

FONDASYON KOLE ZEPOL (FONKOZE)
FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998
WITH
Report of Certified Public Accountants

**FONDASYON KOLE ZEPOL (FONKOZE)
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DECEMBER 31, 1999

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Independent Auditors' Report

Board of Directors
Fondasyon Kole Zepol
Port au Prince, Haiti

We have audited the accompanying statements of financial position of Fondasyon Kole Zepol (Fonkoze) as of December 31, 1999 and 1998 and the related statements of activities and cash flows for the years 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 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 the 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 in the above paragraph present fairly, in all material respects, the financial position of Fondasyon Kole Zepol at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that Fonkoze will continue as a going concern. As discussed in Note N to the financial statements, Fonkoze incurred losses during 1999 and 1998 and has a net deficiency of \$258,614 at December 31, 1999, that raise substantial doubt about Fonkoze's ability to continue as a going concern. Management's plans in this regard are described in Note N. The financial statements do not include any adjustments that might result from this uncertainty.

Newark, New Jersey

June 6, 2000

W. Frye & Associates, P.C.

FONDASYON KOLE ZEPOL (FONKOZE)
Statements of Financial Position
December 31, 1999 and 1998

	<u>1999</u>	<u>1998</u>
ASSETS		
Current Assets		
Cash (Note B)	\$ 981,717	\$ 613,661
Accrued Interest Receivable	22,513	2,897
Investment Loans Receivable, net of allowance of of \$28,000 in 1999 and \$21,000 in 1998 (Note D)	541,749	405,539
Due from Officer (Note K)	-	106,901
Other Receivables	10,008	19,914
Prepaid Expenses (Note E)	24,940	29,376
Other Assets	<u>26,772</u>	<u>5,133</u>
Total Current Assets	1,607,699	1,183,421
Non Current Assets		
Mortgage Receivable (Note F)	44,236	37,841
Investments (Note C)	<u>176,893</u>	<u>136,500</u>
Total Non Current Assets	221,129	174,341
Fixed Assets		
Fixed Assets, net of Accumulated Depreciation of \$21,252 in 1999 and \$25,476 in 1998 (Note G)	115,946	89,248
TOTAL ASSETS	<u><u>1,944,774</u></u>	<u><u>1,447,010</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Deposit Accounts	1,060,888	594,243
Loans Payable - Current Portion (Note I)	<u>129,500</u>	<u>55,600</u>
Total Current Liabilities	1,190,388	649,843
Non Current Liabilities		
Loans Payable (Note H)	<u>1,013,000</u>	<u>862,500</u>
Total Liabilities	2,203,388	1,512,343
Net Assets		
Unrestricted Net Assets	(262,980)	(56,867)
Translation Adjustments (Note J)	<u>4,366</u>	<u>(8,466)</u>
Total Net Assets	(258,614)	(65,333)
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,944,774</u></u>	<u><u>\$ 1,447,010</u></u>

See accompanying notes to the financial statements.

FONDASYON KOLE ZEPOL (FONKOZE)
Statements of Activities
Years Ended December 31, 1999 and 1998

	<u>1999</u>	<u>1998</u>
UNRESTRICTED REVENUES AND SUPPORT		
Grant		
Donations :		
Foundations and Individuals	\$ 309,204	\$ 169,264
In-Kind Contributions (Note J)	53,987	82,724
Membership Dues	852	14,113
Interest Income from Loans	115,572	57,509
Currency Trading	81,615	34,577
Net Income from Investments	7,621	21,304
Interest on Deposit in Bank	12,486	7,492
Fees	6,721	2,117
Other Income	1,491	-
Total Revenues and Support	<u>589,549</u>	<u>389,100</u>
EXPENSES		
Salaries and Benefits	\$ 275,541	\$ 162,553
Training	22,901	50,959
Travel	49,827	48,226
Vehicle Expense	18,448	20,766
Supplies	20,986	20,635
Telephone	15,968	14,965
Depreciation & Amortization	15,564	17,108
Rent	24,327	19,124
Furniture and Equipment	2,167	4,871
Provision for Loan Losses	12,446	14,465
Theft, Fraud and Counterfeit Losses	29,527	27,779
Other Losses	-	23,390
Repairs and Maintenance	6,573	2,825
Miscellaneous	6,192	8,749
Professional Fees	46,612	13,354
Computer Management Consulting and Software	20,630	18,325
Photocopies	16,232	3,825
Advertising	5,068	5,521
Interest Expense	52,900	15,012
Hurricane Relief	-	7,799
Postage	2,294	838
Total Expenses	<u>\$ 644,203</u>	<u>\$ 501,089</u>
Change in Unrestricted Net Assets before Other Losses	(54,654)	(111,989)
Other Losses (Note L)	<u>(151,459)</u>	<u>(49,172)</u>
Change in Unrestricted Net Assets	(206,113)	(161,161)
NET ASSETS - BEGINNING OF YEAR	(56,867)	104,294
NET ASSETS - END OF YEAR	<u>\$ (262,980)</u>	<u>\$ (56,867)</u>

See accompanying notes to the financial statements.

