

**FONDASYON KOLE ZEPOL
(FONKOZE)**

Financial Statements

December 31, 2000

(With Independent Auditors' Report Thereon)

Mérové-Pierre - Cabinet d'Experts-Comptables

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Independent Auditors' Report

The Board of Directors
Fondasyon Kole Zepol (FONKOZE):

We have audited the accompanying statement of assets, liabilities and deficit arising from cash transactions of Fondasyon Kole Zepol (Fonkoze) as of December 31, 2000 and the related statement of revenues collected and expenses paid and change in deficit for the year then ended. These financial statements are the responsibility of Fonkoze management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraphs, we conducted our audit in accordance with International Standards on Auditing. 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 statements presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 (b), the organization has prepared the accompanying financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than International Accounting standards.

The audit procedures applied during the course of our work for the year ended December 31, 2000 revealed important deficiencies in the accounting system and internal control procedures of Fonkoze. We extended our audit procedures to obtain supporting evidence of recorded transactions, and important adjustments were made to account balances as of December 31, 2000. However, due to the weaknesses in accounting and internal controls, adequate evidential matter in support of interest income and expenses and foreign exchange transactions was not sufficient and it was impracticable to extend our procedures and satisfy ourselves by means of other procedures. Accordingly, we were unable to determine whether adjustments to interest income and expenses and net foreign exchange gain, deficit and total assets might be necessary.

In common with charitable organizations, FONKOZE derives revenues from donations, the completeness of which is not susceptible of satisfactory audit verification. Accordingly, our audit of these revenues was limited to the amounts recorded by the organization and we were not able to determine whether adjustments might be necessary to donations, assets and deficit.





The Board of Directors
Fondasyon Kole Zepol (FONKOZE):

The financial statements as of December 31 1999 of Fonkoze were expressed in US dollars which is different from the functional currency, the Haitian gourde, used for the year 2000. It was not deemed practical to restate the prior year financial statements to present comparative figures for 1999 and prepare a statement of cash flows. Presentation of a statement of cash flows summarizing the Organization's operating, investing and financing activities, and presentation of comparative figures are required by International Accounting Standards.

In our opinion, except for the effect of adjustments, if any, which might have been determined to be necessary had we been able to satisfy ourselves concerning the interest income and expenses, the net foreign exchange gain and the completeness of donations, and except for the omission of a statement of cash flows and of comparative figures, as explained in the above paragraphs, the financial statements, referred to above, present fairly, in all material respects, the assets and liabilities arising from cash transactions of Fonkoze at December 31, 2000, and the revenues collected and expenses paid for the year then ended in accordance with the basis of accounting described in Note 1 (b).

The accompanying financial statements and supplementary information for the year 2000 have been prepared assuming that Fonkoze will continue as a going concern. As discussed in Note 13 to the financial statements, Fonkoze has suffered recurring losses from operations and has a net capital deficiency that raise substantial doubt about its ability to continue as a going concern. Management's plans with regards to these matters are described in Note 13. The financial statements and supplementary information do not include any adjustments that might result from the outcome of this uncertainty.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in schedules I and II for the year 2000 is presented for purposes of additional analysis and is 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, except for the effects on Schedules I and II of adjustment if any, which might have been determined to be necessary had we been able to satisfy ourselves concerning the interest income and expenses, the net foreign exchange gains, and the completeness of donations, such information is fairly stated in all material respect in relation to the basic financial statements taken as a whole.

René-Pierre Cabrit d'Experts-Comptables

Port-au-Prince, October 6, 2001

FONDASYON KOLE ZEPOL (FONKOZE)
Statement of Assets, Liabilities and Deficit
arising from cash transactions
December 31, 2000
(Expressed in Haitian Gourdes)

	Notes	2000
ASSETS		
CASH AND CASH EQUIVALENTS	2	G 35.017,536
INVESTMENTS	3	2.383.781
LOANS	4	19.534,239
Provision for loan losses		<u>(1.703.031)</u>
Net loans		17.831,208
FIXED ASSETS	5	8,779,553
Accumulated depreciation		<u>(1.158.842)</u>
Fixed assets, net		7,620.711
OTHER ASSETS	6	1.457,988
		G 64.311.224
LIABILITIES AND DEFICIT		
DEPOSITS	7	38.646.349
DEBTS	8	
Current portion		12,973,939
Long-term portion		<u>23.681.606</u>
		36.655.545
Total liabilities		75,301.894
DEFICIT		
Deficit		(13,726,900)
Fixed assets reevaluation surplus	5	<u>2.736.230</u>
		(10.990.670)
		G 64.311.224

