Tunisian
American
Enterprise
Fund

IMPULSION AU DEVELOPPEMENT

TUNISIAN-AMERICAN ENTERPRISE FUND AND AFFILIATES

Consolidated Financial Statements

For The Year Ended December 31, 2015
(With Summarized Financial Information for the Year Ended December 31, 2014)

and
Report Thereon

Raffa

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Tunisian-American Enterprise Fund

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Tunisian-American Enterprise Fund and Affiliates (collectively known as TAEF), which comprise the consolidated statement of financial position as of December 31, 2015, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Continued

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of TAEF as of December 31, 2015, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Raffa, P.C.

Raffa, P.C.

Washington, DC
July 12, 2016

TUNISIAN-AMERICAN ENTERPRISE FUND AND AFFILIATES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2015
(With Summarized Financial Information as of December 31, 2014)

	2015	2014
ASSETS		
Cash and cash equivalents	$ 671,422	$ 326,211
Accounts receivable	21,888	-
Prepaid expenses	13,967	2,520
Deposits	9,144	9,144
Investments	1,811,719	1,071,339
Loans receivable	2,458,824	-
Property and equipment, net	40,962	20,257
TOTAL ASSETS	$ 5,027,926	$ 1,429,471
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 88,478	$ 30,568
Deferred revenue	473,002	304,787
TOTAL LIABILITIES	561,479	335,355
Net Assets		
Unrestricted	4,466,447	1,094,116
TOTAL NET ASSETS	4,466,447	1,094,116
TOTAL LIABILITIES AND NET ASSETS	$ 5,027,926	$ 1,429,471

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

TUNISIAN-AMERICAN ENTERPRISE FUND AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2015
(With Summarized Financial Information as of December 31, 2014)

	2015	2014
REVENUE		
Grant revenue	$ 4,238,342	$ 1,746,576
Unrealized loss on investment	(69,321)	(19,226)
Interest income	26,069	-
Other income	8,944	264
TOTAL REVENUE	4,204,034	1,727,614
EXPENSES		
Program Services:		
Small and medium enterprises	242,447	42,578
Microfinance institutions	119,147	6,567
Total Program Services	361,594	49,145
Management and general	470,109	584,353
TOTAL EXPENSES	831,703	633,498
CHANGE IN NET ASSETS	3,372,331	1,094,116
NET ASSETS, BEGINNING OF PERIOD	1,094,116	-
NET ASSETS, END OF PERIOD	$ 4,466,447	$ 1,094,116

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

TUNISIAN-AMERICAN ENTERPRISE FUND AND AFFILIATES

CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2015
(With Summarized Financial Information as of December 31, 2014)
Increase (Decrease) in Cash and Cash Equivalents

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 3,372,331	$ 1,094,116
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Unrealized loss on investment	69,321	19,226
Depreciation and amortization	11,510	4,563
Changes in assets and liabilities:		
Accounts receivable	(21,888)	-
Prepaid expenses	(11,448)	(2,520)
Deposits	-	(9,144)
Accounts payable and accrued expenses	57,910	30,568
Deferred revenue	168,215	304,787
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,645,950	1,441,596
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(809,701)	(1,090,565)
Loans awarded	(2,458,824)	-
Purchases of property and equipment	(32,214)	(24,820)
NET CASH USED IN INVESTING ACTIVITIES	(3,300,739)	(1,115,385)
NET INCREASE IN CASH AND CASH EQUIVALENTS	345,211	326,211
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	326,211	-
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 671,422	$ 326,211

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

1. Organization and Summary of Significant Accounting Policies

<u>Organization</u>

The Tunisian-American Enterprise Fund (the Fund) was established by the United States Congress and the Obama Administration to support the Tunisian people following the Tunisian revolution. The Fund's operations launched in July 2013 after receipt of a funding agreement with the United States Agency for International Development (USAID). The Fund's mission is to invest in Tunisia through existing and newly incorporated financial vehicles that provide equity, quasi-equity and debt financing to a range of small and medium enterprises. The Fund is scheduled to begin wind-down procedures in 2027 and terminate within 3 to 4 years thereafter. .

The Tunisian American Enterprise Fund Advisory Company (TAEF Advisory) was established in Tunisia. The TAEF Advisory operates to carry out the mission of the Fund in Tunisia.

