

**FONKOZE USA, INC.**

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

**For the Years Ended December 31, 2022 and 2021**



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

**DECEMBER 31, 2022 AND 2021**

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## **REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON THE FINANCIAL STATEMENTS**

To the Board of Directors of  
Fonkoze USA, Inc.

### ***Opinion***

We have audited the statements of financial position of Fonkoze USA, Inc. (the Organization) as of December 31, 2022 and 2021, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2022 and 2021, 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.

### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Organization and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date the financial statements are available for issuance.



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### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal controls relevant to the audit 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 Organization's internal controls. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern one year after the issuance date or the date the financial statements are available for issuance.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal controls-related matters that we identified during the audit.

Washington, D.C.  
April 19, 2023

*SB & Company, LLC*

**FONKOZE USA, INC.****Statements of Financial Position  
As of December 31, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 581,698	\$ 539,028
Investments	894,859	1,132,843
Investment in Fonkoze S.A.	856,541	856,541
Contributions and grants receivable, net	759,459	225,068
Loans receivable, related party	3,050,615	2,912,167
Prepaid expenses and other assets	9,256	9,019
Right-of-use-asset	166,373	-
<b>Total Assets</b>	<b><u>\$ 6,318,801</u></b>	<b><u>\$ 5,674,666</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable, accrued expenses, and other liabilities	\$ 57,012	\$ 31,065
Grants payable, related party	549,000	549,000
Promissory notes	106,000	106,000
Loans payable, investors	3,037,524	2,912,167
Operating lease liability	162,158	-
<b>Total Liabilities</b>	<b><u>3,911,694</u></b>	<b><u>3,598,232</u></b>
<b>Net Assets</b>		
Without donor restrictions	1,344,259	1,621,714
With donor restrictions		
Purpose restricted	861,611	253,483
Held to perpetuity	201,237	201,237
Total with donor restrictions	<u>1,062,848</u>	<u>454,720</u>
<b>Total Net Assets</b>	<b><u>2,407,107</u></b>	<b><u>2,076,434</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 6,318,801</u></b>	<b><u>\$ 5,674,666</u></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, 2022, with Comparative 2021 Totals**

	2022			2021 Totals
	Without Donor Restrictions	With Donor Restrictions	Total	
<b>Revenue and Other Support</b>				
Contributions and grants	\$ 2,100,673	\$ 779,893	\$ 2,880,566	\$ 2,792,074
Contracts and other income	106,034	-	106,034	100,436
Investment income	(141,023)	(40,036)	(181,059)	130,673
Interest on loan receivable, related party	102,560	-	102,560	73,109
Loan forgiveness, Paycheck Protection Program	-	-	-	204,185
<b>Total Revenue</b>	<b>2,168,244</b>	<b>739,857</b>	<b>2,908,101</b>	<b>3,300,477</b>
Net assets released from restrictions	131,729	(131,729)	-	-
<b>Total Revenue and Other Support</b>	<b>2,299,973</b>	<b>608,128</b>	<b>2,908,101</b>	<b>3,300,477</b>
<b>Expenses</b>				
Program services:				
Grantmaking	1,050,748	-	1,050,748	1,442,833
Education	390,610	-	390,610	290,097
Technical assistance	532,688	-	532,688	660,998
Total program services	1,974,046	-	1,974,046	2,393,928
Supporting services:				
Management and general	322,795	-	322,795	250,912
Fundraising	280,587	-	280,587	224,270
Total supporting services	603,382	-	603,382	475,182
<b>Total Expenses</b>	<b>2,577,428</b>	<b>-</b>	<b>2,577,428</b>	<b>2,869,110</b>
Changes in total net assets	(277,455)	608,128	330,673	431,367
Net assets, beginning of year	1,621,714	454,720	2,076,434	1,645,067
<b>Net Assets, End of Year</b>	<b>\$ 1,344,259</b>	<b>\$ 1,062,848</b>	<b>\$ 2,407,107</b>	<b>\$ 2,076,434</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, 2021**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Revenue and Other Support</b>			
Contributions and grants	\$ 2,792,074	\$ -	\$ 2,792,074
Contracts income	100,436	-	100,436
Investment income	114,150	16,523	130,673
Interest on loan receivable, related party	73,109	-	73,109
Loan forgiveness, Paycheck Protection Program	204,185	-	204,185
<b>Total Revenue</b>	<u>3,283,954</u>	<u>16,523</u>	<u>3,300,477</u>
Net assets released from restrictions	615,648	(615,648)	-
<b>Total Revenue and Other Support</b>	<u>3,899,602</u>	<u>(599,125)</u>	<u>3,300,477</u>
<b>Expenses</b>			
Program services:			
Grantmaking	1,442,833	-	1,442,833
Education	290,097	-	290,097
Technical assistance	660,998	-	660,998
Total program services	<u>2,393,928</u>	<u>-</u>	<u>2,393,928</u>
Supporting services:			
Management and general	250,912	-	250,912
Fundraising	224,270	-	224,270
Total supporting services	<u>475,182</u>	<u>-</u>	<u>475,182</u>
<b>Total Expenses</b>	<u>2,869,110</u>	<u>-</u>	<u>2,869,110</u>
Changes in total net assets	1,030,492	(599,125)	431,367
Net assets, beginning of year	591,222	1,053,845	1,645,067
<b>Net Assets, End of Year</b>	<u>\$ 1,621,714</u>	<u>\$ 454,720</u>	<u>\$ 2,076,434</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, 2022, with Comparative Total for 2021**

