

**FINANCIAL STATEMENTS**

# **THE FRIENDSHIP BRIDGE**

**FOR THE YEARS ENDED  
DECEMBER 31, 2017 AND 2016**

# THE FRIENDSHIP BRIDGE

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# GELMAN, ROSENBERG

## & FREEDMAN

CERTIFIED PUBLIC ACCOUNTANTS



### INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
The Friendship Bridge  
Lakewood, Colorado

We have audited the accompanying statements of financial position of The Friendship Bridge, which comprise the statements of financial position as of December 31, 2017 and 2016, 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 control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Friendship Bridge as of December 31, 2017 and 2016, and its changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

August 15, 2018

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**THE FRIENDSHIP BRIDGE**  
**STATEMENTS OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2017 AND 2016**

**ASSETS**

	<b>2017</b>	<b>2016</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents:		
Cash held in the United States	\$ 148,385	\$ 210,820
Cash held in Guatemala	708,848	929,670
Total cash and cash equivalents	857,233	1,140,490
Investments	2,204,505	2,758,106
Loans receivable, net	7,457,866	5,873,702
Loan interest receivable	216,907	154,725
Grants and pledges receivable	2,500	1,635
Prepaid expenses and other assets	215,747	171,660
Total current assets	10,954,758	10,100,318
<b>PROPERTY AND EQUIPMENT</b>		
Furniture and equipment	116,241	99,171
Computers and related equipment	239,616	238,782
Vehicles	60,074	58,658
Leasehold improvements	41,528	27,773
	457,459	424,384
Less: Accumulated depreciation and amortization	(402,637)	(373,118)
Net property and equipment	54,822	51,266
<b>NONCURRENT ASSETS</b>		
Security deposits	17,583	16,762
<b>TOTAL ASSETS</b>	<b>\$ 11,027,163</b>	<b>\$ 10,168,346</b>

## LIABILITIES AND NET ASSETS

	<u>2017</u>	<u>2016</u>
<b>CURRENT LIABILITIES</b>		
Loans payable	\$ 2,235,941	\$ 2,706,919
Accounts payable and accrued liabilities	<u>1,131,470</u>	<u>1,195,660</u>
Total current liabilities	<u>3,367,411</u>	<u>3,902,579</u>
<b>NONCURRENT LIABILITIES</b>		
Loans payable	<u>2,280,000</u>	<u>1,550,000</u>
Total liabilities	<u>5,647,411</u>	<u>5,452,579</u>
<b>NET ASSETS</b>		
Unrestricted	5,206,297	4,461,325
Temporarily restricted	72,455	153,442
Permanently restricted	<u>101,000</u>	<u>101,000</u>
Total net assets	<u>5,379,752</u>	<u>4,715,767</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 11,027,163</u></b>	<b><u>\$ 10,168,346</u></b>

**THE FRIENDSHIP BRIDGE**

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<b>2017</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
<b>SUPPORT AND REVENUE</b>				
Grants and contributions	\$ 973,210	\$ 122,441	\$ -	\$ 1,095,651
Interest and investment income	121,932	10,900	-	132,832
Loan interest and fees	3,714,063	-	-	3,714,063
In-kind contributions	110,029	-	-	110,029
Events	47,986	-	-	47,986
Sales and other income	87,568	-	-	87,568
Net assets released from donor restrictions - satisfaction of donor restrictions	<u>214,328</u>	<u>(214,328)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>5,269,116</u>	<u>(80,987)</u>	<u>-</u>	<u>5,188,129</u>
<b>EXPENSES</b>				
Program Services:				
Financial Products	1,992,439	-	-	1,992,439
Plus Service	1,970,972	-	-	1,970,972
Nurses Education (Vietnam)	<u>20,295</u>	<u>-</u>	<u>-</u>	<u>20,295</u>
Total program services	<u>3,983,706</u>	<u>-</u>	<u>-</u>	<u>3,983,706</u>
Supporting Services:				
General and Administrative	222,667	-	-	222,667
Fundraising	<u>488,126</u>	<u>-</u>	<u>-</u>	<u>488,126</u>
Total supporting services	<u>710,793</u>	<u>-</u>	<u>-</u>	<u>710,793</u>
Total expenses	<u>4,694,499</u>	<u>-</u>	<u>-</u>	<u>4,694,499</u>
Changes in net assets before other items	<u>574,617</u>	<u>(80,987)</u>	<u>-</u>	<u>493,630</u>
<b>OTHER ITEMS</b>				
Currency gain on loan portfolio	171,084	-	-	171,084
Other net currency (losses) gains	(729)	-	-	(729)
Loss on sale of loan portfolio	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other items	<u>170,355</u>	<u>-</u>	<u>-</u>	<u>170,355</u>
Changes in net assets	744,972	(80,987)	-	663,985
Net assets at beginning of year	<u>4,461,325</u>	<u>153,442</u>	<u>101,000</u>	<u>4,715,767</u>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ 5,206,297</u></b>	<b><u>\$ 72,455</u></b>	<b><u>\$ 101,000</u></b>	<b><u>\$ 5,379,752</u></b>

See accompanying notes to financial statements.

