SOSTENICA, INC.

REPORT ON AUDIT OF
FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
SOSTENICA, INC., INC.
West Chester, PA 19382

I have audited the accompanying financial statements of SOSTENICA, INC. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and changes in net assets, 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.

Auditor’s Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, I 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.
I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SOSTENICA, INC. 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.

Steven J. Handzel, CPA
25 August 2017
### SOSTENICA, INC.
#### STATEMENT OF FINANCIAL POSITION
##### DECEMBER 31, 2016

#### ASSETS

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CURRENT ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$92,653</td>
<td>24,942</td>
<td>116,995</td>
</tr>
<tr>
<td>Recourse Loans Receivable</td>
<td>27,223</td>
<td></td>
<td>27,223</td>
</tr>
<tr>
<td>Fund in Administration</td>
<td>240,000</td>
<td></td>
<td>240,000</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>359,276</td>
<td>24,942</td>
<td>384,218</td>
</tr>
<tr>
<td><strong>NON CURRENT ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
<td>1,125</td>
<td></td>
<td>1,125</td>
</tr>
<tr>
<td>Less: Accumulated Depreciation</td>
<td>(197)</td>
<td>(197)</td>
<td></td>
</tr>
<tr>
<td><strong>FUND IN ADMINISTRATION</strong></td>
<td>928</td>
<td></td>
<td>928</td>
</tr>
<tr>
<td><strong>Total Non Current Assets</strong></td>
<td>2,088,933</td>
<td>52,000</td>
<td>2,140,933</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$2,449,137</td>
<td>$76,942</td>
<td>$2,526,079</td>
</tr>
</tbody>
</table>

#### LIABILITIES AND NET ASSETS

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CURRENT LIABILITIES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>$1,303</td>
<td></td>
<td>1,303</td>
</tr>
<tr>
<td>Accrued Interest Payable</td>
<td>32,888</td>
<td></td>
<td>32,888</td>
</tr>
<tr>
<td>Current Portion of Notes Payable</td>
<td>748,107</td>
<td></td>
<td>748,107</td>
</tr>
<tr>
<td><strong>Total Current Liabilities</strong></td>
<td>782,298</td>
<td></td>
<td>782,298</td>
</tr>
<tr>
<td><strong>NON CURRENT PORTION OF NOTES PAYABLE</strong></td>
<td>1,239,762</td>
<td></td>
<td>1,239,762</td>
</tr>
<tr>
<td><strong>NET ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrestricted</td>
<td>427,077</td>
<td></td>
<td>427,077</td>
</tr>
<tr>
<td>Temporarily Restricted</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Net Assets</strong></td>
<td>427,077</td>
<td>76,942</td>
<td>504,019</td>
</tr>
<tr>
<td><strong>Total Liabilities and Net Assets</strong></td>
<td>2,449,137</td>
<td>76,942</td>
<td>2,526,079</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
SOSTENICA, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2016

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions</td>
<td>$ 10,914</td>
<td>23,980</td>
<td>34,894</td>
</tr>
<tr>
<td>Program Fees</td>
<td>10,400</td>
<td>10,400</td>
<td></td>
</tr>
<tr>
<td>Interest from Notes Receivable</td>
<td>11,790</td>
<td>11,750</td>
<td></td>
</tr>
<tr>
<td>Interest from Fund in Administration</td>
<td>153,261</td>
<td>153,261</td>
<td></td>
</tr>
<tr>
<td>Interest from Cash Deposits</td>
<td>427</td>
<td>427</td>
<td></td>
</tr>
<tr>
<td>Net Assets Released from Restrictions</td>
<td>17,321</td>
<td>(17,321)</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>204,113</td>
<td>6,659</td>
<td>210,772</td>
</tr>
</tbody>
</table>

Expenses
Program Services
  Micro-Lending Activities    72,122   -         72,122
  Sustainable Agriculture Research & Training 93,397   -         93,397
  Management and General      40,364   -         40,364
  Fund Raising               3,847     -         3,847
  Total                      209,730   -         209,730

Net Operating Income        (5,617)   6,659       1,042

Net Assets, Beginning of Year | 432,694   | 70,283      | 502,977   |
Net Assets, End of Year      $ 427,077   $ 76,942     $ 504,019

The accompanying notes are an integral part of these financial statements.
## SOSTENICA, INC.
### STATEMENT OF FUNCTIONAL EXPENSES
#### YEAR ENDED DECEMBER 31, 2016