	2022							
	Program Services							
	Grantmaking	Education	Technical Assistance Programs	Total Program Services	Management & General	Fundraising	Total	2021 Totals
Salaries and related benefits	\$ -	\$ 255,502	\$ 336,936	\$ 592,438	\$ 145,625	\$ 172,766	\$ 910,829	\$ 754,159
Grants expense	1,050,748	-	30,384	1,081,132	-	-	1,081,132	1,680,557
Contract services	-	10,862	19,351	30,213	19,976	35,639	85,828	52,625
Printing	-	42,469	4,044	46,513	964	29,514	76,991	19,287
Bad debt	-	-	-	-	73,699	-	73,699	-
Interest	-	-	62,558	62,558	-	-	62,558	59,431
Travel	-	42,636	6,304	48,940	4,067	4,576	57,583	19,949
Rent	-	8,780	22,045	30,825	12,474	7,854	51,153	55,600
Technology	-	4,465	9,369	13,834	16,097	8,381	38,312	34,115
Postage and delivery	-	12,379	5,909	18,288	6,663	7,477	32,428	68,450
Professional services	-	2,903	12,380	15,283	10,151	2,901	28,335	24,890
Dues and subscriptions	-	4,095	14,662	18,757	2,325	5,842	26,924	15,430
Miscellaneous	-	-	-	-	9,571	-	9,571	26,838
Bank charges	-	-	5	5	9,553	-	9,558	19,862
Training	-	925	2,312	3,237	2,312	2,312	7,861	8,558
Promotion and media	-	3,955	2,333	6,288	7	1,482	7,777	5,094
Insurance	-	1,058	2,428	3,486	2,972	979	7,437	8,026
Telephone	-	312	391	703	3,942	302	4,947	5,892
Supplies	-	269	319	588	1,812	562	2,962	2,559
Education program support in Haiti	-	-	958	958	-	-	958	-
Board meetings	-	-	-	-	585	-	585	331
Licenses and permits	-	-	-	-	-	-	-	7,430
Office utilities and maintenance	-	-	-	-	-	-	-	27
<b>Total Expenses</b>	<b>\$ 1,050,748</b>	<b>\$ 390,610</b>	<b>\$ 532,688</b>	<b>\$ 1,974,046</b>	<b>\$ 322,795</b>	<b>\$ 280,587</b>	<b>\$ 2,577,428</b>	<b>\$ 2,869,110</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, 2021**

