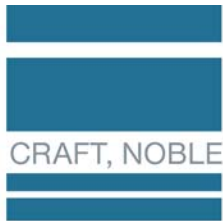


FONDASYON KOLE ZEPÒL  
FONKOZE  
PORT AU PRINCE, HAITI

\* \* \* \* \*

AUDITED FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT  
FOR THE YEARS ENDED  
DECEMBER 31, 2010 AND 2009



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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## 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, 2010 and 2009 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, 2010 and 2009 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  
December 7, 2011



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

FONDASYON KOLE ZEPÒL  
FONKOZE  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2010 AND 2009

		<u>2010</u>		<u>2009</u>
ASSETS				
CASH AND CASH EQUIVALENTS	HTG	276,706,967	HTG	129,404,007
INVESTMENTS		68,702,506		50,627,991
ACCOUNTS RECEIVABLE		67,610,848		61,767,865
LOANS		113,881,098		65,762,729
Less allowance for loan losses		9,701,622		1,865,145
Net loans		<u>104,179,476</u>		<u>63,897,584</u>
FIXED ASSETS		68,304,178		47,491,169
Accumulated depreciation		33,482,361		27,481,050
Fixed assets, net		<u>34,821,817</u>		<u>20,010,119</u>
OTHER ASSETS		<u>51,405,187</u>		<u>6,895,087</u>
TOTAL ASSETS	HTG	<u><u>603,426,801</u></u>	HTG	<u><u>332,602,653</u></u>
LIABILITIES AND NET ASSETS				
DEPOSITS	HTG	219,294,169	HTG	147,483,435
NOTES PAYABLE				
Current portion		31,267,537		23,033,725
Long-term portion		66,139,508		79,301,923
OTHER LIABILITIES		<u>196,828,690</u>		<u>39,658,880</u>
TOTAL LIABILITIES		513,529,904		289,477,963
NET ASSETS				
Unrestricted		(48,857,854)		(66,459,666)
Temporarily restricted net assets		119,949,207		91,197,570
Permanently restricted net assets		<u>18,805,544</u>		<u>18,386,786</u>
TOTAL NET ASSETS		<u>89,896,897</u>		<u>43,124,690</u>
TOTAL LIABILITIES AND NET ASSETS	HTG	<u><u>603,426,801</u></u>	HTG	<u><u>332,602,653</u></u>

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

FONDASYON KOLE ZEPÒL  
FONKOZE  
STATEMENTS OF ACTIVITIES  
DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
UNRESTRICTED NET ASSETS		
INTEREST INCOME		
Loans	HTG 31,572,660	HTG 32,972,282
Other	<u>1,548,419</u>	<u>1,180,695</u>
TOTAL INTEREST INCOME	33,121,079	34,152,977
INTEREST EXPENSES		
Debt	2,623,635	2,637,115
Deposits	<u>2,098,008</u>	<u>2,426,613</u>
NET INTEREST INCOME	28,399,436	29,089,249
Provision for loan losses, net of recoveries of loans previously written off	<u>7,893,407</u>	<u>2,781,263</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	20,506,029	26,307,986
OTHER INCOME (EXPENSE)		
Donations	24,076,078	11,438,245
Gain (loss) due to exchange rate fluctuations	2,410,774	(2,710,936)
Foreign exchange gain	8,607,669	7,412,339
Membership dues	1,430,458	1,037,522
Gain (loss) on investment in subsidiary	18,133,708	(9,887,586)
Loss on disposal of fixed assets	(347,249)	-
Other	<u>13,534,377</u>	<u>6,896,889</u>
NET INTEREST INCOME AND OTHER INCOME	88,351,844	40,494,459
NET ASSETS RELEASED FROM RESTRICTIONS	589,934,188	131,746,809
OPERATING EXPENSES		
Salaries and other employee benefits	135,034,557	85,639,464
Rent	13,274,806	3,915,447
Other premises and equipment expenses	32,742,079	14,202,251
Depreciation	9,509,860	8,923,702
CLM expenses	15,937,518	17,288,525
Grants to Fonkoze SFF	160,009,119	4,775,450
Grants to host families, clients, etc.	179,378,226	-
Loan forgiveness/capital	38,136,025	-
Other expenses	<u>76,662,030</u>	<u>28,333,007</u>
TOTAL OPERATING EXPENSES	660,684,220	163,077,846
CHANGE IN UNRESTRICTED NET ASSETS	17,601,812	9,163,422
TEMPORARILY RESTRICTED NET ASSETS		
Grant revenue	155,651,849	133,043,948
NET ASSETS RELEASED FROM RESTRICTIONS	132,890,825	131,746,809
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	22,761,024	1,297,139

