FIVE TALENTS USA

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

June 30, 2020

CHAN GROUP
Certified Public Accountants and Consultants

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Five Talents USA

We have audited the accompanying financial statements of Five Talents USA (the Organization), which comprise of the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses and cash flows for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 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 auditors' 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Five Talents USA as of June 30, 2020, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, Five Talents USA has adopted new accounting guidance, Financial Accounting Standards Board Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)* and ASU 2018-08 *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to that matter.

HAN GROUP LLC

HAN GROUP LLC
Washington, DC
October 22, 2020

FIVE TALENTS USA
Statement of Financial Position
June 30, 2020

Assets		
Cash	$	43,995
Contributions receivable, net		227,362
Investments		139,588
Prepaid expenses and other assets		2,749
Total assets	$	413,694
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$	7,510
Note payable		7,000
Total liabilities		14,510
Net Assets		
Without donor restrictions:		
Undesignated		84,850
Board designated - program reserve fund		75,000
Total without donor restrictions		159,850
With donor restrictions		239,334
Total net assets		399,184
Total liabilities and net assets	$	413,694

FIVE TALENTS USA
Statement of Activities
Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Contributions	$ 659,088	$ 412,545	$ 1,071,633
Donated goods and services	18,096	5,010	23,106
Investment income, net	7,458	-	7,458
Net assets released from restrictions:			
Satisfaction of purpose restrictions	269,207	(269,207)	-
Expiration of time restrictions	101,200	(101,200)	-
Total revenue and support	1,055,049	47,148	1,102,197
Expenses			
Program services	705,280	-	705,280
Supporting services:			
Management and general	105,502	-	105,502
Fundraising	145,673	-	145,673
Total supporting services	251,175	-	251,175
Total expenses	956,455	-	956,455
Loss on uncollectible promises to give	70,000	-	70,000
Total expenses and losses	1,026,455	-	1,026,455
Change in Net Assets	28,594	47,148	75,742
Net Assets, beginning of year	131,256	192,186	323,442
Net Assets, end of year	$ 159,850	$ 239,334	$ 399,184

See accompanying notes.

FIVE TALENTS USA
Statement of Functional Expenses
Year Ended June 30, 2020

	Program Services	Supporting Services: Management and General	Supporting Services: Fundraising	Supporting Services: Total Supporting Services	Total
Subgrants and awards	$ 480,864	$ -	$ -	$ -	$ 480,864
Salaries and related expenses	182,972	49,346	112,236	161,582	344,554
Professional fees	6,131	43,481	863	44,344	50,475
Office expenses	11,828	5,355	11,747	17,102	28,930
Occupancy	9,452	2,550	5,798	8,348	17,800
Printing	2,545	1,155	7,982	9,137	11,682
Meetings and events	4,793	1,460	2,940	4,400	9,193
Travel	3,289	1,236	2,018	3,254	6,543
Insurance	3,406	919	2,089	3,008	6,414
Total Expenses	$ 705,280	$ 105,502	$ 145,673	$ 251,175	$ 956,455

See accompanying notes.

FIVE TALENTS USA
Statement of Cash Flows
Year Ended June 30, 2020

Cash Flows from Operating Activities	
Change in net assets	$ 75,742
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Loss on uncollectible promise to give	70,000
Net realized and unrealized loss on investments	2,406
Change in present value discount	(9,760)
Donated securities	(33,614)
Change in operating assets and liabilities:	
Contributions receivable	(102,456)
Prepaid expenses and other assets	3,159
Accounts payable and accrued expenses	(6,166)
Grants payable	(60,000)
Note payable	7,000
Net cash used in operating activities	(53,689)
Cash Flows from Investing Activities	
Purchases of investments	(9,687)
Net cash used in investing activities	(9,687)
Net Decrease in Cash	(63,376)
Cash, beginning of year	107,371
Cash, end of year	$ 43,995

See accompanying notes.