	<b>Program Services</b>						<b>Total</b>
	<b>Grantmaking</b>	<b>Education</b>	<b>Technical Assistance Programs</b>	<b>Total Program Services</b>	<b>Management &amp; General</b>	<b>Fundraising</b>	
Salaries and related benefits	\$ -	\$ 187,704	\$ 265,049	\$ 452,753	\$ 152,381	\$ 149,025	\$ 754,159
Grants expense	1,442,833	-	237,724	1,680,557	-	-	1,680,557
Contract services	-	7,849	13,604	21,453	13,023	18,149	52,625
Printing	-	11,155	1,481	12,636	619	6,032	19,287
Interest	-	-	59,431	59,431	-	-	59,431
Travel	-	12,846	2,174	15,020	2,742	2,187	19,949
Rent	-	9,452	21,684	31,136	16,124	8,340	55,600
Technology	-	4,088	8,686	12,774	12,311	9,030	34,115
Postage and delivery	-	41,202	6,994	48,196	10,574	9,680	68,450
Professional services	-	4,765	8,835	13,600	7,275	4,015	24,890
Dues and subscriptions	-	2,764	5,269	8,033	1,874	5,523	15,430
Miscellaneous	-	116	22,751	22,867	3,855	116	26,838
Bank charges	-	-	-	-	19,862	-	19,862
Training	-	3,170	2,003	5,173	1,859	1,526	8,558
Promotion and media	-	2,635	1,505	4,140	8	946	5,094
Insurance	-	1,235	2,836	4,071	2,811	1,144	8,026
Telephone	-	597	652	1,249	4,169	474	5,892
Supplies	-	519	320	839	745	975	2,559
Board meetings	-	-	-	-	164	167	331
Licenses and permits	-	-	-	-	489	6,941	7,430
Office utilities and maintenance	-	-	-	-	27	-	27
<b>Total Expenses</b>	<b>\$ 1,442,833</b>	<b>\$ 290,097</b>	<b>\$ 660,998</b>	<b>\$ 2,393,928</b>	<b>\$ 250,912</b>	<b>\$ 224,270</b>	<b>\$ 2,869,110</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, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
<b>Cash Flows from Operating Activities</b>		
Changes in net assets	\$ 330,673	\$ 431,367
Adjustments to reconcile changes in net assets to net cash from operating activities:		
Unrealized/realized loss/(gain) on investments	218,713	(86,670)
Reinvested earnings	(36,869)	(44,003)
Forgiveness of loan payable - Paycheck Protection Program	-	(204,185)
Contributed shares of Fonkoze S.A.	-	(239,621)
Change in the measurement of leases	(4,215)	-
Effect of changes in non-cash operating assets and liabilities		
Contributions and grants receivable, net	(534,391)	437,269
Prepaid expenses and other assets	(237)	9,371
Accounts payable, accrued expenses, and other liabilities	25,947	(46,565)
Grants payable, related party	-	-
<b>Net Cash Flow from Operating Activities</b>	<u>(379)</u>	<u>256,963</u>
<b>Cash Flow from Investing Activities</b>		
Proceeds from payments on loans receivable, related party	13,552	37,105
Payments on new loans receivable, related party	(152,000)	(348,750)
Purchase of investments	-	-
Proceeds from sales of investments	56,140	61,700
<b>Net Cash Flow from Investing Activities</b>	<u>(82,308)</u>	<u>(249,945)</u>
<b>Cash Flow from Financing Activities</b>		
Proceeds from loan payable - Paycheck Protection Program	-	104,978
Payments on promissory notes	-	-
Proceeds from loans payable, investors	152,000	331,000
Payments on loans payable, investors	(26,643)	(37,567)
<b>Net Cash Flow from Financing Activities</b>	<u>125,357</u>	<u>398,411</u>
Net change in cash and cash equivalents	42,670	405,429
Cash and cash equivalents, beginning of year	539,028	133,599
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 581,698</u>	<u>\$ 539,028</u>
<b>Supplemental Cash Flow Disclosure</b>		
Cash paid for interest	<u>\$ 62,558</u>	<u>\$ 59,431</u>