<b>2016</b>			
<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
\$ 724,075	\$ 130,264	\$ -	\$ 854,339
129,677	-	-	129,677
3,478,590	-	-	3,478,590
64,924	-	-	64,924
67,659	-	-	67,659
59,321	-	-	59,321
<u>132,434</u>	<u>(132,434)</u>	<u>-</u>	<u>-</u>
<u>4,656,680</u>	<u>(2,170)</u>	<u>-</u>	<u>4,654,510</u>
1,852,329	-	-	1,852,329
1,893,019	-	-	1,893,019
<u>27,009</u>	<u>-</u>	<u>-</u>	<u>27,009</u>
<u>3,772,357</u>	<u>-</u>	<u>-</u>	<u>3,772,357</u>
289,167	-	-	289,167
<u>428,687</u>	<u>-</u>	<u>-</u>	<u>428,687</u>
<u>717,854</u>	<u>-</u>	<u>-</u>	<u>717,854</u>
<u>4,490,211</u>	<u>-</u>	<u>-</u>	<u>4,490,211</u>
<u>166,469</u>	<u>(2,170)</u>	<u>-</u>	<u>164,299</u>
90,969	-	-	90,969
9,564	-	-	9,564
<u>(112,726)</u>	<u>-</u>	<u>-</u>	<u>(112,726)</u>
<u>(12,193)</u>	<u>-</u>	<u>-</u>	<u>(12,193)</u>
154,276	(2,170)	-	152,106
<u>4,307,049</u>	<u>155,612</u>	<u>101,000</u>	<u>4,563,661</u>
<b><u>\$ 4,461,325</u></b>	<b><u>\$ 153,442</u></b>	<b><u>\$ 101,000</u></b>	<b><u>\$ 4,715,767</u></b>

See accompanying notes to financial statements.

**THE FRIENDSHIP BRIDGE**

**STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<b>Program Services</b>			<b>Total Program Services</b>
	<b>Financial Products</b>	<b>Plus Service</b>	<b>Nurses Education (Vietnam)</b>	
Salaries and benefits	\$ 1,144,213	\$ 999,588	\$ -	\$ 2,143,801
Printing and production	6,721	13,750	-	20,471
Professional fees	8,953	6,647	-	15,600
Occupancy	75,844	51,904	-	127,748
Accounting and audit	16,503	9,406	-	25,909
Insurance	5,285	3,027	-	8,312
Depreciation and amortization	17,293	14,313	-	31,606
Telecommunications	31,686	24,102	-	55,788
Travel and transportation	110,717	128,296	20,295	259,308
Consulting fees	15,562	232,024	-	247,586
Supplies	13,488	65,687	-	79,175
Training	53,693	80,329	-	134,022
Hospitality	1,831	130	-	1,961
Insight trips	7,791	552	-	8,343
Interest expense	127,361	76,715	-	204,076
Equipment	30,631	23,825	-	54,456
Donated legal support and training services	16,938	1,253	-	18,191
Events	3,897	276	-	4,173
Bad debts and allowances	96,859	73,391	-	170,250
Software and other fees	53,145	44,711	-	97,856
Advertising	20,148	16,186	-	36,334
Credit checks	30,320	24,357	-	54,677
Taxes	99,555	79,977	-	179,532
Other	4,005	526	-	4,531
<b>TOTAL</b>	<b>\$ 1,992,439</b>	<b>\$ 1,970,972</b>	<b>\$ 20,295</b>	<b>\$ 3,983,706</b>



<b>Supporting Services</b>			
<b>General and Administrative</b>	<b>Fundraising</b>	<b>Total Supporting Services</b>	<b>Total Expenses</b>
\$ 122,303	\$ 334,675	\$ 456,978	\$ 2,600,779
5,513	15,086	20,599	41,070
611	1,673	2,284	17,884
10,107	27,656	37,763	165,511
4,314	11,805	16,119	42,028
1,365	3,737	5,102	13,414
-	-	-	31,606
1,514	4,143	5,657	61,445
6,158	16,852	23,010	282,318
4,487	12,278	16,765	264,351
1,407	3,851	5,258	84,433
1,143	3,128	4,271	138,293
1,502	4,110	5,612	7,573
6,391	17,489	23,880	32,223
-	-	-	204,076
876	2,398	3,274	57,730
46,187	5,544	51,731	69,922
3,197	8,748	11,945	16,118
-	-	-	170,250
5,464	14,953	20,417	118,273
-	-	-	36,334
-	-	-	54,677
-	-	-	179,532
128	-	128	4,659
<b>\$ 222,667</b>	<b>\$ 488,126</b>	<b>\$ 710,793</b>	<b>\$ 4,694,499</b>