1. Nature of Operations

Five Talents - USA (the Organization) was incorporated in the Commonwealth of Virginia in March 1999 as a not-for-profit organization. The Organization works through local Anglican Communion churches around the world to combat poverty in developing countries by using micro-enterprise development and is a member of the Five Talents International (FTI) family, which includes sister organizations in the United Kingdom and Kenya.

The Organization's vision is to eradicate extreme poverty by restoring human dignity and creating strong, sustainable communities. The Organization works to combat poverty in the developing world by:

- Equipping community leaders to care for the poor and less fortunate.
- Empowering poor families with knowledge and skills to read, write, save, and invest.
- Developing community savings groups and helping families to launch and grow small businesses.

The Organization signs memorandums of understanding (MOUs) with microenterprise development partners that operate community savings and loan programs in developing countries. These documents provide for funding from the Organization, based on mutually agreed upon plans. The Organization also receives funds designated for certain programs and countries.

<u>Programs</u>

Direct program funds for the year ended June 30, 2020, were expended in the following areas: grants to overseas partners for program operations, training, and consulting totaling $440,060; and overseas travel by staff and consultants for monitoring, oversight, and technical assistance totaling $40,804, included in subgrants and awards on the accompanying statement of functional expenses. Below is a summary of the Organization's impact by country through June 30, 2020:

<u>Latin America</u>

Bolivia – The Organization has worked in the mountainous areas of southern Bolivia for over a decade, reaching families living in extreme poverty. In partnership with Seeds of Blessing, The Organization facilitates small business development through training, mentorship, and community savings and loans. Participants join small savings groups and receive training in budgeting, saving, business planning, nutrition, and discipleship. They learn how to invest in and grow small businesses. Currently, about 250 families are members, and 75% describe the biggest changes in their lives as having savings and being brave enough to improve their lives.

<u>Asia</u>

Indonesia - For well over a decade, the Organization has partnered with the Gerhati Foundation to serve over 14,000 entrepreneurs in the urban slums of Jakarta. Program participants have gained access to micro-business loans, participate in a savings program, and receive training in budgeting and other business skills.

1. Nature of Operations (continued)

Asia (continued)

Myanmar – The Organization has worked in Myanmar for almost a decade with the local Anglican Church's Mothers' Union to catalyze microenterprise development. The Organization's programs have focused on the creation of savings and loan groups in rural and undeveloped regions of Irrawaddy Delta, Yangon, Mandalay, Hpa-an in Kayin State, and Myitkyina in Kachin State. Savings group members establish or develop their own businesses and often work together to form cooperatives. Members developed a variety of agricultural businesses, including the production of rice, coffee, chili, tea, mushrooms, beans, betel palm products, turmeric powder, soaps, lotions, and natural beauty products.

Africa

Burundi - Burundi is the world's most rural country, with 90% of the population engaged in farming. It is also one of the world's poorest countries with 70% subsisting on less than one dollar per day. Only 5.2% of women have had access to a high school education. The Organization partners with the Mothers' Union of the Anglican Church in Burundi to offer training in literacy and numeracy, business skills, and the formation of community savings groups. To date, over 58,000 people, mostly women, have joined community savings and loan associations. Members have access to mentorship, basic financial services, and emergency funds. Eighty percent of these groups are now self-managing.

Democratic Republic of Congo - In 2018 the Organization began a ministry in the Diocese of Aru, in the northeastern corner of DR Congo. Over the past year, the Organization has worked to mobilize church and community leaders, to train and mentor staff and community workers, and to launch new literacy groups in 60 different communities.

Kenya – The Organization began working in Kenya well over a decade ago and has served communities in regions across Kenya. Participants in these programs learn key skills in financial management and business development. They also engage in community-owned and managed savings groups, meeting together on a weekly basis. Most members start as subsistence level farmers, but many end up developing their own small businesses. During the past year, savings groups served over 7,000 members.

South Sudan – The Organization has worked successfully in South Sudan and Sudan for over a decade and is one of the few organizations that has worked to develop a sustainable model for microfinance there. During the past year, the Organization launched a new program in Terekeka. We served over 7,000 members across the country with training and access to financial services.

