

FONKOZE USA, INC.

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

For the Years Ended December 31, 2021 and 2020



SB & COMPANY, LLC
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DECEMBER 31, 2021 AND 2020

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors
Fonkoze USA, Inc.

Opinion

We have audited the accompanying statements of financial position of Fonkoze USA, Inc. (the Organization) as of December 31, 2021 and 2020, 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, 2021 and 2020, 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 Fonkoze USA, Inc. 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 these 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 issued.



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Auditor's Responsibility 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 control. 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 Fonkoze USA Inc.'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 Fonkoze USA Inc.'s ability to continue as a going concern for a reasonable period of time.

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.
March 27, 2022

S B & Company, LLC

FONKOZE USA, INC.**Statements of Financial Position
As of December 31, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 539,028	\$ 133,599
Investments	1,132,843	1,063,870
Investment in Fonkoze S.A.	856,541	616,920
Contributions receivable	-	42,642
Grants receivable	142,524	596,480
Loans receivable, related party	2,912,167	2,600,522
Other receivables	82,544	23,215
Prepaid expenses and other assets	9,019	18,390
Total Assets	\$ 5,674,666	\$ 5,095,638
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable, accrued expenses, and other liabilities	\$ 31,065	\$ 77,630
Grants payable, related party	549,000	549,000
Promissory notes	106,000	106,000
Loan payable, Paycheck Protection Program	-	99,207
Loans payable, investors	2,912,167	2,618,734
Total Liabilities	3,598,232	3,450,571
Net Assets		
Without donor restrictions	1,621,714	591,222
With donor restrictions		
For appropriation	253,483	852,608
To be held in perpetuity	201,237	201,237
Total with donor restrictions	454,720	1,053,845
Total Net Assets	2,076,434	1,645,067
Total Liabilities and Net Assets	\$ 5,674,666	\$ 5,095,638

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, 2021, with Comparative Totals for 2020**

	2021			2020 Totals
	Without Donor Restrictions	With Donor Restrictions	Total	
Revenue and Other Support				
Contributions and grants	\$ 2,792,074	\$ -	\$ 2,792,074	\$ 2,275,846
Contracts income	98,280	-	98,280	86,958
Investment income	114,150	16,523	130,673	91,557
Interest on loan receivable, related party	73,109	-	73,109	130,733
Paycheck Protection Program loan forgiveness	204,185	-	204,185	-
Other income	2,156	-	2,156	-
Total Revenue and Other Support	3,283,954	16,523	3,300,477	2,585,094
Net assets released from restrictions	615,648	(615,648)	-	-
Total Revenue and Other Support	3,899,602	(599,125)	3,300,477	2,585,094
Expenses				
Program services:				
Grants	1,442,833	-	1,442,833	1,216,276
Education	290,097	-	290,097	283,333
Technical assistance	660,998	-	660,998	435,220
Total program services	2,393,928	-	2,393,928	1,934,829
Supporting services:				
Management and general	250,912	-	250,912	239,088
Fundraising	224,270	-	224,270	184,213
Total supporting services	475,182	-	475,182	423,301
Total Expenses	2,869,110	-	2,869,110	2,358,130
Changes in Net Assets	1,030,492	(599,125)	431,367	226,964
Net assets, Beginning of Year	591,222	1,053,845	1,645,067	1,418,103
Net Assets, End of Year	\$ 1,621,714	\$ 454,720	\$ 2,076,434	\$ 1,645,067

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, 2020**

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Other Support			
Contributions and grants	\$ 1,159,421	\$ 1,116,425	\$ 2,275,846
Contracts income	86,958	-	86,958
Investment income	91,557	-	91,557
Interest on loan receivable, related party	130,733	-	130,733
Total Revenue	1,468,669	1,116,425	2,585,094
Net assets released from restrictions	822,758	(822,758)	-
Total Revenue and Other Support	2,291,427	293,667	2,585,094
Expenses			
Program services:			
Grants	1,216,276	-	1,216,276
Education	283,333	-	283,333
Technical assistance	435,220	-	435,220
Total program services	1,934,829	-	1,934,829
Supporting services:			
Management and general	239,088	-	239,088
Fundraising	184,213	-	184,213
Total Expenses	2,358,130	-	2,358,130
Changes in Net Assets	(66,703)	293,667	226,964
Net assets, beginning of year	657,925	760,178	1,418,103
Net Assets, End of Year	\$ 591,222	\$ 1,053,845	\$ 1,645,067