**THE FRIENDSHIP BRIDGE**

**STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<b>Program Services</b>			
	<b>Financial Products</b>	<b>Plus Service</b>	<b>Nurses Education (Vietnam)</b>	<b>Total Program Services</b>
Salaries and benefits	\$ 954,226	\$ 918,241	\$ -	\$ 1,872,467
Printing and production	3,426	2,310	-	5,736
Professional fees	14,981	10,800	-	25,781
Occupancy	64,377	52,920	-	117,297
Accounting and audit	13,820	10,207	24	24,051
Insurance	4,923	3,711	-	8,634
Depreciation and amortization	15,554	12,554	-	28,108
Telecommunications	26,053	27,670	-	53,723
Travel and transportation	87,919	103,692	26,985	218,596
Consulting fees	10,933	233,500	-	244,433
Supplies	15,573	41,760	-	57,333
Training	43,280	34,788	-	78,068
Hospitality	645	2,584	-	3,229
Insight trips	861	418	-	1,279
Interest expense	109,817	83,264	-	193,081
Equipment	40,443	36,665	-	77,108
Donated legal support and training services	1,652	4,024	-	5,676
Events	2,465	1,197	-	3,662
Bad debts and allowances	162,324	131,012	-	293,336
Software and other fees	61,107	53,069	-	114,176
Advertising	14,679	11,847	-	26,526
Credit checks	59,519	-	-	59,519
Taxes	143,147	115,534	-	258,681
Other	605	1,252	-	1,857
<b>TOTAL</b>	<b>\$ 1,852,329</b>	<b>\$ 1,893,019</b>	<b>\$ 27,009</b>	<b>\$ 3,772,357</b>

<b>Supporting Services</b>			
<b>General and Administrative</b>	<b>Fundraising</b>	<b>Total Supporting Services</b>	<b>Total Expenses</b>
\$ 188,074	\$ 280,127	\$ 468,201	\$ 2,340,668
8,731	13,003	21,734	27,470
-	-	-	25,781
15,296	22,782	38,078	155,375
7,316	10,897	18,213	42,264
2,079	3,096	5,175	13,809
-	-	-	28,108
2,636	3,926	6,562	60,285
8,219	12,242	20,461	239,057
12,445	18,536	30,981	275,414
2,585	3,850	6,435	63,768
1,141	1,699	2,840	80,908
1,644	2,449	4,093	7,322
2,193	3,267	5,460	6,739
11,497	16,057	27,554	220,635
1,334	1,986	3,320	80,428
9,630	15,411	25,041	30,717
6,283	9,357	15,640	19,302
-	-	-	293,336
6,715	10,001	16,716	130,892
-	-	-	26,526
-	-	-	59,519
-	-	-	258,681
1,349	1	1,350	3,207
<b>\$ 289,167</b>	<b>\$ 428,687</b>	<b>\$ 717,854</b>	<b>\$ 4,490,211</b>

**THE FRIENDSHIP BRIDGE**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 663,985	\$ 152,106
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	31,606	28,108
Gain on disposal of fixed assets	(602)	-
Increase in the provision for uncollectable loans	48,740	36,344
Loan principal written-off	121,510	256,992
Loan guarantee funds written-off	189,219	83,958
Currency gain (loss) on loan portfolio	(171,084)	(90,969)
Loss on sale of loan portfolio	-	112,726
Receipt of stock	(84,425)	(18,557)
Realized (gain) loss on sales of investments	(1,264)	1,967
Unrealized gain on investments	(11,495)	(19,009)
(Increase) decrease in:		
Loan interest receivable	(62,182)	12,713
Grants and pledges receivable	(865)	26,065
Prepaid expenses and other assets	(44,087)	(52,548)
Security deposits	(821)	(550)
Increase (decrease) in:		
Accounts payable and accrued liabilities	<u>(64,190)</u>	<u>(101,122)</u>
Net cash provided by operating activities	<u>614,045</u>	<u>428,224</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(36,757)	(9,299)
Proceeds from sale of property and equipment	2,197	-
Proceeds from sales of investments	2,408,132	2,190,550
Purchase of investments	(1,757,347)	(3,175,075)
Loan capital issued to beneficiaries	(15,436,442)	(12,495,949)
Loan capital collected from beneficiaries	<u>13,663,893</u>	<u>13,356,173</u>
Net cash used by investing activities	<u>(1,156,324)</u>	<u>(133,600)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash received from investors/lenders	604,022	496,612
Repayments on loans/notes	<u>(345,000)</u>	<u>(807,185)</u>
Net cash provided (used) by financing activities	<u>259,022</u>	<u>(310,573)</u>
Net decrease in cash and cash equivalents	(283,257)	(15,949)
Cash and cash equivalents at beginning of year	<u>1,140,490</u>	<u>1,156,439</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 857,233</u></b>	<b><u>\$ 1,140,490</u></b>

See accompanying notes to financial statements.

