

FONDASYON KOLE ZEPÒL
FONKOZE
PORT AU PRINCE, HAITI

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AUDITED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
FOR THE YEARS ENDED
DECEMBER 31, 2004 AND 2003



CRAFT, NOBLE & COMPANY
PLLC

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TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Notes to Financial Statements	5 - 11
INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION	12
Statement of Financial Position Expressed in U.S. Dollars	13

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of Fondasyon Kole Zepòl (Fonkoze) (a not-for-profit organization) as of December 31, 2004 and the related statements of activities, and cash flows for the year 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. In addition, another auditor audited the December 31, 2003 financial statements. Their report was issued on July 30, 2005 and contained an unqualified opinion.

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 Fonkoze USA, Inc. as of December 31, 2004 and the changes in its net assets and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Craft, Noble & Company, PLLC

Craft, Noble & Company, PLLC
June 10, 2005



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FONDASYON KOLE ZEPÒL
FONKOZE
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2004 AND 2003

		<u>2004</u>		<u>2003</u>
ASSETS				
CASH AND CASH EQUIVALENTS	HTG	18,277,090	HTG	59,187,292
INVESTMENTS		18,411,500		60,873,957
ACCOUNTS RECEIVABLE		40,766,895		4,738,056
LOANS		36,959,836		116,609,879
Less allowance for loan losses		936,783		3,354,925
Net loans		<u>36,023,053</u>		<u>113,254,954</u>
FIXED ASSETS		7,756,049		44,766,287
Accumulated depreciation		1,117,820		9,414,854
Fixed assets, net		<u>6,638,229</u>		<u>35,351,433</u>
OTHER ASSETS		<u>1,934,918</u>		<u>5,756,783</u>
TOTAL ASSETS	HTG	<u><u>122,051,685</u></u>	HTG	<u><u>279,162,475</u></u>
LIABILITIES AND NET ASSETS (DEFICIT)				
DEPOSITS	HTG	18,522,739	HTG	181,945,962
NOTES PAYABLE				
Current portion		41,065,163		61,711,286
Long-term portion		26,368,864		26,132,004
OTHER LIABILITIES		<u>17,886,657</u>		<u>8,886,050</u>
TOTAL LIABILITIES		103,843,423		278,675,302
NET ASSETS (DEFICIT)				
Unrestricted		15,132,689		(3,177,783)
Fixed assets revaluation surplus		-		2,736,230
Permanently restricted net assets		<u>3,075,573</u>		<u>928,726</u>
TOTAL NET ASSETS		18,208,262		487,173
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	HTG	<u><u>122,051,685</u></u>	HTG	<u><u>279,162,475</u></u>

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

FONDASYON KOLE ZEPÒL
FONKOZE
STATEMENTS OF ACTIVITIES
DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
INTEREST INCOME		
Loans	HTG 30,853,805	HTG 19,155,258
Other	<u>1,241,137</u>	<u>4,192,340</u>
TOTAL INTEREST INCOME	32,094,942	23,347,598
INTEREST EXPENSES		
Deposits and debt	<u>2,326,937</u>	<u>4,654,164</u>
NET INTEREST INCOME	29,768,005	18,693,434
Provision for loan losses	<u>(2,721,633)</u>	<u>(3,048,771)</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	27,046,372	15,644,663
OTHER INCOME (EXPENSE)		
Donations	30,056,497	12,623,537
Foreign exchange gain	7,088,831	22,602,309
Membership dues	998,440	3,045,576
Unrealized loss on investments	(43,558)	-
Loss on investment in subsidiary	(4,670,137)	-
Other	<u>2,411,266</u>	<u>9,053,568</u>
NET INTEREST INCOME AND OTHER INCOME	62,887,711	62,969,653
OPERATING EXPENSES		
Salaries and other employee benefits	26,116,476	38,011,317
Premises and equipment expenses	3,605,667	7,815,056
Depreciation	4,653,066	6,021,453
Other expenses	<u>21,286,800</u>	<u>30,810,373</u>
TOTAL OPERATING EXPENSE	55,662,009	82,658,199
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES		
NON OPERATING INCOME (EXPENSE)	7,225,702	(19,688,546)
Gain on transfer of assets	8,177,060	-
CHANGE IN UNRESTRICTED NET ASSETS	15,402,762	(19,688,546)
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS		
Capital grant contribution	2,146,847	-
CHANGE IN NET ASSETS	17,549,609	(19,688,546)
NET ASSETS (DEFICIT) AT BEGINNING OF YEAR	487,173	18,571,639
CORRECTION OF PRIOR YEAR ERRORS	<u>171,480</u>	<u>1,604,080</u>
NET ASSETS (DEFICIT) AT END OF YEAR	HTG <u><u>18,208,262</u></u>	HTG <u><u>487,173</u></u>

