

FONDASYON KOLE ZEPÒL
FONKOZE
PORT AU PRINCE, HAITI

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AUDITED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
FOR THE YEARS ENDED
DECEMBER 31, 2009 AND 2008



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Fondasyon Kole Zepòl (Fonkoze)
Port Au Prince, Haiti

We have audited the accompanying statements of financial position of Fondasyon Kole Zepòl (Fonkoze) (a not-for-profit organization) as of December 31, 2009 and 2008 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 Fondasyon Kole Zepòl (Fonkoze) as of December 31, 2009 and 2008 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
August 25, 2010



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FONDASYON KOLE ZEPÒL
FONKOZE
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2009 AND 2008

		<u>2009</u>		<u>2008</u>
ASSETS				
CASH AND CASH EQUIVALENTS	HTG	129,404,007	HTG	52,849,945
INVESTMENTS		50,627,991		45,126,594
ACCOUNTS RECEIVABLE		61,767,865		71,949,707
LOANS		65,762,729		156,650,545
Less allowance for loan losses		1,865,145		21,813,523
Net loans		<u>63,897,584</u>		<u>134,837,022</u>
FIXED ASSETS		47,491,169		48,182,596
Accumulated depreciation		27,481,050		21,465,105
Fixed assets, net		<u>20,010,119</u>		<u>26,717,491</u>
OTHER ASSETS		<u>6,895,087</u>		<u>5,453,121</u>
TOTAL ASSETS	HTG	<u><u>332,602,653</u></u>	HTG	<u><u>336,933,880</u></u>
LIABILITIES AND NET ASSETS				
DEPOSITS	HTG	147,483,435	HTG	134,726,312
BANK OVERDRAFTS		-		35,711,048
NOTES PAYABLE				
Current portion		23,033,725		36,573,279
Long-term portion		79,301,923		55,440,994
DEFERRED REVENUE - HURRICANE RECOVERY GRANTS		-		28,359,382
OTHER LIABILITIES		<u>39,658,880</u>		<u>22,814,627</u>
TOTAL LIABILITIES		289,477,963		313,625,642
NET ASSETS				
Unrestricted		(66,459,666)		(75,623,088)
Temporarily restricted net assets		91,197,570		89,900,431
Permanently restricted net assets		<u>18,386,786</u>		<u>9,030,895</u>
TOTAL NET ASSETS		<u>43,124,690</u>		<u>23,308,238</u>
TOTAL LIABILITIES AND NET ASSETS	HTG	<u><u>332,602,653</u></u>	HTG	<u><u>336,933,880</u></u>

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

FONDASYON KOLE ZEPÒL
FONKOZE
STATEMENTS OF ACTIVITIES
DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
UNRESTRICTED NET ASSETS		
INTEREST INCOME		
Loans	HTG 32,972,282	HTG 38,440,558
Other	<u>1,180,695</u>	<u>1,072,257</u>
TOTAL INTEREST INCOME	34,152,977	39,512,815
INTEREST EXPENSES		
Debt	2,637,115	11,422,142
Deposits	<u>2,426,613</u>	<u>1,927,758</u>
NET INTEREST INCOME	29,089,249	26,162,915
Provision for loan losses, net of recoveries of loans previously written off	<u>2,781,263</u>	<u>25,627,339</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	26,307,986	535,576
OTHER INCOME (EXPENSE)		
Donations	11,438,245	6,341,202
Gain (loss) due to exchange rate fluctuations	(2,710,936)	(5,278,426)
Foreign exchange gain	7,412,339	8,314,225
Membership dues	1,037,522	2,073,909
Loss on investment in subsidiary	(9,887,586)	(5,407,148)
Other	<u>6,896,889</u>	<u>7,370,851</u>
NET INTEREST INCOME AND OTHER INCOME	40,494,459	13,950,189
NET ASSETS RELEASED FROM RESTRICTIONS	131,746,809	146,513,498
OPERATING EXPENSES		
Salaries and other employee benefits	85,639,464	90,241,203
Rent	3,915,447	4,166,347
Other premises and equipment expenses	14,202,251	11,875,026
Depreciation	8,923,702	8,875,286
Grants to Fonkoze SFF	4,775,450	-
CLM expenses	17,288,525	2,910,307
Other expenses	<u>28,333,007</u>	<u>33,158,792</u>
TOTAL OPERATING EXPENSE	163,077,846	151,226,961
NON-OPERATING EXPENSES		
Hurricane recovery grant	-	44,984,000
Management fees - hurricane recovery grant	<u>-</u>	<u>6,775,626</u>
TOTAL NON-OPERATING EXPENSES	-	51,759,626
CHANGE IN UNRESTRICTED NET ASSETS	9,163,422	(42,522,900)
TEMPORARILY RESTRICTED NET ASSETS		
Grant revenue	133,043,948	202,093,712
NET ASSETS RELEASED FROM RESTRICTIONS	131,746,809	146,513,498
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	1,297,139	55,580,214
PERMANENTLY RESTRICTED NET ASSETS		
Capital grant contribution	9,355,891	5,015,425
NET ASSETS RELEASED FROM RESTRICTIONS	-	-
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	9,355,891	5,015,425
CHANGE IN NET ASSETS	19,816,452	18,072,739
NET ASSETS AT BEGINNING OF YEAR	<u>23,308,238</u>	<u>5,235,499</u>
NET ASSETS AT END OF YEAR	HTG <u><u>43,124,690</u></u>	HTG <u><u>23,308,238</u></u>