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, with Comparative 2020 Totals**

	2021							2020 Totals	
	Program Services			Technical				Total	Total
	Grantmaking	Education	Assistance Programs	Total Program Services	Administration	Fundraising			
Salaries and related benefits	\$ -	\$ 187,704	\$ 265,049	\$ 452,753	\$ 152,381	\$ 149,025	\$ 754,159	\$ 682,648	
Grants expense	1,442,833	-	237,724	1,680,557	-	-	1,680,557	1,246,693	
Postage and delivery	-	41,202	6,994	48,196	10,574	9,680	68,450	21,529	
Interest	-	-	59,431	59,431	-	-	59,431	59,114	
Rent	-	9,452	21,684	31,136	16,124	8,340	55,600	65,906	
Contract services	-	7,849	13,604	21,453	13,023	18,149	52,625	59,975	
Technology	-	4,088	8,686	12,774	12,311	9,030	34,115	28,503	
Miscellaneous	-	116	22,751	22,867	3,855	116	26,838	5,646	
Professional services	-	4,765	8,835	13,600	7,275	4,015	24,890	45,961	
Travel	-	12,846	2,174	15,020	2,742	2,187	19,949	27,415	
Bank charges	-	-	-	-	19,862	-	19,862	4,193	
Printing	-	11,155	1,481	12,636	619	6,032	19,287	53,414	
Dues and subscriptions	-	2,764	5,269	8,033	1,874	5,523	15,430	10,928	
Training	-	3,170	2,003	5,173	1,859	1,526	8,558	6,827	
Insurance	-	1,235	2,836	4,071	2,811	1,144	8,026	5,601	
Licenses and permits	-	-	-	-	489	6,941	7,430	3,694	
Telephone	-	597	652	1,249	4,169	474	5,892	6,804	
Promotion and media	-	2,635	1,505	4,140	8	946	5,094	16,636	
Supplies	-	519	320	839	745	975	2,559	2,782	
Board meetings	-	-	-	-	164	167	331	-	
Office utilities and maintenance	-	-	-	-	27	-	27	319	
Depreciation	-	-	-	-	-	-	-	1,900	
Education program support in Haiti	-	-	-	-	-	-	-	312	
Programmatic expenses	-	-	-	-	-	-	-	1,330	
Total	\$ 1,442,833	\$ 290,097	\$ 660,998	\$ 2,393,928	\$ 250,912	\$ 224,270	\$ 2,869,110	\$ 2,358,130	

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**

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

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

FONKOZE USA, INC.

Statements of Cash Flows For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities		
Changes in net assets	\$ 431,367	\$ 226,964
Adjustments to reconcile changes in net assets to net cash from operating activities:		
Depreciation	-	1,900
Unrealized/realized gain on investments	(86,670)	(80,024)
Reinvested earnings	(44,003)	(11,486)
Forgiveness of loan payable - Paycheck Protection Program	(204,185)	-
Contributed Shares of Fonkoze S.A.	(239,621)	-
Effect of changes in non-cash operating assets and liabilities:		
Contributions receivable	42,642	(29,192)
Grants receivable	453,956	(101,130)
Other receivables	(59,329)	35,733
Prepaid expenses and other assets	9,371	(1,990)
Accounts payable, accrued expenses, and other liabilities	(46,565)	23,150
Grants payable, related party	-	(6,720)
Net Cash Flow from Operating Activities	<u>256,963</u>	<u>57,205</u>
Cash Flow from Investing Activities		
Proceeds from payments on loans receivable, related party	37,105	302,000
Payments on new loans receivable, related party	(348,750)	(361,485)
Proceeds from sales of investments	61,700	-
Net Cash Flow from Investing Activities	<u>(249,945)</u>	<u>(59,485)</u>
Cash Flow from Financing Activities		
Payments on loans payable, related parties, SFF	-	(200,000)
Proceeds from loan payable - Paycheck Protection Program	104,978	99,207
Payments on promissory notes	-	(44,000)
Proceeds from loans payable, investors	331,000	317,250
Payments on loans payable, investors	(37,105)	(350,553)
Net Cash Flow from Financing Activities	<u>398,873</u>	<u>(178,096)</u>
Net Change in Cash and Cash Equivalents	<u>405,891</u>	<u>(180,376)</u>
Cash and Cash Equivalents, Beginning of Year	<u>133,599</u>	<u>313,975</u>
Cash and Cash Equivalents, End of Year	<u>\$ 539,490</u>	<u>\$ 133,599</u>
Supplemental Cash Flow Disclosure		
Cash paid for interest	<u>\$ 59,431</u>	<u>\$ 59,114</u>

