

FONKOZE USA, INC.  
NEW YORK, NEW YORK

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AUDITED FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT  
FOR THE YEARS ENDED  
DECEMBER 31, 2005 AND 2004



CRAFT, NOBLE & COMPANY  
PLLC

Certified Public Accountants  
Post Office Box 827  
Richmond, KY 40476  
[www.craftnoble.com](http://www.craftnoble.com)

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Phone: (859)623-4027 • Toll-free: (888)298-4602 • Fax: (859)623-0443

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Fonkoze USA, Inc.  
New York, New York

We have audited the accompanying statement of financial position of Fonkoze USA, Inc. (a not-for-profit organization) as of December 31, 2005 and 2004 and the related statements of activities, 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 audit.

We conducted our audit 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, 2005 and 2004 and the changes in its net assets and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

*Craft, Noble & Company, PLLC*

Craft, Noble & Company, PLLC  
February 13, 2006



FONKOZE USA, INC.  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2005 AND 2004

ASSETS

	<u>2005</u>	<u>2004</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 123,236	\$ 117,199
Interest receivable	7,070	6,724
Loans receivable - current portion	329,770	165,100
Prepaid expenses	403	-
Other receivables	-	100
	460,479	289,123
<b>TOTAL CURRENT ASSETS</b>	<b>460,479</b>	<b>289,123</b>
<b>INVESTMENTS</b>	<b>137,039</b>	<b>183,487</b>
<b>LOANS RECEIVABLE - less current portion</b>	<b>934,410</b>	<b>818,970</b>
	<b>\$ 1,531,928</b>	<b>\$ 1,291,580</b>
	<b>\$ 1,531,928</b>	<b>\$ 1,291,580</b>

LIABILITIES AND NET ASSETS

<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 944	\$ 1,674
Grants payable	25,299	51,796
Interest payable	7,246	4,273
Loans payable - investors, current portion	359,770	197,600
	393,259	255,343
<b>TOTAL CURRENT LIABILITIES</b>	<b>393,259</b>	<b>255,343</b>
<b>LOANS PAYABLE - INVESTORS, less current portion</b>	<b>974,410</b>	<b>888,970</b>
	<b>1,367,669</b>	<b>1,144,313</b>
<b>TOTAL LIABILITIES</b>	<b>1,367,669</b>	<b>1,144,313</b>
<b>NET ASSETS</b>		
Unrestricted	103,474	89,194
Permanently restricted	60,785	58,073
	164,259	147,267
<b>TOTAL NET ASSETS</b>	<b>164,259</b>	<b>147,267</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 1,531,928</b>	<b>\$ 1,291,580</b>
	<b>\$ 1,531,928</b>	<b>\$ 1,291,580</b>

