



Tunisian
American
Enterprise
Fund

IMPULSION AU DEVELOPPEMENT

TUNISIAN-AMERICAN ENTERPRISE FUND AND AFFILIATES

Consolidated Financial Statements

For The Year Ended December 31, 2018

(With Summarized Financial Information for the Year Ended December 31, 2017)

and
Report Thereon

TUNISIAN-AMERICAN ENTERPRISE FUND AND AFFILIATES

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For the Year Ended December 31, 2018

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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, 2018, and the 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.

Auditors' 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 auditors' 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

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Opinion

In our opinion, the 2018 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, 2018, 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

TAEF's 2017 consolidated financial statements, were audited by Raffa, P.C., whose practice was combined with Marcum LLP as of October 1, 2018, and whose report dated July 9, 2018, expressed an unmodified opinion on those consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the consolidated financial statements from which it has been derived.

Marcum LLP

Washington, DC
September 26, 2019

TUNISIAN-AMERICAN ENTERPRISE FUND AND AFFILIATES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2018

(With Summarized Financial Information as of December 31, 2017)

	2018	2017
ASSETS		
Cash and cash equivalents	\$ 2,225,466	\$ 1,669,364
Accounts receivable, net	956,899	211,736
Loans receivable, net	10,362,120	10,393,170
Prepaid expenses	15,956	22,869
Certificate of deposits	2,665,132	-
Investments	7,003,815	6,329,639
Property and equipment, net of accumulated depreciation of \$50,643	29,140	37,571
Deposits	<u>165,841</u>	<u>46,811</u>
 TOTAL ASSETS	 <u>\$ 23,424,369</u>	 <u>\$ 18,711,160</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 156,724	\$ 117,608
Deferred revenue	<u>964,854</u>	<u>575,168</u>
 TOTAL LIABILITIES	 <u>1,121,578</u>	 <u>692,776</u>
 Net Assets		
Without donor restrictions	<u>22,302,791</u>	<u>18,018,384</u>
 TOTAL NET ASSETS	 <u>22,302,791</u>	 <u>18,018,384</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 23,424,369</u>	 <u>\$ 18,711,160</u>

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, 2018
(With Summarized Financial Information for the Year Ended December 31, 2017)

	2018	2017
REVENUE WITHOUT DONOR RESTRICTIONS		
Grant revenue	\$ 8,903,563	\$ 7,548,900
Interest income	596,546	371,135
Other income	449,417	310,502
Investment loss, net	<u>(1,393)</u>	-
TOTAL REVENUE	<u>9,948,133</u>	<u>8,230,537</u>
EXPENSES		
Program Service:		
Investments	<u>2,563,702</u>	<u>1,423,001</u>
Total Program Service	2,563,702	1,423,001
Supporting Service:		
Management and General	<u>462,915</u>	<u>416,767</u>
Total Program Service	462,915	416,767
TOTAL EXPENSES	<u>3,026,617</u>	<u>1,839,768</u>
Change in net assets before translation adjustments	6,921,516	6,390,769
Foreign currency translation loss	<u>(2,637,109)</u>	<u>(178,133)</u>
CHANGE IN NET ASSETS	4,284,407	6,212,636
NET ASSETS, BEGINNING OF YEAR	<u>18,018,384</u>	<u>11,805,748</u>
NET ASSETS, END OF YEAR	<u>\$ 22,302,791</u>	<u>\$ 18,018,384</u>

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, 2018

(With Summarized Financial Information for the Year Ended December 31, 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 4,284,407	\$ 6,212,636
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Change in allowance for doubtful accounts	54,144	54,843
Change in allowance for loans receivable	1,099,230	424,728
Loss on revaluation of foreign assets	2,637,109	178,133
Depreciation and amortization	22,087	29,522
Realized loss from sale or write off investments	1,393	-
Changes in assets and liabilities:		
Accounts receivable	(799,307)	(203,568)
Prepaid expenses	6,913	15,986
Deposits	(119,030)	(38,172)
Accounts payable and accrued expenses	39,116	(8,981)
Deferred revenue	<u>389,686</u>	<u>(265,414)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>7,615,748</u>	<u>6,399,713</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificate of deposits	(2,712,968)	-
Purchase of investments	(1,881,147)	(2,958,324)
Sales of investments	350,000	-
Issuance of loans receivable	(5,094,888)	(5,601,295)
Collections from loans receivable	2,293,013	661,773
Purchases of property and equipment	<u>(13,656)</u>	<u>(14,406)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(7,059,646)</u>	<u>(7,912,252)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	556,102	(1,512,539)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,669,364</u>	<u>3,181,903</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,225,466</u>	<u>\$ 1,669,364</u>