<table>
<thead>
<tr>
<th>Program Expenses</th>
<th>Sustainable</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro-Lending Activities</td>
<td>Development Research &amp; Training</td>
<td>Management and General</td>
</tr>
<tr>
<td>Salaries</td>
<td>$10,100</td>
<td>6,850</td>
</tr>
<tr>
<td>Payroll Taxes</td>
<td>773</td>
<td>524</td>
</tr>
<tr>
<td>Employee Benefits</td>
<td>517</td>
<td>351</td>
</tr>
<tr>
<td>Interest on Notes and Loans Payable</td>
<td>57,579</td>
<td>84,338</td>
</tr>
<tr>
<td>Grants for Sustainability Programs</td>
<td>84,338</td>
<td>84,338</td>
</tr>
<tr>
<td>Conference and Travel</td>
<td>2,160</td>
<td>892</td>
</tr>
<tr>
<td>Accounting and Auditing</td>
<td>9,886</td>
<td>9,886</td>
</tr>
<tr>
<td>Printing</td>
<td>1,028</td>
<td>1,028</td>
</tr>
<tr>
<td>Insurance</td>
<td>2,214</td>
<td>2,214</td>
</tr>
<tr>
<td>Dues</td>
<td>130</td>
<td>125</td>
</tr>
<tr>
<td>Communications</td>
<td>467</td>
<td>317</td>
</tr>
<tr>
<td>Supplies</td>
<td>690</td>
<td>690</td>
</tr>
<tr>
<td>Postage and Shipping</td>
<td>592</td>
<td>592</td>
</tr>
<tr>
<td>Bank Charges and Fees</td>
<td>396</td>
<td>396</td>
</tr>
<tr>
<td>Advertising</td>
<td>57</td>
<td>57</td>
</tr>
<tr>
<td>Licenses and Permits</td>
<td>322</td>
<td>322</td>
</tr>
<tr>
<td>Information Technology</td>
<td>626</td>
<td>626</td>
</tr>
<tr>
<td>Taxes</td>
<td>224</td>
<td>224</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>150</td>
<td>150</td>
</tr>
<tr>
<td>Depreciation</td>
<td>197</td>
<td>197</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>72,122</strong></td>
<td><strong>93,397</strong></td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
SOSTENICA, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2016

Operating Cash Flows:
Cash Received from:
  Contributions $ 34,894
  Program Fees 7,600
  Interest from Notes Receivable 11,790
  Interest from Fund in Administration 153,261
  Interest from Cash Deposits 427
  Net Incidental Income
  Cash Paid to Employees, Suppliers and Grantees (137,589)
  Interest Paid on Notes Payable (58,474)
  Net Operating Cash Flows 11,909

Investing Cash Flows:
  Additions to Equipment (1,125)
  Net Investing Cash Flows (1,125)

Financing Cash Flows:
  Issuance of Notes Payable 745,446
  Redemption of Notes Payable (748,107)
  Redemption of Escrowed Loans Receivable 3,849
  Issuance of Escrowed Loans Receivable (15,163)
  Redemption of Fund in Administration 315,000
  Placed in Fund in Administration (315,000)
  Net Financing Cash Flows (13,975)
  Net Increase in Cash Balance (3,191)

Cash: Beginning of Year 120,186
Cash: End of Year $ 116,995

Reconciliation of Operating Incomes to Net Cash Provided by Operations

Operating Income $ 1,042
Adjustment to Reconcile Operating Income to
  Net Cash Provided by Operating Activities
    Depreciation 197

Changes in Assets and Liabilities:
  Decrease in Prepaid Expense 14,430
  Decrease in Accounts Payable (65)
  Decrease in Interest Payable 855
  Decrease in Deferred Revenue (2,800)
  Net Operating Cash Flows $ 11,909

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

NOTES TO FINANCIAL STATEMENTS

A. PURPOSE OF THE ORGANIZATION

The primary purpose of SosteNica, Inc. (the Organization) is to promote economic and community development in many regions of Nicaragua through credit, technical assistance and outreach to low income businesses and small farmers. SosteNica, Inc. works collaboratively with partners in Nicaragua such as CEPRODEL (Centro de Promoción del Desarrollo Local or Center for the Promotion of Local Development) and FUDEMI (Fundación para el Desarrollo de la Microempresa or the Foundation for the Development of Small Business), to promote economic development through micro-lending. (See Note K).

In addition to extending loans to credit worthy, low-income applicants, SosteNica, Inc., CEPRODEL and FUDEMI promote sustainable agriculture by working with farmers and with university extension programs to provide training in subjects such as integrated pest management, soil conservation, reforestation, water conservation and management, watershed protection and other ecologically sustainable practices. In addition, SosteNica, Inc. advocates for sustainable housing solutions in Nicaragua.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accrual Basis
The financial statements of the Organization have been prepared on the accrual basis of accounting.