**THE FRIENDSHIP BRIDGE**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

<b>SUPPLEMENTAL INFORMATION</b>	<u>2017</u>	<u>2016</u>
Interest Paid	\$ <u>163,330</u>	\$ <u>192,155</u>
Taxes Paid	\$ <u>270,274</u>	\$ <u>258,681</u>

## THE FRIENDSHIP BRIDGE

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

##### Organization -

The Friendship Bridge was incorporated as a Colorado non-profit corporation on March 20, 1990. The Friendship Bridge empowers impoverished Guatemalan women to create a better future for themselves, their children and their communities through microfinance, health and education. The Friendship Bridge's primary sources of revenue include microcredit loan interest, donations, grants, and interest earned on investments.

##### Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958, *Not-for-Profit Entities*.

##### Cash and cash equivalents -

The Friendship Bridge considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

U.S. bank deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000. At times during the year, The Friendship Bridge maintains cash balances at financial institutions in excess of the U.S. Federal Deposit Insurance Corporation (FDIC) limits. Management believes the risk in these situations to be minimal.

The Friendship Bridge had \$708,848 and \$929,670 of cash and cash equivalents on hand and invested in financial institutions in Guatemala as of December 31, 2017 and 2016, respectively. The majority of these funds are uninsured. The investment policy for the organization ensures cash in Guatemala is distributed among numerous banks to mitigate the risk of any bank failure and the Investment Committee of the Board of Directors reviews the credit ratings of the country's banks on a semi-annual basis.

##### Loans -

Loans receivable are stated at net realizable value. The allowance for loan losses is determined based upon an annual review of account balances, including the age of the balance and the historical experience with the loan beneficiary. Loan interest and fees revenue are recorded as they accrue per the loan agreement.

##### Investments -

Investments are recorded at fair value. Unrealized and realized gains and losses are included in investment income in the Statements of Activities and Changes in Net Assets.

##### Property and equipment -

Property and equipment (with an acquisition value greater than \$1,500) are stated at cost. Property and equipment (including vehicles) are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to five years. The cost of maintenance and repairs is recorded as expenses are incurred.

Donations of property and equipment are recorded as current support at their estimated fair value on the date of receipt. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

## THE FRIENDSHIP BRIDGE

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

##### Property and equipment (continued) -

Assets donated with explicit restrictions regarding their use, and contributions of cash that must be used to acquire property and equipment, are reported as restricted support. Absent specific stipulations regarding how long those donated assets must be maintained, The Friendship Bridge reports expirations of donor restrictions when the donated or acquired assets are placed in service, at which time the temporarily restricted net assets are released from restrictions into unrestricted net assets.

##### Income taxes -

The Friendship Bridge is exempt from Federal income taxes under Section 501(c)(3) of the United States Internal Revenue Code. However, The Friendship Bridge is required to pay Guatemalan income taxes on its interest earnings related to microlending activities in Guatemala. During August 2014, The Friendship Bridge began making tax payments to the local Guatemalan authorities based on the aforementioned activities in that country (Note 8). The Friendship Bridge is not a private foundation.

##### Uncertain tax positions -

In June 2006, the Financial Accounting Standards Board (FASB) released FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes. For the years ended December 31, 2017 and 2016, The Friendship Bridge has documented its consideration of FASB ASC 740-10 and concluded there is no uncertainty regarding its compliance with U.S. tax laws. See Note 8 for a discussion of income taxes accrued on loan interest and fees as required under the laws of Guatemala.

##### Net asset classification -

The net assets are reported in three self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of The Friendship Bridge and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of The Friendship Bridge and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities and Changes in Net Assets as net assets released from restrictions.
- **Permanently restricted net assets** represent funds restricted by the donor to be maintained in-perpetuity by The Friendship Bridge.

##### Grants and contributions -

Grants and contributions are recorded as revenue in the year notification is received from the donor.

## THE FRIENDSHIP BRIDGE

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

##### Grants and contributions (continued) -

Temporarily restricted grants and contributions are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions; such grants and contributions received in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements.

##### Donated services and in-kind contributions -

Accounting standards require that the value of services provided by individuals with specialized skills be recognized in The Friendship Bridge's financial statements; the standards also require that other donated items such as equipment and certain unbilled expenditures be recognized by The Friendship Bridge as current support (and expense).

In-kind contributions recorded in the accompanying financial statements include donated legal support, training services, small equipment and other unbilled costs which have been provided by volunteer professionals and other individuals. In-kind contributions also include imputed interest expense on non-interest bearing notes (Note 4). In-kind contributions totaled \$110,029 and \$64,924 during the years ended December 31, 2017 and 2016, respectively.

The Friendship Bridge also receives contributions from other sources in which the value of their services cannot be reasonably determined. Accordingly, the value of those contributions has not been recorded in the accompanying financial statements.

