BRAZIL FOUNDATION – NEW YORK

FINANCIAL STATEMENTS
FOR THE YEAR ENDED

DECEMBER 31, 2019

BRAZIL FOUNDATION – NEW YORK
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

Table of Contents | **Page**

Independent Auditors' Report

To the Board of Directors
Brazil Foundation – New York

Report on the Financial Statements
We have audited the accompanying financial statements of Brazil Foundation – New York (a nonprofit organization), which comprise the statement of financial position as of December 31, 2019, 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.

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 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, 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 qualified audit opinion.

349 Kinderkamack Road · Westwood, NJ 07675-1652
Tel: 201-263-1333 · www.libock.com · Fax: 201-263-1334

Opinion

In our opinion, the financial statements referred to above present fairly, in all material aspects, the financial position of Brazil Foundation – New York as of December 31, 2019, and the changes in its net assets and its cash flows and statement of functional expenses for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Michael S. Libock & Co., LLC, CPA's

Westwood, New Jersey
August 27, 2020

349 Kinderkamack Road · Westwood, NJ 07675-1652

Tel: 201-263-1333 · www.libock.com · Fax: 201-263-1334

BRAZIL FOUNDATION - NEW YORK
Statement of Financial Position
December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Assets			
Current Assets			
Cash	$ 633,435	$ 69,193	$ 702,628
Investments	1,461,699		1,461,699
Prepaid expenses and other current assets	11,912		11,912
Total current assets	2,107,046	69,193	2,176,239
Property and equipment, net	2,798		2,798
Security deposit	15,600		15,600
Total Assets	$ 2,125,444	$ 69,193	$ 2,194,637
Liabilities and Net Assets			
Liabilities			
Accounts payable and accrued expenses	$ 7,522		$ 7,522
Deferred rent	2,073		2,073
Total liabilities	9,595		9,595
Net Assets			
Without donor restrictions			
Designated by the Board of Directors:			
Endowment fund	1,408,547		1,408,547
Undesignated	707,302		707,302
With donor restrictions		$ 69,193	69,193
Total Net Assets	2,115,849	69,193	2,185,042
Total Liabilities and Net Assets	$ 2,125,444	$ 69,193	$ 2,194,637

See independent auditors' report and accompanying notes to financial statements.

BRAZIL FOUNDATION - NEW YORK
Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenue			
Contributions			
Foundations	$ 52,328		$ 52,328
Corporations	36,016		36,016
Individuals	61,804		61,804
Pass-through contributions		$ 1,743,914	1,743,914
Investment income	339,484		339,484
Fundraising gala income, net of costs of direct benefits to donors	481,939		481,939
Fundrasing and special event income	64,663		64,663
Other income	47,344		47,344
Net assets released from restriction			
Satisfaction of program restrictions	1,803,334	(1,803,334)	
Total Public Support and Revenue	2,886,912	(59,420)	2,827,492
Expenses			
Program Services	2,063,261		2,063,261
Supporting Services			
Management and general	231,161		231,161
Fundraising	255,202		255,202
Total Supporting Services	486,363		486,363
Total Expenses	2,549,624		2,549,624
Changes in net assets	337,288	(59,420)	277,868
Reclassification of board designated endowment fund and accumulated investment income	1,060,898	(1,060,898)	
Net assets, beginning of year	717,663	1,189,511	1,907,174
Net Assets, End of Year	$ 2,115,849	$ 69,193	$ 2,185,042

BRAZIL FOUNDATION - NEW YORK
Statement of Cash Flows
For the Year Ended Decmber 31, 2019

Cash Flows from Operating Activities		
Changes in net assets	$	277,868
Adjustments to reconcile changes in net assets to		
net cash provided by (used in) operating activities:		
Unrealized gain on investment		(316,930)
Depreciation		4,718
(Increase) decrease in cash attributable to changes in assets and liabilities:		
Prepaid expenses and other current assets		56,959
Accounts payable and accrued expenses		5,870
Deferred rent		(3,079)
Net cash provided by operating activities		25,406
Cash Flows from Investing Activities		
Bank sweep transfers		75,404
Purchase of investments, net of proceeds from sales of investment		(41,003)
Net cash provided by investing activities		34,401
Net increase in cash		59,807
Cash, beginning of year		642,821
Cash, End of Year	$	702,628

See independent auditors' report and accompanying notes to financial statements.