See accompanying notes to the financial statements

FONDASYON KOLE ZEPOL (FONKOZE)
Statement of Revenues Collected and
Expenses Paid and Change in Deficit
Year ended December 31, 2000
(Expressed in Haïtian Gourdes)

	Notes	2000
INTEREST INCOME		
Loans		G 1,873,661
Other		<u>1,097,078</u>
		2,970,739
INTEREST EXPENSES		
Deposits		751,509
Other		<u>882,899</u>
		1,634,408
NET INTEREST INCOME		
Provision for loan losses		<u>1,336,331</u> <u>(1,200,000)</u>
		136,331
OTHER INCOME		
Donations	10	7,725,885
In kind contributions	11	1,366,618
Foreign exchange gain:		
Trading gain		4,264,421
Loss on reevaluation		<u>(3,498,482)</u>
Net foreign exchange gain		765,939
Membership dues		369,800
Other		<u>365,201</u>
		10,593,443
NET INTEREST INCOME AND OTHER INCOME		
		10,729,774
OPERATING EXPENSES		
Salaries and other employees benefits		6,432,942
Premises and equipment expenses		2,486,259
Services received	11	1,366,618
Depreciation		932,850
Other expenses		<u>4,096,029</u>
		15,314,698
EXCESS OF EXPENSES PAID OVER REVENUES		
COLLECTED BEFORE NON RECURRING LOSSES		(4,584,924)
Non recurring losses	9	<u>(4,417,437)</u>
NET DEFICIT FOR THE YEAR		(9,002,361)
DEFICIT AT THE BEGINNING OF THE YEAR		<u>(4,724,539)</u>
DEFICIT AT THE END OF THE YEAR		G (13,726,900)

See accompanying notes to the financial statements

FONDASYON KOLE ZEPOL (FONKOZE)
Notes to Financial Statements

(1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Organization

Fondasyon Kole Zepol (Fonkoze) is a local 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.

The ultimate risk for the realization of the Foundation's assets is located in Haiti.

Fonkoze USA Inc. is a non-profit tax exempt US 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 individuals in Haiti through Fonkoze.

(b) Accounting principles

The accompanying financial statements were prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than International Accounting Standards. On this basis, revenue is recognized when received rather than when earned, and expenses are recognized when paid rather than when incurred, except for the provision for loan losses, and the depreciation expenses that were also recorded according to management estimates and assumptions. According to management, these financial statements have been prepared on an adequate basis using fair judgment in all material respects and in accordance with the accounting principles herein summarized.

(c) Investments

Investments are composed mainly of long term equity shares which are recorded at cost. When a decline in fair value is other than temporary, the securities are written down to fair value as a new cost basis and the amount of the write-down is included in the determination of income of the period in which it occurs.

(d) Loans

Loans are stated at book value, net of the provision for loan losses.

Interest income is recorded on a cash basis.

Non-performing loans are those for which payments are past due.

The provision for loan losses presented in the statement of assets, liabilities and deficit arising from cash transactions, represents an estimate determined by management based on collection history, collateral value and the economic situation of the borrower.

(Continued)

FONDASYON KOLE ZEPOL (FONKOZE)

Notes to Financial Statements

(1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Loans (continued)

The risks of loan losses for the loans portfolio financed by Fonkoze and managed by MEDA and Concern Worldwide are assumed by these institutions which guarantee all losses in principals, from these credit programs in accordance with a signed agreement between their International headquarters and Fonkoze.

Specific rates of provisions applied to loans to women street vendors groups, small organizations and business development are as follows:

Current loans	10%
Non-performing loans:	
1-30 days past due	50%
31-90 days past due	75%
More than 90 days past due	100%

The provision for loan losses reflected in the statement of revenues collected and expenses paid and change in deficit represents the difference between the provision for loan losses described above and the provision at the beginning of the year.

(e) Fixed assets

Except for land and buildings which are stated at fair value starting December 31, 2000, fixed assets are recorded at cost.

The market value of land and buildings have been determined based on a recent independent experts' appraisals dated July 2001. The book values of land and buildings were adjusted to the average appraised market values. The reevaluation surplus is reflected separately as a component of deficit.