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, 2018**

1. Organization and Summary of Significant Accounting Policies

Organization

The Tunisian-American Enterprise Fund (the Fund) was established by the United States Congress 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 2028 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 as 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.

Certificates of Deposit

Certificates of deposit are presented in the consolidated financial statements at fair value. Interest income is recorded as earned.

TUNISIAN-AMERICAN ENTERPRISE FUND AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS **For the Year Ended December 31, 2018**

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

Accounts Receivable

Accounts receivable consist primarily of interest receivable and royalties receivable. TAEF uses the allowance method to record potentially uncollectible accounts. TAEF has established the allowance at a level deemed appropriate to provide for doubtful accounts. The net remaining balances are deemed by TAEF to be fully collectible. During the year ended December 31, 2018, TAEF created an allowance for doubtful accounts of approximately \$109,000.

Loans Receivable

TAEF uses the allowance method to reserve for potentially uncollectible loans receivable. Accounts past due are individually analyzed for collectibility. Management annually adjusts the allowance account based upon its estimate of those loans receivable that it believes to be uncollectible.

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 other investments is recorded in the accompanying consolidated statement of activities at the lower of cost or market less any declines in value considered other than temporary.

Property and Equipment and Related Depreciation and Amortization

Property and equipment are recorded at cost. TAEF capitalizes all expenditures for property and equipment with a useful life of more than one year and an acquisition cost greater than \$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.

TUNISIAN-AMERICAN ENTERPRISE FUND AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2018

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

Classification of Net Assets

Net assets without donor restrictions represent the portion of expendable funds that are available to support the operations of TAEF.

Revenue Recognition

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

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. Expenses directly attributed to a specific functional area of TAEF are reported as expenses of those functional areas, while shared costs that benefit multiple functional areas have been allocated among the various functional areas based on estimated time worked between program and supporting services.

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.

New Accounting Pronouncement

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. TAEF has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented. The major changes of the ASU affecting the organization include (a) requiring the representation of only two classes of net assets now entitled "net assets

TUNISIAN-AMERICAN ENTERPRISE FUND AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018

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

New Accounting Pronouncement (continued)

without donor restrictions" and "net assets with donor restrictions"; (b) requiring that all nonprofits present an analysis of expenses by function and nature in either of the statement of activities, a separate statement, or the notes to the statements and disclose a summary of the allocation methods used to allocate costs; and (c) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources.

2. Certificates of Deposit

As of December 31, 2018, the fair value of the certificates of deposit held by TAEF totaled \$2,665,132. Interest income was \$33,998 for the year ended December 31, 2018.

3. Investments

TAEF's investments at December 31, 2018, are summarized as follows:

Alternative investment funds recognized at the lower of cost or market:	
Private equity	\$ 4,187,589
Partnerships	<u>2,816,226</u>
Total Investments	<u>\$ 7,003,815</u>

As disclosed in Note 1 to these consolidated financial statements, the carrying value estimate for the other investment funds is the lower of cost or market less any declines in value considered other than temporary. 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 other 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 \$839,456 related to this investment as of December 31, 2018. 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.

TUNISIAN-AMERICAN ENTERPRISE FUND AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2018

4. 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 2% to 7%, 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.

Loans receivable are expected to be collected as follows as of December 31, 2018:

Due in less than 1 year	\$ 3,389,261
Due in 1-5 years	<u>8,496,817</u>
Total Loans Receivable	11,886,078
Less: Allowance for Doubtful Accounts	<u>(1,523,958)</u>
Loans Receivable, Net	<u>\$ 10,362,120</u>

5. Concentrations

Major Grantors

For the year ended December 31, 2018, TAEF earned grant revenue of \$8,903,563, 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 89% of total revenue. 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.