BRAZIL FOUNDATION - NEW YORK
Statement of Functional Expenses
For the Year Ended December 31, 2019

	Program Services			Supporting Services			
	Pass-through Distributions	Program Administration	Total	Management and General	Fundraising	Total	Total
Pass-through distributions	$ 1,816,876		$ 1,816,876				$ 1,816,876
Salaries and fringe benefits		$ 189,206	189,206	$ 118,254	$ 165,556	$ 283,810	473,016
Professional fees		5,899	5,899	38,342	14,747	53,089	58,988
Travel		1,806	1,806		452	452	2,258
Office equipment and supplies		15,004	15,004	16,824	13,640	30,464	45,468
Occupancy & utilities		30,508	30,508	34,322	11,440	45,762	76,270
Event promotions					45,765	45,765	45,765
Miscellaneous		3,962	3,962	4,442	3,602	8,044	12,006
Bank service charges				14,259		14,259	14,259
Total expenses before depreciation	1,816,876	246,385	2,063,261	226,443	255,202	481,645	2,544,906
Depreciation				4,718		4,718	4,718
Total Expenses	$ 1,816,876	$ 246,385	$ 2,063,261	$ 231,161	$ 255,202	$ 486,363	$ 2,549,624

See independent auditors' report and accompanying notes to financial statements

Note 1 – Nature of Organization

Brazil Foundation – New York (the "Foundation") promotes and raises awareness of education, health, economic and social justice in Brazil and within Brazilian communities. The Foundation is established as a New York not-for-profit organization and raises funds through various U.S. initiatives and sponsors its affiliate the Associacao Brazil Foundation, a not-for-profit public interest organization under the laws of Brazil, which carries out and oversees the implementation of the Brazilian programs. Associacao Brazil Foundation is not included in the Foundation – New York's financial statements. The Brazilian entity is audited by other auditors under Brazilian statutory accounting and audit procedures and Brazilian law.

The Foundation is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Service Code and has been classified as a publicly supported organization as described in Code sections 509(a)(1) and 170(b)(A)(VI).

Note 2 – Summary of Significant Accounting Policies

Accounting Method

The financial statements of the Foundation have been prepared using the accrual method of accounting in conformity with accounting principles generally accepted in the United States of America ("GAAP").

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all highly liquid debt instruments, purchased with a maturity of three months or less, to be cash equivalents.

Property and Equipment

All property and equipment with a useful life of more than one year and a cost of $2,000 or more will be capitalized and depreciated over its estimated useful life using the straight-line method of depreciation. Expenditures for repairs and maintenance are charged to expense as incurred.

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

Note 2 – Summary of Significant Accounting Policies – continued

Net Asset Accounting

The Foundation's net assets, revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions. The Foundation has grouped its net assets without donor restrictions into the following categories:

Undesignated Net Assets – represent funds available to carry on the operations of the Foundation.

Board Designated Net Assets – represent net assets without donor restrictions whose use is subject to designation for specific purposes either as a reserve or by action of the Foundation's Board of Directors (the "Board").

Net Assets With Donor Restrictions – Net assets 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. There were no donor-imposed restrictions of a perpetual nature at December 31, 2019. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Adopted Recent Accounting Pronouncements

In June 2018, FASB issued ASU 2018-08, *Not-for-Profit Entities(Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contribution Made*. This ASU provides additional guidance to be used to determine whether a contribution is conditional and when a transaction should be accounted for as a contribution versus an exchange. The Foundation adopted AUS 2018-08 as of January 1, 2019, and has applied the amendments of this standard on a modified prospective basis and elected to apply the standard only to agreements that were entered into after the effective date. This standard did not result in a material change to the financial statements or the timing of revenue recognition for the Foundation's grants and contributions.

Note 2 – Summary of Significant Accounting Policies – continued

In May 2014, FASB issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic606)*, which requires an entity to recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The Foundation adopted ASU 2014-09 and related amendments on January 1, 2019, using the modified retrospective method and elected to apply the standard only to contracts that were not completed as of that date. The adoption of the standard did not impact the results of operations or change in net assets.

