

**FONKOZE USA, INC.**  
**FINANCIAL STATEMENTS**  
**and**  
**INDEPENDENT AUDITOR'S REPORT**  
**Years Ended December 31, 2003 and 2002**

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TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT.....	1
FINANCIAL STATEMENTS	
Balance Sheets .....	2
Statements of Activities .....	3
Statements of Functional Expenses .....	4 - 5
Statements of Cash Flows.....	6
Notes to Financial Statements.....	7 - 11



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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Fonkoze USA, Inc.  
New York, N.Y.

We have audited the accompanying balance sheets of Fonkoze USA, Inc. (a not-for-profit organization) as of December 31, 2003 and 2002 and the related statements of activities, functional expenses, 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 audits.

We conducted our audits 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, 2003 and 2002 and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

*Kamerow, Weintraub & Swain, LLP*

March 3, 2004

FONKOZE USA, INC.

BALANCE SHEETS

December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 8,843	\$ 757,586
Interest receivable	8,346	6,324
Loans receivable - current portion	230,550	257,220
Other receivables	<u>28,995</u>	<u>4,406</u>
TOTAL CURRENT ASSETS	276,734	1,025,536
INVESTMENTS	286,797	51,001
LOANS RECEIVABLE - less current portion	<u>577,020</u>	<u>253,100</u>
TOTAL ASSETS	<u>\$ 1,140,551</u>	<u>\$ 1,329,637</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 3,757	\$ 4,052
Interest payable	413	4,935
Loans payable - investors, current portion	<u>400,550</u>	<u>257,220</u>
TOTAL CURRENT LIABILITIES	404,720	266,207
LOANS PAYABLE - INVESTORS, less current portion	<u>621,100</u>	<u>953,100</u>
TOTAL LIABILITIES	<u>1,025,820</u>	<u>1,219,307</u>
NET ASSETS		
Unrestricted	113,171	109,780
Temporarily restricted	<u>1,560</u>	<u>550</u>
TOTAL NET ASSETS	<u>114,731</u>	<u>110,330</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,140,551</u>	<u>\$ 1,329,637</u>

See accompanying notes.

FONKOZE USA, INC.

STATEMENTS OF ACTIVITIES

Years Ended December 31, 2003 and 2002

	2003		2002	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted
<b>REVENUES</b>				
Board and staff contributions	\$ 2,985	\$ -	\$ 7,836	\$ -
Grants	5,558	49,000	1,941	230,350
Individual contributions	86,611	29,640	855,225	32,570
Local offices contributions	18,243	-	15,530	-
Amos fund	-	-	-	1,000
Interest income	32,527	-	28,978	-
In-kind contributions	134,028	-	141,777	-
Delegation income	-	-	6,853	-
Realized gain on investments	2,596	-	-	-
Unrealized gain (loss) on investments	5,589	-	(349)	-
Other income	156	-	282	-
Net assets released from restrictions:				
Satisfaction of program restrictions	77,630	(77,630)	266,320	(266,320)
<b>TOTAL REVENUES</b>	<b>365,923</b>	<b>1,010</b>	<b>1,324,393</b>	<b>(2,400)</b>
<b>EXPENSES</b>				
<b>PROGRAM SERVICES:</b>				
Grants to Fonkoze Haiti	40,170	-	863,496	-
Grants to Visitation House	19,875	-	24,215	-
Grants to Peasant Association of Fondwa	35,800	-	73,950	-
Other grants	4,118	-	9,712	-
Education	101,890	-	119,449	-
<b>TOTAL PROGRAM SERVICES</b>	<b>201,853</b>	<b>-</b>	<b>1,090,822</b>	<b>-</b>
<b>SUPPORTING SERVICES:</b>				
Fundraising	55,790	-	30,899	-
Administration	104,889	-	168,099	-
<b>TOTAL SUPPORTING SERVICES</b>	<b>160,679</b>	<b>-</b>	<b>198,998</b>	<b>-</b>
<b>TOTAL EXPENSES</b>	<b>362,532</b>	<b>-</b>	<b>1,289,820</b>	<b>-</b>
<b>CHANGE IN NET ASSETS</b>	<b>3,391</b>	<b>1,010</b>	<b>34,573</b>	<b>(2,400)</b>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<b>109,780</b>	<b>550</b>	<b>75,207</b>	<b>2,950</b>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 113,171</b>	<b>\$ 1,560</b>	<b>\$ 109,780</b>	<b>\$ 550</b>

See accompanying notes.

