

FINANCIAL STATEMENTS



FRIENDSHIP BRIDGE
Empower Women. Eliminate Poverty.

**FOR THE YEARS ENDED
DECEMBER 31, 2019 AND 2018**

THE FRIENDSHIP BRIDGE

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CPAs & ADVISORS

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

Management's Responsibility for the Financial Statements

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

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MEMBER OF CPAMERICA INTERNATIONAL, AN AFFILIATE OF CROWE GLOBAL
MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

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, 2019 and 2018, 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.

Gelman Rosenberg & Freedman

May 1, 2020

THE FRIENDSHIP BRIDGE
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2019 AND 2018

ASSETS

| | 2019 | 2018 |
|---|-----------------------------|-----------------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents: | | |
| Cash held in the United States | \$ 250,741 | \$ 228,076 |
| Cash held in Guatemala | <u>456,500</u> | <u>243,629</u> |
| Total cash and cash equivalents | <u>707,241</u> | <u>471,705</u> |
| Investments | 1,901,015 | 2,522,916 |
| Loans receivable, net of allowance and noncurrent portion | 8,948,299 | 7,887,108 |
| Loan interest receivable | 305,026 | 228,525 |
| Prepaid expenses and other assets | <u>228,539</u> | <u>143,274</u> |
| Total current assets | <u>12,090,120</u> | <u>11,253,528</u> |
| PROPERTY AND EQUIPMENT | | |
| Furniture and equipment | 115,813 | 110,349 |
| Computers and related equipment | 310,596 | 265,223 |
| Vehicles | 98,023 | 97,541 |
| Leasehold improvements | <u>69,040</u> | <u>40,914</u> |
| | 593,472 | 514,027 |
| Less: Accumulated depreciation and amortization | <u>(455,129)</u> | <u>(410,426)</u> |
| Net property and equipment | <u>138,343</u> | <u>103,601</u> |
| NONCURRENT ASSETS | | |
| Loans receivable, net of current portion | 82,962 | 82,156 |
| Security deposits | <u>18,236</u> | <u>17,236</u> |
| Total noncurrent assets | <u>101,198</u> | <u>99,392</u> |
| TOTAL ASSETS | <u>\$ 12,329,661</u> | <u>\$ 11,456,521</u> |

LIABILITIES AND NET ASSETS

| | <u>2019</u> | <u>2018</u> |
|--|-----------------------------|-----------------------------|
| CURRENT LIABILITIES | | |
| Loans payable | \$ 2,630,248 | \$ 891,982 |
| Accounts payable and accrued liabilities | <u>1,156,095</u> | <u>1,124,037</u> |
| | | |
| Total current liabilities | <u>3,786,343</u> | <u>2,016,019</u> |
| NONCURRENT LIABILITIES | | |
| Loans payable | <u>2,600,000</u> | <u>3,930,000</u> |
| | | |
| Total liabilities | <u>6,386,343</u> | <u>5,946,019</u> |
| NET ASSETS | | |
| Without donor restrictions | 5,748,131 | 5,360,499 |
| With donor restrictions | <u>195,187</u> | <u>150,003</u> |
| | | |
| Total net assets | <u>5,943,318</u> | <u>5,510,502</u> |
| | | |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 12,329,661</u> | <u>\$ 11,456,521</u> |

THE FRIENDSHIP BRIDGE

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

| | 2019 | | |
|---|---|--|----------------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| SUPPORT AND REVENUE | | | |
| Grants and contributions | \$ 817,769 | \$ 305,512 | \$ 1,123,281 |
| Interest and investment income | 130,430 | 4,664 | 135,094 |
| Loan interest and fees | 4,729,338 | - | 4,729,338 |
| In-kind contributions | 61,937 | - | 61,937 |
| Events | 56,158 | - | 56,158 |
| Sales and other income | 125,495 | - | 125,495 |
| Net assets released from donor restrictions - satisfaction of donor restrictions | <u>264,992</u> | <u>(264,992)</u> | <u>-</u> |
| Total support and revenue | <u>6,186,119</u> | <u>45,184</u> | <u>6,231,303</u> |
| EXPENSES | | | |
| Program Services: | | | |
| Financial Products | 2,938,830 | - | 2,938,830 |
| Plus Service | 2,245,877 | - | 2,245,877 |
| Nurses Education (Vietnam) | <u>30,325</u> | <u>-</u> | <u>30,325</u> |
| Total program services | <u>5,215,032</u> | <u>-</u> | <u>5,215,032</u> |
| Supporting Services: | | | |
| General and Administrative | 469,581 | - | 469,581 |
| Fundraising | <u>151,570</u> | <u>-</u> | <u>151,570</u> |
| Total supporting services | <u>621,151</u> | <u>-</u> | <u>621,151</u> |
| Total expenses | <u>5,836,183</u> | <u>-</u> | <u>5,836,183</u> |
| Changes in net assets before other items | <u>349,936</u> | <u>45,184</u> | <u>395,120</u> |
| OTHER ITEMS | | | |
| Currency gains (losses) on loan portfolio | 11,977 | - | 11,977 |
| Other net currency gains (losses) | <u>25,719</u> | <u>-</u> | <u>25,719</u> |
| Total other items | <u>37,696</u> | <u>-</u> | <u>37,696</u> |
| Changes in net assets | 387,632 | 45,184 | 432,816 |
| Net assets at beginning of year | <u>5,360,499</u> | <u>150,003</u> | <u>5,510,502</u> |
| NET ASSETS AT END OF YEAR | <u>\$ 5,748,131</u> | <u>\$ 195,187</u> | <u>\$ 5,943,318</u> |