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

5FONDASYON KOLE ZEPÒL
FONKOZE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

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 individuals in Haiti through Fonkoze.

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

Accounting Principles

The accompanying financial statements are prepared using 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 the allowance to determine uncollectable unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. Management believes that all unconditional promises to give were collectable at December 31, 2004 and 2003; therefore, no allowance has been made.

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.

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.

FONDASYON KOLE ZEPÒL
FONKOZE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

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

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. Non-performing loans are those for which payments are past due more than 30 days.

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.

The risks of loan losses for the loan portfolios managed by the Organization under agreements with FACN, USAID and Concern Worldwide are assumed by these institutions, which guarantee all losses in principal from these credit programs, in accordance with a signed agreement between these organizations and the Organization. MEDA and Concern Worldwide manage loan portfolios financed by the Organization, and the risk of loss from these loans is assumed by these management organizations.

Specific rates of provisions applied to loans to women market vendors groups, small organizations and business development are based on the recommendations of Americans for Community Co-operation in Other Nations (ACCION) 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%

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.

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 are depreciated using the straight-line method.

FONDASYON KOLE ZEPÒL
FONKOZE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

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

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, 2004 and 2003 was 38.5224 and 42.9347 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, 2004 and 2003 was 37.2318 and 42.0849 Haitian gourdes to one U.S. dollar, respectively.

Income Taxes

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

NOTE B – CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31, 2004 consisted of the following:

Currency held in branch offices	HTG	4,856,996
Deposits held in U.S. banks		6,421,989
Deposits held in Haitian banks		4,216,959
Deposits held in Sevis Finansye Fonkoze		<u>2,781,146</u>
Total	<u>HTG</u>	<u>18,277,090</u>
Currency in U.S. dollars	HTG	334,937
Currency in Haitian gourdes		4,522,059
Deposits in U.S. dollars		11,103,107
Deposits in Haitian gourdes		<u>2,316,987</u>
Total	<u>HTG</u>	<u>18,277,090</u>

FONDASYON KOLE ZEPÒL
FONKOZE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

NOTE B – CASH AND CASH EQUIVALENTS (CONTINUED)

Cash and cash equivalents at December 31, 2003 consisted of the following:

Currency held in branch offices	HTG	19,817,684
Deposits held in U.S. banks		10,656,261
Deposits held in Haitian banks		<u>28,713,347</u>
 Total	 HTG	 <u>59,187,292</u>
 Currency in U.S. dollars	HTG	12,517,058
Currency in Haitian gourdes		7,300,626
Deposits in U.S. dollars		11,515,676
Deposits in Haitian gourdes		<u>27,853,932</u>
 Total	 HTG	 <u>59,187,292</u>

There is no deposit insurance for accounts held in Haitian banks. Deposits held in U.S. banks exceed the Federal Deposit Insurance Corporations limits by HTG 3,192,588.