In February 2015, TAEF incorporated the Tunisian American SME Company (TASME), a wholly-owned affiliate domiciled in Mauritius. TASME is set up as a holding company and was created to carry out the Fund's mission of investing in Tunisia's private and small and medium enterprise sectors through debt, equity and quasi-equity investments.

Also, in February 2015, TASME incorporated SME Consulting Company (SME), a wholly-owned affiliate domiciled in Tunisia, to manage its operations in Tunisia.

<u>Principles of Consolidation</u>

The accompanying consolidated financial statements reflect the activity of the Fund, TAEF Advisory, TASME and SME (collectively known as TAEF). The financial statements of TAEF have been consolidated because they are under common control and there is an economic interest. All material intercompany balances and transactions have been eliminated during consolidation.

<u>Basis of Accounting</u>

The consolidated financial statements are prepared on the accrual basis of accounting.

<u>Cash and Cash Equivalents</u>

Cash and cash equivalents include demand deposits and money market accounts and all highly liquid investments with initial maturities of one year or less.

<u>Accounts Receivable</u>

Accounts receivable consists primarily of interest receivable. TAEF uses the allowance method to record potentially uncollectible accounts. All accounts receivable are considered to be fully collectible and are due within one year.

1. Organization and Summary of Significant Accounting Policies (continued)

Loans Receivable

TAEF classifies payments due within the next fiscal year and all delinquent loans receivable of greater than 30 days as current assets.

Investments

Investments consist of TAEF's interest in a private equity fund and in certain partnerships which are considered to be alternative investments; as such, these alternative investments are not traded in an established market. Liquidation of TAEF's interests may be subject to various restrictions imposed by the investment fund managers. As part of their risk management and control procedures, the investment fund may hold derivatives and certain other financial instruments to hedge or manage risks associated with foreign currency fluctuations, interest rate changes, commodity price fluctuations and equity market movements. Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-325-35, *Investments – Other*, allows for the reporting measurement of other investments, including alternative investments, at either fair value or the lower of cost or fair value. TAEF's interest in these alternative investments is recorded in the accompanying statement of activities at the lower of cost or market.

Property and Equipment and Related Depreciation and Amortization

Property and equipment are recorded at cost. TAEF capitalizes all expenditures for property and equipment over $1,000. Depreciation on computers and furniture and equipment is provided for on a straight-line basis over the estimated useful lives of the assets which range from five to seven years. Website and software are amortized using the straight-line method over three to five years. Leasehold improvements are amortized over the shorter of the lease term or the useful life. The cost of property and equipment retired or disposed of is removed from the accounts along with the related accumulated depreciation or amortization, and any gain or loss is reflected in revenue and support or expenses in the accompanying consolidated statement of activities. Major additions are capitalized, while replacements, maintenance and repairs that do not improve or extend the lives of the respective assets are expensed as incurred.

Classification of Net Assets

Unrestricted net assets represent the portion of expendable funds that are available for support of TAEF's operations.

Revenue Recognition

Grant revenue is recognized as costs are incurred on the basis of direct program and administrative costs plus investments. Amounts received from the awarding agency in advance of costs incurred are included in deferred revenue in the accompanying consolidated statement of financial position.

Continued

1. Organization and Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying consolidated statement of activities. Accordingly, certain costs have been allocated proportionately among the programs and supporting services based upon the direct labor incurred for each program.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. Investments

TAEF's investments are summarized as follows at December 31, 2015:

Alternative investment funds recognized at the lower of cost or market:	
Private equity	$ 1,468,009
Partnerships	343,710
Total Investments	$ 1,811,719

As disclosed in Note 1 to these financial statements, the carrying value estimate for the alternative investment funds is the lower of cost or market. The market value is estimated based on the net asset value per share or its equivalent, in accordance with guidance relative to investment companies. Accordingly, TAEF's proportionate share of the net market increases as reported by the alternative investment funds, above original cost, are not included.

The private equity fund has an initial lock-up period of five to six years, which is set to expire before December 2021. TAEF has an unfunded commitment of $1,326,100 related to this investment as of December 31, 2015. Because of the inherent uncertainty of the valuation for TAEF's investment in this fund and in certain of the underlying investments held by the fund, values for this investment may differ significantly from values that would have been used had a ready market for the investment existed.