##### Use of estimates -

The preparation of the 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 at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

##### Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statements of Activities and Changes in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

##### Functional currency -

The Quetzal is the functional currency of Guatemala. All assets and liabilities held in Guatemala are reported in the accompanying Statements of Financial Position and translated into U.S. Dollars using the spot exchange rate in effect at December 31, 2017 and 2016 of \$1.00 = \$7.34 Quetzal and \$1.00 = \$7.52 Quetzal, respectively. All revenues and expenses transacted in Guatemala are reported in the accompanying Statements of Activities and Changes in Net Assets and have been translated to U.S. Dollars based on average annual exchange rates (\$7.35 in 2017 and \$7.60 in 2016). The effect of exchange rate variances have been reflected as currency gains or losses in the accompanying Statements of Activities and Changes in Net Assets.



## THE FRIENDSHIP BRIDGE

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

##### Risks and uncertainties -

The Friendship Bridge invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

##### Fair value measurement -

The Friendship Bridge adopted the provisions of FASB ASC 820, *Fair Value Measurement*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurement. The Friendship Bridge accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

##### New accounting pronouncements (not yet adopted) -

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958), intended to improve financial reporting for not-for-profit entities. The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported in the Statements of Activities and Changes in Net Assets. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU is effective for years beginning after December 15, 2017. Early adoption is permitted. The ASU should be applied on a retrospective basis in the year the ASU is first applied. While the ASU will change the presentation of The Friendship Bridge's financial statements, it is not expected to alter The Friendship Bridge's reported financial position.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09). The ASU establishes a comprehensive revenue recognition standard for virtually all industries under accounting principles generally accepted in the United States of America (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by a year; thus the effective date is fiscal years beginning after December 15, 2018. Early adoption is permitted. The Friendship Bridge has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements.

In 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the Statements of Financial Position and disclosing key information about leasing arrangements. The ASU is effective for private entities for fiscal years beginning after December 15, 2019. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach.

The Friendship Bridge plans to adopt the new ASUs at the respective required implementation dates.

**THE FRIENDSHIP BRIDGE**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**2. INVESTMENTS**

Investments consisted of the following at December 31, 2017 and 2016:

	<u>2017</u>		<u>2016</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Certificates of deposit (U.S.)	\$ 250,000	\$ 250,000	\$ 499,850	\$ 499,850
Certificates of deposit (Guatemala)	1,589,066	1,589,066	1,973,068	1,973,068
Mutual funds	37,833	41,790	43,991	50,572
Equities	39,280	59,552	41,921	48,952
Money market funds	178,794	178,794	185,664	185,664
Annuity contracts	<u>84,425</u>	<u>85,303</u>	<u>-</u>	<u>-</u>
<b>TOTAL INVESTMENTS</b>	<b><u>\$ 2,179,398</u></b>	<b><u>\$ 2,204,505</u></b>	<b><u>\$ 2,744,494</u></b>	<b><u>\$ 2,758,106</u></b>

Included in interest and investment income are the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 120,073	\$ 112,635
Realized gain (loss) on sales of investments	1,264	(1,967)
Unrealized gain on investments	<u>11,495</u>	<u>19,009</u>
<b>TOTAL INTEREST AND INVESTMENT INCOME</b>	<b><u>\$ 132,832</u></b>	<b><u>\$ 129,677</u></b>

**3. LOANS RECEIVABLE**

Loans receivable consist of group and individual loans provided to impoverished women in Guatemala. The term of the loans range between four and twelve months and bear interest between 2.00% and 3.00% per month.

Principal and interest payments are due monthly. The Friendship Bridge requires no collateral (other than social collateral) for these loans.

During the year ended December 31, 2017, The Friendship Bridge recorded \$170,250 of bad debts based on a \$48,740 increase in the loan loss allowance from 2016 and direct write-offs of loans during the current year totaling \$121,510. As of December 31, 2017, the total loans receivable balance, net of the allowance of \$230,656, which represents 3.00% of the gross portfolio balance of \$7,688,522, aggregated \$7,457,866. Based on the Guatemala Quetzal spot exchange rate fluctuation from December 31, 2016 to December 31, 2017, the total loans receivable balance experienced a \$171,084 gain on valuation at fiscal year-end.

During the year ended December 31, 2016, The Friendship Bridge recorded \$293,336 of bad debts based on a \$36,344 increase in the loan loss allowance from 2015 and direct write-offs of loans during the current year totaling \$256,992. As of December 31, 2016, the total loans receivable balance, net of the allowance of \$181,916, which represents 3.00% of the gross portfolio balance of \$6,055,618, aggregated \$5,873,702. Based on the Guatemala Quetzal spot exchange rate fluctuation from December 31, 2015 to December 31, 2016, the total loans receivable balance experienced a \$90,969 gain on valuation at fiscal year-end.

## THE FRIENDSHIP BRIDGE

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

#### 4. LOANS PAYABLE

##### Private Placement -

The Friendship Bridge maintained unsecured promissory note agreements with numerous qualified private investors totaling \$1,540,000 as of December 31, 2016; the notes bore interest of 4.00% and were due during September 26, 2017 and December 15, 2017. During the year ended December 31, 2017, the majority of the notes were modified (The Friendship Bridge also received new loans from private investors), with each note bearing interest of 4.00% and due on October 10, 2020. The aggregate amount due from all private investors as of December 31, 2017 totaled \$1,580,000.