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

FONKOZE USA, INC.

Notes to the Financial Statements December 31, 2021 and 2020

1. DESCRIPTION OF THE ORGANIZATION

Fonkoze USA, Inc. (the Organization) is an American 501(c)3 nonprofit organization dedicated to securing financial and technical support for its Haitian partners: Fondasyon Kole Zepòl (the Foundation) and Sèvis Finansye Fonkoze (SFF) – a wholly owned subsidiary of Fonkoze S.A. Fonkoze USA educates the American public about Fonkoze’s work in Haiti. Fonkoze USA also acts as a channel for socially responsible investors interested in investing in Fonkoze’s loan fund.

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, 2021 and 2020, 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, 2021 and 2020

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 and approximate fair value. Management assesses the collectability for each amount based on historic data. As of December 31, 2021 and 2020, 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. The funds loaned to SFF are based on funds received from investors noted as Loans Payable in the accompanying statements of financial position.

FONKOZE USA, INC.

Notes to the Financial Statements December 31, 2021 and 2020

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, 2021 and 2020. 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.

FONKOZE USA, INC.

Notes to the Financial Statements December 31, 2021 and 2020

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.

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.

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.

FONKOZE USA, INC.

Notes to the Financial Statements December 31, 2021 and 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Tax (continued)

The Organization performed an evaluation of uncertain tax positions as of December 31, 2021 and 2020, 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, 2021, the statute of limitations for fiscal years 2018 through 2021 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, 2021, reduced by amounts not available for general use within one year because of donor-imposed restrictions.

	<u>Amount</u>
Cash and cash equivalents	\$ 539,028
Investments	1,132,843
Grants receivable	142,524
	<u>1,814,395</u>
With donor restrictions	
For appropriation	253,483
To be held to perpetuity	201,237
	<u>454,720</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,359,675</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.

FONKOZE USA, INC.

Notes to the Financial Statements December 31, 2021 and 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 these pronouncements on the financial statements and will implement these pronouncements by their effective dates. 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 March 27, 2022, 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 and 2020, 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.

FONKOZE USA, INC.

Notes to the Financial Statements December 31, 2021 and 2020

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, 2021 and 2020.

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 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 30:

	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>

	2020			
	Level 1	Level 2	Level 3	Total
Equities - Mutual Funds & FTE's	\$ 558,300	\$ -	\$ -	\$ 558,300
Equities - Stocks & Options	10,147	-	-	10,147
Fixed Income - Mutual Funds & FTE's	495,423	-	-	495,423
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>

FONKOZE USA, INC.

Notes to the Financial Statements December 31, 2021 and 2020

4. INVESTMENTS (continued)

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.

	<u>Amount</u>
Fair Value as of December 31, 2019	\$ 616,920
Share purchase	-
Unrealized gains	-
Fair Value as of December 31, 2020	\$ 616,920
Shares contributed	239,621
Unrealized gains	-
Fair Value as of December 31, 2021	<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, 2021 and 2020, consisted of the following:

	<u>2021</u>	<u>2020</u>
Interest and dividends, net	\$ 44,003	\$ 11,533
Realized and unrealized gains on investments	86,670	80,024
	<u>\$ 130,673</u>	<u>\$ 91,557</u>

5. LOANS PAYABLE

Promissory Notes

Promissory notes as of December 31, 2021 and 2020, 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 2023.