Tanzania – The Organization has worked in Tanzania for over a decade, with a variety of local partners to provide financial inclusion services to the rural poor. Our programs provide women with access to community savings and micro-loans for local development. During the past year, the programs served over 6,000 members in Vicoba and Morogoro, Tanzania.

Uganda – The Organization supports literacy, business training, and community savings programs in Karamoja, Uganda. During the past year, over 2,200 members participated in the Organization's programs in Karamoja.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Consequently, revenue is recognized when earned and expenses are recognized when the obligation is incurred.

Investments

Investments are measured at fair value and are composed of mutual funds and money market funds. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Unrealized gains or losses on investments are determined by the change in fair value at the beginning and end of the reporting period. Investment income is presented net of investment advisory and management fees, if any, on the accompanying statement of activities. Net realized and unrealized gains or losses on investments are included in net investment income. Money market funds held in the investment portfolios are included in investments on the accompanying statement of financial position.

Classification of Net Assets

- *Net Assets Without Donor Restrictions* represent funds that are not subject to donor-imposed stipulations and are available for support of the Organization's general operations.

- *Net Assets With Donor Restrictions* represent funds that are subject to donor-imposed restrictions. 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. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Organization did not have any donor-imposed restrictions which are perpetual in nature at June 30, 2020.

Revenue Recognition

Contributions

Unconditional contributions are recognized as revenue when received or promised and are reported as support with donor restrictions if they are received with donor stipulations that limit the use of donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported on the accompanying statement of activities as net assets released from restrictions.

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Contributions (continued)

Contributions that are considered to be conditional contributions, that is, those with a measurable performance or other barrier and a right of return, are recognized as revenue once the conditions on which they depend have been met. Amounts recognized in revenue that have not been received are included in contributions receivable on the accompanying statement of financial position. Conversely, amounts received in advance of the conditions being met are recorded as refundable advances on the accompanying statement of financial position. The Organization did not have any receivables or refundable advances related to conditional contributions at June 30, 2020. In addition, the Organization had no unrecognized conditional awards at June 30, 2020.

Revenue from all other sources is recognized when earned.

Donated Goods and Services

Donated goods and services are recognized as both revenue and support and expenses on the accompanying statement of activities at the estimated fair value as provided by the donor at the date of donation. Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. The Organization received $18,096 in donated legal services used for board meetings, $3,250 in donated consulting services used for Myanmar trainings, and $1,760 donated goods used for transportation for consulting and training trips during the year ended June 30, 2020.

Functional Allocation of Expenses

The costs of providing program and supporting services have been summarized on a functional basis on the accompanying statement of activities. The statement of functional expenses presents expenses by function and natural classification. The Organization incurs expenses that directly relate to, and can be assigned to, a specific program or supporting activity. The Organization also conducts a number of activities which benefit both its program objectives as well as supporting services. These costs, which are not specifically attributable to a specific program or supporting activity, are allocated by management on a consistent basis among program and supporting services benefited based on the distribution of labor. Expenses allocated include salaries and related expenses, professional fees, office expenses, occupancy, printing, meetings and events, travel and insurance.

2. Summary of Significant Accounting Policies (continued)

Changes in Accounting Principles

Effective July 1, 2019, the Organization adopted Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which requires that an entity evaluate whether transactions should be accounted for as contributions or as exchange transactions and determining whether a contribution is conditional. The Organization adopted ASU 2018-08 using a modified prospective approach. The implementation of ASU 2018-08 did not have a material effect on the Organization's financial positions, results of operations, or cash flows. There was no cumulative effect of a change in accounting principle recorded related to the adoption of ASU 2018-08 on July 1, 2019. The presentation and disclosures of revenue have been enhanced in accordance with the standards.