Except for leasehold improvements, which are amortized using the straight-line method over the lower of the useful life of the assets or the terms of the leases, depreciation is calculated based on the estimated useful life, using the straight-line method. The depreciation rates used for the main categories of fixed assets are as follows:

Buildings	5%
Furniture and equipment	20%
Computer equipment	20%
Vehicles	25%
Leasehold improvements	20%

Major expenses for improvements and reconditioning are capitalized, and expenses for maintenance and repairs are charged to expenses.

(Continued)

FONDASYON KOLE ZEPOL (FONKOZE)

Notes to Financial Statements

(1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Conversion in Foreign Currencies

The functional currency of Fonkoze is the Haitian Gourde. Consequently, assets and liabilities stated in foreign currencies are converted in Haitian Gourdes at the exchange rate prevailing at year-end. Gains and losses resulting from these transactions are recorded in the statement of revenues collected and expenses paid and change in deficit.

Transactions incurred in US dollars are converted at the average exchange rate in effect at the transaction date which approximated 22 Gourdes to one US dollar during the year. Gains and losses related to exchange operations are reported in the statement of revenues collected and expenses paid and change in deficit.

The official rate of exchange published by the Central Bank as of December 31, 2000 was G 22,5242 to one US Dollar.

The financial statements presented in schedules I and II were translated in US Dollar for reporting purposes only. Assets and liabilities were translated at the year end exchange rate except for the deficit which was converted using the historical rate of exchange. Revenues and expenses were translated at the average rate of exchange for the year. Adjustment resulting from such translation is reflected as a separate component of the deficit.

(g) Income taxes

According to its status of non-profit organization incorporated under Haitian law, Fonkoze is exempt from income taxes.

(h) Market value of assets

Market value of monetary assets is equivalent to their cost.

(i) In-kind contributions

Donated services and supplies are included in the statement of revenues collected and expenses paid and change in deficit, if the services received create or enhance non-financial assets or require specialized skills and would typically need to be purchased if not donated. They are recorded at their fair value at the date of donation.

(Continued)

FONDASYON KOLE ZEPOL (FONKOZE)
Notes to Financial Statements

(2) CASH AND CASH EQUIVALENTS

As of December 31, 2000 cash and cash equivalents are as follows:

	2000
Cash	G 5,370,067
Deposits in Haitian banks	7,292,248
Deposits in foreign banks – USA (a)	22,348,162
Deposits in other foreign banks	<u>7,059</u>
	G 35,017,536

(a) As a condition of a loan agreement between Fonkoze and Fonkoze USA (note 8), 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, 2000, an amount of G 22,348,162 equivalent to \$ 992,184 was held in US bank accounts, and Fonkoze was in compliance with the above condition.

As of December 31, 2000 deposits with banks are as follows:

	2000
Interest bearing accounts:	
Money market funds	G 16,126,855
Certificate of deposits	1,126,210
Overnight deposits in local banks	<u>4,658,729</u>
	21,911,794
Non-interest bearing accounts	<u>7,735,675</u>
	G 29,647,469

Interest bearing accounts earned an average interest rate of 5% to 6% during the year 2000.

As of December 31, cash and cash equivalents in gourdes and foreign currencies are as follows:

	2000
Cash in Gourdes	G 3,072,352
Cash in US Dollars	<u>2,297,715</u>
	<u>5,370,067</u>
Bank deposits in Gourdes	6,854,537
Bank deposits in US Dollars	<u>22,792,932</u>
	<u>29,647,469</u>
	G 35,017,536

(Continued)

FONDASYON KOLE ZEPOL (FONKOZE)
Notes to Financial Statements

(3) INVESTMENTS

As of December 31, 2000, investments are as follows:

		2000
<hr/>		
Local investments:		
Long-term equity shares in SNI-Minoterie	G	565,583
Long-term equity shares in Prodisel		5,000
Foreign investments:		
US Government securities		<u>1,813,198</u>
	G	<u>2,383,781</u>
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US Government securities bear an average interest rate of 5% to 6% during the year and mature in January 2003.