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

FONKOZE USA, INC.  
STATEMENTS OF ACTIVITIES  
YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005			2004		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>						
Boards and staff contributions	\$ 29,675	\$ -	\$ 29,675	\$ 14,423	\$ -	\$ 14,423
Grants	5,573	63,528	69,101	162,462	-	162,462
Individual contributions	184,680	135,734	320,414	197,772	148,334	346,106
Local offices contributions	34,333	-	34,333	11,305	-	11,305
Amos fund	-	-	-	-	4,000	4,000
Interest and dividend income	32,984	-	32,984	28,327	-	28,327
In-kind contributions	317,976	-	317,976	525,924	-	525,924
Delegation income	-	-	-	2,200	-	2,200
Realized gain (loss) on investments	4,921	-	4,921	(115)	-	(115)
Unrealized gain (loss) on investments	(6,053)	-	(6,053)	4,292	-	4,292
Other income	967	-	967	926	-	926
Net assets released from restrictions:						
Satisfaction of program restrictions	199,262	(199,262)	-	153,894	(153,894)	-
<b>TOTAL REVENUES</b>	<u>804,318</u>	<u>-</u>	<u>804,318</u>	<u>1,101,410</u>	<u>(1,560)</u>	<u>1,099,850</u>
<b>EXPENSES</b>						
<b>PROGRAM SERVICES:</b>						
Grants to Fonkoze Haiti	144,646	-	144,646	299,993	-	299,993
Grants to Visitation House	10,076	-	10,076	17,079	-	17,079
Grants to Peasant Association of Fondwa	2,920	-	2,920	15,592	-	15,592
Grants to Haitian Health Allies	12,868	-	12,868	-	-	-
Other grants	6,949	-	6,949	4,351	-	4,351
Education	70,392	-	70,392	79,223	-	79,223
Other Program Expenses	88,883	-	88,883	-	-	-
<b>TOTAL PROGRAM SERVICES</b>	<u>336,734</u>	<u>-</u>	<u>336,734</u>	<u>416,238</u>	<u>-</u>	<u>416,238</u>
<b>SUPPORTING SERVICES</b>						
Fundraising	388,244	-	388,244	550,577	-	550,577
Administration	62,348	-	62,348	100,499	-	100,499
<b>TOTAL SUPPORTING SERVICES</b>	<u>450,592</u>	<u>-</u>	<u>450,592</u>	<u>651,076</u>	<u>-</u>	<u>651,076</u>
<b>TOTAL EXPENSES</b>	<u>787,326</u>	<u>-</u>	<u>787,326</u>	<u>1,067,314</u>	<u>-</u>	<u>1,067,314</u>
<b>CHANGE IN NET ASSETS</b>	<u>16,992</u>	<u>-</u>	<u>16,992</u>	<u>34,096</u>	<u>(1,560)</u>	<u>32,536</u>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>147,267</u>	<u>-</u>	<u>147,267</u>	<u>113,171</u>	<u>1,560</u>	<u>114,731</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 164,259</u>	<u>\$ -</u>	<u>\$ 164,259</u>	<u>\$ 147,267</u>	<u>\$ -</u>	<u>\$ 147,267</u>

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

FONKOZE USA, INC.  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 16,992	\$ 32,536
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized (gain) loss on investments	(4,921)	(115)
Unrealized (gain) loss on investments	6,053	4,292
(Increase) decrease in:		
Interest receivable	(346)	1,622
Loans receivable	(280,110)	(176,500)
Prepaid expenses	(403)	-
Other receivables	100	28,895
Increase (decrease) in:		
Accounts payable	(730)	(2,083)
Grants payable	(26,497)	51,796
Interest payable	2,973	3,860
Loans payable - investors	247,610	64,920
	<u>(39,279)</u>	<u>9,223</u>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(53,757)	(26,731)
Proceeds from sales of investments	99,073	125,864
	<u>45,316</u>	<u>99,133</u>
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>		
<b>NET INCREASE (DECREASE) IN CASH</b>	6,037	108,356
<b>CASH AT BEGINNING OF YEAR</b>	<u>117,199</u>	<u>8,843</u>
<b>CASH AT END OF YEAR</b>	<u>\$ 123,236</u>	<u>\$ 117,199</u>
<b>SUPPLEMENTAL DISCLOSURES</b>		
Cash paid during the year for:		
Interest	\$ 17,551	\$ 12,159

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

FONKOZE USA, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004

NOTE 1 – 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 subsequent meetings 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, 2005 and 2004, the Organization had no temporarily restricted net assets.

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.

Investments

Investments are carried at market value. Accordingly, unrealized gains and losses, due to market fluctuations during the year, are recognized at year end. Realized gains and losses are recognized upon sale or disposal.

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). Fonkoze (Haiti) is contractually obligated to maintain a reserve invested in investment grade securities equal to fifteen percent of loans from Fonkoze USA.

Revenues 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.

