

FONKOZE USA, INC.

**FINANCIAL STATEMENTS
and
Independent Auditor's Report**

Years ended December 31, 1998 and 1997 (Restated)

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and
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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, 1998 and 1997 (Restated) 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 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, 1998 and 1997 (Restated), and the changes in its net assets and its cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note B of the financial statements, the 1997 financial statements have been restated due to new information obtained.

April 22, 1999

Kamerow, Weintraub & Swain, LLP

FONKOZE USA, INC.

BALANCE SHEETS

December 31, 1998 and 1997 (Restated)

	<u>1998</u>	<u>1997</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 57,063	\$ 29,572
Loans receivable - FONKOZE	463,100	-
Interest receivable	<u>1,587</u>	<u>-</u>
TOTAL CURRENT ASSETS	521,750	29,572
INVESTMENTS	<u>5,375</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 527,125</u>	<u>\$ 29,572</u>
LIABILITIES AND NET ASSETS		
Loans payable - Investors	\$ 463,100	\$ -
Interest payable	<u>1,455</u>	<u>-</u>
TOTAL CURRENT LIABILITIES	464,555	-
NET ASSETS		
Unrestricted	62,570	19,572
Temporarily restricted	<u>-</u>	<u>10,000</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 527,125</u>	<u>\$ 29,572</u>

See accompanying notes

FONKOZE USA, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 1998

	<u>Grants</u>	<u>Education</u>	<u>Fund-raising</u>	<u>Administration</u>	<u>Total</u>
Consulting fees	\$ -	\$ 25,632	\$ 17,949	\$ 46,166	\$ 89,747
Grants to FONKOZE	68,804	-	-	-	68,804
Grants to Visitation House	74,310	-	-	-	74,310
Layout/Design	-	735	735	-	1,470
Board meetings	-	-	-	6,030	6,030
Postage	-	1,517	910	606	3,033
Printing	-	5,952	5,952	-	11,904
Supplies	-	-	-	406	406
Telephone	-	1,480	888	591	2,959
Travel	-	456	686	1,143	2,285
Bank charges	-	-	-	708	708
Interest Expense	-	-	-	6,040	6,040
Membership and Resources	-	-	-	245	245
Advertising	-	-	-	483	483
Insurance	-	-	-	247	247
Professional Services	-	-	-	3,040	3,040
Annual Filing Fees	-	-	-	70	70
Office Move	-	-	-	170	170
Office Rent	-	-	-	784	784
TOTAL	<u>\$ 143,114</u>	<u>\$ 35,772</u>	<u>\$ 27,120</u>	<u>\$ 66,729</u>	<u>\$ 272,735</u>

See accompanying notes

FONKOZE USA, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 1997 (Restated)

	<u>Grants</u>	<u>Education</u>	<u>Fund-raising</u>	<u>Administration</u>	<u>Total</u>
Consulting fees	\$ -	\$ 55,610	\$ 38,933	\$ 100,121	\$ 194,664
Grants to FONKOZE	36,530	-	-	-	36,530
Layout/Design	-	333	332	-	665
Board meetings	-	-	-	1,601	1,601
Postage	-	1,289	774	516	2,579
Printing	-	2,990	2,990	-	5,980
Supplies	-	-	-	90	90
Telephone	-	1,110	666	443	2,219
Travel	-	469	704	1,173	2,346
Bank charges	-	-	-	177	177
TOTAL	<u>\$ 36,530</u>	<u>\$ 61,801</u>	<u>\$ 44,399</u>	<u>\$ 104,121</u>	<u>\$ 246,851</u>

See accompanying notes

FONKOZE USA, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 1998 and 1997 (Restated)

	<u>1998</u>	<u>1997</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 32,998	\$ 29,572
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
(Increase) decrease in		
Loans receivable - FONKOZE	(463,100)	-
Interest receivable	(1,587)	-
Increase (decrease) in		
Loans payable - Investors	463,100	-
Interest payable	<u>1,455</u>	<u>-</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	32,866	29,572
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	<u>(5,375)</u>	<u>-</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(5,375)</u>	<u>-</u>
NET INCREASE IN CASH	27,491	29,572
CASH AT BEGINNING OF YEAR	<u>29,572</u>	<u>-</u>
CASH AT END OF YEAR	<u>\$ 57,063</u>	<u>\$ 29,572</u>
SUPPLEMENTAL DISCLOSURES		
Cash paid during the year for:		
Interest	\$ 4,585	\$ -
Income taxes	-	-

See accompanying notes

FONKOZE USA, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 1998 and 1997 (Restated)

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 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 benefitting the poor.

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, 1998 and 1997, the Organization had no permanently restricted net assets and temporarily restricted net assets of \$0 and \$10,000, respectively. The \$10,000 temporarily restricted at December 31, 1997 was for Visitation House.

Estimates

The preparation of financial statements in conformity with 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, 1998 and 1997 (Restated)

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

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 it is 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 sheet.

Income Taxes

The Institute 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 - RESTATEMENT OF 1997 FINANCIAL STATEMENTS

Due to new information obtained regarding the disposition of funds collected for Visitation House, the 1997 financial statement has been restated. The effect on the 1997 increase in net assets is \$0; however, the unrestricted net assets were decreased by \$10,000, and the temporarily restricted net assets were increased by \$10,000 for the year ended December 31, 1997.

NOTE C - RELATED PARTY

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. Grants made to FONKOZE Haiti were \$68,804 and \$36,530 for the years ended December 31, 1998 and 1997, respectively. Grants made to Visitation House at FONKOZE Haiti were \$74,310 and \$0 for the years ended December 31, 1998 and 1997 respectively. Loans made to FONKOZE Haiti were \$463,100 and \$0 for the years ended December 31, 1998 and 1997, respectively. Interest received on loans from FONKOZE Haiti were \$5,756 and \$0 for the years ended December 31, 1998 and 1997, respectively.

FONKOZE USA, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 1998 and 1997 (Restated)

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, 1998 and 1997. The value of these services have been estimated at \$49,675 and \$164,343, respectively, and have been allocated to various functional areas based on management's estimation on the Statement of Activities.