218	1,732	978	10,928	6,719
Board meetings	-	-	-	-	-	-	-	14,933
Education program support in Haiti	-	312	-	312	-	-	312	773
Delegations to Haiti	-	-	-	-	-	-	-	582
Programmatic expenses	-	-	1,330	1,330	-	-	1,330	6,770
Miscellaneous	-	-	-	-	5,320	326	5,646	-
Bad debt	-	-	-	-	-	-	-	111,282
Total	\$ 1,216,276	\$ 283,333	\$ 435,220	\$ 1,934,829	\$ 239,088	\$ 184,213	\$ 2,358,130	\$ 2,225,477

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**

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

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

FONKOZE USA, INC.

Statements of Cash Flows For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities		
Changes in net assets	\$ 226,964	\$ 265,243
Adjustments to reconcile changes in net assets to net cash from operating activities:		
Depreciation	1,900	1,123
Unrealized/realized gain on investments	(80,024)	(261,390)
Reinvested earnings	(11,486)	-
Effect of changes in non-cash operating assets and liabilities:		
Contributions receivable	(29,192)	35,137
Grants receivable	(101,130)	(252,868)
Other receivables	35,733	(40,161)
Prepaid expenses and other assets	(1,990)	(1,466)
Accounts payable, accrued expenses, and other liabilities	23,150	41,051
Grants payable, related party	(6,720)	(89,522)
Net Cash Flow from Operating Activities	<u>57,205</u>	<u>(302,853)</u>
Cash Flow from Investing Activities		
Proceeds from loans receivable, related party	302,000	666,999
Payments on loans receivable, related party	(361,485)	(241,618)
Purchase of investments	-	(89,486)
Proceeds from sales of investments	-	87,830
Purchase of property and equipment	-	(1,854)
Net Cash Flow from Investing Activities	<u>(59,485)</u>	<u>421,871</u>
Cash Flow from Financing Activities		
Payments on loans payable, related parties, SFF	(200,000)	-
Proceeds from loan payable, payroll protection program	99,207	-
Payments on promissory notes	(44,000)	(8,000)
Proceeds from loans payable, investors	317,250	215,799
Payments on loans payable, investors	(350,553)	(530,180)
Net Cash Flow from Financing Activities	<u>(178,096)</u>	<u>(322,381)</u>
Net Change in Cash and Cash Equivalents	<u>(180,376)</u>	<u>(203,363)</u>
Cash and Cash Equivalents, Beginning of Year	313,975	517,338
Cash and Cash Equivalents, End of Year	<u>\$ 133,599</u>	<u>\$ 313,975</u>
Supplemental Cash Flow Disclosure		
Cash paid for interest	<u>\$ 59,114</u>	<u>\$ 61,515</u>

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

FONKOZE USA, INC.

Notes to the Financial Statements December 31, 2020 and 2019

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, 2020 and 2019, 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, 2020 and 2019

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, 2020 and 2019, 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, 2020 and 2019

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, 2020 and 2019. 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, 2020 and 2019, there was \$852,608 and \$558,941, respectively, in net assets with donor restrictions for a specific time period or purpose.

The Organization had \$201,237 in net assets, to be held in perpetuity as of December 31, 2020 and 2019.

FONKOZE USA, INC.

Notes to the Financial Statements December 31, 2020 and 2019

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, was \$30,158, and related to legal services related to the Organization's loan program and goods and services related to fundraising events. Contributed services are recorded at their fair value at the date of the receipt, and are included in contributions revenue and program expenses in the accompanying statements of activities and changes in net assets. There were no in-kind contributions during December 31, 2020. 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.

FONKOZE USA, INC.

Notes to the Financial Statements December 31, 2020 and 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional Allocation of Expenses (continued)

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.

Fundraising Events

Direct expenses related to fundraising events was \$214,395, for the year ended December 31, 2019 and are recorded as fundraising expense on the accompanying statements of activities and changes in net assets. There were no direct expenses during the year ended December 31, 2020.

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, 2020 and 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, 2020, the statute of limitations for fiscal years 2017 through 2020 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.

FONKOZE USA, INC.

Notes to the Financial Statements December 31, 2020 and 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Liquidity and Availability of Resources

The following reflects the Organization's financial assets as of December 31, 2020, reduced by amounts not available for general use within one year because of donor-imposed restrictions.

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 133,599	\$ 313,975
Investments	1,063,870	972,360
Contributions receivable	42,642	13,450
Grants receivable	596,480	495,350
	<u>1,836,591</u>	<u>1,795,135</u>
With donor restrictions		
For appropriation	852,608	558,941
To be held to perpetuity	201,237	201,237
	<u>1,053,845</u>	<u>760,178</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 782,746</u>	<u>\$ 1,034,957</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 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.