FONKOZE USA, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 related 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 2 – INVESTMENTS

Investments held by the Organization consisted of the following as of December 31, 2005:

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Money market funds	\$ 2,973	\$ 2,973	\$ -
Mutual funds	123,695	126,831	3,136
Securities	<u>6,545</u>	<u>7,236</u>	<u>691</u>
Balance, December 31, 2005	<u>\$ 133,213</u>	<u>\$ 137,040</u>	<u>\$ 3,827</u>
Balance, December 31, 2004	<u>\$ 173,607</u>	<u>\$ 183,487</u>	<u>\$ 9,880</u>
Unrealized gain on investments			<u>\$ 6,053</u>

FONKOZE USA, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004

NOTE 2 – INVESTMENTS (CONTINUED)

Investments held by the Organization consisted of the following as of December 31, 2004:

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Money market funds	\$ 4,656	\$ 4,656	\$ -
Mutual funds	161,084	169,046	7,962
Securities	<u>8,215</u>	<u>9,785</u>	<u>1,570</u>
Balance, December 31, 2004	<u>\$ 173,955</u>	<u>\$ 183,487</u>	<u>\$ 9,532</u>
Balance, December 31, 2003	<u>\$ 281,557</u>	<u>\$ 286,797</u>	<u>\$ 5,240</u>
Unrealized gain on investments			<u>\$ 4,292</u>

NOTE 3 – 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, 2005 and 2004, grants in the amount of \$144,646 and \$299,993, respectively, were made to Fonkoze (Haiti). At December 31, 2005 and 2004, loans receivable from Fonkoze (Haiti) were \$1,264,180 and \$984,070, respectively. Interest income from loans to Fonkoze (Haiti) was \$27,865 and \$24,222, respectively, for the years ended December 31, 2005 and 2004. Interest receivable from Fonkoze (Haiti) at December 31, 2005 and 2004 was \$7,070 and \$6,724, respectively.

NOTE 4 – DONATED SERVICES

The services of law firms have been donated to the Organization for various corporate matters for the years ended December 31, 2005 and 2004 in the amounts of approximately \$317,976 and \$525,924, respectively. For the year ended December 31, 2005, the value of the donated legal services has been reflected in the financial statements as in-kind contributions with related expense of \$317,976 recorded as professional fees (classified as fundraising). For the year ended December 31 2004, the value of these services has been reflected in the financial statements as in-kind contributions with a related expense of \$525,924 recorded as professional services.

NOTE 5 – LEASE

The Organization occupies office space in New York, NY. 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, 2005 and 2004, was \$13,500 and \$12,500, respectively.

FONKOZE USA, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004

NOTE 6 – LOANS PAYABLE – INVESTORS

The loans payable balances of \$359,770 and \$197,600, current portion, and \$974,410 and \$888,970, long-term portion, as of December 31, 2005 and 2004, 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 April 2011. Interest expense on loans payable was \$20,500 and \$19,315 for the years ended December 31, 2005 and 2004, respectively.

Maturity on the loans is as follows:

2006	\$	359,770
2007		131,000
2008		76,100
2009		461,310
2010		296,000
Thereafter		<u>10,000</u>
Total		<u>1,334,180</u>
Less: current portion		359,770
<b>LOANS PAYABLE – INVESTORS</b>		
Less current portion	\$	974,410

NOTE 7 – OFFER TO REPURCHASE

The Organization raises funds for use in its programs by soliciting loans from the public. In its last two solicitations dated 2003 and 2004, Fonkoze USA informed investors of the impending split between Fonkoze (Haiti) and a newly created entity Fonkoze Financial Services and promised these investors an opportunity to request a refund of their investment once the split had occurred. As a result, in 2004, Fonkoze USA began preparing an Offer to Repurchase with the assistance of its attorneys. This Offer to Repurchase was finalized in April 2005 and mailed out to investors who had investments outstanding totaling over \$600,000. The offer expired on May 23, 2005, and resulted in refunds to two investors totaling \$55,000. These loans were repaid in May, 2005.

NOTE 8 – REGULATORY ISSUES

In September 2004, while Fonkoze USA was still preparing its Offer to Repurchase described above, regulators in Pennsylvania notified Fonkoze USA that it had violated their law by offering an opportunity to invest in its Organization on its website. Fonkoze USA has since removed the Disclosure statement from its website and included residents of Pennsylvania in its Offer to Repurchase and is in good standing with the Pennsylvania regulators at this time.