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

FONDASYON KOLE ZEPÒL
FONKOZE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	HTG 19,816,452	HTG 18,072,739
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	8,923,702	8,875,286
Loss on investment in subsidiary	9,887,586	5,407,148
Provision for loan loss	2,781,263	25,627,339
(Increase) decrease in:		
Accounts receivable	10,181,842	(38,034,021)
Other assets	(1,441,966)	(1,719,541)
Increase (decrease) in:		
Other liabilities	16,844,253	19,898,224
Bank overdrafts	(35,711,048)	(14,694,222)
Deferred revenue - hurricane recovery grants	(28,359,382)	28,359,382
Accrued interest payable	(1,904,618)	987,444
	<u>1,018,084</u>	<u>52,779,778</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	1,018,084	52,779,778
CASH FLOWS FROM INVESTING ACTIVITIES		
Disposal of fixed assets	4,805,134	1,380,184
Purchase of fixed assets	(7,021,464)	(15,778,743)
Sale of investments	8,631,911	-
Purchase of investments	(23,136,515)	(15,944,609)
Change in value of investments due to exchange rate fluctuations	(884,379)	(1,535,216)
Increase (decrease) in loans	68,158,175	(38,178,124)
	<u>50,552,862</u>	<u>(70,056,508)</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	50,552,862	(70,056,508)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	19,374,316	8,550,563
Payments on debt	(7,148,323)	(4,202,150)
Increase (decrease) in deposits	12,757,123	36,648,302
	<u>24,983,116</u>	<u>40,996,715</u>
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	24,983,116	40,996,715
NET INCREASE (DECREASE) IN CASH	76,554,062	23,719,985
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>52,849,945</u>	<u>29,129,960</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	HTG <u><u>129,404,007</u></u>	HTG <u><u>52,849,945</u></u>
SUPPLEMENTAL DISCLOSURES		
Cash paid during the year for interest	HTG <u><u>6,968,346</u></u>	HTG <u><u>12,362,456</u></u>

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

FONDASYON KOLE ZEPÒL
FONKOZE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

NOTE A – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Fondasyon Kole Zepòl (Fonkoze) is a non-profit organization incorporated on October 4, 1995 under the laws of the Republic of Haiti as published in Le Moniteur No. 93-A dated November 20, 1995. It was established to provide capital and a full range of financial and technical services to peasant organizations, women's collectives, cooperatives, credit unions and women street vendors.

Fonkoze USA, Inc. is a non-profit tax exempt U.S. organization that 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 in Haiti through Fonkoze and other entities.

Sèvis Finansye Fonkoze is a Haitian financial services company formed in 2004 to operate multiple branches formerly operated by the Organization. Sèvis Finansye Fonkoze is a wholly owned subsidiary of the Haitian holding company Fonkoze SA.

Accounting Principles

The accompanying financial statements are prepared using accounting principles generally accepted in the United States and 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 statement of financial position.

Promises to Give

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Organization uses an allowance to determine uncollectable unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. There were no unconditional promises to give at December 31, 2009 and 2008.