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

# **FONKOZE USA, INC.**

## **Notes to the Financial Statements December 31, 2022 and 2021**

### **1. DESCRIPTION OF THE ORGANIZATION**

Fonkoze USA, Inc. (the Organization) is an American 501(c)(3) nonprofit organization that operates exclusively for charitable and educational purposes, including, but not limited to, raising, donating, and lending charitable funds and facilitating technical assistance to its Fonkoze partners (Fondasyon Kole Zepòl and Sèvis Finansye Fonkoze) and other organizations empowering the poor across Haiti, and increasing public awareness about Haiti and the services and programs provided by Fonkoze and the development organizations that the Corporation supports.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Basis of Accounting**

The accompanying financial statements of the Organization 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 assumptions 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, support, expenses during the reporting period. Accordingly, actual results could differ from those estimates and assumptions.

#### **Cash and Cash Equivalents**

The Organization maintains its cash in a bank deposit account which, at times, may exceed Federally insured limits. The Federal Deposit Insurance Corporation (FDIC) guarantee accounts up to \$250,000 per depositor per institution. As of December 31, 2022 and 2021, the Organization had \$331,698 and \$283,013, respectively, in excess of FDIC insured limits. The Organization has not experienced any losses in their bank deposit accounts.

Cash and cash equivalents consist of cash and short-term investments with original maturities of 90 days or less. As of December 31, 2022 and 2021, cash equivalents consisted of money market funds.

## **FONKOZE USA, INC.**

### **Notes to the Financial Statements December 31, 2022 and 2021**

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

##### **Fair Value Measurements**

Accounting standards generally accepted in the United States of America 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).

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

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

Financial instruments consist of cash and cash equivalents, investments, receivables, and payables. The carrying value of the Organization's financial instruments in the accompanying statements of financial position approximates their respective estimated fair values as of December 31, 2022 and 2021. Fair values are estimated based on current market rates, prices, or liquidation value.

##### **Contributions and Grants Receivable, Net**

Contributions receivable represent unconditional promises to give from various individuals and Foundations. Grants receivable represent unconditional commitments from grantors. These receivables represent revenue earned, but not collected, as of the end of the year.

## **FONKOZE USA, INC.**

### **Notes to the Financial Statements December 31, 2022 and 2021**

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

##### **Contributions and Grants Receivable, Net (continued)**

Contributions and grants receivable are recorded at the donated amount less a discount for those donations expected to be collected over a period greater than one year. The unamortized discount is accreted into contribution revenue in the future. The discount rate was 4.73% for the year ended December 31, 2022. There was no discount recorded for the year ended December 31, 2021.

The Organization records an allowance for doubtful accounts, if needed, equal to the estimated losses that will be incurred in the collection of receivables. The estimated losses are based on historical collection experience. The Organization records all contributions and grants receivable at their net realizable value. As of December 31, 2022, the allowance for doubtful accounts was \$73,699. As of December 31, 2021, there was no allowance for doubtful accounts as management believed that all receivables were 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. The funds loaned to SFF are based on funds received from investors noted as Loans Payable in the accompanying statements of financial position.

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, 2022 and 2021.

##### **Property and Equipment, Net**

Property and equipment purchased in excess of \$1,500 with an estimated useful life of more than one year are capitalized at cost. Donated furniture and equipment are capitalized at the estimated fair market value on the date received. Depreciation is recorded using the straight-line method over estimated useful lives of the assets. Expenditures for major repairs and improvements are capitalized, and expenditures for minor repairs and maintenance are expensed as incurred.

# FONKOZE USA, INC.

## Notes to the Financial Statements December 31, 2022 and 2021

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

#### Right-of-Use Asset

The Organization records a right-of-use asset related to the office facilities where the Organization conducts its operations. The Organization's 40-month lease was recorded at \$174,549, which represented its present value of the total remaining lease payments on November 1, 2022, at adoption. The right-of-use asset is being amortized over the term of the lease. During the year ended December 31, 2022, the amortization expense related to the right-of-use asset was \$8,176.