INDEPENDENT AUDITORS' REPORT  
ON ADDITIONAL INFORMATION

To the Board of Directors  
Fonkoze USA, Inc.  
New York, New York

Our report on our audit of the basic financial statements of Fonkoze USA, Inc. for the years ended December 31, 2005 appears on page 1. We conducted our audit in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of functional expenses are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Craft, Noble & Company, PLLC*

Craft, Noble & Company, PLLC  
February 13, 2006



Certified Public Accountants  
Post Office Box 827  
Richmond, KY 40476  
[www.craftnoble.com](http://www.craftnoble.com)

FONKOZE USA, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2005

	Grants	Education	Other Program Expenses	Fundraising	Administration	Total
Grants to Fonkoze Haiti	\$ 144,646	\$ -	\$ -	\$ -	\$ -	\$ 144,646
Grants to Visitation House	10,076	-	-	-	-	10,076
Grants to Peasant Association of Fondwa	2,920	-	-	-	-	2,920
Grants to Haitian Health Allies	12,868	-	-	-	-	12,868
Other grants	6,949	-	-	-	-	6,949
Technology	-	817	-	800	453	2,070
Board meetings	-	3,318	-	3,318	3,317	9,953
Postage and delivery	-	3,961	-	9,712	2,138	15,811
Printing	-	21,909	-	6,360	1,089	29,358
Supplies	-	2,463	-	755	754	3,972
Telephone	-	193	-	193	192	578
Travel	-	1,141	-	1,141	1,141	3,423
Bank charges	-	-	-	-	77	77
Interest expense	-	-	20,524	-	-	20,524
Insurance	-	-	4,851	-	7,998	12,849
Professional services	-	-	8,751	328,246	6,000	342,997
Rent	-	4,500	-	4,500	5,304	14,304
Amos fund expenses	-	-	-	-	-	-
Miscellaneous	-	339	-	339	340	1,018
Salaries	-	26,569	50,000	28,138	28,139	132,846
Payroll taxes and expenses	-	2,504	4,757	2,629	2,629	12,519
Contract labor	-	881	-	881	881	2,643
License and permits	-	1,232	-	1,232	1,231	3,695
Training	-	565	-	-	-	565
Dues and subscriptions	-	-	-	-	665	665
<b>TOTAL</b>	<b>\$ 177,459</b>	<b>\$ 70,392</b>	<b>\$ 88,883</b>	<b>\$ 388,244</b>	<b>\$ 62,348</b>	<b>\$ 787,326</b>

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

FONKOZE USA, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2004

	Grants	Education	Fundraising	Administration	Total
Grants to Fonkoze Haiti	\$ 299,993	-	-	-	\$ 299,993
Grants to Visitation House	17,079	-	-	-	17,079
Grants to Peasant Association of Fondwa	15,592	-	-	-	15,592
Other grants	150	-	-	-	150
Technology	-	1,075	-	797	1,872
Board meetings	-	-	-	12,837	12,837
Postage and delivery	-	7,259	3,350	559	11,168
Printing	-	29,210	3,436	1,718	34,364
Supplies	-	-	-	1,815	1,815
Telephone	-	184	100	133	417
Travel	-	5,505	2,056	2,741	10,302
Bank charges	-	-	-	308	308
Interest expense	-	-	-	20,438	20,438
Insurance	-	5,350	2,918	3,891	12,159
Professional services	-	-	520,924	14,496	535,420
Rent	-	-	-	13,256	13,256
Amos fund expenses	4,201	-	-	-	4,201
Miscellaneous	-	-	-	3,370	3,370
Salaries	-	24,567	13,400	19,216	57,183
Payroll taxes	-	2,929	1,598	2,130	6,657
Contract labor	-	2,794	2,795	2,794	8,383
Donations	-	350	-	-	350
<b>TOTAL</b>	<b>\$ 337,015</b>	<b>\$ 79,223</b>	<b>\$ 550,577</b>	<b>\$ 100,499</b>	<b>\$ 1,067,314</b>

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