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

FONDASYON KOLE ZEPÒL  
FONKOZE  
STATEMENTS OF ACTIVITIES (CONTINUED)  
DECEMBER 31, 2010 AND 2009

PERMANENTLY RESTRICTED NET ASSETS		
Capital grant contribution	418,758	9,355,891
NET ASSETS RELEASED FROM RESTRICTIONS	-	-
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	418,758	9,355,891
CHANGE IN NET ASSETS BEFORE EXTRAORDINARY ITEMS	40,781,594	19,816,452
EXTRAORDINARY ITEMS		
Earthquake grants and donations	463,033,976	-
Expenses due to earthquake	(457,043,363)	-
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS FROM EXTRAORDINARY ITEMS	<u>5,990,613</u>	<u>-</u>
CHANGE IN NET ASSETS	46,772,207	19,816,452
NET ASSETS AT BEGINNING OF YEAR	<u>43,124,690</u>	<u>23,308,238</u>
NET ASSETS AT END OF YEAR	HTG <u><u>89,896,897</u></u>	HTG <u><u>43,124,690</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, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase (decrease) in net assets	HTG 46,772,207	HTG 19,816,452
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	9,509,860	8,923,702
(Gain) loss on investment in subsidiary	(18,133,708)	9,887,586
Loss on disposal of fixed assets	347,249	-
Provision for loan loss	7,893,407	2,781,263
(Increase) decrease in:		
Accounts receivable	(5,842,983)	10,181,842
Other assets	(44,510,100)	(1,441,966)
Increase (decrease) in:		
Other liabilities	157,169,810	16,844,253
Bank overdrafts	-	(35,711,048)
Deferred revenue - hurricane recovery grants	-	(28,359,382)
Accrued interest payable	(82,469)	(1,904,618)
	<u>153,123,273</u>	<u>1,018,084</u>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Disposal of fixed assets	-	4,805,134
Purchase of fixed assets	(24,668,807)	(7,021,464)
Sale of investments	-	8,631,911
Purchase of investments	(624,423)	(23,136,515)
Change in value of investments due to exchange rate fluctuations	683,616	(884,379)
Increase (decrease) in loans	(48,175,299)	68,158,175
	<u>(72,784,913)</u>	<u>50,552,862</u>
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from borrowings	4,322,658	23,366,150
Payments on debt	(8,769,975)	(3,593,491)
Forgiven notes	(398,817)	(7,546,666)
Increase (decrease) in deposits	71,810,734	12,757,123
	<u>66,964,600</u>	<u>24,983,116</u>
<b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>		
<b>NET INCREASE (DECREASE) IN CASH</b>	147,302,960	76,554,062
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>129,404,007</u>	<u>52,849,945</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	HTG <u><u>276,706,967</u></u>	HTG <u><u>129,404,007</u></u>
<b>SUPPLEMENTAL DISCLOSURES</b>		
Cash paid during the year for interest	HTG <u><u>4,804,111</u></u>	HTG <u><u>6,968,346</u></u>

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

FONDASYON KOLE ZEPÒL  
FONKOZE  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009

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, 2010 and 2009.

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  
FONKOZE  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009

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%

FONDASYON KOLE ZEPÒL  
FONKOZE  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009

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, 2010 and 2009 was 39.6511 and 41.1964 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, 2010 and 2009 was 39.8817 and 42.0193 Haitian gourdes to one U.S. dollar, respectively.

FONDASYON KOLE ZEPÒL  
FONKOZE  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009

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 December 7, 2011.

NOTE B – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following:

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Currency held in branch offices	HTG 27,090,616	HTG 11,070,250
Deposits held in U.S. banks	81,679,080	44,440,473
Deposits held in Haitian banks	64,181,151	37,800,638
Deposits held in Sèvis Finansye Fonkoze	<u>103,756,120</u>	<u>36,092,646</u>
 Total	 <u>HTG 276,706,967</u>	 <u>HTG 129,404,007</u>
 Currency in U.S. dollars	 HTG 16,824,614	 HTG 3,741,404
Currency in Haitian gourdes	10,266,002	7,328,846
Deposits in U.S. dollars	177,776,867	88,712,910
Deposits in Haitian gourdes	<u>71,839,484</u>	<u>29,620,847</u>
 Total	 <u>HTG 276,706,967</u>	 <u>HTG 129,404,007</u>

There is no deposit insurance for accounts held in Haitian banks. Deposits held in U.S. banks were fully insured by the Federal Deposit Insurance Corporation (FDIC) for the years ended December 31, 2010 and 2009.