FONKOZE USA, INC.

Notes to the Financial Statements December 31, 2021 and 2020

5. 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 November 2027. As of December 31, 2021 and 2020, the outstanding balance was \$2,912,629 and \$2,618,734, respectively.

Interest expense was \$59,431 and \$59,114, for the years ended December 31, 2021 and 2020, respectively.

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

<u>Years Ending December 31,</u>	<u>Amount</u>
2022	\$ 514,600
2023	90,000
2024	332,205
2025	610,000
2026	1,365,362
Total	\$ 2,912,167

Paycheck Protection Program

During the year ended December 31, 2020, the Organization received a Paycheck Protection Program (PPP) loan in the amount of \$99,207. The PPP loan was received from the U.S. Federal government under the Coronavirus Aid, Relief and Economic Security (CARES) Act passed by Congress. The terms of the loan required 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%. This loan was forgiven during the year ended December 31, 2021 and is recognized as revenue in the accompanying statements of activities and changes in net assets.

Additionally, the Organization received a second PPP loan in the amount of \$104,978 during the year ended December 31, 2021. This loan was fully forgiven during the year and thus recognized as revenue in the accompanying statements of activities and changes in net assets.

FONKOZE USA, INC.

Notes to the Financial Statements December 31, 2021 and 2020

6. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as of December 31, 2021 and 2020, were available for the following purposes:

	<u>2021</u>	<u>2020</u>
Self Reliance & Social Inclusion - CLM	\$ 99,858	\$ 497,185
Health-Boutik Sante	31,871	105,586
Endowment	121,754	93,006
Emergency Response	-	61,210
Development Partners	-	52,568
Other	-	36,289
Adult Literacy & Education	-	6,764
Total	\$ 253,483	\$ 852,608

7. 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 as of December 31, 2021 and 2020.

For the years ended December 31, 2021 and 2020, the Organization made grants to the Foundation totaling \$1,406,772 and \$875,161, 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, 2021 and 2020, the amount reimbursed to the Organization by the Foundation was \$98,280 and \$86,958, respectively.

FONKOZE USA, INC.

Notes to the Financial Statements December 31, 2021 and 2020

7. RELATED PARTY TRANSACTIONS (continued)

Sèvis Finansye Fonkoze (SFF)

As of December 31, 2021 and 2020, loans receivable from SFF was \$2,912,167 and \$2,600,522, 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 and \$63,856 to SFF for the years ended December 31, 2021 and 2020, respectively.

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

<u>Years Ending December 31,</u>	<u>Amount</u>
2022	\$ 514,600
2023	90,000
2024	332,205
2025	610,000
2026	1,365,362
Total	<u>\$ 2,912,167</u>

Fonkoze S.A. did not pay any dividends on its outstanding shares for the year ended December 31, 2021 and 2020.

8. 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, 2021 and 2020

8. ENDOWMENT (continued)

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.

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).

FONKOZE USA, INC.

**Notes to the Financial Statements
December 31, 2021 and 2020**

8. ENDOWMENT (continued)

As of December 31, 2021 and 2020, the composition of the endowment was as follows:

	<u>2021</u>	<u>2020</u>
Without Donor Restrictions - Board Designated	\$ 809,852	\$ 769,627
With Donor Restrictions to be Held to Perpetuity	201,237	201,237
With Donor Restrictions for Appropriation	121,754	93,006
	<u>\$ 1,132,843</u>	<u>\$ 1,063,870</u>

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

	<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 to be 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)
Balance at December 31, 2021	<u>\$ 809,852</u>	<u>\$ 121,754</u>	<u>\$ 201,237</u>	<u>\$ 1,132,843</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, 2021 and 2020

9. COMMITMENTS AND CONTINGENCIES

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, 2021, were as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2022	\$ 1,908
2023	1,908
2024	1,590
Total	\$ 5,406

The Organization has a lease agreement for office space, which expires on October 31, 2022. Rent expense for the years ended December 31, 2021 and 2020, was \$55,600 and \$65,906, respectively.

10. 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, 2021 and 2020, was \$22,200 and \$24,800, respectively.