Recent Accounting Pronouncement

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.

FONKOZE USA, INC.

Notes to the Financial Statements December 31, 2020 and 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncement (continued)

Management is evaluating the effect of this pronouncement on the financial statements and will implement this pronouncement by its effective date. Management does not believe the adoption of this pronouncement will have a material effect on the financial statements.

Subsequent Events

The Organization evaluated the accompanying financial statements for subsequent events and transactions through April 30, 2021, 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, 2020 and 2019, the Organization had a deposit held at SFF, a related party for \$4,492 and \$54,702, 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, 2020 and 2019.

U.S. Treasury Notes, Mutual Funds and Exchange Traded Funds: 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.

FONKOZE USA, INC.

Notes to the Financial Statements December 31, 2020 and 2019

4. INVESTMENTS (continued)

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.

The following table sets forth, by level, the fair value hierarchy of the Organization's investments at fair value as of December 31, 2020 and 2019:

	2020			
	Level 1	Level 2	Level 3	Total
Mutual Funds	\$ 844,103	\$ -	\$ -	\$ 844,103
Exchange Traded Funds	219,767	-	-	219,767
Investment in Fonkoze S. A.	-	-	616,920	616,920
	<u>\$ 1,063,870</u>	<u>\$ -</u>	<u>\$ 616,920</u>	<u>\$ 1,680,790</u>

	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>

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, 2019	\$ 616,920
Unrealized gain	-
Fair Value as of December 31, 2019	616,920
Unrealized gain	-
Fair Value as of December 31, 2020	<u>\$ 616,920</u>

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, 2020 and 2019

4. INVESTMENTS (continued)

Investment income for the years ended December 31, 2020 and 2019, consisted of the following:

	<u>2020</u>	<u>2019</u>
Interest and dividends, net	\$ 11,533	\$ 5,835
Unrealized gain on investments	80,024	158,570
Unrealized gain on investment in Fonkoze S.A.	-	102,820
Realized (loss) gain on investments	-	(101)
	<u>\$ 91,557</u>	<u>\$ 267,124</u>

5. PROPERTY AND EQUIPMENT

As of December 31, 2020 and 2019, net property and equipment consisted of the following:

	<u>2020</u>	<u>2019</u>	<u>Useful Life</u>
Leasehold improvements	\$ 3,035	\$ 3,035	10 years
Computer equipment	6,224	6,224	3-7 years
Software	11,741	11,741	3-7 years
Website upgrade	13,850	13,850	3-7 years
	<u>34,850</u>	<u>34,850</u>	
Less: accumulated depreciation	34,850	32,950	
Property and equipment, net	<u>\$ -</u>	<u>\$ 1,900</u>	

Depreciation expense was \$1,900 and \$1,123, for the years ended December 31, 2020 and 2019, 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 expired on December 31, 2020, with annual payments of \$100,000. The balance due as of December 31, 2019 was \$200,000. The balance was paid off in full as of December 31, 2020.

Promissory Notes

Promissory notes as of December 31, 2020 and 2019, were comprised of two individual loans in the total amounts of \$106,000 and \$150,000, respectively.

FONKOZE USA, INC.

Notes to the Financial Statements December 31, 2020 and 2019

6. LOANS PAYABLE (continued)

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, 2020 and 2019, the outstanding balance was \$2,618,734 and \$2,652,037, respectively.

Interest expense was \$59,114 and \$61,515, for the years ended December 31, 2020 and 2019, respectively.

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

<u>Years Ending December 31,</u>	<u>Amount</u>
2021	\$ 1,104,634
2022	675,500
2023	203,600
2024	585,000
2025	50,000
Total	<u><u>\$ 2,618,734</u></u>

Payroll Protection Program

During the year ended September 30, 2020, the Organization received a Paycheck Protection Program (PPP) loan in the amount of \$99,207. The terms of the loan require the proceeds to be spent on eligible expenses, which are primarily payroll related costs. Part or all of the loan may be forgiven based on meeting certain conditions as set forth in the loan agreement. Any portion of the PPP loan that is not forgiven must be repaid over two years after a six-month deferral period at an interest rate of 1%.

The PPP loan was received from the U.S federal government under the Coronavirus Aid, Relief and Economic Security (CARES) Act passed by Congress. Subsequent to year end, the Organization believes it has met the conditions to have the entire loan forgiven, however, it is waiting for the forgiveness portal to be opened by the lender. As such, as of December 30, 2020, the Organization has recorded the loan as a liability.

FONKOZE USA, INC.