FONDASYON KOLE ZEPÒL  
FONKOZE  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009

NOTE C – INVESTMENTS

Investments at December 31 consisted of the following:

		<u>2010</u>		<u>2009</u>
Fonkoze USA Trust				
Self Help Credit Union Deposit	HTG	13,378,796	HTG	13,437,989
Fonkoze SA		55,323,710		37,190,002
Total	HTG	68,702,506	HTG	50,627,991

The investment in Fonkoze SA represents a 46.57% interest in that holding company. The value of this investment was determined using the equity method. The equity method requires that the original value of the investment be adjusted for Fonkoze SA's changes in equity for the period. The Organization's carrying value of this investment was increased by HTG 18,133,708 to record 46.57% of Fonkoze SA's change in equity for 2010. The adjustment for change in equity is based on audited financial statements. Fonkoze SA's audited financial statements for the year ended December 31, 2010 showed total assets of HTG 1,351,362,161, total liabilities of HTG 1,322,087,630, and net income after extraordinary items and income tax of HTG 42,458,310.

The certificate of deposit held at Self Help Credit Union carries an interest rate of 4.90% and matures on May 12, 2012.

In April 2009, the Unibank Time Deposit was redeemed for net proceeds of USD 211,968 (HTG 8,651,326 at exchange rate on date of redemption). Net proceeds included principal amount and accrued interest.

As a condition of a loan agreement between the Organization and Fonkoze USA, the Organization is required to maintain at all times a lien free portfolio of investment grade securities or cash deposits in the United States denominated in U.S. dollars. The aggregate value of such a portfolio should not be less than 15% of the amount loaned by Fonkoze USA. At December 31, 2010 and 2009, amounts held in U.S. bank accounts exceeded the required amount and the Organization was in compliance with the above condition.

**Fair Value Measurements**

The Organization has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The hierarchy gives the highest priority to unadjusted quoted prices in an active market for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Financial assets and liabilities recorded on the statement of financial position are categorized based on the inputs to the valuation techniques as follows:

*Level 1* – Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Organization has the ability to access.

*Level 2* – Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in non-active markets;
- Pricing models whose inputs are observable for substantially the full term of the asset or liability; and
- Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.

FONDASYON KOLE ZEPÒL  
FONKOZE  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009

NOTE C – INVESTMENTS (CONTINUED)

*Level 3* – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

Fair value of assets and liabilities measured on a recurring basis at December 31, 2010 and 2009 are as follows:

	<u>Fair value</u>	<u>Fair Value Measurements at Reporting Date Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>December 31, 2010</u>				
Available-for-sale securities	<u>HTG 68,702,506</u>	<u>HTG 13,378,796</u>	<u>-</u>	<u>HTG 55,323,710</u>
<u>December 31, 2009</u>				
Available-for-sale securities	<u>HTG 50,627,991</u>	<u>HTG 13,437,989</u>	<u>-</u>	<u>HTG 37,190,002</u>

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

January 1, 2009	HTG	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		37,190,002
Additional Investment		-
Total gains and losses – unrealized		
Included in earnings		18,133,708
Included in other comprehensive income		-
December 31, 2010	<u>HTG</u>	<u>55,323,710</u>

Investments have been valued using a market approach. Fair values are determined by reference to quoted market prices and other relevant information generated by market transactions. There were no changes in the valuation techniques during the years ended December 31, 2010 and 2009.

FONDASYON KOLE ZEPÒL  
FONKOZE  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009

NOTE D – LOANS

Loans consist of the following at December 31:

	<u>2010</u>		<u>2009</u>	
Market vendor solidarity groups	HTG	89,276,894	HTG	63,725,794
Kredi Cho and other loans		22,433,069		-
Zanmi Lasante		<u>2,171,135</u>		<u>2,036,935</u>
Total Loans		113,881,098		65,762,729
Less allowance for loan losses		<u>9,701,622</u>		<u>1,865,145</u>
Net Loans	<u>HTG</u>	<u>104,179,476</u>	<u>HTG</u>	<u>63,897,584</u>

The term of the loans is between three and six months. Interest rates are fifty-seven percent.