FONKOZE USA, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2003

	Grants	Education	Fundraising	Administration	Total
Consulting fees	\$ -	\$ 101	\$ 55	\$ 74	\$ 230
Grants to Fonkoze Haiti	40,170	-	-	-	40,170
Grants to Visitation House	19,875	-	-	-	19,875
Grants to Peasant Association of Fondwa	35,800	-	-	-	35,800
Other grants	4,118	-	-	-	4,118
Layout/design	-	650	650	-	1,300
Board meetings	-	-	-	10,516	10,516
Postage and delivery	-	2,034	1,110	1,480	4,624
Printing	-	5,527	3,015	4,019	12,561
Supplies	-	-	-	1,051	1,051
Telephone	-	2,029	1,107	1,476	4,612
Travel	-	1,863	1,016	1,355	4,234
Bank charges	-	-	-	160	160
Interest expense	-	-	-	13,437	13,437
Insurance	-	3,382	1,845	2,459	7,686
Professional services	-	62,105	33,876	45,167	141,148
Office rent	-	-	-	6,204	6,204
Amos fund expenses	-	1,318	719	959	2,996
Miscellaneous	-	930	507	677	2,114
Salaries	-	20,012	10,915	14,554	45,481
Payroll taxes	-	1,789	975	1,301	4,065
Donations	-	150	-	-	150
<b>TOTAL</b>	<b>\$ 99,963</b>	<b>\$ 101,890</b>	<b>\$ 55,790</b>	<b>\$ 104,889</b>	<b>\$ 362,532</b>

See accompanying notes.

FONKOZE USA, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2002

	Grants	Education	Fundraising	Administration	Total
Consulting fees	\$ -	\$ -	\$ -	\$ 2,610	2,610
Grants to Fonkoze Haiti	863,496	-	-	-	863,496
Grants to Visitation House	24,215	-	-	-	24,215
Grants to Peasant Association of Fondwa	73,950	-	-	-	73,950
Other grants	9,712	-	-	-	9,712
Layout/design	-	864	864	-	1,728
Board meetings	-	-	-	15,584	15,584
Delegation expense	-	5,741	-	-	5,741
Postage and delivery	-	1,846	1,007	1,342	4,195
Printing	-	6,191	3,404	4,383	13,978
Supplies	-	-	-	1,986	1,986
Telephone	-	4,471	2,489	3,200	10,160
Travel	-	1,762	969	1,247	3,978
Bank charges	-	-	-	116	116
Interest expense	-	-	-	17,012	17,012
Insurance	-	1,665	1,342	5,150	8,157
Professional services	-	61,000	-	84,907	145,907
Office rent	-	-	-	4,200	4,200
Miscellaneous	-	367	948	898	2,213
Salaries	-	31,607	18,305	23,451	73,363
Payroll taxes	-	2,711	1,571	2,013	6,295
Donations	-	1,224	-	-	1,224
<b>TOTAL</b>	<b>\$ 971,373</b>	<b>\$ 119,449</b>	<b>\$ 30,899</b>	<b>\$ 168,099</b>	<b>\$ 1,289,820</b>

See accompanying notes.

FONKOZE USA, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 4,401	\$ 32,173
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized gain on investments	(2,596)	-
Unrealized (gain) loss on investments	(5,589)	349
(Increase) decrease in:		
Interest receivable	(2,022)	(430)
Loans receivable	(297,250)	634,955
Other receivables	(24,589)	18,094
Increase (decrease) in:		
Accounts payable	(295)	445
Interest payable	(4,522)	175
Loans payable - investors	(188,670)	65,045
Other payables	-	(6,210)
	<u>(521,132)</u>	<u>744,596</u>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(495,642)	(60,902)
Proceeds from sales of investments	268,031	9,552
	<u>(227,611)</u>	<u>(51,350)</u>
<b>NET CASH USED BY INVESTING ACTIVITIES</b>		
<b>NET INCREASE (DECREASE) IN CASH</b>	(748,743)	693,246
<b>CASH AT BEGINNING OF YEAR</b>	<u>757,586</u>	<u>64,340</u>
<b>CASH AT END OF YEAR</b>	<u><u>\$ 8,843</u></u>	<u><u>\$ 757,586</u></u>
<b>SUPPLEMENTAL DISCLOSURES</b>		
Cash paid during the year for:		
Interest	\$ 17,959	\$ 16,887
Income taxes	-	-

See accompanying notes.

FONKOZE USA, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Fonkoze USA, Inc. (the Organization) 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 of Haiti, and to promote education in the U.S. about alternative approaches to democratic and sustainable economic development in Haiti. At the first organizational meeting, the Board of Directors of Fonkoze USA, Inc. voted that Fonkoze Haiti (a Haitian Foundation) would be a recipient of such grants and loans approved by the Board to support programs and activities benefiting the poor. At a subsequent meeting of the Board of Directors, additional Haitian organizations were approved as Fonkoze USA, Inc. grant recipients.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. At December 31, 2003 and 2002, the Organization had no permanently restricted net assets. Temporarily restricted net assets consisted of:

	<u>2003</u>	<u>2002</u>
Visitation House	\$ 1,560	\$ 50
Fonkoze Haiti	-	<u>500</u>
Total temporarily restricted net assets	<u>\$ 1,560</u>	<u>\$ 550</u>

Estimates

The preparation of financial statements in conformity with U.S. 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.

FONKOZE USA, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES  
(Continued)

Cash

For purposes of the financial statement presentation, cash includes all demand accounts.

Investments

Investments are carried at market value. Accordingly, unrealized gains and losses, due to market fluctuations during the year, are recognized at year end. Realized gains and losses are recognized upon sale or disposal.