Notes to the Financial Statements December 31, 2020 and 2019

7. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as of December 31, 2020 and 2019, were available for the following purposes:

	<u>2020</u>	<u>2019</u>
Self Reliance & Social Inclusion - CLM	\$ 497,185	\$ 126,733
Health-Boutik Sante	105,586	179,080
Endowment	93,006	81,949
Emergency Response	61,210	1,470
Development Partners	52,568	105,703
Other	36,289	37,139
Adult Literacy & Education	6,764	17,628
N.A. Sonje	-	9,239
Total	<u><u>\$ 852,608</u></u>	<u><u>\$ 558,941</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 both the Foundation and SFF. Also, one board member is a member of both the Fonkoze USA and SFF Board of Directors.

Fondasyon Kole Zepòl (The Foundation)

The Organization owed the Foundation for outstanding grants of \$549,000 and \$555,720 for the years ended December 31, 2020 and 2019, respectively.

For the years ended December 31, 2020 and 2019, the Organization made grants to the Foundation totaling \$875,161 and \$572,779, 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, 2020 and 2019, the amount reimbursed to the Organization by the Foundation was \$86,958 and \$79,488, respectively.

FONKOZE USA, INC.

Notes to the Financial Statements December 31, 2020 and 2019

8. RELATED PARTY TRANSACTIONS (continued)

Sèvis Finansye Fonkoze (SFF)

As of December 31, 2020 and 2019, loans receivable from SFF was \$2,600,522 and \$2,541,037, 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. Additionally, the Organization made grants totaling \$63,856 to SFF for the year ended December 31, 2020.

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

<u>Years Ending December 31,</u>	<u>Amount</u>
2021	\$ 993,634
2022	203,600
2023	585,000
2024	50,000
2025	768,288
Total	<u><u>\$ 2,600,522</u></u>

Fonkoze S.A. did not pay any dividends on its outstanding shares for the year ended December 31, 2020 and 2019.

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.

FONKOZE USA, INC.

Notes to the Financial Statements December 31, 2020 and 2019

9. ENDOWMENT (continued)

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.

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.
- 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.

FONKOZE USA, INC.

**Notes to the Financial Statements
December 31, 2020 and 2019**

9. ENDOWMENT (continued)

**Spending Policy and How the Investment Objectives Relate to Spending Policy
(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, 2020 and 2019, the composition of the endowment was as follows:

	<u>2020</u>	<u>2019</u>
Without Donor Restrictions - Board Designated	\$ 769,627	\$ 689,174
With Donor Restrictions to be Held to Perpetuity	201,237	201,237
With Donor Restrictions for Appropriation	<u>93,006</u>	81,949
	<u>\$ 970,864</u>	<u>\$ 890,411</u>

For the year ended December 31, 2020, the changes in the endowment net assets were as follows:

	<u>2020</u>			
	<u>Net Assets Without Donor Restrictions - Board Designated</u>	<u>Net Assets With Donor Restrictions - For Appropriation</u>	<u>Net Assets With Donor Restrictions to be Held to Perpetuity</u>	<u>Total</u>
Balance at January 1, 2020	\$ 689,174	\$ 81,949	\$ 201,237	\$ 972,360
Interest and dividends	11,486	11,057	-	22,543
Net appreciation	68,967	-	-	68,967
Balance at December 31, 2020	<u>\$ 769,627</u>	<u>\$ 93,006</u>	<u>\$ 201,237</u>	<u>\$ 1,063,870</u>

FONKOZE USA, INC.

Notes to the Financial Statements December 31, 2020 and 2019

9. ENDOWMENT (continued)

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

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

	<u>2019</u>			
	<u>Net Assets Without Donor Restrictions - Board Designated</u>	<u>Net Assets With Donor Restrictions - For Appropriation</u>	<u>Net Assets With Donor Restrictions to be Held to Perpetuity</u>	<u>Total</u>
Balance at January 1, 2019	\$ 575,373	\$ 36,124	\$ 200,637	\$ 812,134
Interest and dividends	-	1,634	-	1,634
Net appreciation	113,801	44,191	-	157,992
Contribution	-	-	600	600
Balance at December 31, 2019	<u>\$ 689,174</u>	<u>\$ 81,949</u>	<u>\$ 201,237</u>	<u>\$ 972,360</u>

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 November 2020, the Organization entered into a 12-month lease with monthly rent of \$4,633. 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, 2020, were as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2021	\$ 1,908
2022	1,908
2023	1,908
2024	1,590
Total	<u>\$ 7,314</u>

Rent expense for the years ended December 31, 2020 and 2019, was \$65,906 and \$64,354, 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, 2020 and 2019, was \$24,800 and \$11,274, respectively.