

**FONKOZE USA, INC.**  
**FINANCIAL STATEMENTS**  
**and**  
**INDEPENDENT AUDITOR'S REPORT**  
**Years Ended December 31, 2002 and 2001**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Fonkoze USA, Inc.  
Washington, D.C.

We have audited the accompanying balance sheets of Fonkoze USA, Inc. (a not-for-profit organization) as of December 31, 2002 and 2001 and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fonkoze USA, Inc. as of December 31, 2002 and 2001 and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

*Kamerow, Weintraub + Swain, LLP*

January 31, 2003

## FONKOZE USA, INC.

## BALANCE SHEETS

December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 757,586	\$ 64,340
Interest receivable	6,324	5,894
Loans receivable - current portion	257,220	172,350
Other receivables	<u>4,406</u>	<u>22,500</u>
TOTAL CURRENT ASSETS	1,025,536	265,084
INVESTMENTS	51,001	-
LOANS RECEIVABLE - less current portion	<u>253,100</u>	<u>972,925</u>
TOTAL ASSETS	<u>\$ 1,329,637</u>	<u>\$ 1,238,009</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 4,052	\$ 3,607
Interest payable	4,935	4,760
Loans payable - investors, current portion	257,220	172,350
Other payables	<u>-</u>	<u>6,210</u>
TOTAL CURRENT LIABILITIES	266,207	186,927
LOANS PAYABLE - INVESTORS, less current portion	<u>953,100</u>	<u>972,925</u>
TOTAL LIABILITIES	<u>1,219,307</u>	<u>1,159,852</u>
NET ASSETS		
Unrestricted	109,780	75,207
Temporarily restricted	<u>550</u>	<u>2,950</u>
TOTAL NET ASSETS	<u>110,330</u>	<u>78,157</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,329,637</u>	<u>\$ 1,238,009</u>

See accompanying notes.



FONKOZE USA, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2002

	Grants	Education	Fundraising	Administration	Total
Consulting fees	\$ -	\$ -	-	\$ 2,610	\$ 2,610
Grants to Fonkoze Haiti	863,496	-	-	-	863,496
Grants to Visitation House	24,215	-	-	-	24,215
Grants to Peasant Association of Fondwa	73,950	-	-	-	73,950
Other grants	9,712	-	-	-	9,712
Layout/design	-	864	864	-	1,728
Board meetings	-	-	-	15,584	15,584
Delegation expense	-	5,741	-	-	5,741
Postage and delivery	-	1,846	1,007	1,342	4,195
Printing	-	6,191	3,404	4,383	13,978
Supplies	-	-	-	1,986	1,986
Telephone	-	4,471	2,489	3,200	10,160
Travel	-	1,762	969	1,247	3,978
Bank charges	-	-	-	116	116
Interest expense	-	-	-	17,012	17,012
Insurance	-	1,665	1,342	5,150	8,157
Professional services	-	61,000	-	84,907	145,907
Office rent	-	-	-	4,200	4,200
Miscellaneous	-	367	948	898	2,213
Salaries	-	31,607	18,305	23,451	73,363
Payroll taxes	-	2,711	1,571	2,013	6,295
Donations	-	1,224	-	-	1,224
Unrealized loss on investments	-	-	-	349	349
<b>TOTAL</b>	<b>\$ 971,373</b>	<b>\$ 119,449</b>	<b>\$ 30,899</b>	<b>\$ 168,448</b>	<b>\$ 1,290,169</b>

See accompanying notes.