Loans in the amount of HTG 56,930 and HTG 20,778,321 were written off for the years ended December 31, 2010 and 2009, respectively. Recoveries of loans previously written off were HTG 493,645 and HTG 230,657 for 2010 and 2009, respectively. Recoveries are netted with the provision for loan losses on the statements of activities. The reserve was 11% and 3% of the Market Vendor Solidarity Group loans for December 31, 2010 and 2009, respectively. The reserve was 2% of Kredi Cho and other loans at December 31, 2010.

Impaired loans are those for which payments are more than 180 days past due. At December 31, 2010, no loans were impaired. At December 31, 2009, loans in the amount HTG 338,330 were impaired. These loans have been valued at the fair market value of their collateral (15% compensating balance). After consideration of collateral, the allowance for loan losses on impaired loans for the year ended December 31, 2009 was HTG 254,982.

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 3,191,947 and HTG 1,554,288 at December 31, 2010 and 2009, respectively.

Allowance for loan losses:

	<u>2010</u>		<u>2009</u>	
Balance, beginning of year	HTG	1,865,145	HTG	21,813,523
Provision for losses		7,893,407		2,781,263
Less loans charged off		(56,930)		(19,609,589)
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>9,701,622</u>	<u>HTG</u>	<u>1,865,145</u>

FONDASYON KOLE ZEPÒL  
FONKOZE  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009

NOTE E – FIXED ASSETS

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

	<u>2010</u>		<u>2009</u>	
Vehicles	HTG	28,225,888	HTG	23,490,089
Furniture and equipment		12,367,854		8,229,863
Computer equipment		23,108,764		9,735,245
Leasehold improvements		4,601,672		6,035,972
Total		<u>68,304,178</u>		<u>47,491,169</u>
Accumulated depreciation		<u>33,482,361</u>		<u>27,481,050</u>
Net Property and Equipment	HTG	<u>34,821,817</u>	HTG	<u>20,010,119</u>

NOTE F – DEPOSITS

Deposits consist of the following at December 31:

	<u>2010</u>		<u>2009</u>	
Savings deposits in Haitian gourdes	HTG	150,698,114	HTG	89,342,578
Savings deposits in U.S. dollars		62,940,023		50,941,346
Time deposits in Haitian gourdes		4,906,256		7,199,511
Time deposits in U.S. dollars		749,776		-
Total	HTG	<u>219,294,169</u>	HTG	<u>147,483,435</u>

Savings deposits bear interest at rates between one half of one percent and one and one half percent. Time deposits bear interest rates between one and five percent. Accounts with average quarterly balances below HTG 100 and USD 20 are not paid interest.

The Organization held no time deposit accounts in denominations of USD 100,000 (HTG 3,988,170 and HTG 4,201,930 at the December 31, 2010 and 2009 exchange rates, respectively) or more at December 31, 2010 and 2009.

FONDASYON KOLE ZEPÒL  
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NOTE G – NOTES PAYABLE

Notes payable consist of the following at December 31:

		<u>2010</u>		<u>2009</u>
Payable to Fonkoze USA with interest at fixed annual percentage rates from zero to three percent and maturities from January 1, 2011 to March 1, 2016	HTG	85,755,873	HTG	89,465,393
Payable to investors living abroad with interest at fixed annual percentage rates from zero to four percent and maturities between January 1, 2011 and February 3, 2020		11,317,925		10,353,574
Payable to Habitat for Humanity with interest at a fixed annual percentage rate of two and one-half percent. Due January 15, 2011.		-		2,100,965
Total Principal Payable		97,073,798		101,919,932
Accrued Interest		333,247		415,716
Total	HTG	97,407,045	HTG	102,335,648

Notes payable at December 31, 2010 will mature as follows:

2011	HTG	31,267,537
2012		39,118,354
2013		8,905,824
2014		12,398,054
2015		5,264,384
After 2015		119,645
TOTAL	HTG	97,073,798

NOTE H – RELATED PARTY PAYABLE

Other liabilities include HTG 183,147,870 and HTG 35,038,447 payable to Sèvis Finansye Fonkoze for the years ended December 31, 2010 and 2009, 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.

NOTE I – PERMANENTLY RESTRICTED NET ASSETS

Between 2002 and 2010 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 398,817 and HTG 7,546,666 were forgiven in 2010 and 2009, respectively.

FONDASYON KOLE ZEPÒL  
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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009

NOTE J – 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 K – FUNCTIONAL EXPENSE CLASSIFICATIONS

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 L – COMMITMENTS

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

2011	HTG	2,868,201
2012		2,823,973
2013		1,764,076
2014		1,714,076
2015		179,468
TOTAL	HTG	<u>9,349,794</u>

NOTE M – DISASTER RISK MITIGATION FACILITY

The Organization received grants for hurricane recovery during 2008. Under the terms of the grants the funds were 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 39,881,700 at the December 31, 2010 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.

