



IMPULSION AU DEVELOPPEMENT

# **TUNISIAN-AMERICAN ENTERPRISE FUND AND AFFILIATES**

## **Consolidated Financial Statements**

*For The Year Ended December 31, 2016*

*(With Summarized Financial Information for the Year Ended December 31, 2015)*



**and  
Report Thereon**





*Certified Public Accountants*

## **INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying consolidated financial statements of the Tunisian-American Enterprise Fund and Affiliates (collectively referred to as TAEF), which comprise the consolidated statement of financial position as of December 31, 2016, 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 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.

### **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Tunisian-American Enterprise Fund and Affiliates as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

*Report on Summarized Comparative Information*

We have previously audited TAEF's 2015 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated July 12, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



Raffa, P.C.

Washington, DC  
June 12, 2017

**TUNISIAN-AMERICAN ENTERPRISE FUND AND AFFILIATES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**December 31, 2016**  
**(With Summarized Financial Information as of December 31, 2015)**

|  | 2016                 | 2015                |
|--|----------------------|---------------------|
| <b>ASSETS</b>  |                      |                     |
| Cash and cash equivalents  | \$ 3,181,903         | \$ 671,422          |
| Accounts receivable  | 63,011               | 21,888              |
| Prepaid expenses   | 38,855               | 13,967              |
| Investments  | 3,411,765            | 1,811,719           |
| Loans receivable   | 6,016,059            | 2,458,824           |
| Property and equipment, net of<br>accumulated depreciation of \$31,931 | 52,687               | 40,962              |
| Deposits   | 8,639                | 9,144               |
| <b>TOTAL ASSETS</b>  | <b>\$ 12,772,919</b> | <b>\$ 5,027,926</b> |
| <b>LIABILITIES AND NET ASSETS</b>                                      |                      |                     |
| <b>Liabilities</b>   |                      |                     |
| Accounts payable and accrued expenses                                  | \$ 126,589           | \$ 88,477           |
| Deferred revenue   | 840,582              | 473,002             |
| <b>TOTAL LIABILITIES</b>   | <b>967,171</b>       | <b>561,479</b>      |
| <b>Net Assets</b>  |                      |                     |
| Unrestricted   | 11,805,748           | 4,466,447           |
| <b>TOTAL NET ASSETS</b>  | <b>11,805,748</b>    | <b>4,466,447</b>    |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>                                | <b>\$ 12,772,919</b> | <b>\$ 5,027,926</b> |

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

**TUNISIAN-AMERICAN ENTERPRISE FUND AND AFFILIATES**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**For the Year Ended December 31, 2016**  
**(With Summarized Financial Information as of December 31, 2015)**

|   | 2016                 | 2015                |
|---|----------------------|---------------------|
| <b>REVENUE</b>                                      |                      |                     |
| Grant revenue                                       | \$ 8,728,493         | \$ 4,238,342        |
| Unrealized loss on investments                      | (342,190)            | (69,321)            |
| Interest income                                     | 182,450              | 26,069              |
| Other income  | 109,365              | 8,944               |
| <b>TOTAL REVENUE</b>                                | <b>8,678,118</b>     | <b>4,204,034</b>    |
| <b>EXPENSES</b>                                     |                      |                     |
| Program Services:                                   |                      |                     |
| Small and medium enterprises                        | 409,464              | 242,447             |
| Microfinance institutions                           | 141,088              | 119,147             |
| Total Program Services                              | 550,552              | 361,594             |
| Management and General                              | 559,487              | 470,109             |
| <b>TOTAL EXPENSES</b>                               | <b>1,110,039</b>     | <b>831,703</b>      |
| Change in net assets before translation adjustments | 7,568,079            | 3,372,331           |
| Foreign currency translation loss                   | (228,778)            | -                   |
| <b>CHANGE IN NET ASSETS</b>                         | <b>7,339,301</b>     | <b>3,372,331</b>    |
| <b>NET ASSETS, BEGINNING OF YEAR</b>                | <b>4,466,447</b>     | <b>1,094,116</b>    |
| <b>NET ASSETS, END OF YEAR</b>                      | <b>\$ 11,805,748</b> | <b>\$ 4,466,447</b> |

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

**TUNISIAN-AMERICAN ENTERPRISE FUND AND AFFILIATES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**For the Year Ended December 31, 2016**  
**(With Summarized Financial Information as of December 31, 2015)**  
**Increase (Decrease) in Cash and Cash Equivalents**