FONKOZE USA, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2001

	Grants	Education	Fundraising	Administration	Total
Consulting fees	\$ -	\$ -	\$ -	\$ 5,688	\$ 5,688
Grants to Fonkoze Haiti	330,927	-	-	-	330,927
Grants to Visitation House	32,745	-	-	-	32,745
Grants to Peasant Association of Fondwa	78,594	-	-	-	78,594
Other grants	2,115	-	-	-	2,115
Layout/design	-	686	686	-	1,372
Board meetings	-	-	-	13,624	13,624
Postage and delivery	-	2,643	1,586	1,056	5,285
Printing	-	7,010	7,010	-	14,020
Supplies	-	-	-	1,917	1,917
Telephone	-	2,450	1,470	979	4,899
Travel	-	946	1,419	2,365	4,730
Bank charges	-	-	-	131	131
Interest expense	-	-	-	15,975	15,975
Insurance	-	-	-	5,359	5,359
Professional services	-	19,461	12,974	39,644	72,079
Office rent	-	-	-	3,800	3,800
Amos fund expenses	-	2,825	2,825	-	5,650
Miscellaneous	-	1,429	1,429	-	2,858
Salaries	-	20,575	13,716	34,292	68,583
Payroll taxes	-	-	-	5,976	5,976
Donations	-	-	-	1,150	1,150
Advertising	-	-	2,835	-	2,835
<b>TOTAL</b>	<b>\$ 444,381</b>	<b>\$ 58,025</b>	<b>\$ 45,950</b>	<b>\$ 131,956</b>	<b>\$ 680,312</b>

See accompanying notes.

FONKOZE USA, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 32,173	\$ 29,600
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Unrealized loss on investments	349	-
(Increase) decrease in:		
Interest receivable	(430)	(1,871)
Loans receivable	634,955	(289,375)
Other receivables	18,094	(22,500)
Increase (decrease) in:		
Accounts payable	445	3,607
Interest payable	175	902
Loans payable - investors	65,045	289,375
Other payables	(6,210)	6,210
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>744,596</u>	<u>15,948</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(60,902)	-
Proceeds from sales of investments	9,552	-
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<u>(51,350)</u>	<u>-</u>
<b>NET INCREASE IN CASH</b>	693,246	15,948
<b>CASH AT BEGINNING OF YEAR</b>	<u>64,340</u>	<u>48,392</u>
<b>CASH AT END OF YEAR</b>	<u>\$ 757,586</u>	<u>\$ 64,340</u>
<b>SUPPLEMENTAL DISCLOSURES</b>		
Cash paid during the year for:		
Interest	\$ 16,887	\$ 15,073
Income taxes	-	-

See accompanying notes.

FONKOZE USA, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2002 and 2001

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Fonkoze USA, Inc. (the Organization) was established at the initiative of individuals in the United States to raise both donated and invested funds in order to provide grants, loans, and technical assistance to the organized poor of Haiti, and to promote education in the U.S. about alternative approaches to democratic and sustainable economic development in Haiti. At the first organizational meeting, the Board of Directors of Fonkoze USA, Inc. voted that Fonkoze Haiti (a Haitian Foundation) would be a recipient of such grants and loans approved by the Board to support programs and activities benefiting the poor. At a subsequent meeting of the Board of Directors, additional Haitian organizations were approved as Fonkoze USA, Inc. grant recipients.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. At December 31, 2002 and 2001, the Organization had no permanently restricted net assets. Temporarily restricted net assets consisted of:

	<u>2002</u>	<u>2001</u>
Visitation House	\$ 50	\$ 450
Fonkoze Haiti	<u>500</u>	<u>2,500</u>
Total temporarily restricted net assets	<u>\$ 550</u>	<u>\$ 2,950</u>

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash

For purposes of the financial statement presentation, cash includes all demand accounts.

FONKOZE USA, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2002 and 2001

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES  
(Continued)

Receivables

The Organization does not maintain an allowance for doubtful accounts, as all amounts are deemed to be collectible. All amounts are due from Fonkoze Haiti.

Revenue and Expenses

The Organization's financial statements are prepared using the accrual method of accounting. In accordance with this method of accounting, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. All revenue and expenses which are applicable to future periods have been presented as deferred or prepaid on the accompanying balance sheets.

Restricted and Unrestricted Revenue

Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Donor-restricted revenue is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restriction.

Income Taxes

The Organization has been granted exemption from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is not classified as a private foundation.