Effective July 1, 2019, the Organization adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended. The core principle of ASU 2014-09 requires the recognition of revenue for exchange and partial exchange transactions when, or as goods or services are delivered, in the amount that reflects the consideration to which the organization is entitled in exchange for what has been delivered. The ASU requires that the Organization use the following five step process: 1) Identify exchange agreements or partial exchange agreements that create a contract; 2) Identify their performance obligations; 3) Determine the transaction price; 4) Allocate the transaction price among the performance obligations; 5) Recognize revenue at the point in time when, or over the time period during which, a performance obligation is recognized. The adoption of the ASU did not impact the change in net assets.

Pending Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842).* The core principles of ASU 2016-02 change the way organizations will account for their leases by recognizing lease assets and related liabilities on the statement of financial position and disclosing key information about leasing arrangements. ASU 2016-02 is effective for non-public entities for fiscal years beginning after December 15, 2021.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The core principles of ASU 2020-07 address the measurement of nonfinancial contributions and increase the transparency of contributed nonfinancial assets through enhancements to presentation and disclosure. The amendments in the update are to be applied on a retrospective basis. ASU 2020-07 is effective for non-public entities for fiscal years beginning after June 15, 2021.

Use of 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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. Concentrations

The Organization's cash balances are held at commercial financial institutions, which aggregate balance, at times, may exceed the Federal Deposit Insurance Corporation (FDIC) limit or the Securities Investor Protection Corporation (SPIC) limits per depositor, per institution. The Organization has not experienced any losses to date as it relates to FDIC or SIPC insurance limits, monitors the credit worthiness of these institutions and believes that the risk of any loss is minimal.

In addition, the Organization invests funds in a professionally managed portfolio of marketable securities. Such investments are exposed to market and credit risks. Therefore, the Organization's investments may be subject to significant fluctuations in fair value. As a result, the investment balances reported on the accompanying financial statements may not be reflective of the portfolio's value during subsequent periods.

Revenue from one source accounted for approximately 11% of the Organization's revenue and support for the year ended June 30, 2020. Additionally, receivables due from two sources comprise 63% of the total contributions receivable at June 30, 2020.

4. Contributions Receivable

Contributions receivable are comprised of unconditional promises to give and are receivable as follows at June 30, 2020:

Receivable in one year	$	139,820
Receivable in one to five years		90,000
Total contributions receivable		229,820
Less: unamortized discount		(2,458)
Contributions receivable, net	$	227,362

Multi-year grants are discounted to their present value with a discount rates ranging from 1.22% to 2.87% over the period of the grants using an estimate of expected cash flows. The Organization has not recorded an allowance for uncollectible accounts, as management believes all amounts are fully collectible.

5. Investments

Investments consist of the following at June 30, 2020:

Mutual funds	$	128,527
Money market funds		11,061
Total investments	$	139,588

6. Fair Value Measurements

The three levels of the fair value hierarchy for recurring fair value measurements are prioritized based on the inputs to valuation techniques used to measure fair value and are as follows:

- *Level 1* – Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.
- *Level* 2 – Other observable inputs, either directly or indirectly, including:
    - Quoted prices for similar assets/liabilities in active markets;
    - Quoted prices for identical or similar assets in non-active markets;
    - Inputs other than quoted prices that are observable for the asset/liability; and,
    - Inputs that are derived principally from or corroborated by observable market data.
- *Level* 3 – Unobservable inputs that cannot be corroborated by observable market data.

The following is a summary of input levels used to determine fair values, measured on a recurring basis, of investments at June 30, 2020:

	Level 1	Total
Mutual funds	$ 128,527	$ 128,527
Money market funds	11,061	11,061
Total investments at fair value	$ 139,588	$ 139,588

7. Liquidity and Availability of Resources

The following schedule reflects the Organization's financial assets as of June 30, 2020, reduced by amounts not available for general use within one year. All financial assets listed below are considered to be convertible to cash within one year.