Basis of Presentation
The resources of the Organization are classified for accounting and reporting purposes into three net asset categories according to externally (donor) imposed restrictions. Unconditional promises to give (pledges) are recorded as receivables and revenues and are distinguished for each net asset category in accordance with donor-imposed restrictions. For the year ended December 31, 2016, the Organization had accounting transactions in only two of the net asset categories, as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed restrictions.

Temporarily restricted net assets - Net assets subject to donor-imposed restrictions that will be met by the passage of time or which will be fulfilled by actions of the Organization.
SOSTENICA, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Cash and Cash Equivalents
For financial statement purposes, the Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Funds in transit between the United States and Nicaragua are received initially by SosteNica, Inc. and are maintained in a separate corporate bank account at Wells Fargo Bank. Funds held in this account are federally insured up to US$250,000. Monthly, investment funds are transferred by wire from Wells Fargo Bank to Nicaragua where they are incorporated into the SosteNica, Inc. Bancentro Bank account and then to the Fund in Administration (trust), ready to be lent to approved Nicaraguan borrowers. There is no banking insurance in Nicaragua comparable to that in the United States. Funds in transit and reserves held in Nicaragua are at risk in case of bank failure.

Revenue and Support Recognition
Contributions are recognized as revenue when they are received or unconditionally pledged. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets are released from restrictions.

The Organization accounts for grant and contract revenues, which are exchange transactions, in the statement of activities to the extent that expenses have been incurred for the purpose specified by the grantor during the period. In applying this concept, the legal and contractual requirements of each individual program are used as guidance. All moneys not expended in accordance with the grant or contract are recorded as a liability to the grantor as the Organization does not maintain any equity in the grant or contract. Additionally, funds received in advance of their proper usage are accounted for as deferred revenue in the statement of financial position.

Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent
SOSTENICA, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Use of Estimates, continued
assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional Allocation of Expenses
The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, costs such as depreciation and certain administrative and maintenance expenses have been allocated among the programs and supporting services benefited. The majority of costs, however, are specifically allocable to program and support service functions.

C. MARKETABLE SECURITIES

The Organization occasionally receives contributions in the form of marketable securities. The Board of Directors has adopted a policy whereby such donations are liquidated upon receipt. Accordingly, there are no such assets reflected in the statement of financial position.

D. TRUST FUNDS

Through December 31, 2014, funds remitted to CEPRODEL for the purpose of micro-lending were in the form of notes receivable. The source of such funds were notes payable to investors (see Note F). Notes receivable from CEPRODEL were denominated in United States dollars and accrued simple interest payable annually on each note. The entire portfolio earned interest at the rate of 7%. Notes receivable were due throughout the year. Accordingly, while payments on each note were paid annually, the staggered due dates result in a regular stream of interest payments to the Organization. It had been the practice of the Organization to turn over funds to CEPRODEL for the purpose of issuing micro-loans in the form of notes receivable concurrent with the receipt of funds from lenders.

Following a financial and legal crisis encountered by CEPRODEL in March of 2015, SosteNica, Inc. took steps to protect investors and borrowers from future economic dislocations. The micro-loan portfolio supported by SosteNica, Inc.
SOSTENICA, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

D. TRUST FUNDS, continued

Investors were separated from CEPRODEL's assets to protect them from CEPRODEL creditors in the event of bankruptcy subject to a Fund In Administration (trust) agreement. Under the agreement, CEPRODEL is to maintain "Class A" loans in the segregated portfolio. "Class A" loans are those less than 15 days delinquent.

Beginning in January 2016, SosteNica required trust assets to be liquidated from the CEPRODEL Fund in Administration with the proceeds being remitted to SosteNica, Inc. During 2016, $360,000 of trust assets were remitted to the Organization. The majority of the remitted funds were invested in a second trust with another Micro-Finance institution as described below. SosteNica, Inc. continues to earn interest income on the CEPRODEL portfolio at an interest rate of 7%.

Individual loans held in trust are secured by collateral as well as by a second signature of an independent person. However, due to fluctuating economic conditions, some loans may not be fully collateralized. Changes in both national (Nicaragua) and international economic policies, conditions and markets over which neither CEPRODEL nor the borrowers have any control may impact the viability of the repayment of the loans.

CEPRODEL has significant autonomy over the day-to-day operations of the Fund, within parameters of the Fund in Administration contract. The ability of investors of SosteNica, Inc. to receive back the full value of their principal invested is determined by CEPRODEL administrative decisions in Nicaragua.