| 2018 | | |
|---|--|----------------------------|
| Without Donor Restrictions | With Donor Restrictions | Total |
| \$ 815,552 | \$ 269,544 | \$ 1,085,096 |
| 112,043 | - | 112,043 |
| 4,216,237 | - | 4,216,237 |
| 50,427 | - | 50,427 |
| 50,451 | - | 50,451 |
| 69,484 | - | 69,484 |
| <u>292,996</u> | <u>(292,996)</u> | <u>-</u> |
| <u>5,607,190</u> | <u>(23,452)</u> | <u>5,583,738</u> |
| 2,475,411 | - | 2,475,411 |
| 1,978,711 | - | 1,978,711 |
| <u>24,013</u> | <u>-</u> | <u>24,013</u> |
| <u>4,478,135</u> | <u>-</u> | <u>4,478,135</u> |
| 389,242 | - | 389,242 |
| <u>143,422</u> | <u>-</u> | <u>143,422</u> |
| <u>532,664</u> | <u>-</u> | <u>532,664</u> |
| <u>5,010,799</u> | <u>-</u> | <u>5,010,799</u> |
| <u>596,391</u> | <u>(23,452)</u> | <u>572,939</u> |
| (363,787) | - | (363,787) |
| <u>(78,402)</u> | <u>-</u> | <u>(78,402)</u> |
| <u>(442,189)</u> | <u>-</u> | <u>(442,189)</u> |
| 154,202 | (23,452) | 130,750 |
| <u>5,206,297</u> | <u>173,455</u> | <u>5,379,752</u> |
| <u>\$ 5,360,499</u> | <u>\$ 150,003</u> | <u>\$ 5,510,502</u> |

See accompanying notes to financial statements.

THE FRIENDSHIP BRIDGE

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019**

| | Program Services | | | Total Program Services |
|-------------------------------|-------------------------------|---------------------|---|---------------------------------------|
| | Financial Products | Plus Service | Nurses Education (Vietnam) | |
| Salaries and benefits | \$ 1,467,096 | \$ 1,130,068 | \$ - | \$ 2,597,164 |
| Professional fees | 11,569 | 5,690 | - | 17,259 |
| Occupancy | 95,789 | 61,255 | - | 157,044 |
| Accounting and audit | 17,145 | 21,514 | - | 38,659 |
| Insurance | 7,590 | 5,012 | - | 12,602 |
| Depreciation and amortization | 30,586 | 14,117 | - | 44,703 |
| Telecommunications | 65,436 | 52,861 | - | 118,297 |
| Travel and transportation | 153,146 | 115,163 | 30,325 | 298,634 |
| Consulting fees | 44,852 | 388,416 | - | 433,268 |
| Supplies | 22,359 | 105,616 | - | 127,975 |
| Training | 90,350 | 78,512 | - | 168,862 |
| Hospitality | 1,084 | 1,884 | - | 2,968 |
| Insight trips | 2,673 | 4,646 | - | 7,319 |
| Interest expense | 110,142 | 75,276 | - | 185,418 |
| Equipment | 49,454 | 33,249 | - | 82,703 |
| Events | - | - | - | - |
| Bad debts and allowances | 153,240 | - | - | 153,240 |
| Software and other fees | 144,902 | 115,768 | - | 260,670 |
| Advertising | 58,819 | 35,778 | - | 94,597 |
| Credit checks | 68,111 | - | - | 68,111 |
| Taxes | 343,618 | - | - | 343,618 |
| Other | 869 | 1,052 | - | 1,921 |
| TOTAL | \$ 2,938,830 | \$ 2,245,877 | \$ 30,325 | \$ 5,215,032 |

| Supporting Services | | | |
|---------------------------------------|--------------------|--|---------------------------|
| General and Administrative | Fundraising | Total Supporting Services | Total Expenses |
| \$ 302,471 | \$ 79,776 | \$ 382,247 | \$ 2,979,411 |
| - | - | - | 17,259 |
| 21,293 | 5,617 | 26,910 | 183,954 |
| 10,324 | 2,723 | 13,047 | 51,706 |
| 2,029 | 748 | 2,777 | 15,379 |
| - | - | - | 44,703 |
| 17,427 | 4,597 | 22,024 | 140,321 |
| 17,939 | 4,731 | 22,670 | 321,304 |
| 50,941 | 13,436 | 64,377 | 497,645 |
| 2,523 | 665 | 3,188 | 131,163 |
| 5,313 | 1,401 | 6,714 | 175,576 |
| 2,863 | 755 | 3,618 | 6,586 |
| 7,060 | 1,862 | 8,922 | 16,241 |
| - | - | - | 185,418 |
| 2,483 | 655 | 3,138 | 85,841 |
| - | 27,506 | 27,506 | 27,506 |
| - | - | - | 153,240 |
| 20,002 | 5,275 | 25,277 | 285,947 |
| 6,913 | 1,823 | 8,736 | 103,333 |
| - | - | - | 68,111 |
| - | - | - | 343,618 |
| - | - | - | 1,921 |
| \$ 469,581 | \$ 151,570 | \$ 621,151 | \$ 5,836,183 |