Among the investors participating in the Private Placement are six related parties (as defined by the IRS) for a total of \$200,000 (4.4% of total outstanding loans payable balance); the details of these loans are disclosed in The Friendship Bridge's IRS Form 990 tax return.

The Friendship Bridge has also entered into numerous unsecured loans with a variety of social investors. Loans are all unsecured, and as of December 31, 2017 the outstanding principal balance aggregated \$4,515,941. Loans bear interest between 0% and 6.75%, with terms ranging between 24 and 63 months.

In accordance with generally accepted accounting principles, The Friendship Bridge has imputed interest expense totaling \$40,107 and \$34,207 on all aforementioned non-interest bearing notes during the years ended December 31, 2017 and 2016, respectively.

Total interest expense during the years ended December 31, 2017 and 2016 under all loans payable (including imputed interest of \$40,107 in 2017 and \$34,207 in 2016), aggregated \$204,076 and \$220,635, respectively.

The loan agreements contain various covenants, which among other things, ensure that at all times the obligations with respect to the loans and other amounts payable rank at least equally with all other present and future unsecured and unsubordinated obligations; to provide information within specified periods including unaudited and audited financial reports; to use loan proceeds to support clients, providing microloans and education to Guatemalan women; to comply with all OFAC guidelines; and to maintain certain financial ratios.

Future estimated maturities of the aforementioned loans are as follows:

##### Year Ended December 31,

2018	\$ 2,235,941
2019	100,000
2020	1,580,000
2021	-
2022	<u>600,000</u>
<b>TOTAL</b>	<b>\$ <u>4,515,941</u></b>

#### 5. LINES OF CREDIT

During 2017 and 2016, The Friendship Bridge maintained three lines of credit with three local financial institutions. As of December 31, 2017, the total amount available under the lines of credit aggregated Q.3,906,500 (\$531,875); as of December 31, 2016, the total amount available under the lines of credit aggregated Q.3,740,000 (\$490,200).

**THE FRIENDSHIP BRIDGE**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**5. LINES OF CREDIT (Continued)**

The lines of credit are guaranteed by investments (certificates of deposit) on deposit at the financial institutions, totaling Q.4,898,000 or a total of \$666,869 at December 31, 2017, and Q.4,768,000 or a total of \$633,863 at December 31, 2016.

During 2017, borrowings on the lines of credit bore interest between 10.25% and 11.00%; during 2016, borrowings on the lines of credit bore interest between 10.25% and 11.50%.

The lines of credit expire as the certificates of deposit mature, with current expiration dates between May 19, 2018 and July 18, 2018. As of December 31, 2017 and 2016, there were no outstanding borrowings.

**6. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consisted of the following at December 31, 2017 and 2016:

	<b>2017</b>	<b>2016</b>
Financial Products	\$ 50,842	\$ 50,842
Nurses Education (Vietnam)	3,722	491
Health Program	17,891	52,651
MIS Project	-	8,211
Agricultural Program	-	41,247
<b>TOTAL TEMPORARILY RESTRICTED NET ASSETS</b>	<b>\$ 72,455</b>	<b>\$ 153,442</b>

**7. NET ASSETS RELEASED FROM RESTRICTIONS**

The following temporarily restricted net assets were released from donor restrictions by incurring expenses, which satisfied the restricted purposes specified by the donors:

	<b>2017</b>	<b>2016</b>
Nurses Education (Vietnam)	\$ 20,295	\$ 28,334
Agriculture, Artisan and Health	109,163	68,970
Health Program	65,759	26,659
MIS Project	8,211	8,471
Use of endowment earnings (Note 13)	10,900	-
<b>TOTAL NET ASSETS RELEASED FROM RESTRICTIONS</b>	<b>\$ 214,328</b>	<b>\$ 132,434</b>

**8. CONTINGENCIES**

Concentration of assets -

The Friendship Bridge provides microloans, education, and preventative health services to impoverished women in Guatemala. Accordingly, The Friendship Bridge maintains a significant portion of its assets within Guatemala. The future results of its programs could be adversely affected by a number of potential factors, such as currency devaluations or changes in the political climate; management monitors both factors and implements mitigation actions if possible.

## THE FRIENDSHIP BRIDGE

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

#### 8. CONTINGENCIES (Continued)

##### Concentration of assets (continued) -

As of December 31, 2017 and 2016, The Friendship Bridge had cash, property and equipment and loans receivable in Guatemala totaling \$10,211,350 and \$9,155,716, respectively, which represent 93% and 90% of The Friendship Bridge's total assets as of December 31, 2017 and 2016, respectively.