FONDASYON KOLE ZEPOL (FONKOZE)
Statements of Cash Flows
Years Ended December 31, 1999 and 1998

	<u>1999</u>	<u>1998</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income/(Loss)	\$ (206,113)	\$ (161,161)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Depreciation	15,564	17,108
(Increase)/Decrease in Grant Receivable	-	81,220
Increase in Accrued Interest and Other Receivables	(9,710)	(20,241)
(Increase)/Decrease in Prepaid Expenses	4,436	(15,701)
(Increase)/Decrease in Other Assets	<u>(21,639)</u>	<u> </u>
Net Cash Used in Operating Activities	(217,462)	(98,775)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in Proprietary Ventures	(40,393)	(107,079)
Mortgage Receivable	(6,395)	(12,852)
Net Purchase of Fixed Assets	(42,262)	(52,306)
Decrease/(Increase) in Loans to Officer	106,901	(106,901)
Increase in Loans Receivable	<u>(136,210)</u>	<u>(200,205)</u>
Net Cash Used in Investing Activities	(118,359)	(479,343)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in Deposit Accounts	466,645	407,515
Proceeds from Loans	<u>224,400</u>	<u>708,347</u>
Net Cash Provided by Financing Activities	691,045	1,115,862
EFFECT OF EXCHANGE RATE CHANGES ON CASH		
	12,832	1,687
Net Increase in Cash	368,056	539,431
Cash at Beginning of Year	<u>613,661</u>	<u>74,230</u>
Cash at End of Year	<u>\$ 981,717</u>	<u>\$ 613,661</u>
SUPPLEMENTAL DISCLOSURES		
Interest Paid	<u>\$ 52,900</u>	<u>\$ 15,012</u>

See accompanying notes to the financial statements.

FONDASYON KOLE ZEPOL (FONKOZE)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1999 AND 1998

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
YEARS ENDED DECEMBER 31, 1999 AND 1998**

NOTE A.

**NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES
(Cont'd)**

- **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 support 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 items on the statements of activities are translated using a weighted average rate for the period.

**FONDASYON KOLE ZEPOL (FONKOZE)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1999 AND 1998**

**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

- **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, 1998 and 1999 the liability was approximately \$2,201. There is no provision in the financial statements for this liability.

NOTE B. CASH

The Organization maintains its cash balances in banks in Haiti, other Caribbean islands and the United States. All accounts in the banks in Haiti and the United States 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
Years Ended December 31, 1999 and 1998**

NOTE B. CASH (Cont'd)

At December 31, 1999 and 1998, cash was allocated as follows:

	<u>1999</u>	<u>1998</u>
Caribbean Banks	\$ 17,517	\$ 3,454
Cash in Haitian Banks	79,810	92,965
Cash in U.S. Banks	419,469	370,686
Cash on Hand	464,921	146,556
	<u>\$981,717</u>	<u>\$613,661</u>

Balances in banks in the United States are insured by the Federal Deposit Insurance Corporation up to \$100,000 and by Securities Investor Protection Corporation up to \$500,000. The balances in the other banks are uninsured. The following is a summary of insured and uninsured balances at December 31, 1999 and 1998:

	<u>1999</u>	<u>1998</u>
Insured	\$ 361,958	\$ 265,586
Uninsured	143,655	275,106
	<u>\$505,613</u>	<u>\$542,690</u>

Cash on hand is kept in offices at fifteen locations throughout the island and is uninsured.

Restrictions on Cash

As a condition of a loan agreement between Fonkoze and Fonkoze USA, Fonkoze is required to maintain at all times a lien free portfolio of investment grade securities denominated in US dollars. The aggregate value of such a portfolio should not be less than 15% of the amounts loaned to Fonkoze by Fonkoze USA. At December 31, 1999, the amount was \$99,225 and Fonkoze was in compliance.

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 and income is recognized when received.