THE FRIENDSHIP BRIDGE

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018**

| | Program Services | | | Total Program Services |
|-------------------------------|-------------------------------|---------------------|---|---------------------------------------|
| | Financial Products | Plus Service | Nurses Education (Vietnam) | |
| Salaries and benefits | \$ 1,376,847 | \$ 1,034,865 | \$ - | \$ 2,411,712 |
| Professional fees | 10,555 | 5,142 | - | 15,697 |
| Occupancy | 82,815 | 55,702 | - | 138,517 |
| Accounting and audit | 19,132 | 23,121 | - | 42,253 |
| Insurance | 6,774 | 11,161 | - | 17,935 |
| Depreciation and amortization | 17,957 | 8,748 | - | 26,705 |
| Telecommunications | 49,357 | 45,780 | - | 95,137 |
| Travel and transportation | 138,769 | 143,019 | 24,013 | 305,801 |
| Consulting fees | 36,070 | 318,696 | - | 354,766 |
| Supplies | 17,359 | 96,600 | - | 113,959 |
| Training | 68,396 | 48,813 | - | 117,209 |
| Hospitality | 1,250 | 2,619 | - | 3,869 |
| Insight trips | 2,981 | 6,246 | - | 9,227 |
| Interest expense | 106,255 | 74,205 | - | 180,460 |
| Equipment | 37,924 | 25,095 | - | 63,019 |
| Events | 3,633 | 7,612 | - | 11,245 |
| Bad debts and allowances | 257,953 | - | - | 257,953 |
| Software and other fees | 29,109 | 45,727 | - | 74,836 |
| Advertising | 27,415 | 23,108 | - | 50,523 |
| Credit checks | 58,440 | - | - | 58,440 |
| Taxes | 125,609 | - | - | 125,609 |
| Other | 811 | 2,452 | - | 3,263 |
| TOTAL | \$ 2,475,411 | \$ 1,978,711 | \$ 24,013 | \$ 4,478,135 |

| Supporting Services | | | |
|---------------------------------------|--------------------|--|---------------------------|
| General and Administrative | Fundraising | Total Supporting Services | Total Expenses |
| \$ 241,751 | \$ 89,076 | \$ 330,827 | \$ 2,742,539 |
| - | - | - | 15,697 |
| 17,746 | 6,539 | 24,285 | 162,802 |
| 10,426 | 3,842 | 14,268 | 56,521 |
| 2,530 | 932 | 3,462 | 21,397 |
| - | - | - | 26,705 |
| 12,712 | 4,684 | 17,396 | 112,533 |
| 14,530 | 5,354 | 19,884 | 325,685 |
| 39,445 | 14,534 | 53,979 | 408,745 |
| 3,009 | 1,109 | 4,118 | 118,077 |
| 2,446 | 901 | 3,347 | 120,556 |
| 3,104 | 1,144 | 4,248 | 8,117 |
| 7,402 | 2,727 | 10,129 | 19,356 |
| 1,772 | 653 | 2,425 | 182,885 |
| 1,730 | 637 | 2,367 | 65,386 |
| 9,020 | 3,324 | 12,344 | 23,589 |
| - | - | - | 257,953 |
| 6,562 | 2,418 | 8,980 | 83,816 |
| 15,057 | 5,548 | 20,605 | 71,128 |
| - | - | - | 58,440 |
| - | - | - | 125,609 |
| - | - | - | 3,263 |
| \$ 389,242 | \$ 143,422 | \$ 532,664 | \$ 5,010,799 |