Receivables

The Organization does not maintain an allowance for doubtful accounts, as all amounts are deemed to be collectible. All amounts are due from Fonkoze Haiti.

Revenue and Expenses

The Organization's 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 balance sheets.

Restricted and Unrestricted Revenue

Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Donor-restricted revenue is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restriction.

Income Taxes

The Organization has been granted exemption from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is not classified as a private foundation.

FONKOZE USA, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

NOTE B - INVESTMENTS

Investments held by the Organization consisted of the following as of December 31, 2003:

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Money market funds	\$ 1,339	\$ 1,339	\$ -
Mutual funds	279,716	285,022	5,306
Securities	<u>502</u>	<u>436</u>	<u>(66)</u>
BALANCE, DECEMBER 31, 2003	<u>\$ 281,557</u>	<u>\$ 286,797</u>	<u>\$ 5,240</u>
BALANCE, DECEMBER 31, 2002	<u>\$ 51,350</u>	<u>\$ 51,001</u>	<u>\$ (349)</u>
UNREALIZED GAIN ON INVESTMENTS			<u>\$ 5,589</u>

Investments held by the Organization consisted of the following as of December 31, 2002:

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Money market funds	\$ 6,798	\$ 6,798	\$ -
Mutual funds - equities	<u>44,552</u>	<u>44,203</u>	<u>(349)</u>
BALANCE, DECEMBER 31, 2002	<u>\$ 51,350</u>	<u>\$ 51,001</u>	<u>\$ (349)</u>
UNREALIZED LOSS ON INVESTMENTS			<u>\$ (349)</u>

FONKOZE USA, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

NOTE C - AFFILIATED ORGANIZATIONS

The Organization shares a common mission with Fonkoze Haiti. Donations and loans acquired by the Organization are donated through grants and loans to Fonkoze Haiti. Two of sixteen board members are common to the Organization and Fonkoze Haiti. For the years ended December 31, 2003 and 2002, grants in the amount of \$40,170 and \$863,496, respectively, were made to Fonkoze Haiti. At December 31, 2003 and 2002, loans receivable from Fonkoze Haiti were \$807,570 and \$510,320, respectively. Interest income from loans to Fonkoze Haiti was \$23,659 and \$28,955, respectively, for the years ended December 31, 2003 and 2002. Interest receivable due from Fonkoze Haiti at December 31, 2003 and 2002, was \$8,346 and \$6,324, respectively.

One board member of the Organization is also a board member of the Peasant Association of Fondwa, located in Haiti. Grants made to the Peasant Association of Fondwa equaled \$35,800 and \$73,950 for the years ended December 31, 2003 and 2002, respectively.

NOTE D - DONATED SERVICES

The services of an attorney have been donated to the Organization for various corporate matters for the years ended December 31, 2003 and 2002 in the amounts of approximately \$133,128 and \$139,117, respectively. For the year ended December 31, 2003, the value of these services has been reflected in the financial statements as in-kind contributions with a related expense of \$133,128 recorded as professional services. For the year ended December 31, 2002, the value of the donated legal services has been reflected in the financial statements as in-kind contributions with related expenses of \$61,000 recorded as grants to Fonkoze and \$78,117 recorded as professional services.

The Organization also received benefit from donated travel, room, and board provided for a Fonkoze student by various professionals. The total estimated value of these donations for the year ended December 31, 2002 is \$2,660. The value of these services has been reflected in the financial statements as in-kind contributions with like amounts recorded as grants to Fonkoze expense and board meeting expense.

The Organization received benefit for other services for the year ended December 31, 2003 with the estimated value of \$900. The value of these services has been reflected in the financial statements as in-kind contributions.

FONKOZE USA, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

NOTE E - LEASE

The Organization occupies office space in New York, NY. The rental payments are made under lease terms that are in force on a month-to-month basis. Rent expense for the years ended December 31, 2003 and 2002 was \$6,204 and \$4,200, respectively.

NOTE F - LOANS PAYABLE - INVESTORS

The loans payable balances of \$400,550 and \$257,220, current portion, and \$621,100 and \$953,100, long-term portion, as of December 31, 2003 and 2002, respectively, are comprised of payables to various investors who have made loans to Fonkoze USA, Inc. to support its programs and activities. The interest rate on these loans payable vary between zero and four percent, and the maturity dates vary up to November 2008. Interest expense on loans payable was \$13,437 and \$17,012 for the years ended December 31, 2003 and 2002, respectively.

Maturity on the loans is as follows:

2004	\$ 400,550
2005	190,100
2006	280,500
2007	65,500
2008	69,000
Thereafter	<u>16,000</u>
	1,021,650
Less: current portion	<u>400,550</u>
LOANS PAYABLE - INVESTORS, less current portion	<u>\$ 621,100</u>

NOTE G - RECLASSIFICATIONS

Certain reclassifications have been made to the financial statements for the year ended December 31, 2002 to conform with the year ended December 31, 2003 presentation. The reclassifications had no effect on the change in net assets as previously reported.