In-kind Contributions

Donated services and supplies are included in the statement of activities when the services received create or enhance non-financial assets or require specialized skills and would typically need to be purchased if not donated. These services and supplies are recorded at their fair value at the date of donation.

FONDASYON KOLE ZEPÒL
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

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

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.

Accounts Receivable

Accounts receivable consists of grants receivable, interest receivable and other miscellaneous amounts due from customers and other financial service companies. The Organization believes these are all collectible and therefore has made no allowance for doubtful accounts.

Investments

Investments are composed of money market funds, corporate debt and an investment in Fonkoze SA. Money market funds and corporate debt are recorded at market value. The investment in Fonkoze SA is accounted for using the equity method.

Loans

Loans are stated at book value, net of the allowance for loan losses. Substandard loans are those for which payments are past due more than 30 days. The Organization discontinues accruing interest when a loan is 30 days past due. Doubtful/lost loans are those for which payments are past due more than 180 days. Doubtful/lost loans are classified as impaired.

Borrower groups are required to maintain deposit accounts equal to fifteen percent of their original loan amount until the loan is paid in full. These deposits can be used to reimburse the Organization in the case of default.

The allowance for loan losses presented in the statement of financial position represents an estimate determined by management based on collection history, collateral value and the economic situation of the borrower. Uncollectible loans are written off against the allowance for loan loss after all recovery efforts have been exhausted.

Specific rates of provisions applied to past due loans to market women and small enterprises, following the reduction of the past due amount by the 15% collateral, are based on the recommendations of ACCION (a network of micro-finance institutions) in its CAMEL rating and are as follows:

Current loans	0%
1 – 30 days past due	10%
31 – 90 days past due	30%
91 – 180 days past due	60%
More than 180 days past due	100%

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

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

Loans (Continued)

The allowance for loan losses is adjusted to the amount determined by the use of these ratings, or three percent of total loans, whichever is greater.

The provision for loan losses reflected in the statement of activities represents the amount required to adjust the allowance for loan loss to the level deemed adequate by management.

During 2008, the Organization restructured loans for victims of hurricanes that struck Haiti during the year (Kredi Siklon). These loans provided additional funds, which were combined with the customer's existing balance. Repayment of the loans was interest free if the principle was paid in full within six months of receipt of the new money.

Fixed Assets

It is the Organization's policy to capitalize property and equipment with a cost of more than USD 500. Lesser amounts are expensed. Purchased property and equipment are capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair market value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment, all of which are used exclusively to provide program services, are depreciated using the straight line method over their estimated useful lives as follows:

Vehicles	4 years
Equipment	5 years
Computers	5 years
Leasehold improvements	5 years

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash equivalents include savings accounts and all certificates of deposit with a maturity date of 90 days or less from the financial statement date.

Conversion in Foreign Currencies

The functional currency of Fonkoze is the Haitian gourde (HTG). Consequently, assets and liabilities stated in foreign currencies are converted in Haitian gourdes at the exchange rate prevailing at year-end. Revenues and expenses are converted at the average exchange rate. Gains and losses resulting from these transactions are recorded in the statement of activities.

Transactions incurred in U.S. dollars are converted at the average exchange rate in effect at the transaction date. The average exchange rate for the years ended December 31, 2009 and 2008 was 41.1964 and 39.1070 Haitian gourdes to one U.S. dollar, respectively. Gains and losses related to exchange operations are reported in the statement of activities.

The official rate of exchange published by the Central Bank as of December 31, 2009 and 2008 was 42.0193 and 39.8176 Haitian gourdes to one U.S. dollar, respectively.

FONDASYON KOLE ZEPÒL
FONKOZE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

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

Income Taxes

The Financial Accounting Standards Board (FASB) has issued FASB ASC 740-10-50, *Income Taxes* (formerly FIN 48, *Accounting for Uncertainty in Income Taxes*) which requires entities to disclose known or anticipated positions of income tax uncertainty. According to its status as a non-profit organization incorporated under Haitian law, Fonkoze is exempt from income taxes. However, the Haitian government could challenge that status. The outcome of such an examination is uncertain. The management of the Organization believes that it is in compliance with all applicable Haitian laws with regard to tax exemption as of August 25, 2010.