THE FRIENDSHIP BRIDGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

| | <u>2019</u> | <u>2018</u> |
|--|--------------------------|--------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Changes in net assets | \$ 432,816 | \$ 130,750 |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 44,703 | 26,705 |
| Increase in the provision for uncollectable loans | 4,422 | 44,239 |
| Loan principal written-off | 148,818 | 213,714 |
| Loan guarantee funds absorbed | 231,116 | 158,309 |
| Currency (gain) loss on loan portfolio | (11,977) | 363,787 |
| Stock donation | (513) | (12,347) |
| Realized gain on sales of investments | (6,493) | (2,677) |
| Unrealized loss on investments | 564 | 5,953 |
| (Increase) decrease in: | | |
| Loan interest receivable | (76,501) | (11,618) |
| Grants and pledges receivable | - | 2,500 |
| Prepaid expenses and other assets | (85,265) | 72,473 |
| Security deposits | (1,000) | 347 |
| Increase (decrease) in: | | |
| Accounts payable and accrued liabilities | <u>32,058</u> | <u>(7,433)</u> |
| Net cash provided by operating activities | <u>712,748</u> | <u>984,702</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (79,445) | (75,484) |
| Proceeds from sales of investments | 4,931,457 | 4,460,276 |
| Purchase of investments | (4,303,114) | (4,769,616) |
| Loan capital issued to beneficiaries | (18,771,729) | (17,067,924) |
| Loan capital collected from beneficiaries | <u>17,337,353</u> | <u>15,776,477</u> |
| Net cash used by investing activities | <u>(885,478)</u> | <u>(1,676,271)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Cash received from investors/lenders | 2,476,813 | 2,221,689 |
| Repayments on loans/notes | <u>(2,068,547)</u> | <u>(1,915,648)</u> |
| Net cash provided by financing activities | <u>408,266</u> | <u>306,041</u> |
| Net increase (decrease) in cash and cash equivalents | 235,536 | (385,528) |
| Cash and cash equivalents at beginning of year | <u>471,705</u> | <u>857,233</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>\$ 707,241</u> | <u>\$ 471,705</u> |

THE FRIENDSHIP BRIDGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

| SUPPLEMENTAL INFORMATION | <u>2019</u> | <u>2018</u> |
|--------------------------|-------------------|-------------------|
| Interest Paid | \$ <u>152,653</u> | \$ <u>155,198</u> |
| Taxes Paid | \$ <u>343,618</u> | \$ <u>306,860</u> |

THE FRIENDSHIP BRIDGE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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 Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. As such, net assets are reported within two net asset classifications: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories are as follows:

- **Net Assets Without Donor Restrictions** - Net assets available for use in general operations and not subject to donor restrictions are recorded as "net assets without donor restrictions". Assets restricted solely through the actions of the Board are referred to as Board designated and are also reported as net assets without donor restrictions.
- **Net Assets With Donor Restrictions** - Net assets may be subject to donor-imposed stipulations that are more restrictive than The Friendship Bridge mission and purpose. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor imposed restrictions are released when the restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Other donor imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue without donor restrictions when the assets are placed in service.

New accounting pronouncements adopted -

During 2019, The Friendship Bridge adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), as amended. The ASU provides a framework for recognizing revenue and is intended to improve comparability of revenue recognition practices across for-profit and non-profit entities. Analysis of the various provisions of this standard resulted in no significant changes in the way The Friendship Bridge recognized revenue; however, the presentation and disclosures of revenue have been enhanced. The Friendship Bridge has elected to opt out of all (or certain) disclosures not required for nonpublic entities and also elected a modified retrospective approach for implementation.

Also during 2019, The Friendship Bridge adopted ASU 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This guidance is intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made. Key provisions in this guidance include clarification regarding the accounting for grants and contracts as exchange transactions or contributions, and improve guidance to better distinguish between conditional and unconditional contributions. The Friendship Bridge adopted the ASU using a modified prospective basis.

THE FRIENDSHIP BRIDGE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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

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 maintained \$456,500 and \$243,629 of cash and cash equivalents on hand and invested in financial institutions in Guatemala as of December 31, 2019 and 2018, respectively. The majority of these funds are uninsured. The Friendship Bridge's investment policy ensures cash in Guatemala is distributed among numerous banks to mitigate the risk of any bank failure, and the Finance Committee of the Board of Directors reviews the credit ratings of the banks in Guatemala on a semi-annual basis.

Loans -

Loans receivable are stated at net realizable value, which approximates fair 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 over the life of the loan in accordance with agreements.

Investments -

Investments are recorded at their readily determinable fair value. Interest, dividends, realized and unrealized gains and losses are included in investment income, which is presented net of investment expenses paid to external investment advisors, in the accompanying Statements of Activities and Changes in Net Assets.

Investments acquired by gift are recorded at their fair value at the date of the gift. The Friendship Bridge's policy is to liquidate all gifts of investments when received from a donor that places restrictions on the use of those funds; all other donated investments are liquidated at the discretion of management.

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. 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 those net assets are released from restrictions into "net assets without donor restrictions".

THE FRIENDSHIP BRIDGE

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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

Property and equipment (continued) -

Depreciation and amortization expense for the years ended December 31, 2019 and 2018 totaled \$44,703 and \$26,705, respectively.

Revenue recognition -

Gifts, including unconditional pledges, grants and cost-reimbursable contracts, are recognized in the appropriate category of net assets in the period received. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. Any pledges receivable are stated at the estimated net present value, net of an allowance for uncollectible amounts. Conditional promises to give are not recognized until the condition on which they depend are substantially met. Contributions and grants qualifying as contributions are recorded by the The Friendship Bridge upon notification of the contribution and grant award and satisfaction of all conditions, if applicable. Contributions and grants are classified as net assets with donor restrictions when use of the contribution or grant funds is limited to specific programmatic areas or is designated for use in future periods. Contributions and grants with donor restrictions are recognized as "without donor restrictions" only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions; such funds in excess of expenses incurred are shown as net assets with donor restrictions in the accompanying financial statements. Contributions and grants received in advance of incurring the related expenses are recorded as "net assets with donor restrictions".