|   | 2016                | 2015               |
|---|---------------------|--------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                     |                    |
| Change in net assets  | \$ 7,339,301        | \$ 3,372,331       |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: |                     |                    |
| Unrealized loss on investments  | 342,190             | 69,321             |
| Loss on revaluation of foreign assets   | 228,778             | -                  |
| Depreciation and amortization   | 15,858              | 11,510             |
| Changes in assets and liabilities:  |                     |                    |
| Accounts receivable   | (41,123)            | (21,888)           |
| Prepaid expenses  | (24,888)            | (11,448)           |
| Deposits  | 505                 | -                  |
| Accounts payable and accrued expenses   | 38,112              | 57,910             |
| Deferred revenue  | 367,580             | 168,215            |
|   | <b>8,266,313</b>    | <b>3,645,951</b>   |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>  |                     |                    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                     |                    |
| Purchase of investments   | (2,171,014)         | (809,701)          |
| Issuance of loans receivable  | (3,811,960)         | (2,458,824)        |
| Collections from loans receivable   | 254,725             | -                  |
| Purchases of property and equipment   | (27,583)            | (32,215)           |
|   | <b>(5,755,832)</b>  | <b>(3,300,740)</b> |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>  |                     |                    |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>  | <b>2,510,481</b>    | <b>345,211</b>     |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>   | <b>671,422</b>      | <b>326,211</b>     |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>   | <b>\$ 3,181,903</b> | <b>\$ 671,422</b>  |

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

## TUNISIAN-AMERICAN ENTERPRISE FUND AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2016

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#### 1. Organization and Summary of Significant Accounting Policies

##### **Organization**

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 three to four 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.

##### **Principles of Consolidation**

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.

##### **Basis of Accounting**

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

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

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

##### **Accounts Receivable**

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.

## TUNISIAN-AMERICAN ENTERPRISE FUND AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2016

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

##### **Loans Receivable**

TAEF uses the allowance method to reserve for potentially uncollectible loans receivable.

##### **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.



# TUNISIAN-AMERICAN ENTERPRISE FUND AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2016

### 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.

#### **Foreign Currency Translation**

The conversion of financial statement balances into U.S. dollars (USD) follows FASB ASC Topic 830, *Foreign Currency Matters*, which permits an entity to present its consolidated financial statements in any currency. If the currency in the financial statements differs from the entity's functional currency, TAEF translates all assets and liabilities at the current rate at the date of the statement of financial position. Revenue and expense balances are translated at exchange rates at the transaction date.

#### **Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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 at December 31, 2016, are summarized as follows:

Alternative investment funds recognized at the lower  
of cost or market:

|                   |                     |
|-------------------|---------------------|
| Private equity    | \$ 1,590,904        |
| Partnerships      | <u>1,820,861</u>    |
| Total Investments | <u>\$ 3,411,765</u> |

As disclosed in Note 1 to these consolidated 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 \$919,990 related to this investment as of December 31, 2016. Because of the inherent uncertainty of the valuation for

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## TUNISIAN-AMERICAN ENTERPRISE FUND AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

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#### 2. Investments (continued)

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 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 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 12-24 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 London Interbank Offered Rate plus 4% on the outstanding principal in U.S. dollars.

Loans receivable are expected to be collected as follows as of December 31, 2016:

|                         |                     |
|-------------------------|---------------------|
| Due in less than 1 year | \$ 925,981          |
| Due in 1-5 years        | <u>5,090,078</u>    |
| Total Loans Receivable  | <u>\$ 6,016,059</u> |

All loans receivable are considered to be fully collectible.

#### 4. Concentrations

##### **Major Grantors**

For the year ended December 31, 2016, TAEF earned grant revenue of \$8,728,493, all of which was received directly from USAID, which has a funding agreement with TAEF through the authority of an act of Congress; this amount represents 97% of total revenue, excluding the

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## TUNISIAN-AMERICAN ENTERPRISE FUND AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2016

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#### 4. Concentrations (continued)

##### **Major Grantors (continued)**

unrealized loss on investments. While management believes the likelihood of 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, 2016, TAEF performed services and transacted business in Tunisia. At December 31, 2016, TAEF maintained an office, loans receivable and other assets in Tunisia and Mauritius. 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, 2016, assets held in foreign countries were approximately \$9,800,000, which represented 77% of TAEF's total consolidated assets.

#### 5. Related Party Transaction

During the year December 31, 2016, TAEF incurred expenses of \$97,020 for contracted services rendered by the spouse of a member of the Board of Directors. As of December 31, 2016, there were no amounts due to the board member's spouse.

#### 6. 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, 2016, as the Fund had no net unrelated business income.

TAEF Advisory, TASME and SME are subject to the tax laws in the countries in which they were incorporated. The activity in these entities was minimal for the year ended December 31, 2016, 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 has adopted the authoritative guidance relating to accounting for uncertainty in income taxes included in FASB ASC Topic 740, *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. TAEF evaluated its uncertainty in income taxes for the year ended December 31, 2016, and determined that there were no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status. As of December 31, 2016, the statute of limitations for tax years 2013 through 2015 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which TAEF files tax returns. It is TAEF's policy to recognize interest and/or penalties related to uncertainty in income taxes, if any, in income tax expense.

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## TUNISIAN-AMERICAN ENTERPRISE FUND AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2016

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#### 7. Prior Year Summarized Financial Information

The accompanying financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with TAEF's financial statements for the year ended December 31, 2015, from which the summarized information was derived.

#### 8. Subsequent Events

In preparing these consolidated financial statements, TAEF has evaluated events and transactions for potential recognition or disclosure through June 12, 2017, the date the consolidated financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in these consolidated financial statements.