##### Tax situation -

The Friendship Bridge has a branch in Guatemala which is structured as a not-for-profit and does pay income taxes in Guatemala (The Friendship Bridge started paying taxes in August 2014). Before January 2013, management believed there was no clear tax law defining the tax obligations for not-for-profit organizations providing microloans and receiving interest income. During January 2013, a new tax law was enacted and the tax obligations related to interest revenue were made clearer. However there were questions regarding the amount of taxes due on what income and whether or not a not-for-profit must also pay. On February 17, 2014, The Friendship Bridge presented a binding consultation to the tax administration, regarding the specific application of the law. The Tax administration replied formally in late July 2014, and indicated that based on the changes in the law (enacted in January 2013), the Friendship Bridge was deemed to be: (1.) exempt from income tax only on donations received and (2.) subject to tax on interest and fees earned from lending and education services, based on the fact that both fulfill the "profit" concept (as defined in the Income Tax law).

Based on this response, The Friendship Bridge: (1.) added the Income Tax line to its corporate tax registration, without changing its corporate structure, (2.) began making monthly payments of income tax, starting in August 2014, calculated as follows: 7% over the previous month's gross interest income, and (3.) recalculated and adjusted the accrual for tax liability and late fees owed from January 2013 to July 2014.

There is a possibility that the tax administration in Guatemala will review The Friendship Bridge's tax treatment of interest received prior to July 2014 and require payment of back taxes. Management estimates that back taxes, if required, would not exceed \$461,292 for the period January 2011 to July 2014. Due to the uncertainty of the applicability of the tax laws to years prior to 2013, and based on a professional opinion obtained from local professionals, The Friendship Bridge has not accrued this potential liability for the years 2011 - 2012; however, a reserve for taxes due during the calendar year 2013 through July 2014 totaling \$190,881 has been accrued as a liability as of December 31, 2014 (no additional amounts were added to the reserve during 2015 through 2017). During the years ended December 31, 2017 and 2016, total tax expense (net of tax recoveries of \$90,741 in 2017) aggregated \$179,533 and \$258,681.

During the year 2011, the banking regulators in Guatemala proposed a new regulation specifically for microfinance institutions. The main objective for the proposed regulation is to eliminate money laundering. In April 2016 the Congress of the Republic of Guatemala approved a new Microfinance Law which went into effect November 2016. The law establishes three types of microfinance organizations: two regulated (MIC and MAC by their initials in Spanish) and one non-regulated. The MIC and MAC require capital investments of \$2M and \$5M respectively, to be deposited in the central bank. Both of these types of organizations should be private institutions with shareholders. The nonregulated organizations, such as The Friendship Bridge, will need to be registered in the Ministry of Economy and will follow a regulation that has not yet been defined.

**THE FRIENDSHIP BRIDGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**9. LOSS ON SALE OF LOAN PORTFOLIO**

The Friendship Bridge operates with a very strong social mission to serve a poor population. As result of analyzing the target market as defined in the mission statement and other strategy documents, including current outreach to those most in need (poverty level as measured by the social performance tools of the organization) it was determined that the poverty levels within some of the areas previously served were considerably above the target market for The Friendship Bridge. As a consequence, a branch office was closed and the portfolio was sold to another MFI. During 2016, The Friendship Bridge recorded a loss on the portfolio sale of \$112,726. The field positions were redeployed throughout 2016 in areas that more closely match the mission of the organization.

**10. LEASE COMMITMENTS**

The Friendship Bridge rents office space for its principal headquarters in Lakewood, Colorado under an operating lease that expired on March 31, 2018; the lease has been extended on a month-to-month basis through June 30, 2018. The Friendship Bridge also rents office space in Boulder, Colorado under an agreement currently expiring on June 14, 2019. Additionally, The Friendship Bridge rents several offices in Guatemala under short-term leases (with the exception of the Central office, which will expire in 2020).

Future minimum payments required under the leases are as follows:

<u>Year Ended December 31,</u>	
2018	\$ 90,610
2019	29,538
2020	<u>3,204</u>
	<b><u>\$ 123,352</u></b>

Occupancy expense for the years ended December 31, 2017 and 2016 totaled \$165,511 and \$155,375, respectively.

**11. RETIREMENT PLAN**

The Friendship Bridge adopted an IRS 403(b) plan (the Plan) covering all eligible U.S. employees. Under the provisions of the Plan, an eligible employee may defer up to 100% of annual compensation, with the total dollar amount limited by law. At its discretion, The Friendship Bridge may make matching contributions or elective contributions. Participants are 100% vested in all contributions to the Plan. During the years ended December 31, 2017 and 2016, The Friendship Bridge made contributions to the Plan totaling \$5,386 and \$16,202, respectively.

**12. FAIR VALUE MEASUREMENT**

In accordance with FASB ASC 820, *Fair Value Measurement*, The Friendship Bridge has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy.

## THE FRIENDSHIP BRIDGE

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

#### 12. FAIR VALUE MEASUREMENT (Continued)

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Investments recorded in the Statements of Financial Position are categorized based on the inputs to valuation techniques as follows:

**Level 1.** These are investments where values are based on unadjusted quoted prices for identical assets in an active market The Friendship Bridge has the ability to access.