Sales of products (which are produced by The Friendship Bridge's loan program beneficiaries) are recognized as income (in "Sales and Other Income") at the time those products are sold. Sales of such items do not include performance obligation considerations and pricing of the goods are at or below fair market value.

Income taxes -

The Friendship Bridge is exempt from Federal income taxes under Section 501(c)(3) of the United States Internal Revenue Code. The Friendship Bridge is not a private foundation.

The Friendship Bridge maintains a branch office in Guatemala which is structured as a not-for-profit entity. Since August 2014, The Friendship Bridge has been paying income taxes in Guatemala due to a change in tax law which was enacted during January 2013 that requires The Friendship Bridge to pay taxes on Guatemala-source income (however the law exempts income from donations received).

A resident company, which The Friendship Bridge is, can opt to be taxed under one of two regimes: (1) the general tax regime under which tax is levied on net taxable income (traditional corporate income tax) 25%; or (2) the simplified optional tax regime, under which tax is levied on gross revenue (gross receipts tax) at a rate of 5% (up to GTQ 30,000) or 7% (in excess of GTQ 30,000). A company must elect which regime it opts prior to the tax year commencing (all companies must follow a calendar year tax year). The Friendship Bridge elected the optional tax regime for the years ended December 31, 2019 and 2018 and paid \$343,618 and \$306,860, respectively, of income tax to the local authorities in Guatemala.

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.

THE FRIENDSHIP BRIDGE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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

Uncertain tax positions (continued) -

For the years ended December 31, 2019 and 2018, 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.

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 \$61,937 and \$50,427 during the years ended December 31, 2019 and 2018, 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.

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. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Program Services expenses are defined as direct costs (those with a singular cost objective), specifically attributable to enhancing The Friendship Bridge's program activities and ultimately furthering the organization's mission.

Supporting Services expenses includes (and specifically defines) the following categories:

1. General and Administrative (G&A): indirect expenses which The Friendship Bridge incurs in connection with carrying out its mission-related programs but which are not identified or allocable to specific programs or projects. This category also includes development indirect expenses which the organization incurs in support of its fundraising function but cannot be specifically identified or directly allocated to a specific fundraising activity. Development indirect costs include, but are not limited to, those expenses incurred in connection with maintaining the basic infrastructure supporting the fundraising function, i.e. donor outreach, grant proposal design, preparation, and submission to prospective funders, e-mail communications, and maintenance of CRM software and data.
2. Fundraising: direct costs (those with a singular cost objective), specifically attributable to the activities related to raising funds, i.e. direct solicitation of a single donor and fundraising events.

Expenses that serve multiple cost objectives are allocated on a basis of time and effort (such as salaries and benefits) as well as square footage (such as depreciation, office and occupancy) or other reasonable basis.

THE FRIENDSHIP BRIDGE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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

Functional currency -

The Quetzal (GTQ) 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, 2019 and 2018 of \$1.00 = GTQ 7.70 and \$1.00 = GTQ 7.74, 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 (GTQ 7.70 in 2019 and GTQ 7.52 in 2018). 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.

Advertising -

The Friendship Bridge expenses advertising costs as incurred. Advertising expense totaled \$103,333 and \$71,128 during the years ended December 31, 2019 and 2018, respectively.

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.

Risks and uncertainties -

Investment risk - 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.

Credit risk - the risk of financial loss to The Friendship Bridge if a borrower fails to meet its contractual obligations, and arises principally from The Friendship Bridge's lending activities. Allowances for impairment are accounted for where there is objective evidence that the loans to beneficiaries are impaired. Significant changes in the economy, depreciation of local currencies against the currencies of the indexed portfolios, natural disasters (that impair borrowers' ability to repay loans), or in the health of a particular industry segment, could result in evidence that the expected future cash flows are different from those provided for at the end of the reporting period. Management, therefore, carefully monitors and manages its exposure to credit risk.

Market risk - defined as external influences, generally outside of the control of The Friendship Bridge's executive management, but which can be identified, assessed and mitigating actions put in place to reduce any adverse impact. Management monitors and manages its exposure to market risk on a regular basis.

Currency risk - The Friendship Bridge is exposed to currency risk through transactions in foreign currencies against the U.S. Dollar (USD). There is also a Statement of Financial Position risk that the net monetary liabilities in foreign currencies will take a higher value when translated into USD's as a result of currency movements.

THE FRIENDSHIP BRIDGE

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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

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) -

FASB issued ASU 2019-01, *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 Statement of Financial Position and disclosing key information about leasing arrangements. The ASU is effective for non public entities beginning after December 15, 2020. Early adoption is permitted. The ASU can be applied at the beginning of the earliest period presented using a modified retrospective approach or applied at the beginning of the period of adoption recognizing a cumulative-effect adjustment.

The Friendship Bridge plans to adopt the new ASU at the required implementation date and management is currently in the process of evaluating the adoption method and the impact of the new standard on its accompanying financial statements.