#### 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 in perpetuity, are those whose use by the Organization has been limited 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. If a donor restriction is met in the same reporting period in which the contribution is received, the contribution (to the extent that the restrictions have been met) is reported as net assets without donor restrictions.

#### Revenue and Support

The Organization recognizes grants and contributions when an unconditional promise to give is received. Conditional promises to give, with measurable performance or other barrier and right of return, are not recognized until the conditions on which they depend have been met.

Grants and contributions received are recorded as net assets with or without 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, depending on the nature of the restriction.

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.

Amounts received under contracts are recognized as revenue when the performance criteria established has been met.

## **FONKOZE USA, INC.**

### **Notes to the Financial Statements December 31, 2022 and 2021**

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

##### **Revenue and Support (continued)**

Unrealized and realized gains and losses, dividends, and interest from investing activities in income producing assets are included in the applicable net asset classification depending on donor restrictions.

##### **In-Kind Contributions**

Contributed services are recognized if the services meet any of the following criteria: a) they create or enhance non-financial assets; or b) they require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

##### **Functional Allocation of Expenses**

The costs of providing the various programs and supporting services 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, administration and fundraising services that benefit from those costs. Administration expenses include those expenses that are not directly identified with any other specific function but provide for the overall support and direction of the Organization. Fundraising costs are those which are specific to the related activity.

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

##### **Income Tax**

The Organization is a not-for-profit organization that is exempt from Federal income taxes, other than net unrelated business income taxes, under the provisions of Section 501(c)(3) of the United States Internal Revenue Code and is recognized as such by the Internal Revenue Service.

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, 2022 and 2021, and determined that there were no matters that would require recognition in the accompanying financial statements or which may have any effect on its tax-exempt status.

## FONKOZE USA, INC.

### Notes to the Financial Statements December 31, 2022 and 2021

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

##### Income Tax (continued)

As of December 31, 2022, the statute of limitations for fiscal years 2019 through 2022 remains open with the U.S. Federal jurisdiction or the various state and local jurisdictions 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 in the statements of activities and changes in net assets.

##### Liquidity and Availability of Resources

The following reflects the Organization's financial assets as of December 31, 2022 and 2021, reduced by the amounts not available for general use within one year because of donor-imposed restrictions.

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 581,698	\$ 539,028
Investments	894,859	1,132,843
Contributions and grants receivable, net	759,459	225,068
Financial assets, at year-end	<u>2,236,016</u>	<u>1,896,939</u>
Less those unavailable for general expenditures within one year, due to:		
Donor restrictions - time	468,793	-
Donor restrictions - purpose	81,718	253,483
Donor restrictions - held to perpetuity	201,237	201,237
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,484,268</u>	<u>\$ 1,442,219</u>

The Organization manages its liquidity following two guiding principles: operating within a prudent range of financial soundness and stability and maintaining access to adequate liquid assets to fund near-term operating needs.

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.



## FONKOZE USA, INC.

### Notes to the Financial Statements December 31, 2022 and 2021

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

##### Liquidity and Availability of Resources (continued)

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 581,698	\$ 539,028
Investments	894,859	1,132,843
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##### Implemented 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. This implementation resulted in a right-of use asset of \$166,373 and a lease liability of \$162,158 as of December 31, 2022.

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which presents contributed nonfinancial assets as a separate line item in the statements of activities and changes in net assets, apart from contributions of cash or other financial assets.

This standard was adopted during the year end December 31, 2022 and did not have a material effect on the accompanying financial statements.

# FONKOZE USA, INC.

## Notes to the Financial Statements December 31, 2022 and 2021

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

#### Recent Accounting Pronouncement

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses*. The objective of this update is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity. This standard will be effective for periods beginning after December 15, 2022.

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's management has evaluated the accompanying financial statements for subsequent events and transactions through April 19, 2023, 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, 2021, the Organization had a deposit held at SFF, a related party, for \$4,492. These funds are held outside of the United States of America and are not insured. As of December 31, 2022, there were no deposits held at SFF.