<u>Pending Recent Accounting Pronouncements</u>

In February 2016, FASB issued ASU No. 2016-02, *Leases*. This update requires all leases with a term greater than 12 months to be recognized on the balance sheet through a right-of-use assets and a lease liability and the disclosure of key information pertaining to leasing agreements. The new standard will require disclosures that meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The new standard will also require recognition and measure leases at the beginning of the earliest period presented using a modified retrospective approach. This new guidance is effective for years beginning January 1, 2022, with early adoption permitted. The effect of adopting this new guidance on the Foundation's financial statements and related disclosures has not yet been determined.

In June 2016, the FASB issued a new standard to replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. For trade and other receivables, loans, and other financial instruments, the Foundation will be required to use a forward-looking expected loss model rather than the incurred loss model for recognizing credit losses which reflects losses that are probable. Credit losses relating to available-for-sale debt securities will also be recorded through an allowance for credit losses rather than as a reduction in the amortized cost basis of the securities. The new standard will be effective beginning January 1, 2021, with early adoption permitted beginning January 1, 2019. Application of the amendments is through a cumulative-effect adjustment to net assets as of the effective date. The Foundation is currently evaluating the impact of this standard on the financial statements.

<u>Revenue Recognition</u>

Unconditional grants, contributions, and gifts including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as support with donor restrictions if they are received with donor stipulations that limit the use of the 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 as net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Note 2 – Summary of Significant Accounting Policies – continued

Pass-through Contributions and Distributions
Contributions received by donors for the purpose of transferring them to donor-designated receiving entities who are responsible for carrying out program initiatives are recognized as public support and revenue with donor restrictions. The designated program distributions to the receiving entities and related expenditures incurred are recognized as expenses.

Investment Valuation and Income Recognition

Investments are reported at fair value. 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.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation includes the Foundation's gains and losses on investments bought and sold as well as held during the year.

Fair Value Measurements

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). Categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. Under the new standard, fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date.

The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the assets or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Note 2 – Summary of Significant Accounting Policies - continued

If the assets or liabilities have a specified (contractual) term, Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Deferred Rent

The Foundation's lease contains scheduled rent increases. Accordingly, the Foundation records rent expense on a straight-line basis over the life of the lease term. The Foundation records deferred rent on its financial statements, the liability resulting from the difference between actual rent payments and the straight-line expense recorded on the Foundation's financial statements. As of December 31, 2019, deferred rent was $2,073.

Income Taxes

In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740, *Income Taxes*, the Foundation applies the "more likely than not" threshold to the recognition and derecognition of tax positions for its financial statements. Using that guidance, the Foundation believes that it has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements as of December 31, 2019.

The Internal Revenue Service ("IRS) has determined that the Foundation is exempt from federal income tax under Section 501(c)(3) of the United States Internal Revenue Code (the "Code") and from state and local income taxes under comparable laws. As a not-for-profit entity, the Foundation is subject to unrelated business income tax ("UBIT"), if applicable. For the tax year~~s~~ ended December 31, 2019, the Foundation did not owe any UBIT.

Management has evaluated the Foundation's tax positions for all open tax years and has concluded that the Foundation had taken no uncertain tax position that require adjustment to the financial statements to comply with the provisions of GAAP. Generally, the Foundation is no longer subject to income tax examinations by U.S. Federal, State or Local tax authorities for years before 2016, which is the standard statute of limitations look-back period.

Functional Allocation of Expenses

The cost of providing the various program and supporting services has been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Expenses that are identified with a specific program or support service are charged directly to the appropriate function. Other shared costs have been allocated among the programs and support services in reasonable ratios determined by management.

Note 2 – Summary of Significant Accounting Policies - continued

Subsequent Events

The Foundation has evaluated subsequent events through August 27, 2020, the date on which these financial statements were available to be issued. There were no material subsequent events that required recognition or disclosure on these financial statements.

Note 3 – Concentration of Credit Risk

Financial instruments which potentially subject the Foundation to concentrations of credit risk consist of checking and savings accounts with one financial institution in excess of insured limits. These balances fluctuate and at times exceed the $250,000 limit. Deposits at FDIC-insured institutions are insured up to at least $250,000 per depositor. The Foundation does not anticipate non-performance by the financial institution. At December 31, 2019, balances at the financial institutions exceeded the balance insured by the FDIC in the amount of approximately $390,000.

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the Foundation's financial position.