NOTE B – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following:

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Currency held in branch offices	HTG 11,070,250	HTG 16,917,813
Deposits held in U.S. banks	44,440,473	11,631,356
Deposits held in Haitian banks	37,800,638	13,298,266
Deposits held in Sèvis Finansye Fonkoze	<u>36,092,646</u>	<u>11,002,510</u>
 Total	 <u>HTG 129,404,007</u>	 <u>HTG 52,849,945</u>
 Currency in U.S. dollars	 HTG 3,741,404	 HTG 4,438,448
Currency in Haitian gourdes	7,328,846	12,479,365
Deposits in U.S. dollars	88,712,910	19,753,843
Deposits in Haitian gourdes	<u>29,620,847</u>	<u>16,178,289</u>
 Total	 <u>HTG 129,404,007</u>	 <u>HTG 52,849,945</u>

There is no deposit insurance for accounts held in Haitian banks. Deposits held in U.S. banks exceeded the Federal Deposit Insurance Corporations limits by HTG 33,935,648 and HTG 1,676,956 for the years ended December 31, 2009 and 2008, respectively.

For the year ended December 31, 2008 deposits of HTG 17,519,744 secured the bank overdraft at Unibank.

FONDASYON KOLE ZEPÒL
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

NOTE C – INVESTMENTS (CONTINUED)

Available-for-sale securities measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

January 1, 2008	HTG	15,007,069
Additional Investment		14,968,338
Total gains and losses – unrealized		
Included in earnings		(5,407,148)
Included in other comprehensive income		-
December 31, 2008		24,568,259
Additional Investment		22,509,329
Total gains and losses – unrealized		
Included in earnings		(9,887,586)
Included in other comprehensive income		-
December 31, 2009	<u>HTG</u>	<u>37,190,002</u>

NOTE D – LOANS

Loans consist of the following at December 31:

	<u>2009</u>	<u>2008</u>
Market vendor solidarity groups	HTG 65,762,729	HTG 81,192,722
Kredi Siklon	-	75,457,823
Total Loans	<u>65,762,729</u>	<u>156,650,545</u>
Less allowance for loan losses	<u>1,865,145</u>	<u>21,813,523</u>
Net Loans	<u>HTG 63,897,584</u>	<u>HTG 134,837,022</u>

The term of the loans is between three and six months. Interest rates are fifty-seven percent, except Kredi Siklon loans bore no interest.

Loans in the amount of HTG 21,008,978 and HTG 9,003,248 were written off for the years ended December 31, 2009 and 2008, respectively. Recoveries of loans previously written off were HTG 230,657 and HTG 767,332 for 2009 and 2008, respectively. For the year ended December 31, 2008 the allowance was more than three percent using the CAMEL ratings. The reserve was 3% and 12.97% of the Market Vendor Solidarity Group loans for December 31, 2009 and 2008, respectively. The reserve was 20% of Kredi Siklon loans at December 31, 2008.

Impaired loans are those for which payments are more than 180 days past due. At December 31, 2009 and 2008, loans in the amounts of HTG 338,330 and HTG 5,918,137, respectively, were impaired. These loans have been valued at the fair market value of their collateral (15% compensating balance).

FONDASYON KOLE ZEPÒL
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NOTES TO FINANCIAL STATEMENTS
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NOTE D – LOANS (CONTINUED)

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. The evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

Accrued interest receivable on loans was HTG 1,554,288 and HTG 1,935,333 at December 31, 2009 and 2008, respectively.

Allowance for loan losses:

	<u>2009</u>		<u>2008</u>	
Balance, beginning of year	HTG	21,813,523	HTG	4,422,100
Provision for losses		2,781,263		10,528,786
Provision for loan losses – Kredi Siklon		-		15,098,553
Recoveries on loans		230,657		767,332
Less loans charged off		(19,840,246)		(9,003,248)
Loans forgiven per agreement with grantor		(1,168,732)		-
Provision for loans transferred to SFF with branches		(1,951,320)		-
Balance, end of year	<u>HTG</u>	<u>1,865,145</u>	<u>HTG</u>	<u>21,813,523</u>

NOTE E – FIXED ASSETS

A summary of property and equipment and the related depreciation at December 31 is as follows:

	<u>2009</u>		<u>2008</u>	
Vehicles	HTG	23,490,089	HTG	21,681,605
Furniture and equipment		8,229,863		9,543,696
Computer equipment		9,735,245		9,064,573
Leasehold improvements		6,035,972		7,892,722
Total		<u>47,491,169</u>		<u>48,182,596</u>
Accumulated depreciation		<u>27,481,050</u>		<u>21,465,105</u>
Net Property and Equipment	<u>HTG</u>	<u>20,010,119</u>	<u>HTG</u>	<u>26,717,491</u>

NOTE F – DEPOSITS

Deposits consist of the following at December 31:

	<u>2009</u>		<u>2008</u>	
Deposits in Haitian gourdes	HTG	96,542,089	HTG	100,665,473
Deposits in U.S. dollars		50,941,346		34,060,839
Total	<u>HTG</u>	<u>147,483,435</u>	<u>HTG</u>	<u>134,726,312</u>

Deposits bear interest at rates between zero and two percent.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

NOTE G – NOTES PAYABLE

Notes payable consist of the following at December 31:

	<u>2009</u>	<u>2008</u>
Payable to Fonkoze USA with interest at annual percentage rates from zero to three percent and maturities from January 1, 2010 to March 1, 2016	HTG 89,465,393	HTG 76,260,658
Payable to investors living abroad with interest at annual percentage rates from zero to four percent and maturities between February 3, 2010 and October 15, 2015	10,353,574	9,451,521
Payable to Habitat for Humanity with interest at an annual percentage rate of two and one-half percent. Due January 15, 2011.	<u>2,100,965</u>	<u>3,981,760</u>
Total Principal Payable	101,919,932	89,693,939
Accrued Interest	<u>415,716</u>	<u>2,320,334</u>
Total	<u>HTG 102,335,648</u>	<u>HTG 92,014,273</u>

Notes payable at December 31, 2009 will mature as follows:

2010	HTG 23,033,725
2011	20,729,395
2012	38,911,973
2013	3,781,737
2014	12,227,616
After 2014	<u>3,235,486</u>
TOTAL	<u>HTG 101,919,932</u>

NOTE H – OVERDRAFTS

In 2008, Unibank extended a line of credit in the amount of HTG 40,000,000 to the Organization. The Organization accessed this credit by overdrawing its deposit account. The line was for one year and was due on August 12, 2009. It bore interest at the rate of twenty percent. The interest rate for the twelve-month period ending November 24, 2008 was twenty-two and one-half percent. The unused portion of the line of credit was HTG 4,288,952 at December 31, 2008. The Organization fully repaid the line of credit during 2009. At December 31, 2009, the Organization did not have access to any lines of credit (See Note P).

NOTE I – RELATED PARTY PAYABLE

Other liabilities include HTG 35,038,447 and HTG 17,882,371 payable to Sèvis Finansye Fonkoze for the years ended December 31, 2009 and 2008, respectively. These payables represent the summation of numerous intercompany transactions due to the transfer of assets and operations of several financial service branches transferred to Fonkoze SA.

FONDASYON KOLE ZEPÒL
FONKOZE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

NOTE J – DEFERRED REVENUE – HURRICANE RECOVERY GRANTS

Deferred revenue represents the amount of interest received under the Kredi Siklon (Hurricane Credit) program to which the Organization’s rights are limited and therefore, will not be charged to revenue until the conditions are met to give the Organization full rights to the income.

Deferred revenue represents the amount of interest recovery funds from donors that will not be charged as revenue until the interest on the loans has accrued.

NOTE K – PERMANENTLY RESTRICTED NET ASSETS

Between 2002 and 2009 investors holding promissory notes made by the Organization or Fonkoze USA have forgiven the notes with a provision that the amounts forgiven would be restricted to use as micro-credit loans. Loans in the amount of HTG 7,546,666 and HTG 1,036,253 were forgiven in 2009 and 2008, respectively.

NOTE L – TEMPORARILY RESTRICTED NET ASSETS

Net assets are subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

NOTE M – REPORTING UNDER FINANCIAL ACCOUNTING STANDARDS BOARD STATEMENT 117

FASB ASC 958-205-55, *Not-for-Profit Entities – Presentation of Financial Statements – Implementation Guidance and Illustrations* (formerly SFAS No. 117) requires the reporting by functional classifications. Program services expenditures must be shown separately from support activity expenditures. The Organization’s supporting activities are performed by Fonkoze USA. Management believes all of the Organization’s activities are program related.