**FONDASYON KOLE ZEPOL (FONKOZE)
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED DECEMBER 31, 1999 AND 1998**

NOTE C. INVESTMENTS (continued)

At December 31, 1999 and 1998, Fonkoze had investments in the following ventures:

	<u>1999</u>	<u>1998</u>
Vetiver Oil	\$ 22,623	\$ -
Salt Factory	278	303
Purchase/Sale of Cashew Nuts	685	-
Sugar Cane Milling	9,628	10,378
Electronics Company	5,565	6,060
Food Store	-	2,424
Wholesale Stores	83,490	53,736
Commercial Center	54,624	59,469
APF Project	-	4,130
Total	<u>\$ 176,893</u>	<u>\$ 136,500</u>

The realized profit on these investments was \$7,621 and \$12,253 at December 31, 1999 and 1998 respectively.

NOTE D. INVESTMENT LOANS RECEIVABLE

Fonkoze provides loans to member groups and organizations to finance income-producing projects. The loan program is financed through proceeds received from investors abroad.

At December 31, 1999 and 1998 loans outstanding totaled \$569,749 and \$426,539 respectively.

The loans are made to Haiti's organized poor who are relatively inexperienced in economic management. Fonkoze has taken steps to minimize this risk by establishing lending and selection criteria and by providing borrowers with technical assistance and training. Other risks contributing to possible loan default or delinquency include disease, civil unrest, and hurricane or other natural disasters.

**FONDASYON KOLE ZEPOL (FONKOZE)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1999 AND 1998**

NOTE E. PREPAID EXPENSES

Fonkoze leases office space in twelve locations throughout the country. The lease agreements are for periods of one to five years. These agreements require that the total rent for the period specified in the lease be paid in advance. Prepaid rent was \$24,940 and \$29,376 at December 31, 1999 and 1998 respectively. Total amount paid for rent during the fiscal year was \$24,935.

NOTE F. MORTGAGE RECEIVABLE

Fonkoze assumed and paid the mortgage on property, which is used for one of Fonkoze's offices and wholesale stores. In April, 2000, Fonkoze purchased the building from the owner and applied the mortgage receivable to the purchase price.

NOTE G. FIXED ASSETS

At December 31, 1999 and 1998 Fixed Assets consisted of the following:

	<u>1999</u>	<u>1998</u>
Vehicles	\$ 32,447	\$ 54,966
Furniture & Equipment	72,186	47,882
Leasehold Improvements	14,800	11,846
Equity in Vehicle	17,765	-
	<u>137,198</u>	<u>114,694</u>
Less Accumulated Depreciation	<u>(21,252)</u>	<u>(25,476)</u>
Total Assets	<u>\$ 115,946</u>	<u>\$ 89,218</u>

Fonkoze has custody of a vehicle for which title was transferred in year 2000. The equity is accounted for in the financial statements and will be reclassified in year 2000.

NOTE H. LOANS PAYABLE

Fonkoze uses the proceeds from loans received to fund income-producing

**FONDASYON KOLE ZEPOL (FONKOZE)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1999 AND 1998**

NOTE H. LOANS PAYABLE (Con'd)

projects. Loans payable at December 31, 1999 and 1998 are summarized as follows:

	<u>1999</u>	<u>1998</u>
Payable to investors living abroad, at interest rates ranging from 0 to 4% for periods from one to seven years.	\$ 231,000	\$ 155,000
Payable to Fonkoze USA, at interest rates ranging from 0 to 4% with additional 1% payable for administrative fees, for periods from one to ten years.	611,500	463,100
Payable to Stitching Doen at 6% interest, matures March 2001, with annual interest payments of \$18,000.	<u>300,000</u>	<u>300,000</u>
Total Notes Payable	1,142,500	918,100
Less Current Portion	129,500	55,600
Notes Payable Long-Term Portion	<u><u>\$ 1,013,000</u></u>	<u><u>\$ 862,500</u></u>

Principal payments for the years subsequent to December 31, 1999 are as follows:

	<u>1999</u>	<u>1998</u>
1999	\$ -	\$ 55,600
2000	129,500	72,500
2001	513,000	575,000
2002	96,000	17,000
2003	129,000	154,000
2004	154,000	44,000
Thereafter	121,000	-
	<u><u>\$ 1,142,500</u></u>	<u><u>\$ 918,100</u></u>

**FONDASYON KOLE ZEPOL (FONKOZE)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1999 AND 1998**

NOTE I. TRANSLATION ADJUSTMENT

At December 31, 1999 and 1998, the exchange rate used to translate items on the Statement of Financial Position from the functional currency was \$17.9654 gourdes to U.S. \$1 and 16.5016 gourdes to U.S. \$1 respectively. The weighted average used to translate items on the Statement of Activities was of 16.9546 gourdes to U.S. \$1 in 1999 and 16.78 gourdes to U.S. \$1 in 1998.