### 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, 2022 and 2021.

*Equities and Fixed Income:* 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 Organization 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, 2022 and 2021

#### 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, 2022 and 2021:

	2022			
	Level 1	Level 2	Level 3	Total
Equities - Mutual Funds & FTE's	\$ 539,485	\$ -	\$ -	\$ 539,485
Fixed Income - Mutual Funds & FTE's	355,374	-	-	355,374
Investment in Fonkoze S.A.	-	-	856,541	856,541
	<u>\$ 894,859</u>	<u>\$ -</u>	<u>\$ 856,541</u>	<u>\$ 1,751,400</u>

  

	2021			
	Level 1	Level 2	Level 3	Total
Equities - Mutual Funds & FTE's	\$ 693,892	\$ -	\$ -	\$ 693,892
Fixed Income - Mutual Funds & FTE's	438,951	-	-	438,951
Investment in Fonkoze S.A.	-	-	856,541	856,541
	<u>\$ 1,132,843</u>	<u>\$ -</u>	<u>\$ 856,541</u>	<u>\$ 1,989,384</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, 2021	\$ 616,920
Shares contributed	239,621
Unrealized gain	-
Fair Value as of December 31, 2021	<u>856,541</u>
Unrealized gain	-
Fair Value as of December 31, 2022	<u>\$ 856,541</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.

Investment income for the years ended December 31, 2022 and 2021, consisted of the following:

	2022	2021
Interest and dividends, net	\$ 37,654	\$ 44,003
Realized and unrealized (loss) gains, net	<u>(218,713)</u>	<u>86,670</u>
<b>Investment (Loss) / Income, Net</b>	<u>\$ (181,059)</u>	<u>\$ 130,673</u>

## FONKOZE USA, INC.

### Notes to the Financial Statements December 31, 2022 and 2021

#### 5. CONTRIBUTIONS GRANTS, AND OTHER RECEIVABLES, NET

As of December 31, 2022 and 2021, contributions, grants, and other receivables included the following unconditional promises to give:

	<u>2022</u>	<u>2021</u>
Contributions, grants, and other due in:		
Less than one year	\$ 364,365	\$ 225,068
One to five years	500,000	-
	<u>864,365</u>	<u>225,068</u>
Less: allowance for doubtful accounts	73,699	-
Less: PV discount at 4.73% and 0%, respectively	31,207	-
<b>Total</b>	<u><u>\$ 759,459</u></u>	<u><u>\$ 225,068</u></u>

#### 6. LOANS PAYABLE

##### Promissory Notes

Promissory notes as of December 31, 2022 and 2021, were comprised of two individual loans in the total amounts of \$106,000. These notes are not collateralized, have an interest rate of 3%, and mature in 2024.

##### 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 February 2028. As of December 31, 2022 and 2021, the outstanding balance was \$3,037,524 and \$2,912,167, respectively.

Interest expense was \$62,558 and \$59,431, for the years ended December 31, 2022 and 2021, respectively.

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

<u>Years Ending December 31,</u>	<u>Amount</u>
2023	\$ 1,102,574
2024	121,000
2025	733,950
2026	860,000
2027	210,000
2028	10,000
<b>Total</b>	<u><u>\$ 3,037,524</u></u>

## FONKOZE USA, INC.

### Notes to the Financial Statements December 31, 2022 and 2021

#### 7. LEASE LIABILITY

On May 9, 2022, the Organization entered into a lease agreement for office space in Washington D.C. The lease commenced on November 1, 2022 and is set to expire on February 28, 2026. Under this lease agreement, the Organization received 4 months of rent abatement. The lease calls for monthly payments of \$4,518 in the first year, with annual increases thereafter equal to 2.75 percent of the previous year's payment for the remainder of the lease. The Organization is also required to pay its pro rata share of the increases in real estate taxes and operating expenses. As of December 31, 2022, the lease payable was \$162,158. Rent expense was \$51,153 and \$55,600 for the year ended December 31, 2022 and 2021.