NOTE B - INVESTMENTS

Investments held by the Organization consisted of the following as of December 31, 2002:

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Money market funds	\$ 6,798	\$ 6,798	\$ -
Mutual funds - equities	44,552	44,203	(349)
BALANCE, DECEMBER 31, 2002	<u>\$ 51,350</u>	<u>\$ 51,001</u>	<u>\$ (349)</u>

FONKOZE USA, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2002 and 2001

NOTE C - AFFILIATED ORGANIZATIONS

The Organization shares a common mission with Fonkoze Haiti. Donations and loans acquired by the Organization are donated through grants and loans to Fonkoze Haiti. Two of sixteen board members are common to the Organization and Fonkoze Haiti. For the years ended December 31, 2002 and 2001, grants in the amount of \$863,496 and \$330,927, respectively, were made to Fonkoze Haiti. At December 31, 2002 and 2001, loans receivable from Fonkoze Haiti were \$510,320 and \$1,145,275, respectively. Interest income from loans to Fonkoze Haiti was \$28,955 and \$26,098, respectively, for the years ended December 31, 2002 and 2001. Interest receivable due from Fonkoze Haiti at December 31, 2002 and 2001, was \$6,324 and \$5,894, respectively.

One board member of the Organization is also a board member of the Peasant Association of Fondwa, located in Haiti. Grants made to the Peasant Association of Fondwa equaled \$73,950 and \$78,594 for the years ended December 31, 2002 and 2001, respectively.

NOTE D - DONATED SERVICES

The services of an attorney have been donated to the Organization for various corporate matters for the years ended December 31, 2002 and 2001 in the amounts of approximately \$139,117 and \$95,800, respectively. For the year ended December 31, 2002, the value of these services has been reflected in the financial statements as in-kind contributions with a related expenses of \$61,000 recorded as education expense to Fonkoze and \$78,117 recorded as professional services. For the year ended December 31, 2001, the value of the donated legal services has been reflected in the financial statements as in-kind contributions with related expenses of \$31,000 recorded as grants to Fonkoze and \$64,800 recorded as professional services.

The Organization also received benefit from donated travel, room, and board provided for a Fonkoze student by various professionals. The total estimated value of these donations for the years ended December 31, 2002 and 2001 are \$2,660 and \$4,997, respectively. The value of these services has been reflected in the financial statements as in-kind contributions with like amounts recorded as grants to Fonkoze expense and board meeting expense.

NOTE E - CASH AND CASH EQUIVALENTS

Fonkoze USA had cash balances in excess of federally insured limits as of December 31, 2002.

FONKOZE USA, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2002 and 2001

NOTE F - LEASE

The Organization occupies office space in Washington, D.C. The rental payments are made under lease terms that are in force on a month-to-month basis. Rent expense for the years ended December 31, 2002 and 2001 were \$4,200 and \$3,800, respectively.

NOTE G - LOANS PAYABLE - INVESTORS

The loans payable balances of \$257,220 and \$172,350, current portion, and \$953,100 and \$972,925, long-term portion, as of December 31, 2002 and 2001, respectively, are comprised of payables to various investors who have made loans to Fonkoze USA, Inc. to support its programs and activities. The interest rate on these loans payable vary between zero and four percent, and the maturity dates vary up to November 2008. Interest expense on loans payable was \$17,012 and \$15,975 for the years ended December 31, 2002 and 2001, respectively.

Maturity on the loans is as follows:

2003	\$ 257,220
2004	377,500
2005	257,100
2006	214,000
2007	80,500
Thereafter	<u>24,000</u>
	1,210,320
Less: current portion	<u>257,220</u>
LOANS PAYABLE - INVESTORS, less current portion	<u>\$ 953,100</u>

NOTE H - RECLASSIFICATIONS

Certain reclassifications have been made to the financial statements for the year ended December 31, 2001 to conform with the year ended December 31, 2002 presentation. The reclassifications had no effect on the change in net assets as previously reported.