2. INVESTMENTS

Investments consisted of the following at December 31, 2019 and 2018:

| | <u>2019</u> | | <u>2018</u> | |
|--|----------------------------|----------------------------|----------------------------|----------------------------|
| | <u>Cost</u> | <u>Fair Value</u> | <u>Cost</u> | <u>Fair Value</u> |
| Certificates of deposit (Guatemala) | \$ 1,695,685 | \$ 1,695,685 | \$ 2,216,679 | \$ 2,216,679 |
| Mutual funds | 44,951 | 48,548 | 43,213 | 51,232 |
| Equities | 46,982 | 51,786 | 31,650 | 40,900 |
| Money market funds | 10,382 | 10,382 | 127,795 | 127,795 |
| Annuity contracts | <u>84,425</u> | <u>94,614</u> | <u>84,425</u> | <u>86,310</u> |
| TOTAL INVESTMENTS | <u>\$ 1,882,425</u> | <u>\$ 1,901,015</u> | <u>\$ 2,503,762</u> | <u>\$ 2,522,916</u> |

Included in interest and investment income are the following at December 31, 2019 and 2018:

| | <u>2019</u> | <u>2018</u> |
|---|--------------------------|--------------------------|
| Interest and dividends | \$ 129,165 | \$ 115,319 |
| Realized gain on sales of investments | 6,493 | 2,677 |
| Unrealized loss on investments | <u>(564)</u> | <u>(5,953)</u> |
| TOTAL INTEREST AND INVESTMENT INCOME | <u>\$ 135,094</u> | <u>\$ 112,043</u> |

THE FRIENDSHIP BRIDGE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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 collateral (both guarantees as well as social collateral) for these loans.

During the year ended December 31, 2019, The Friendship Bridge recorded \$153,240 of bad debts based on a \$4,422 increase in the loan loss allowance from 2018 and direct write-offs of loans during the current year totaling \$148,818. As of December 31, 2019, the total loans receivable balance, net of the allowance of \$279,317, which represents 3.00% of the gross portfolio balance of \$9,310,578, aggregated \$9,031,261. Based on the Guatemala Quetzal spot exchange rate fluctuation from December 31, 2018 to December 31, 2019, the total loans receivable balance experienced an \$11,977 gain on valuation at fiscal year-end.

During the year ended December 31, 2018, The Friendship Bridge recorded \$257,953 of bad debts based on a \$44,239 increase in the loan loss allowance from 2017 and direct write-offs of loans during the current year totaling \$213,714. As of December 31, 2018, the total loans receivable balance, net of the allowance of \$274,895, which represents 3.33% of the gross portfolio balance of \$8,244,159, aggregated \$7,969,264. Based on the Guatemala Quetzal spot exchange rate fluctuation from December 31, 2017 to December 31, 2018, the total loans receivable balance experienced a \$363,787 loss on valuation at fiscal year-end.

4. LOANS PAYABLE

The Friendship Bridge maintains unsecured promissory note agreements with numerous qualified private investors totaling \$1,580,000. The notes bear interest of 4.00% and are due on October 10, 2020. Among the investors participating in the Private Placement are six related parties, including Board members and family of Board members, for a total of \$200,000 (3.82% and 4.15% of total outstanding loans payable balance at December 31, 2019 and 2018, respectively).

The Friendship Bridge has also entered into numerous unsecured loans with a variety of social investors. Loans are all unsecured and bear interest between 0% and 6.50%, with terms ranging between 24 and 60 months. As of December 31, 2019 and 2018 the outstanding principal balance on such loans aggregated \$3,650,248 and \$3,241,982, respectively.

As of December 31, 2019 and 2018 the outstanding principal balance on all loans aggregated \$5,230,248 and \$4,821,982, respectively.

In accordance with generally accepted accounting principles, The Friendship Bridge has imputed interest expense totaling \$21,096 and \$19,652 on all aforementioned non-interest bearing notes during the years ended December 31, 2019 and 2018, respectively.

Total interest expense during the years ended December 31, 2019 and 2018 under all loans payable (including imputed interest of \$21,096 in 2019 and \$19,652 in 2018), aggregated \$185,418 and \$182,885, 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.

THE FRIENDSHIP BRIDGE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

4. LOANS PAYABLE (Continued)

Future estimated maturities of the aforementioned loans are as follows:

| <u>Year Ended December 31,</u> | <u>2019</u> | <u>2018</u> |
|--------------------------------|----------------------------|----------------------------|
| 2019 | \$ - | \$ 891,982 |
| 2020 | 2,630,248 | 1,730,000 |
| 2021 | 1,550,000 | 1,150,000 |
| 2022 | 200,000 | 200,000 |
| 2023 | <u>850,000</u> | <u>850,000</u> |
| | <u>\$ 5,230,248</u> | <u>\$ 4,821,982</u> |

5. LINE OF CREDIT

During 2019 and 2018, The Friendship Bridge maintained one line of credit with a local financial institution. As of December 31, 2019, the total amount available under the line of credit aggregated GTQ950,000 (\$123,396); as of December 31, 2018, the total amount available under the lines of credit aggregated GTQ950,000 (\$121,787).