A pilot catastrophe insurance product was tested after the earthquake (See Note N) and a permanent catastrophe insurance product was launched in January 2011. In March 2011, Microinsurance Catastrophe Risk Organization (MiCRO) was formed by the Organization and other investors to serve as a microinsurance facility. From May 31, 2011 through October 31, 2011, torrential rains in Haiti triggered catastrophe protection payouts on several occasions. On each occasion, after the rains subsided, specially trained staff members visited clients to assess their situation and evaluate whether they were eligible for payouts. As of December 7, 2011, the Organization and Sevis Finansye Fonkoze have received USD 1,176,790 from MiCRO and Swiss Re, a global reinsurer, in response to the torrential rain events. 4,610 clients of Fonkoze and Sevis Finansye Fonkoze have received compensation for losses incurred under this catastrophic insurance policy.

NOTE N – EXTRAORDINARY ITEMS

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. Following the earthquake, the commercial banks, including Capital Bank, cancelled all outstanding lines of credit.

FONDASYON KOLE ZEPÒL  
FONKOZE  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009

NOTE N – EXTRAORDINARY ITEMS (CONTINUED)

Extraordinary income includes grants and donations received by Fondasyon Kole Zepòl to help recover from the earthquake. These grants and donations were restricted for the following uses:

Loan capital for clients	HTG	344,524,385
Salary support and staff grants (Fondasyon Kole Zepòl and Sevis Finansye Fonkoze)		84,995,389
Repairs and purchase of equipment, land, etc.		29,983,284
Earthquake victims support and recovery		<u>3,530,918</u>
TOTAL	<u>HTG</u>	<u>463,033,976</u>

Extraordinary expenses due to the earthquake include the following:

Loan capital for clients	HTG	337,478,704
Salary support and staff grants (Fondasyon Kole Zepòl and Sevis Finansye Fonkoze)		70,872,371
Repairs and purchase of equipment, land, etc.		45,161,370
Earthquake victims support and recovery		<u>3,530,918</u>
TOTAL	<u>HTG</u>	<u>457,043,363</u>

NOTE O – SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through December 7, 2011, the date which the financial statements were available to be issued.

NOTE P – RETIREMENT PLAN

In 2009 the Organization and related company Sevis Finansye Fonkoze developed an Employee Retirement Savings and Loan Program for their employees. Funds in the amount of HTG 18,583,790 at December 31, 2010 were being held in CNB Bank pending creation of a formal plan and are included on the balance sheet of Sevis Finansye Fonkoze.

NOTE Q – CHANGE OF ACCOUNTING METHOD

During 2010, the Organization changed the method used to account for principle and interest received on Market Vendor Solidarity Group loans. Previously interest was calculated evenly over the number of scheduled payments. For 2010 interest was calculated based on the outstanding principle for the exact number of days outstanding. The effect of this change was an increase in loans outstanding and interest income of HTG 455,063.

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, 2010 and 2009 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  
December 7, 2011



FONDASYON KOLE ZEPÒL  
FONKOZE  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 6,938,194	\$ 3,079,632
INVESTMENTS	1,722,657	1,204,875
ACCOUNTS RECEIVABLE	1,695,285	1,469,988
LOANS	2,855,473	1,565,060
Less allowance for loan losses	243,260	44,388
Net loans	2,612,213	1,520,672
FIXED ASSETS	1,712,670	1,130,223
Accumulated depreciation	839,542	654,010
Fixed assets, net	873,128	476,213
OTHER ASSETS	1,288,942	164,093
TOTAL ASSETS	\$ 15,130,419	\$ 7,915,473
LIABILITIES AND NET ASSETS		
DEPOSITS	\$ 5,498,616	\$ 3,509,897
NOTES PAYABLE		
Current portion	784,007	548,170
Long-term portion	1,658,393	1,887,274
OTHER LIABILITIES	4,935,314	943,825
TOTAL LIABILITIES	12,876,330	6,889,166
NET ASSETS		
Unrestricted	(1,225,069)	(1,581,646)
Temporarily restricted net assets	3,007,625	2,170,373
Permanently restricted net assets	471,533	437,580
TOTAL NET ASSETS	2,254,089	1,026,307
TOTAL LIABILITIES AND NET ASSETS	\$ 15,130,419	\$ 7,915,473

See auditors' report on additional information.