Note 4 – Investments

Investments at December 31, 2019 consisted of the following:

	Cost	Fair Value
Equity funds	$ 5,227	$ 5,274
Mutual funds	5,229	5,257
Exchange traded funds	948,746	1,451,168
Total Investments	$ 959,202	$ 1,461,699

Investment income in the Statement of Activities and Changes in Net Assets for the year ended December 31, 2019 consisted of following:

Interest and dividends	$ 22,554
Unrealized gains on investment, net	316,930
	$ 339,484

Note 5 – Lease Commitments

The Foundation entered into a noncancelable operating lease for the office space in New York City that expires in June 2020.

Future minimum lease payments under the non-cancelable operating lease as of December 31, 2019 are as follows:

Year Payable	Operating Lease
2020	$ 36,635
	$ 36,635

Operating lease costs amounted to $69,700 during the year ended December 31, 2019. There were no financing leases during the year ended December 31, 2019.

Note 6 – Related Party Transactions

During the year ended December 31, 2019, the Foundation transferred $106,805 in funds to Associacao Brazil Foundation, an affiliate, for support of ongoing projects.

Note 7 – Property and Equipment

Property and equipment consisted of the following:

	Life		Amount
Office Equipment and Furniture	5 to 7 years	$	55,850
Less: Accumulated Depreciation			53,052
		$	2,798

Note 8 – Fair Value Measurements

Assets and liabilities measured at fair value are based on one or more of three valuation techniques identified in the tables below. The valuation techniques are as follows:

(a) *Market approach*. Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;

(b) *Cost approach*. Amount that would be required to replace the service capacity of an asset (replacement cost); and

(c) *Income approach*. Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing and excess earnings models).

Note 8 – Fair Value Measurements - continued

The following tables summarize the Foundation's assets measured at fair value on a recurring basis, categorized by GAAP's valuation hierarchy as of December 31, 2019:

	Level 1: Quoted Prices in Active Markets for Identical Assets	Valuation Technique
Exchange Traded Funds	$ 1,451,168	(a)
Equity Funds	5,274	(a)
Mututal Funds	5,257	(a)
Total	$ 1,461,699	

During the year ended December 31, 2019, there were no transfers between levels of the fair value hierarchy.

Mutual funds in the above chart were valued at the funds' closing prices reported in an active market that the Foundation has the ability to access.

Note 9 – Board Designated Endowment Funds

Board designated endowment fund is an aggregate of contributions recorded during the years from 2010 to 2014 and its accumulated earnings. The total initial contributions amounting to $875,927 were earmarked for long-term investment portfolios by the Board, and the Finance Committee was formed to safeguard the assets and oversee portfolio management pursuant to the Foundation's investment policy adopted by the Board. The investment return from the endowment fund is recorded as net assets Without Donor Restrictions – Board Designated Endowment Fund and re-invested in the investment account. At December 31, 2019, the Board Designated Endowment Fund was $1,408,547.

Note 10 – Net Assets with Donor Restrictions

Net assets with donor restrictions subject to purpose restrictions as of December 31, 2019 consisted of pass-through contributions amounting to $69,193 that were subject to distributions to donor-specified beneficiaries for their ongoing projects. There were no net assets with donor restrictions subject to passage of time at December 31, 2019.

Note 11 – Liquidity and Availability of Financial Assets

The Foundation is primarily funded by contributions from donors that contain restrictions. Those restrictions require that resources be used in a certain manner or in a future period. Therefore, the Foundation must maintain adequate resources to meet those responsibilities to its donors and certain financial assets may not be available for general expenditure within one year. As part of its liquidity management, the Foundation has a policy to structure its financial assets to be available as general expenditures, liabilities, and other obligations become due. The Foundation also keeps its cash in excess of its daily needs in money market accounts within the investment portfolio.

The following reflects the Foundation's financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions or internal designations. Amounts available include the Board-approved appropriation from the endowment funds for the following year as well as donor-restricted amounts that are available for general expenditure in the following year.

Cash	$ 702,628
Investment	1,461,699
Total financial assets at year-end	2,164,327
Board designations:	
Endowment fund	(1,408,547)
Contractual or donor-imposed restrictions:	
Donor restrictions for specified purpose	(69,193)
Financial assets available to meet cash needs for general expenditures within one year	$ 686,587