

**FONDASYON KOLE ZEPOL (FONKOZE)**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 1997**  
**WITH**  
**Report of Certified Public Accountants**

**FONDASYON KOLE ZEPOL (FONKOZE)  
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Independent Auditors' Report

Board of Directors  
Fondasyon Kole Zepol  
Port au Prince, Haiti

We have audited the accompanying statement of financial position of Fondasyon Kole Zepol (Fonkoze) as of December 31, 1997 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Fondasyon Kole Zepol. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the above paragraph present fairly, in all material respects, the financial position of Fondasyon Kole Zepol at December 31, 1997 and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles.

*W. Frye & Associates, P.C.*

Newark, New Jersey

August 20, 1998

**FONDASYON KOLE ZEPOL (FONKOZE)**  
**Statement of Financial Position**  
**December 31, 1997**

**ASSETS**

**Current Assets**

Cash (Note B)	\$	74,230
Investments(Note C)		29,421
Grant receivable (Note D)		81,220
Accrued interest receivable		2,570
Loan receivable, net of allowance of \$7,000 (Note E)		205,334
Prepaid expenses (Note F)		13,675
Other assets		5,133
Total current assets		411,583

**Non Current Assets**

Mortgage receivable (Note G)		24,989
Total non current assets		24,989

**Fixed Assets**

Fixed assets, net of accumulated depreciation of \$8,368 (Note H)		54,050
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<b>TOTAL ASSETS</b>	<b>\$</b>	<b>490,622</b>
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**LIABILITIES AND NET ASSETS**

**Current Liabilities**

Deposit accounts	\$	186,728
Loans payable - Current (Note I)		106,000
Total current liabilities		292,728

**Non current liabilities**

Loans Payable (Note I)		103,753
Total liabilities		396,481

**NET ASSETS**

Unrestricted net assets:		
Equity		104,294
Translation adjustments (Note J)		(10,153)
Total net assets		94,141

<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$</b>	<b>490,622</b>
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See accompanying notes to the financial statements.

**FONDASYON KOLE ZEPOL (FONKOZE)**  
**Statement of Activities**  
**Year ended December 31, 1997**

**UNRESTRICTED REVENUES AND SUPPORT**

Grant	\$	137,200
Donations		
Foundations and Individuals:		61,927
In-Kind contributions (Note K)		79,050
Membership dues		30,595
Interest income from loans		17,986
Currency trading		2,725
Net realized gain on investment		2,540
Interest on deposit in bank		2,442
Fees		309
Total revenues and support		334,774

**EXPENSES**

Salaries and benefits		102,941
Training		33,507
Travel		29,028
Vehicle expense		16,223
Supplies		15,959
Telephone		10,470
Depreciation		8,368
Rent		8,190
Provision for loan losses		6,500
Repairs and maintenance		6,029
Miscellaneous		4,913
Professional fees		4,725
Computer management consulting		4,050
Photocopies		3,862
Interest expense		2,380
Theft and counterfeit losses		2,377
Postage		1,670
Total expenses		261,192
Change in unrestricted net assets		73,582
Net assets - Beginning of year		30,712
Net assets - End of year	\$	104,294

See accompanying notes to the financial statements.

**FONDASYON KOLE ZEPOL (FONKOZE)**  
**Statement of Cash Flows**  
**Year ended December 31,1997**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Net income	\$ 73,582
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation	8,368
Increase in grant receivable	(81,220)
Increase in accrued interest receivable	(2,570)
Increase in prepaid expenses	(8,612)
Decrease in other assets	5,560
Decrease in accounts payable	<u>(2,214)</u>
Net cash used in operating activities	(7,106)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment in proprietary ventures	(26,421)
Mortgage receivable	(24,989)
Purchase of furniture and equipment	(62,418)
Loans receivable	<u>(182,600)</u>
Net cash used in investing activities	(296,428)

**CASH FLOWS FROM FINANCING ACTIVITIES**

Increase in deposit accounts	106,089
Proceeds from loans	<u>209,753</u>
Net cash provided by financing activities	315,842

**EFFECT OF EXCHANGE RATE CHANGES ON CASH** (10,153)

Net increase in cash	2,155
Cash at beginning of year	<u>72,075</u>
Cash at end of year	<u>\$ <u>74,230</u></u>

**SUPPLEMENTAL DISCLOSURES**

Interest paid	\$ 2,380
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See accompanying notes to the financial statements.