3. Loans Receivable

Under TAEF's funding agreement with the United States Agency for International Development (USAID), TAEF may provide loans to qualifying organizations for the purpose of providing debt financing to small and medium enterprises. Loans are secured by the

Continued

3. Loans Receivable (continued)

borrower's collateral. Under the terms of the loan agreements, TAEF is authorized to receive interest payments ranging from 3% to 5.76%, to be calculated at the beginning of every three-month period. Principal payments are to be repaid quarterly beginning 12 months after the initial disbursement, and interest payments are due every three months after the initial disbursement.

In April 2015, TAEF entered into a cross-currency interest rate swap to limit its exposure to losses in the currency exchange rate between U.S. dollars and Tunisian dinars for one of its loans issued for 1,982,400 Tunisian dinars, which at the time of issuance was equivalent to $1,000,000. Pursuant to this agreement, the principal and interest payments made on the loan by the debtor are made in Tunisian dinars. Any currency exchange losses within each payment occurring from the rate at the origination date of the loan are to be covered by the swap agreement, which will ensure that TAEF will receive repayments of principal in the amount of $1,000,000, provided that the loan is repaid by the debtor in full. TAEF pays the counterparty the difference, if any, between interest collected in Tunisian dinars under the terms of the loan and interest payments calculated using the LIBOR rate plus 4% on the outstanding principal in U.S. dollars.

Loans receivable are expected to be collected as follows as of December 31, 2015:

Due in less than 1 year	$ 274,027
Due in 1-5 years	2,084,797
Due in greater than 5 years	100,000
Total Loans Receivable	$ 2,458,824

All loans receivable and considered to be fully collectible.

4. Property and Equipment and Accumulated Depreciation and Amortization

TAEF's property and equipment consisted of the following as of December 31, 2015:

Furniture and equipment	$ 19,828
Computers	19,591
Website and software	14,824
Leasehold improvements	2,792
Total Property and Equipment	57,035
Less: Accumulated Depreciation and Amortization	(16,073)
Property and Equipment, Net	$ 40,962

Depreciation and amortization expense totaled $11,510 for the year ended December 31, 2015.

5. Concentrations

Major Grantors

For the year December 31, 2015, TAEF earned grant revenue of $4,238,342, all of which was received directly from USAID which has a funding agreement with TAEF through the authority of an act of Congress, and represents 99% of total revenue, excluding the unrealized loss on investment. While management believe the event remote, should Congress decide not to fund TAEF's future projects, TAEF would experience an adverse impact on its ability to finance ongoing operations.

Foreign Operations

During the year ended December 31, 2015, TAEF performed services and transacted business in Tunisia. At December 31, 2015, TAEF maintained an office and cash accounts in Tunisia. The future of this program can be adversely affected by a number of potential factors such as devaluations, terrorist activity and changes in the political climate. As of December 31, 2015, TAEF held cash in Tunisia of approximately $8,900, loan receivables valued at $2,458,824, and investments valued at $1,811,719, representing 85% of TAEF's total assets.

6. Related Party Transaction

During the year December 31, 2015, TAEF incurred expenses of $92,610 for contracted services rendered by the spouse of a member of the Board of Directors. As of December 31, 2015, there were no amounts due to the board member's spouse.

7. Income Taxes

The Fund qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the IRC) and is classified as a publicly supported organization under Section 509(a)(1) of the IRC. No provision for income taxes is required for the year ended December 31, 2015, as the Fund had no net unrelated business income.

TAEF Advisory, TASME, and SME are subject to the tax laws in the country in which they were incorporated. The activity in these entities was minimal for the year ended December 31, 2015, and as such, no tax assessments have been recorded. Any tax assessment due is not considered to be material to these consolidated financial statements.

TAEF performed an evaluation of uncertain tax positions for the year ended December 31, 2015, and determined that there are no matters that would require recognition in the consolidated financial statements or that may have any effect on its tax-exempt status. As of December 31, 2015, the statute of limitations for tax years 2012 through 2014 remains open with the U.S. federal jurisdiction and/or the various states and local jurisdictions in which TAEF files tax returns. TAEF is not currently under audit by the U.S. Internal Revenue Service for the year ended December 31, 2015. It is TAEF's policy to recognize interest and penalties related to uncertain tax positions, if any, in income tax expense. As of December 31, 2015, TAEF had no accruals for interest and/or penalties.

Continued

8. Subsequent Events

TAEF's management has evaluated subsequent events through July 12, 2016, the date the consolidated financial statements were available to be issued. There were no subsequent events identified that are required to be disclosed in these financial statements.