The lines of credit are guaranteed by investments (certificates of deposit) on deposit at the financial institutions totaling GTQ1,340,000 or a total of \$174,053 at December 31, 2019, and GTQ1,000,000 or a total of \$129,250 at December 31, 2018.

During 2019, borrowings on the lines of credit bore interest between 9.00% and 10.00%; during 2018, borrowings on the lines of credit bore interest between 10.00% and 10.25%. There were no borrowings made during 2019 or 2018.

The lines of credit expire as the certificates of deposit mature, with a current expiration date of May 7, 2020. As of December 31, 2019 and 2018, there were no outstanding borrowings.

6. NET ASSETS WITH RESTRICTIONS

Net assets with restrictions consisted of the following at December 31, 2019 and 2018:

| | <u>2019</u> | <u>2018</u> |
|--|--------------------------|--------------------------|
| Nurses Education (Vietnam) | \$ 7,935 | \$ 6,662 |
| Health Program | 22,352 | 12,173 |
| MIS Project | 61,332 | - |
| Rebranding | 745 | 30,000 |
| Artisan Program | - | 168 |
| Endowments to be invested in perpetuity (Note 13) | 101,000 | 101,000 |
| Accumulated earnings on endowment invested in perpetuity (Note 13) | <u>1,823</u> | <u>-</u> |
| TOTAL NET ASSETS WITH RESTRICTIONS | <u>\$ 195,187</u> | <u>\$ 150,003</u> |

THE FRIENDSHIP BRIDGE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

7. NET ASSETS RELEASED FROM RESTRICTIONS

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

| | <u>2019</u> | <u>2018</u> |
|--|--------------------------|--------------------------|
| Financial Products | \$ 85,668 | \$ 50,842 |
| Nurses Education (Vietnam) | 30,325 | 24,013 |
| Health Program | 72,232 | 100,719 |
| Agricultural Program | 44,503 | 107,590 |
| Rebranding | 29,255 | - |
| Artisan Program | 168 | 9,832 |
| Use of endowment earnings (Note 13) | <u>2,841</u> | <u>-</u> |
| TOTAL NET ASSETS RELEASED FROM RESTRICTIONS | <u>\$ 264,992</u> | <u>\$ 292,996</u> |

8. LIQUIDITY AND AVAILABILITY

The Friendship Bridge monthly monitors liquidity required to meet its annual operating needs and other contractual commitments, while also striving to preserve the principal and return on the investment of its funds. The Friendship Bridge's financial assets available within one year of the Statements of Financial Position date for general expenditures at December 31, 2019 and 2018, were as follows:

| | <u>2019</u> | <u>2018</u> |
|---|----------------------------|----------------------------|
| Cash | \$ 707,241 | \$ 471,705 |
| Investments | 1,901,015 | 2,522,916 |
| Loans receivable (gross) | 9,310,578 | 8,244,159 |
| Loan interest receivable | <u>305,026</u> | <u>228,525</u> |
| Total financial assets available within one year | <u>12,223,860</u> | <u>11,467,305</u> |
| Receivables scheduled: | | |
| Due after one year | (82,962) | (82,156) |
| More than 30 days overdue | (56,795) | (61,756) |
| Contractual or donor-imposed restrictions: | | |
| Endowment | (101,000) | (101,000) |
| Donor restrictions | (94,187) | (49,003) |
| Designations: | | |
| Board-designated net assets (a) | (43,260) | (43,260) |
| Operating reserves (b) | (1,202,767) | (922,035) |
| Debt obligations reserve (c) | (1,222,250) | (651,250) |
| Client guarantees (d) | <u>(692,446)</u> | <u>(640,059)</u> |
| FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR | <u>\$ 8,728,193</u> | <u>\$ 8,916,786</u> |

THE FRIENDSHIP BRIDGE

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

8. LIQUIDITY AND AVAILABILITY (Continued)

Liquidity Disclosure

- (a) On December 22, 2017, the Board of Directors voted to establish a Board designated net asset reserve totaling \$82,635 with a balance at December 31, 2019 of \$43,260. The objective of this board-designated reserve is for a Rebranding Project and Management Information Systems upgrades, which are considered strategic projects. The reserve was established with funds received from a planned gift.
- (b) Operating reserves should be held to cover Guatemalan capital equivalent to three months of operating expenses.
- (c) The debt obligations reserve is calculated so that by the maturity date of the loan the reserve equals 60% of the principal repayment amount.
- (d) Client Guarantees are held for the sole purpose of supporting loans to clients and are not permitted for any other use. The Guarantees (required deposits made by clients to secure their loans) must be paid back if the clients pay off their loans without renewing.

9. 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.

As of December 31, 2019 and 2018, The Friendship Bridge had cash, property and equipment and loans receivable in Guatemala totaling \$11,837,849 and \$10,893,503, respectively, which represent 96% and 95% of The Friendship Bridge's total assets as of December 31, 2019 and 2018, respectively.

10. LEASE COMMITMENTS

The Friendship Bridge rents office space for its principal headquarters in Lakewood, Colorado under an operating lease that expires on August 31, 2021. The Friendship Bridge also rents office space in Boulder, Colorado under an agreement currently expiring on June 14, 2020. Additionally, The Friendship Bridge rents several offices in Guatemala under various leases which expire on various periods through 2023.