**FONDASYON KOLE ZEPOL (FONKOZE)  
NOTES TO FINANCIAL STATEMENTS**

**December 31, 1997**

**NOTE A. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Activities**

Fondasyon Kole Zepol, (Fonkoze) is a foundation incorporated on October 4, 1995 under the laws of the Republic of Haiti. 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 "Ti Machann" groups. Fonkoze is Haiti's alternative bank for the organized poor and is dedicated to rebuilding Haiti's economy from the ground up by empowering people and community organizations to engage in successful economic activities.

**Summary of Significant Accounting Policies**

The following is a summary of Fonkoze's significant accounting and reporting policies :

- **Basis of Accounting**

The financial statements are prepared on the accrual basis of accounting, in accordance with generally accepted accounting principles.

- **Financial Statement Presentation**

Fonkoze reports information regarding its financial position and activities according to three classes of net assets - unrestricted, temporarily restricted, and permanently restricted. The three classes are defined as follows:

**Unrestricted** – Net assets resulting from contributions or revenues whose use is not restricted by donors.

**Temporarily restricted** – Net assets resulting from contributions and other inflows whose use is limited by donor-imposed restrictions which expire either by the passage of time or removal by the donor.

**Permanently restricted** – Net assets whose use is limited by donor-imposed restrictions that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the organization.

**FONDASYON KOLE ZEPOL (FONKOZE)  
NOTES TO FINANCIAL STATEMENTS**

**December 31, 1997**

**NOTE A.  
(CONT'D)**

**NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**

- **Contributions**

Contributions are recognized when the donor makes a promise to give, 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.

- **Membership Dues**

Membership dues are recognized when they are a condition for receiving loans.

- **In-kind Contributions**

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

- **Use of 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.

- **Foreign Currency Translation**

In accordance with generally accepted accounting principles, monetary items are translated based on the exchange rate at the balance sheet date; fixed assets, at historical cost, and statement of activities items are translated based on a weighted average.

**FONDASYON KOLE ZEPOL (FONKOZE)  
NOTES TO FINANCIAL STATEMENTS**

**December 31, 1997**

**NOTE A. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**  
**(CONT'D)**

• **Property and Equipment**

Property and equipment are recorded as support at their acquired or estimated fair value and capitalized as fixed assets. Property and equipment, whether donated or purchased, are depreciated using the straight-line method over the estimated useful lives as follows:

Vehicles	5 years
Office equipment	7 years
Leasehold Improvement	7 years

• **Tax Status**

Fonkoze is a foundation under Haitian law and is exempt from income taxes.

• **Cash and Cash Equivalents**

For purposes of the statements of cash flows, Fonkoze considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

• **Allowance for Loan Losses**

The allowance for loan losses is maintained at a level, that in management's judgment is adequate to absorb probable losses. Management's judgment is based on past loan loss experience, the volume and growth of the loan portfolio and other relevant factors

**NOTE B. CASH**

The Organization maintains its cash in Haitian, American and other Caribbean banks. The accounts in Haitian and American banks are in the name of the Organization. However, two accounts in Caribbean banks are in trust with other named individuals.

**FONDASYON KOLE ZEPOL (FONKOZE)  
NOTES TO FINANCIAL STATEMENTS**

**December 31, 1997**

**NOTE B. CASH (CONT'D)**

At December 31, 1997, cash was allocated as follows:

Caribbean banks	\$ 7,524
Cash in Haitian banks	23,052
Cash in US banks	4,855
Cash on hand	<u>38,799</u>
Total	<u>\$ 74,230</u>

Deposits in banks in the United States are insured by the Federal Deposit Insurance Corporation. The balances in the other banks are uninsured.

**NOTE C. INVESTMENTS**

Investments represent Fonkoze's proprietary interests in various local income-producing ventures which are managed by its members. These investments are recorded at cost. At December 31, 1997, Fonkoze had investments in the following ventures:

Uniform Production	\$ 1,445
Salt Factory	289
Purchase/Sale of Cashew nuts	867
Sugar cane milling	9,953
Electronics Company	5,867
Food store	<u>11,000</u>
Total	<u>\$ 29,421</u>

**NOTE D. GRANT RECEIVABLE**

At December 31, 1997, the grant receivable consisted of \$81,220 due from Stichting Doen, a foundation based in Amsterdam, Europe.