Financial Assets:	
Cash	$ 43,995
Contributions receivable, net	227,362
Investments	139,588
Total financial assets	410,945
Less those unavailable for general expenditures within one year:	
Donor-imposed restrictions on the financial assets	(239,334)
Board-designated reserve of the financial assets	(75,000)
Financial assets available to meet cash needs for general expenditures within one year	$ 96,611

7. Liquidity and Availability of Resources (continued)

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. In addition to financial assets available to meet general expenditures over the next 12 months, the Organization operates with a balanced budget on a cash-flow basis. Occasionally, the Board designates a portion of operating surplus to its program reserve, which totaled $75,000 at June 30, 2020. Should the need arise, the Board may release the reserves. In addition, the Organization has a revolving line of credit in the amount of $40,000 upon which it may draw should the need arise.

8. Net Assets With Donor Restrictions

Net assets with donor restrictions were restricted for the following at June 30, 2020:

Subject to passage of time	$	227,362
Subject to expenditure for specific purposes:		
Africa		10,647
Asia		1,325
Total net assets with donor restrictions	$	239,334

During the year ended June 30, 2020, releases from net assets with donor restrictions were for the following:

Expiration of time restrictions	$	101,200
Satisfaction of expenditures for specific purposes:		
Africa		210,639
Asia		52,070
Knippers Educational Fund		4,003
Latin America		2,495
Total net assets released from restrictions	$	370,407

9. Commitments

Operating Leases

In July 2017, the Organization entered into a lease agreement for office space commencing September 30, 2017. The lease is cancellable with two-month notice. The Organization amended the lease to extend through December 2020. Rent expense was $17,800 for the year ended June 30, 2020 and is included in occupancy on the accompanying statement of functional expenses.

9. Commitments (continued)

Line of Credit

The Organization has a secured revolving line of credit with a financial institution of up to $40,000 to be used as cash flow needs arise. The line of credit carries an interest rate at 6 percentage points. The line of credit is secured by the marketable securities account held by the Organization. There was no balance on the line of credit at June 30, 2020.

Paycheck Protection Program Loan

The Organization received an Emergency Injury Disaster Loan (EIDL) advance of $7,000 and was awarded a Paycheck Protection Program (PPP) loan of $52,000. The PPP loan carries an interest rate of 1% and a term of 24 months, with a deferment of 7 months. Under the provisions of the Coronavirus Aid, Relief, and Economic Security Act, management expects that the full PPP loan less the EIDL advance will be forgiven as it was expended for the allowed purposes by June 30, 2020, and has therefore treated that amount as a conditional contribution for which the conditions have been met. The remaining amount to be re-paid of $7,000 is presented as note payable on the accompanying statement of financial position.

10. Pension Plan

The Organization maintains a simple IRA plan (the Plan) for all eligible employees. Eligible employees may contribute a percentage of their annual compensation, subject to certain limitations, to the Plan. The Organization can match up to 3% of qualified employee's contributions. The Organization contributed $7,951 to the Plan during the year ended June 30, 2020.

11. Income Taxes

Under Section 501(c)(3) of the Internal Revenue Code, the Organization is a nonprofit organization and is exempt from federal taxes on income other than net unrelated business income. No provision for federal or state income taxes is required for the year ended June 30, 2020, as the Organization had no taxable net unrelated business income.

The Organization follows the authoritative guidance relating to accounting for uncertainty in income taxes included in Accounting Standards Codification Topic 740-10, *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. It is the Organization's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expenses.

The Organization performed an evaluation of uncertain tax positions for the year ended June 30, 2020 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. The statute of limitations generally remains open for three tax years with the U.S. federal jurisdiction or the various states and local jurisdictions in which the Organization files tax returns.

12. Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through October 22, 2020, the date the financial statements were available to be issued. There were no subsequent events that require recognition of, or disclosure in, the financial statements, other than as noted in the paragraph below.

The COVID-19 outbreak has caused disruption for nonprofit organizations and other businesses and has resulted in significant volatility in the financial markets. There have been mandated and voluntary closings of businesses including cancellations of events and meetings. The Organization's office is opened with a liberal policy for telecommuting, and coordination among staff members for hours spent in the office to maintain proper social distancing. The Organization has converted certain events to a virtual format. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of restrictions on gatherings and potential economic impacts. At this time, the potential related financial impact cannot be reasonably estimated.