As of December 31, 2022, the future minimum payments under the lease liability are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2023	\$ 38,906
2024	55,956
2025	57,495
2026	9,801
<b>Total</b>	<b><u>\$ 162,158</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.

##### **Fondasyon Kole Zepòl (the Foundation)**

The Organization owed the Foundation \$549,000 in outstanding grants as of December 31, 2022 and 2021.

For the years ended December 31, 2022 and 2021, the Organization made grants to the Foundation totaling \$1,056,269 and \$1,406,772, respectively.

## FONKOZE USA, INC.

### Notes to the Financial Statements December 31, 2022 and 2021

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

##### Fondasyon Kole Zepòl (the Foundation) (continued)

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, 2022 and 2021, the amount reimbursed to the Organization by the Foundation was \$104,468 and \$98,280, respectively.

##### Sèvis Finansye Fonkoze (SFF)

As of December 31, 2022 and 2021, loans receivable from SFF was \$3,050,615 and \$2,912,167, 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 \$165,656 to SFF for the year ended December 31, 2021. The Organization did not make any grants to SFF for the year ended December 31, 2022.

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

<u>Years Ending December 31,</u>	<u>Amount</u>
2023	\$ 1,102,574
2024	121,000
2025	733,950
2026	860,000
2027	210,000
Thereafter	23,091
<b>Total</b>	<b>\$ 3,050,615</b>

Fonkoze S.A. did not pay any dividends on its outstanding shares for the year ended December 31, 2022 and 2021.

#### 9. NET ASSETS WITH DONOR RESTRICTIONS

As of December 31, 2022 and 2021, net assets with donor restrictions were available for the following purposes excluding net assets held to perpetuity:

	<u>2022</u>	<u>2021</u>
Self Reliance & Social Inclusion - CLM	\$ 368,793	\$ 99,858
Health-Boutik Sante	211,100	31,871
Endowment	81,718	121,754
Adult Literacy & Education	200,000	-
<b>Total</b>	<b>\$ 861,611</b>	<b>\$ 253,483</b>

## **FONKOZE USA, INC.**

### **Notes to the Financial Statements December 31, 2022 and 2021**

#### **10. 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.

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.

## FONKOZE USA, INC.

### Notes to the Financial Statements December 31, 2022 and 2021

#### 10. ENDOWMENT (continued)

##### 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, 2022 and 2021, the composition of the endowment was as follows:

	<u>2022</u>	<u>2021</u>
Without donor restrictions - Board-designated	\$ 611,904	\$ 809,852
With donor restrictions for appropriation	81,718	121,754
With donor restrictions held to perpetuity	<u>201,237</u>	<u>201,237</u>
	<u>\$ 894,859</u>	<u>\$ 1,132,843</u>

For the year ended December 31, 2022 and 2021, the changes in the endowment net assets were as follows:

	<u>2022</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 - Held to Perpetuity</u>	<u>Total</u>
Balance at January 1, 2022	\$ 809,852	\$ 121,754	\$ 201,237	\$ 1,132,843
Interest and dividends	28,758	8,111	-	36,869
Net depreciation	(170,596)	(48,117)	-	(218,713)
Contributions	-	-	-	-
Withdrawal	(56,110)	(30)	-	(56,140)
<b>Balance at December 31, 2022</b>	<u>\$ 611,904</u>	<u>\$ 81,718</u>	<u>\$ 201,237</u>	<u>\$ 894,859</u>

  

	<u>2021</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 - Held to Perpetuity</u>	<u>Total</u>
Balance at January 1, 2021	\$ 769,627	\$ 93,006	\$ 201,237	\$ 1,063,870
Interest and dividends	34,322	9,681	-	44,003
Net appreciation	67,603	19,067	-	86,670
Withdrawal	(61,700)	-	-	(61,700)
<b>Balance at December 31, 2021</b>	<u>\$ 809,852</u>	<u>\$ 121,754</u>	<u>\$ 201,237</u>	<u>\$ 1,132,843</u>

#### 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, 2022 and 2021, was \$11,350 and \$22,200, respectively.