NOTE C – INVESTMENTS

Investments at December 31, consisted of the following:

	<u>2004</u>	<u>2003</u>
Fonkoze USA Trust	HTG 4,465,737	HTG 4,971,639
Sevis Finansye Fonkoze	13,945,763	-
Unibank time deposit	-	8,781,435
Morgan Stanley	-	34,420,154
CCG	-	21,674
Self-Help Credit Union	-	9,091,690
SALT Company	-	5,000
SNI Minoterie	-	1,056,752
City National Bank	-	<u>2,525,613</u>
 Total	 HTG <u>18,411,500</u>	 HTG <u>60,873,957</u>

Fonkoze USA Trust funds are invested in U.S. Corporate bonds and a money market fund. Corporate bonds valued at HTG 1,483,0543 at December 31, 2004 have less than A rating by S & P and Moodys. These bonds were downgraded in May 2005.

The investment in Fonkoze SA represents a 42% 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 decreased by HTG 4,670,137 to record 42% of Sevis Finansye Fonkoze's change in equity for 2004.

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 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, 2004 and 2003, amounts held in U.S. bank accounts exceeded the required amount and Fonkoze was in compliance with the above condition.

FONDASYON KOLE ZEPÒL
FONKOZE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

NOTE D – RELATED PARTY RECEIVABLE

Accounts receivable includes HTG 37,779,996 receivable from Sevis Finansye Fonkoze. This receivable represents the summation of numerous intercompany transactions due to the transfer of assets and operations of several financial service branches transferred to Fonkoze SA during 2004 (Note I).

NOTE E – LOANS

Loans consist of the following at December 31:

	<u>2004</u>	<u>2003</u>
Market vendor solidarity groups	HTG 15,892,710	HTG 99,748,914
Business development	<u>21,067,126</u>	<u>16,860,965</u>
Total Loans	36,959,836	116,609,879
Less allowance for loan losses	<u>936,783</u>	<u>3,354,925</u>
Net Loans	<u>HTG 36,023,053</u>	<u>HTG 113,254,954</u>

The term of the loans is between three and twenty-four months. Interest rates vary between thirty-five and sixty percent. Approximately seventeen percent of loans at December 31, 2004 are guaranteed (Note A).

Loans in the amount of HTG 476,599 were written off in the year ended December 31, 2004. No loans were written off in the year ended December 31, 2003. Recoveries of loans previously written off were HTG 33,842 for 2003. None were recovered in 2004. The allowance for loan losses was adjusted using a factor of three percent, which exceeds the allowance calculation using CAMEL rating (See Note A).

NOTE F – DEPOSITS

Deposits consist of the following at December 31:

	<u>2004</u>	<u>2003</u>
Deposits in Haitian gourdes	HTG 12,828,187	HTG 115,341,660
Deposits in U.S. dollars	<u>5,694,552</u>	<u>66,604,302</u>
Total	<u>HTG 18,522,739</u>	<u>HTG 181,945,962</u>

Deposits bear interest at rates between zero and two percent.

FONDASYON KOLE ZEPÒL
FONKOZE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

NOTE G – NOTES PAYABLE

Notes payable consist of the following at December 31:

	<u>2004</u>	<u>2003</u>
Payable to Fonkoze USA with interest at annual percentage rates from zero to three percent and maturities from January 1, 2004 to January 1, 2011	36,638,697	33,986,503
Payable to Unibank with interest at fifteen percent (2004) and thirty-two percent (2003) per annum. Due June 2005	21,876,573	30,407,704
Payable to investors living abroad with interest at annual percentage rates from zero to four percent and maturities between January 1, 2004 and April 17, 2010	4,947,591	4,519,826
Payable to Stitching Doen Foundation with interest at an annual percentage rate of eight percent. Due January 25, 2008	3,720,822	4,207,859
Payable to City National Bank and Socabank under temporary lines of credit	<u>-</u>	<u>14,321,797</u>
Total Notes Payable	67,183,683	87,443,689
Accrued Interest	<u>250,344</u>	<u>399,601</u>
Total	<u><u>67,434,027</u></u>	<u><u>87,843,290</u></u>

NOTE H – PERMANENTLY RESTRICTED NET ASSETS

Between 2002 and 2004 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 1,826,847 were forgiven in 2004. No loans were forgiven in 2003.