Future minimum payments required under the leases are as follows:

| <u>Year Ended December 31,</u> | |
|--------------------------------|-------------------|
| 2020 | \$ 136,255 |
| 2021 | 49,014 |
| 2022 | 17,576 |
| 2023 | <u>14,942</u> |
| | <u>\$ 217,787</u> |

Occupancy expense for the years ended December 31, 2019 and 2018 totaled \$183,954 and \$162,802, respectively.

THE FRIENDSHIP BRIDGE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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, 2019 and 2018, The Friendship Bridge made contributions to the Plan totaling \$23,415 and \$4,679, 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 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, 2019 and 2018, 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*—Money market funds are open-end mutual funds that are registered with the Securities and Exchange Commission and deemed to be actively traded.
- *Annuity contracts*—Includes guaranteed annuities, equities and money market funds (see above).

THE FRIENDSHIP BRIDGE

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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, 2019:

| Asset Category: | Level 1 | Level 2 | Level 3 | Total |
|-------------------------|--------------------------|----------------------------|--------------------|----------------------------|
| Certificates of deposit | \$ - | \$ 1,695,685 | \$ - | \$ 1,695,685 |
| Mutual funds | 48,548 | - | - | 48,548 |
| Equities | 51,786 | - | - | 51,786 |
| Money market funds | 10,382 | - | - | 10,382 |
| Annuity contracts | - | 94,614 | - | 94,614 |
| TOTAL | <u>\$ 110,716</u> | <u>\$ 1,790,299</u> | <u>\$ -</u> | <u>\$ 1,901,015</u> |

The table below summarizes, by level within the fair value hierarchy, The Friendship Bridge's investments as of December 31, 2018:

| Asset Category: | Level 1 | Level 2 | Level 3 | Total |
|-------------------------|--------------------------|----------------------------|--------------------|----------------------------|
| Certificates of deposit | \$ - | \$ 2,216,679 | \$ - | \$ 2,216,679 |
| Mutual funds | 51,232 | - | - | 51,232 |
| Equities | 40,900 | - | - | 40,900 |
| Money market funds | 127,795 | - | - | 127,795 |
| Annuity contracts | - | 86,310 | - | 86,310 |
| TOTAL | <u>\$ 219,927</u> | <u>\$ 2,302,989</u> | <u>\$ -</u> | <u>\$ 2,522,916</u> |

13. ENDOWMENT (NET ASSETS WITH RESTRICTIONS)

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 equities, mutual funds and money market funds. As of December 31, 2019 and 2018 the total fair value of such investments aggregated \$102,823 and \$92,728, respectively; the deficiency of \$8,272 reduced the net assets without restrictions balance at December 31, 2018.

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.

THE FRIENDSHIP BRIDGE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

13. ENDOWMENT (NET ASSETS WITH RESTRICTIONS) (Continued)

As a result of this interpretation, The Friendship Bridge classifies as endowment net asset with donor restriction: (a) the original value of gifts donated to the endowment held in perpetuity, (b) the original value of subsequent gifts to the endowment held in perpetuity, and (c) accumulations to the endowment held in perpetuity 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 endowment net asset held in perpetuity is classified as net assets with donor restrictions 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, 2019, the remaining amounts classified as net assets with donor restrictions in the accompanying financial statements (reflected accumulated unexpended endowment earnings) aggregated \$1,823.

As of December 31, 2018, there were no remaining amounts classified as net assets with donor restrictions 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.

Endowment net asset composition by type of fund as of December 31, 2019 and 2018:

| | |
|---|--------------------------|
| Donor-Restricted Endowment Funds | <u>\$ 101,000</u> |
|---|--------------------------|

Changes in endowment net assets for the years ended December 31, 2019 and 2018:

| | |
|--|--------------------------|
| Endowment net assets, December 31, 2017 | <u>\$ 101,000</u> |
| Endowment net assets, December 31, 2018 | 101,000 |
| Investment gains | 4,664 |
| Use of investment losses | (2,841) |
| Transfer to accumulated earnings on endowment invested in perpetuity | <u>(1,823)</u> |
| ENDOWMENT NET ASSETS, DECEMBER 31, 2019 | <u>\$ 101,000</u> |

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.

THE FRIENDSHIP BRIDGE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

13. ENDOWMENT (NET ASSETS WITH RESTRICTIONS) (Continued)

Return Objectives and Risk Parameters (continued) -

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 May 1, 2020, the date the financial statements were issued.

A significant percentage (73%) of The Friendship Bridge's total assets as of December 31, 2019 is comprised of its outstanding loan portfolio (already reserved 3% of the gross portfolio in the accompanying financial statements), which is at risk given the impact of the COVID-19 global pandemic on The Friendship Bridge's operations and its loan beneficiaries. The impact on The Friendship Bridge's calendar year 2020 financial activities cannot be assessed as of the date of our audit report, May 1, 2020, as there exists a significant uncertainty about the future impact of COVID-19 on the global economy during this ongoing pandemic situation.