(4) LOANS

As of December 31, 2000, loans are as follows:

		2000
<hr/>		
Women street vendors groups	G	15,830,345
Small organizations		1,160,488
Concern Worldwide/La Gonave Project		1,126,500
Business development		1,116,906
MEDA		<u>300,000</u>
	G	<u>19,534,239</u>
<hr/>		

As of December 31, 2000, annual effective interest rates and maturity on loans are as follows:

	<u>Interest rates</u>	<u>Maturity</u>
Women street vendors groups	31%	6 to 12 months
Business development	36%	(a)
Small organizations	26%	6 to 12 months
Concern Worldwide/La Gonave Project	15%	12 month renewable
MEDA	15%	36 months

(a) Except for one business, a development loan of G 238,415 at December 31, 2000, which matures within 10 years, business development loans mature within 6 to 24 months.

(Continued)

FONDASYON KOLE ZEPOL (FONKOZE)

Notes to Financial Statements

(4) LOANS (continued)

Loans are guaranteed by cash collateral held by Fonkoze in savings deposits (note 7), which approximate 20% of the initial loan.

As of December 31, 2000, the organization was unable to determine with accuracy the level of non-performing loans.

The provision for loan losses is as follows:

	2000
Balance at beginning of the year	G 503,031
Provision for the year	<u>1,200,000</u>
Balance at end of year	G 1,703,031

(5) FIXED ASSETS

As of December 31, 2000 fixed assets, are as follows:

	At cost	Accumulated Depreciation	Net Value
Land	G 570,500	-	570,500
Buildings	4,422,000	-	4,422,000
Furniture and equipment	1,012,585	283,396	729,189
Computer equipment	273,344	60,143	213,201
Vehicles	2,127,576	717,337	1,410,239
Leasehold improvements	<u>373,548</u>	<u>97,966</u>	<u>275,582</u>
	G 8,779,553	1,158,842	7,620,711

The surplus resulting from the reevaluation of land and buildings see note (1e) is as follows:

	Cost	Reevaluation surplus	Net Value
Land	G -	-	570,500
Buildings	<u>-</u>	<u>-</u>	<u>4,422,000</u>
	G 2,256,270	2,736,230	4,992,500

(Continued)

FONDASYON KOLE ZEPOL (FONKOZE)
Notes to Financial Statements

(6) **OTHER ASSETS**

As of December 31, 2000, other assets are as follows:

		<u>2000</u>
Prepaid expenses	G	601,437
Literacy games		546,550
Other		<u>310,001</u>
	G	<u>1,457,988</u>

(7) **DEPOSITS**

As of December 31, 2000, deposits are as follows:

		<u>2000</u>
Savings deposits:		
Gourdes	G	27,183,756
Dollars US		<u>10,285,304</u>
	G	<u>37,469,060</u>
Term deposits:		
Gourdes	G	<u>1,177,289</u>
Total deposits	G	<u>38,646,349</u>

As of December 31, 2000, annual effective interest rates paid on deposits and maturity are as follows:

	<u>Interest rate</u>	<u>Maturity</u>
Savings deposits:		
Gourdes	3%	-
Dollars US	0-1%	-
Term deposits:		
Gourdes	7%	12 months

(Continued)

FONDASYON KOLE ZEPOL(FONKOZE)
Notes to Financial Statements

(8) DEBTS

As of December 31, 2000, debts are as follows:

	<u>2000</u>
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	G 19,278,463
Payable to Foundation Stitching Doen at 6%, \$ 300,000 maturing in march 2001 and \$ 300,000 maturing in January 2008	13,514,520
Payable to investors living abroad, at interest rates ranging from 0 to 4%, for periods from one to seven years	<u>3,862,562</u>
	36,655,545
Less current portion	<u>(12,973,939)</u>
Long-term portion	G 23,681,606

Principal payments for the subsequent years are as follows:

2002		G 2,383,060
2003		3,423,678
2004		3,468,727
Thereafter		<u>14,406,141</u>
		G 23,681,606

(9) NON-RECURRING LOSSES

Non-recurring losses during the year include the following:

	<u>2000</u>
Writeoffs of investments in closed projects	G 2,096,483
Other losses	1,060,269
Writeoffs of unexplained differences:	
Loans	G 398,103
Deposits	336,363
Fixed assets	<u>526,219</u>
	<u>1,260,685</u>
	G 4,417,437

(Continued)

FONDASYON KOLE ZEPOL (FONKOZE)
Notes to Financial Statements

(10) DONATIONS

Donations for the year 2000 are as follows:

	2000
Fonkoze USA	G 3,165,580
MicroStart	1,100,000
Catholic Diocese of Richmond	660,000
SOFIHDES	415,500
Others	<u>2,384,805</u>
	G 7,725,885

As of December 31 2000, Fonkoze USA was committed to provide additional donations amounting to US 142,955, which were received and recorded accordingly in 2001.