The translation adjustment was determined as follows:

	<u>1999</u>	<u>1998</u>
Cash	\$ 981,717	\$ 613,661
Investments	176,893	136,500
Receivables	618,506	573,092
Prepaid Expenses	24,940	29,376
Other Assets	26,772	5,133
Fixed Assets	115,946	89,248
Deposit Accounts	(1,060,888)	(594,243)
Loans Payable	(1,142,500)	(918,100)
Net Assets	<u>262,980</u>	<u>56,867</u>
Cumulative Translation Adjustment at end of year	4,366	(8,466)
Cumulative Translation Adjustment at beginning of year	(8,466)	(10,153)
Current Year Translation Adjustment	12,832	1,687

NOTE J. IN-KIND CONTRIBUTIONS

The estimated fair value of donated contributions included in the financial statements as in-kind donations with corresponding expenditures at

**FONDASYON KOLE ZEPOL (FONKOZE)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1999 AND 1998**

NOTE J. IN-KIND CONTRIBUTIONS (Cont'd)

December 31, 1999 and 1998 is as follows:

	<u>1999</u>	<u>1998</u>
Contributions:		
Director of Projects	\$ 25,000	\$ 25,000
Fairfield University	21,695	24,200
National FCDCU	1,556	-
Private Donor	2,036	-
Duquesne University	-	23,524
W. Frye & Associates	3,700	10,000
	<u>\$ 53,987</u>	<u>\$ 82,724</u>
Expenses:		
Salaries	25,000	\$ 25,000
Training	10,287	34,524
Management Consulting & Software	15,000	12,200
Professional Fees	3,700	10,000
	<u>\$ 53,987</u>	<u>\$ 81,724</u>

NOTE K. RELATED PARTY TRANSACTIONS

During 1998, Fonkoze entered into investment agreements with an individual who was the Assistant Coordinator and a volunteer employee at Fonkoze. These investments were subsequently converted to loans and are reported in the financials as due from officer. The value of the loans are summarized as follows:

	<u>1998</u>
Loan at 3% p.a. to acquire a truck	\$ 17,000
Funds to invest in proprietary ventures	80,468
Interest and investment income	9,433
Total	<u>\$ 106,901</u>

During 1999, additional transactions involving counterfeit checks from third parties deposited to the officers' share account with Fonkoze resulted in additional net debts of \$74,000. Fonkoze acquired the truck and wrote-off the balance of the debt. Fonkoze obtained a judgement against the former officer and has retained attorney for discovery and seizure of assets.

**FONDASYON KOLE ZEPOL (FONKOZE)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1999 AND 1998**

NOTE L. OTHER LOSSES

During 1998 this loss resulted from a robbery of Fonkoze's central office in Port-au-Prince. A total of \$79,183 was originally stolen but the amount of \$30,011 was recovered. As reflected in Note K, Fonkoze wrote-off loans and debts to former officer in 1999.

NOTE M. ECONOMIC DEPENDENCY

Fonkoze receives a substantial amount of revenue from private foundations and individuals. In addition, its primary source for loans is investors who reside abroad. Fonkoze hopes such dependency will lessen over time, but there is no guarantee that such funds will always be available.

NOTE N. GOING CONCERN

The accompanying financial statements have been prepared assuming that Fonkoze will continue as a going concern. Fonkoze experienced losses for the years ended December 31, 1999 and 1998; and had a capital deficit of \$258,614 at December 31, 1999.

However, management plans and has begun the process of spinning off Fonkoze's micro-credit and other financial services to create a fully licensed commercial bank with new equity capital of \$2 - \$3 million. Fonkoze plans to retain a significant stock interest in the new entity. Its continuing role will be to work in coordination with the bank to provide educational services for members to become customers of the bank.

Most of the assets shown in these financial statements will be transferred to the commercial bank, while certain of the liabilities will remain in the foundation. Certain charitable holders of Fonkoze's debt have been converting the foundation's debt to charitable contributions and Fonkoze USA is continuing fundraising to cover the losses incurred as a result of robbery and the related party business development losses.