During 2016, in order to diversify the risk associated with the Nicaraguan economy, SosteNica, Inc. entered into an agreement with a second Micro-Finance Institution, the Foundation for the Development of Small Business (Fundacion para el Desarrollo de la Microempresa) to manage a fund under a Trust Agreement with the trust principal being utilized for micro-loans in Nicaragua. These funds earn interest at the rate of 8%. Accordingly, SosteNica, Inc. has Fund In Administration (trust) agreements with two Micro-Finance Institutions based in Nicaragua.
SOSTENICA, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

E. PROPERTY, PLANT, EQUIPMENT AND DEPRECIATION

Property, plant and equipment are stated at cost if purchased. Expenditures of less than $1,000 in the aggregate in any fiscal year are expensed when incurred. Donated facilities and equipment are recorded at their fair market value at the date of receipt. When such assets are sold or otherwise disposed of, the cost and accumulated depreciation are removed from their respective accounts and any gain or loss on such disposition is recognized in the statement of activities.

Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. One half year's depreciation is taken in the year of acquisition. Furniture and equipment are depreciated utilizing useful lives of 3-10 years.

F. NOTES PAYABLE

SosteNica, INC. issues notes that range in value from $914 to $120,000. The term of the notes ranges from 1 to 10 years. Principal can be returned to investors prior to the due date. Interest ranges from 0% to 5.0%. Simple interest is paid annually. Principal payment is due in full at the expiration of the term of the note. As of December 31, 2016 the notes carried a weighted average interest rate of 2.80% and mature as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$748,107</td>
</tr>
<tr>
<td>2018</td>
<td>568,105</td>
</tr>
<tr>
<td>2019</td>
<td>87,492</td>
</tr>
<tr>
<td>2020</td>
<td>106,645</td>
</tr>
<tr>
<td>2021</td>
<td>320,970</td>
</tr>
<tr>
<td>Thereafter</td>
<td>156,550</td>
</tr>
</tbody>
</table>

G. DONATED MATERIALS AND SERVICES

Donated materials, equipment and furnishings are reflected as contributions in the accompanying statements at their estimated fair market value at date of receipt. For the year ended December 31, 2016, such contributions were immaterial in nature.

Donated services are those provided by individuals with specialized skills on a complimentary or discounted basis related to functions that would have to be purchased in the absence of the contributor.
SOSTENICA, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

G. DONATED MATERIALS AND SERVICES, continued

No amounts have been reflected in the accompanying statements for donated services because officers, members of the Board of Directors or volunteers provided services not requiring specialized skills as defined by professional standards.

Office space for the Organization is contributed by the Board President in the form of a home office in the United States as well as a building in Nicaragua utilized for office space. No amounts have been reflected in the accompanying financial statements for this in-kind contribution.

H. INCOME TAXES

The Organization is exempt from Federal income taxes under Section 501 (c)(3) of the Internal Revenue Code of 1986, as amended. The Organization is exempt from income and capital stock taxes from the Commonwealth of Pennsylvania under the Commonwealth Act of May 5, 1933, known as the Non-Profit Corporation Law. The Organization is subject to a tax on income from any unrelated business.

The Organization observes the recognition requirements for uncertain income tax positions as required by generally accepted accounting principles, with no cumulative effect adjustment required. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. The Organization has analyzed tax positions taken for filing with the Internal Revenue Service and the Commonwealth of Pennsylvania where it operates. The Organization believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Organization’s financial condition, results of operations or cash flows. Accordingly, the Organization has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at December 31, 2016.

The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Organization believes it is no longer subject to income tax examinations for years prior to December 31, 2013.

The Organization’s policy is to classify income tax related interest and penalties, if applicable, in interest expense and miscellaneous expense, respectively.
SOSTENICA, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

J. RELATED PARTY TRANSACTIONS

The Organization's loan portfolio includes twenty one notes payable directly to members of the Board of Directors, members of their immediate families and two employees. There are an additional two notes in the form of a charitable remainder trust that benefit members of the Board and the relative of a Board Member during their lifetimes. Further, there are four notes payable to organizations over which individual board members have significant influence. The notes range in size from $1,900 to $58,557 and carry interest rates that range from 0% to 5%. The notes carry a weighted average interest rate of 4.1% and total $439,649. The terms of the notes are all within parameters described in the Organization's loan prospectus.

The Board President serves as a paid staff member with an annual salary of $12,000. In his salaried capacity, he oversees delegation activities and manages investor relations and other development activities of the Organization.

K. SUBSEQUENT EVENTS

In July 2017, SosteNica, Inc. received approval to operate as an NGO (Non Governmental Organization) in Nicaragua. NGO status will allow the Organization to directly operate programs in Nicaragua without the need to provide operating grants to third parties in that nation.

The Organization has evaluated events and transactions that occurred after the balance sheet date (December 31, 2016) through August 25, 2017, the date on which the financial statements were available to be issued. Management is not aware of any subsequent events that require recognition or disclosure in the financial statements.