(11) IN-KIND CONTRIBUTIONS

In-kind contributions for the year 2000 and services received are as follows:

	2000
<u>In-kind contributions:</u>	
Director of Fonkoze	G 550,000
Duquesne University	418,550
Gordon McCormick	165,000
W. Frye & Associates	66,000
National Federation of Community Development Credit Unions	<u>36,000</u>
Other private donors	<u>131,068</u>
	<u>1,366,618</u>

These contributions were recorded in the following expense categories:

Expenses:

Salaries	550,000
Training	515,394
Professional fees	<u>301,224</u>
	G 1,366,618

(Continued)

FONDASYON KOLE ZEPOL (FONKOZE)

Notes to Financial Statements

(12) COMMITMENTS

At the date of these financial statements, Fonkoze has certain engagements with lease contracts amounting approximately to G 532,400.

(13) GOING CONCERN

The accompanying financial statements and supplementary information have been prepared on the basis that Fonkoze will be able to realize its assets and liquidate its liabilities and engagements in the normal course of business. Fonkoze has suffered recurring losses from operations and has a deficit of G 11 million that raises substantial doubt about its ability to continue as a going concern. The capacity of Fonkoze to continue to operate is conditional on the success of its plan as presented below.

- Management intends 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 between \$ 2 to \$ 3 millions. Fonkoze plans to retain a significant interest in the new entity. Its continuing role will be to work in coordination with the new bank: (1) to provide literacy and business skills training services for members. (2) to provide business development loans and (3) to incubate new branch offices.
- The debt of certain charitable holders of Fonkoze's debts will be converted into charitable contributions.
- Most of the assets shown in these financial statements will be transferred to the bank, while certain of the liabilities will remain in Fonkoze.
- Fonkoze USA will continue its fundraising activities to cover incurred losses.

FONDASYON KOLE ZEPOL (FONKOZE)
Statement of Assets, Liabilities, and deficit
arising from cash transactions
December 31, 2000
(Expressed in US Dollars)

	2000
ASSETS	
CASH AND CASH EQUIVALENTS	\$ 1,554,662
INVESTMENT	105,832
LOANS	867,256
Provision for loans losses	<u>(75,609)</u>
Net loans	791,647
FIXED ASSETS	389,783
Accumulated depreciation	<u>(51,449)</u>
Fixed asset, net	338,334
OTHER ASSETS	64,730
	\$ 2,855,205
LIABILITIES AND NET ASSETS	
DEPOSITS	1,715,770
DEBT	
Current portion	576,000
Long term portion	<u>1,051,385</u>
	1,627,385
Total liabilities	3,343,155
DEFICIT	
Deficit	(672,178)
Fixed assets reevaluation surplus	121,480
Translation adjustment	<u>62,748</u>
	(487,950)
	\$ 2,855,205

FONDASYON KOLE ZEPOL (FONKOZE)
Statement of revenues collected, and
expenses paid and Change in Net Assets
Year ended December 31, 2000
(Expressed in US Dollars)

2000

INTEREST INCOME	
Loans	\$ 85,166
Other	<u>49,867</u>
	135,033
INTERESTS EXPENSES	
Deposits	34,159
Other	<u>40,132</u>
	74,291
NET INTEREST INCOME	
Provision for loans losses	<u>(54,545)</u>
	6,197
OTHER INCOME	
Donations	351,177
In kind contributions	62,119
Foreign exchange gain:	
Trading gain	193,836
Loss on reevaluation	<u>(159,021)</u>
Net foreign exchange gain	34,815
Membership dues	16,809
Other	<u>16,600</u>
	481,520
NET INTERESTS INCOME AND OTHER INCOME	
	489,080
OPERATING EXPENSES	
Salaries and other employee benefits	292,405
Premises and equipments expenses	113,012
Services received	62,119
Depreciation	42,402
Other expenses	<u>186,184</u>
	696,122
EXCESS OF EXPENSES PAID OVER REVENUES	
COLLECTED BEFORE NON RECURRING LOSSES	(208,405)
Non recurring losses	<u>(200,793)</u>
NET DEFICIT FOR THE PERIOD	
	(409,198)
DEFICIT AT THE BEGINNING OF THE YEAR	
	(262,980)
DEFICIT AT THE END OF THE YEAR	
	\$ (672,178)