On May 25, 2018, TAEF was notified by USAID of an amendment to current grant in which the total amount of funding under the grant agreement of \$20 million was increased to \$100 million and as such, USAID financial commitment is obligated to \$100 million.

Foreign Operations

During the year ended December 31, 2018, TAEF performed services and transacted business in Tunisia. At December 31, 2018, 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, 2018, assets held in foreign countries were approximately \$15,837,644, which represented 68% of TAEF's total consolidated assets.

TUNISIAN-AMERICAN ENTERPRISE FUND AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2018

6. Related Party Transaction

During the year December 31, 2018, TAEF paid salary and bonus expenses totaled \$130,200 to an employee who is the spouse of a member of the Board of Directors. As of December 31, 2018, there were no amounts due to this individual.

7. Functional Expenses

The consolidated financial statements report certain categories of expenses that are attributable to program or supporting functions of TAEF. Total expenditures, by natural and functional classification, were as follows for the year ended December 31, 2018:

	Investments Program	Management and General	Total
Bad debt	\$ 1,170,932	\$ -	\$ 1,170,932
Contractors	277,013	101,125	378,138
Salaries	245,228	124,419	369,647
Grants	317,797	-	317,797
Professional fees	118,600	62,892	181,492
Other expenses	153,482	3,763	157,245
Taxes	107,127	-	107,127
Travel and meetings	10,775	93,686	104,461
Occupancy and utilities	69,140	21,381	90,521
Fringe benefits and payroll taxes	54,329	9,935	64,264
Office operations	17,743	45,163	62,906
Depreciation and amortization	21,536	551	22,087
Total Expenses	<u>\$ 2,563,702</u>	<u>\$ 462,915</u>	<u>\$ 3,026,617</u>

8. Availability and Liquidity

TAEF regularly 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. TAEF's financial assets available within one year of the consolidated statement of financial position date for general expenditures at December 31, 2018, were as follows:

Cash and cash equivalents	\$ 2,225,466
Accounts receivable, net	956,899
Loans receivable, net	10,362,120
Certificate of deposits	<u>2,665,132</u>
Total Financial Assets at Year-End	16,209,617
Less:	
Amounts not available to be used within one year:	
Long-term loans receivable	<u>(8,496,817)</u>
Financial Assets Available to Meet General Expenditures Within One Year	<u>\$ 7,712,800</u>

TUNISIAN-AMERICAN ENTERPRISE FUND AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS **For the Year Ended December 31, 2018**

8. Availability and Liquidity (continued)

TAEF has various sources of liquidity at its disposal, including cash and cash equivalents, accounts and loans receivable and certificate of deposits, which are available for general expenditures, liabilities and other obligations as they come due. Management is focused on sustaining the financial liquidity of TAEF throughout the year. This is done through monitoring and reviewing TAEF's cash flow needs on a regular basis. As a result, management is aware of the cyclical nature of TAEF's cash flow and is therefore able to ensure that there is cash available to meet current liquidity needs. TAEF's certificates of deposit are of a short-term duration, maturing within one year at staggered maturity dates, and therefore can be liquidated to meet operating cash requirements.

9. 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, 2018, 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 Fund pays all taxes due in these countries both timely and accurately and the related tax expense is reflected on the accompanying consolidated financial statements. However, any additional tax assessment due or liabilities have not been recorded as such amounts are not considered to be significant 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, 2018, 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, 2018, the statute of limitations for tax years 2015 through 2017 remained open with the U.S. federal jurisdiction or the various states and local jurisdictions in which TAEF files tax returns; however, there are currently no examinations in progress. It is TAEF's policy to recognize interest and/or penalties related to uncertainty in income taxes, if any, in income tax or interest expense.

10. Reclassification

Certain 2017 amounts have been reclassified to conform with the 2018 consolidated financial statement presentation.

TUNISIAN-AMERICAN ENTERPRISE FUND AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

11. Prior Year Summarized Financial Information

The accompanying consolidated 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, 2017, from which the summarized information was derived.

12. Subsequent Events

In preparing these consolidated financial statements, TAEF has evaluated, for potential recognition or disclosure, events and transactions through September 26, 2019, 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.