**Level 2.** These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

**Level 3.** These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used at December 31, 2017 and 2016, respectively.

- *Certificates of deposit*—Generally valued at original cost plus accrued interest, which approximates fair value.
- *Mutual funds*—Valued at the daily closing price as reported by the fund. Mutual funds held by The Friendship Bridge are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by The Friendship Bridge are deemed to be actively traded.
- *Common stocks/equities*—Valued at the closing price reported on the active market in which the individual securities are traded.
- *Money market funds*—Fair value is equal to the reported net asset value of the fund.
- *Annuity contracts*—Includes money market funds and equities (see above).

The table below summarizes, by level within the fair value hierarchy, The Friendship Bridge's investments as of December 31, 2017:

	2017			
	Level 1	Level 2	Level 3	Total
<b>Asset Category:</b>				
Certificates of deposit	\$ -	\$ 1,839,066	\$ -	\$ 1,839,066
Mutual funds	41,790	-	-	41,790
Equities	59,552	-	-	59,552
Money market funds	178,794	-	-	178,794
Annuity contracts	85,303	-	-	85,303
<b>TOTAL</b>	<b>\$ 365,439</b>	<b>\$ 1,839,066</b>	<b>\$ -</b>	<b>\$ 2,204,505</b>

## THE FRIENDSHIP BRIDGE

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

#### 12. FAIR VALUE MEASUREMENT (Continued)

The table below summarizes, by level within the fair value hierarchy, The Friendship Bridge's investments as of December 31, 2016:

Asset Category:	2016			
	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ -	\$ 2,472,918	\$ -	\$ 2,472,918
Mutual funds	50,572	-	-	50,572
Equities	48,952	-	-	48,952
Money market funds	185,664	-	-	185,664
<b>TOTAL</b>	<b>\$ 285,188</b>	<b>\$ 2,472,918</b>	<b>\$ -</b>	<b>\$ 2,758,106</b>

#### 13. ENDOWMENT

The Friendship Bridge has received seven contributions totaling \$101,000 (four \$12,500 contributions, one \$50,000 contribution from one donor, and two \$500 contributions from another donor) for the purpose of supporting the women's education program of The Friendship Bridge. Under the terms of the awards, the principal amount is to be invested in-perpetuity and only the earnings can be used for the aforementioned purpose.

The endowment is held in an brokerage account and is comprised of several investment instruments. As of December 31, 2017 and 2016 the total fair value of such investments aggregated \$101,798 and \$102,173, respectively.

The Friendship Bridge's endowment consists of donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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 Friendship Bridge classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Any remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by The Friendship Bridge in a manner consistent with the standard of prudence prescribed by UPMIFA. As of December 31, 2017 and 2016, there were no remaining amounts classified as temporarily restricted net assets in the accompanying financial statements as all accumulated endowment earnings were fully utilized by The Friendship Bridge.

In accordance with UPMIFA, The Friendship Bridge considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purpose of the organization and the donor-restricted endowment fund;
- General economic conditions and the possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments; and
- Investment policies of the organization.



**THE FRIENDSHIP BRIDGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**13. ENDOWMENT (Continued)**

Endowment net asset composition by type of fund as of December 31, 2017 and 2016:

<b>Donor-Restricted Endowment Funds</b>	<b>\$ <u>101,000</u></b>
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Changes in endowment net assets for the years ended December 31, 2017 and 2016:

Endowment net assets, December 31, 2015	\$ 101,000
Investment gains	-
Transfer (use) of investment gains	-
 Endowment net assets, December 31, 2016	 101,000
Investment gains	10,900
Transfer (use) of investment gains	(10,900)
 <b>ENDOWMENT NET ASSETS, DECEMBER 31, 2017</b>	 <b>\$ <u>101,000</u></b>

Return Objectives and Risk Parameters -

The Friendship Bridge has adopted investment and spending policies for endowment assets that attempt to provide long-term growth of principal consistent with reasonable income. The Friendship Bridge attempts to preserve the capital by minimizing the probability of loss of principal over the investment horizon. Emphasis is placed on minimizing return volatility rather than maximizing total return. The Friendship Bridge shall manage the assets with care, skill, prudence and diligence under the circumstances then prevailing, that a prudent person, acting in like capacity and familiar with such matters would use in the conduct of an entity of a like character with like aims.

Strategies Employed for Achieving Objectives -

To satisfy its long-term rate-of-return objectives, The Friendship Bridge relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Friendship Bridge targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy -

The current spending policy is in accordance with donor restrictions. Accordingly, over the long-term, The Friendship Bridge expects the current spending policy to allow its endowment to grow annually; this is consistent with The Friendship Bridge's objective to maintain the purchasing power of the endowment assets held in-perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

**14. SUBSEQUENT EVENTS**

In preparing these financial statements, The Friendship Bridge has evaluated events and transactions for potential recognition or disclosure through August 15, 2018, the date the financial statements were issued.