During 2000, USAID provided HTG 320,000 as a grant to the Organization to be used for Business Development Loans. This amount is permanently restricted for that purpose.

FONDASYON KOLE ZEPÒL
FONKOZE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

NOTE I – REORGANIZATION

At June 30, 2004 the Organization transferred the assets and liabilities of all branches, that the Board of Directors deemed profitable, to a new financial services holding company, Fonkoze SA. Fonkoze SA wholly owns its subsidiary Sevis Finansye Fonkoze, a financial services company. Both Fonkoze SA and Sevis Finansye Fonkoze were incorporated under the laws of the Republic of Haiti.

Prior to the transfer, a value was placed on the net assets to be transferred by the accounting appraisal office, Serres & Associates. That appraisal resulted in an increase in the value of the net assets to be transferred of HTG 8,177,060. This amount is shown on the Statement of Activities as Gain on Transfer of Assets. The value of the net assets at the date of transfer was HTG 2,012,768. This amount was due to the Organization at December 31, 2004 and is included in Accounts Receivable on the Statement of Financial Position (Note D).

The Organization agreed to invest USD 500,000 in Fonkoze SA receiving a 42% interest in the holding company. The Organization owes Fonkoze USD 443,683 (HTG 16,519,117) at December 31, 2004 for this stock subscription. This amount is included in Accounts Payable on the Statement of Financial Position.

NOTE J – GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Auditors for the year ended December 31, 2003 reported on the financial statements prepared in accordance with international generally accepted accounting principles. The financial statements for the year ended December 31, 2004 were prepared using accounting principles generally accepted in the United States. As a result of this change, real estate owned by the Organization will be recorded at cost after January 1, 2004. This change had no material effect on the financial statements for the year ended December 31, 2004.

NOTE K – PRIOR YEAR ADJUSTMENTS

During 2004 management discovered that certain fixed assets purchased prior to January 1, 2004 had not been recorded properly. An adjustment of HTG 171,480 was made to increase Net Assets by this amount.

During 2003 management discovered that errors made during conversion of the computerized accounting system understated Net Assets by HTG 1,604,080. An adjustment of this amount was made which affected various operating accounts.

NOTE L – REPORTING UNDER FINANCIAL ACCOUNTING STANDARDS BOARD STATEMENT 117

FASBS 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 M – COMMITMENTS

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

2005	HTG	735,000	USD	-
2006		312,500		-
2007		312,500		175
2008		12,500		2,100
2009		9,375		1,925
TOTAL		<u>1,381,875</u>		<u>4,200</u>

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, 2004 and 2003 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 express 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
June 10, 2005



FONDASYON KOLE ZEPÒL
FONKOZE
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 490,900	\$ 1,406,378
INVESTMENTS	494,510	1,446,456
ACCOUNTS RECEIVABLE	1,094,948	112,583
LOANS	992,695	2,770,824
Less allowance for loan losses	25,161	79,718
Net loans	967,534	2,691,106
FIXED ASSETS	208,318	1,063,714
Accumulated depreciation	30,023	223,711
Fixed assets, net	178,295	840,003
OTHER ASSETS	51,969	136,790
TOTAL ASSETS	3,278,156	6,633,316
LIABILITIES AND NET ASSETS		
DEPOSITS	497,498	4,323,307
NOTES PAYABLE		
Current portion	1,102,959	1,466,352
Long-term portion	708,235	620,935
OTHER LIABILITIES	480,413	211,146
TOTAL LIABILITIES	2,789,105	6,621,740
NET ASSETS (DEFICIT)		
Unrestricted	406,445	(75,509)
Fixed assets revaluation surplus	-	65,017
Permanently restricted net assets	82,606	22,068
TOTAL NET ASSETS	489,051	11,576
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	\$ 3,278,156	\$ 6,633,316

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