NOTE N – COMMITMENTS

The Organization leases office space on a long-term basis. Future obligations under these leases are:

2010	HTG	2,950,902
2011		2,466,758
2012		1,574,881
2013		864,403
2014		-
TOTAL	HTG	<u>7,856,944</u>

NOTE O – HURRICANE RECOVERY GRANT

The Organization received grants for hurricane recovery during 2008. Under the terms of the grants the funds must be loaned to hurricane victims. When the loans were repaid, part of the funds were restricted for use as an appropriate disaster risk mitigation facility to protect the institution and their clients against future disasters. The restricted amount is USD 1,000,000. (HTG 42,019,300 at the December 31, 2009 exchange rate). Of the USD 1,000,000, the Organization’s portion is USD 546,000 and the remaining USD 454,000 is being held for the related party Sèvis Finansye Fonkoze.

FONDASYON KOLE ZEPÒL
FONKOZE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

NOTE P – SUBSEQUENT EVENTS

Following an earthquake measuring 7.0 on the Richter scale that struck Haiti on January 12, 2010, more than 300,000 lives were lost and 1.3 million people were internally displaced. The Government of Haiti estimates the total value of damages and losses at 7.865 billion U.S. dollars, which is one hundred twenty percent of Haiti's 2009 gross domestic product. The Organization and related company, Sevis Finansye Fonkoze, lost five employees and eleven buildings. The commercial banks, including Capital bank, cancelled all outstanding lines of credit. As of August 25, 2010, the Organization and related company Sevis Finansye Fonkoze, have raised over 16.4 million U.S. dollars of funding to rebuild its infrastructure and assist clients to recapitalize.

The Organization has evaluated subsequent events through August 25, 2010, the date which the financial statements were available to be issued.

NOTE Q – RETIREMENT PLAN

In 2009 the Organization received a gift to fund a retirement plan for its employees and the employees of related company Sevis Finansye Fonkoze. These gift funds in the amount of USD 216,000 (HTG 9,076,169 at the December 31, 2009 exchange rate) are currently being held in CNB Bank pending creation of the plan and are included on the Organization's balance sheet as temporarily restricted cash.

INDEPENDENT AUDITORS' REPORT
ON ADDITIONAL INFORMATION

To the Board of Directors
Fondasyon Kole Zepòl (Fonkoze)
Port Au Prince, Haiti

Our report on our audit of the basic financial statements of Fondasyon Kole Zepòl (Fonkoze) for the years ended December 31, 2009 and 2008 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 statements of financial position are expressed in U.S. dollars and 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
August 25, 2010



FONDASYON KOLE ZEPÒL
FONKOZE
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 3,079,632	\$ 1,327,301
INVESTMENTS	1,204,875	1,133,333
ACCOUNTS RECEIVABLE	1,469,988	1,806,982
LOANS	1,565,060	3,934,204
Less allowance for loan losses	44,388	547,836
Net loans	1,520,672	3,386,368
FIXED ASSETS	1,130,223	1,210,083
Accumulated depreciation	654,010	539,086
Fixed assets, net	476,213	670,997
OTHER ASSETS	164,093	136,952
TOTAL ASSETS	\$ 7,915,473	\$ 8,461,933
LIABILITIES AND NET ASSETS		
DEPOSITS	\$ 3,509,897	\$ 3,383,587
BANK OVERDRAFTS	-	896,866
NOTES PAYABLE		
Current portion	548,170	918,520
Long-term portion	1,887,274	1,392,374
DEFERRED REVENUE - HURRICANE RECOVERY GRANTS	-	712,233
OTHER LIABILITIES	943,825	572,978
TOTAL LIABILITIES	6,889,166	7,876,558
NET ASSETS		
Unrestricted	(1,581,646)	(1,899,238)
Temporarily restricted net assets	2,170,373	2,257,807
Permanently restricted net assets	437,580	226,806
TOTAL NET ASSETS	1,026,307	585,375
TOTAL LIABILITIES AND NET ASSETS	\$ 7,915,473	\$ 8,461,933

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