**NOTE E. LOANS**

Fonkoze provides loans for income-producing projects to member organizations. The loan program is financed through savings motivated in Haiti and from investments from abroad.

The aggregate amount of these loans was \$294,249 at December 31, 1997. Of this amount \$212,334 was outstanding at December 31, 1997.

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**FONDASYON KOLE ZEPOL (FONKOZE)**  
**NOTES TO FINANCIAL STATEMENTS**

**December 31, 1997**

**NOTE F.      PREPAID EXPENSES**

Fonkoze leases office space in ten locations throughout the country. The lease agreements are for periods of twelve or twenty-four months. The agreements require that the total rent for the period specified in the lease be paid in advance. At December 31, 1997, prepaid rent was \$13,675.

**NOTE G.      MORTGAGE RECEIVABLE**

Fonkoze assumed and paid the mortgage on property which is available for its use. Repayment of the entire mortgage is due by April, 2000.

**NOTE H.      FIXED ASSETS**

At December 31, 1997, Fixed Assets consisted of the following:

Vehicles	\$ 26,500
Furniture & Equipment	21,903
Leasehold Improvements	<u>8,665</u>
	62,418
Less Accumulated Depreciation	<u>(8,368)</u>
Total Assets	<u>\$ 54,050</u>

**NOTE I.      LOANS PAYABLE**

Individual Investors

Individuals investors living outside of Haiti provide loans to Fonkoze for periods ranging from one and five years at interest rates of 0 to 2%. Fonkoze uses these loans to fund its lending program. At December 31, 1997 the principal investors were :

Adrian Dominican Sisters	\$ 40,000
Friends of People of Haiti	10,000
Immaculate Heart of Mary	10,000
Individual Investors	<u>49,253</u>
Total	<u>\$ 109,253</u>

Corporate Investors

Fonkoze obtained a loan of \$100,000 from Stichting Doen in April 1997. This loan which carries an interest rate of 2% is due and payable in full in April 1998.

**FONDASYON KOLE ZEPOL (FONKOZE)  
NOTES TO FINANCIAL STATEMENTS**

**December 31, 1997**

**NOTE J. TRANSLATION ADJUSTMENT**

At December 31, 1997, the exchange rate used to translate balance sheet items from the functional currency was 17.53 gourdes to US\$1. A weighted average of 16.5 gourdes to US\$1 was used to translate items on the Statement of Activities.

The translation adjustment was determined as follows:

Cash	\$ 74,230
Investment	29,421
Receivables & Other	314,113
Prepaid Expenses	13,675
Other Assets	5,133
Fixed Assets	54,050
Deposit Accounts	(186,728)
Loans Payable	(209,753)
Paid in Capital	(104,294)
Retained Earnings	<u>(73,699)</u>
Cumulative translation adjustment at end of year	(10,153)
Cumulative adjustment translation at beginning of year	6,254
Current year translation adjustment	(3,899)

**NOTE K. IN-KIND CONTRIBUTIONS**

At December 31, 1997, in-kind contributions comprised the following:

Volunteer Services:	
Salary – Director of Projects	\$ 25,000
Salary – Director of Investments	25,000
Fairfield University	
Staff Training	25,000
Management Consulting	<u>4,050</u>
	 <u>\$ 79,050</u>

**FONDASYON KOLE ZEPOL (FONKOZE)**  
**NOTES TO FINANCIAL STATEMENTS**

**December 31, 1997**

**NOTE L.     CONTINGENCIES**

Taxes

The Organization is exempt from income and other business taxes. However, it is subject to an employer payroll tax of 2% of gross wages. It is also required to withhold income taxes on its employees and to remit it to the taxing authority. The Organization is also required to participate in the Haitian social security system ("Office Nationale d'Assurance). Although entities register and remit these taxes on a prospective basis, at December 31, 1997, there was no provision made to satisfy these liabilities.

Compensated Absences

Employees are entitled to one half month's vacation after one full year of employment. Vacation may be carried over to the following year only. At December 31, 1997 there was one employee with earned vacation that could be carried over. There is no provision in the financial statements for this liability.