

FONDASYON KOLE ZEPÒL

**FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION**

Years Ended December 31, 2002 and 2001

and

INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Fondasyon Kole Zepòl (Fonkoze)

We have audited the accompanying statement of financial position of Fondasyon Kole Zepòl (Fonkoze) as of December 31, 2002 and 2001 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Fonkoze's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing. Those standards require that we plan and perform the audits 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 in the first paragraph, present fairly, in all material respects, the financial position of Fonkoze as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in accordance with International Accounting Standards.

Kamerow, Weintraub & Swain, LLP

March 23, 2003

FONDASYON KOLE ZEPÒL (FONKOZE)

STATEMENTS OF FINANCIAL POSITION

December 31, 2002 and 2001
(Expressed in Haitian Gourdes)

		<u>2002</u>		<u>2001</u>
ASSETS				
CASH AND CASH EQUIVALENTS	HTG	23,436,700	HTG	28,476,092
INVESTMENTS		55,375,610		36,852,643
DONATIONS RECEIVABLE		10,994,996		7,516,285
LOANS		42,397,316		23,676,060
Less allowance for loan losses		<u>(339,996)</u>		<u>(1,494,423)</u>
Net loans		42,057,320		22,181,637
FIXED ASSETS		31,988,634		11,722,027
Accumulated depreciation		<u>(3,615,357)</u>		<u>(2,455,998)</u>
Fixed assets, net		28,373,277		9,266,029
OTHER ASSETS		<u>4,641,525</u>		<u>3,092,198</u>
	TOTAL ASSETS	HTG <u>164,879,428</u>	HTG	<u>107,384,884</u>
LIABILITIES AND DEFICIT				
DEPOSITS	HTG	<u>115,228,520</u>	HTG	<u>66,923,566</u>
DEBTS				
Current portion		6,966,519		6,002,351
Long-term portion		<u>22,982,892</u>		<u>37,446,278</u>
		29,949,411		43,448,629
OTHER LIABILITIES		<u>1,129,856</u>		<u>1,272,679</u>
	TOTAL LIABILITIES	<u>146,307,787</u>		<u>111,644,874</u>
NET ASSETS (DEFICIT)				
Unrestricted		14,906,685		(6,996,220)
Fixed assets revaluation surplus		2,736,230		2,736,230
Permanently restricted capital		<u>928,726</u>		<u>-</u>
		18,571,641		(4,259,990)
	TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	HTG <u>164,879,428</u>	HTG	<u>107,384,884</u>

See accompanying notes.

FONDASYON KOLE ZEPÒL (FONKOZE)

STATEMENTS OF ACTIVITIES

Years Ended December 31, 2002 and 2001
(Expressed in Haitian Gourdes)

	<u>2002</u>	<u>2001</u>
INTEREST INCOME		
Loans	HTG 6,589,708	HTG 4,755,432
Other	<u>3,229,473</u>	<u>1,719,031</u>
	9,819,181	6,474,463
INTEREST EXPENSES		
Deposits and debt	<u>3,609,813</u>	<u>3,892,117</u>
NET INTEREST INCOME	6,209,368	2,582,346
Provision for loan losses	<u>-</u>	<u>(1,278,694)</u>
	<u>6,209,368</u>	<u>1,303,652</u>
OTHER INCOME		
Donations	35,845,466	21,203,016
Foreign exchange gain:		
Trading gain	10,100,461	6,068,215
Gain (loss) on revaluation	<u>7,165,157</u>	<u>(304,103)</u>
Net foreign exchange gain	<u>17,265,618</u>	<u>5,764,112</u>
Membership dues	1,358,750	805,950
Other	<u>2,749,550</u>	<u>1,816,609</u>
NET INTEREST INCOME AND OTHER INCOME	<u>63,428,752</u>	<u>30,893,339</u>
OPERATING EXPENSES		
Salaries and other employee benefits	22,154,524	12,294,191
Premises and equipment expenses	6,127,769	3,835,870
Depreciation	1,983,627	1,297,157
Other expenses	<u>10,877,256</u>	<u>6,510,930</u>
	<u>41,143,176</u>	<u>23,938,148</u>
EXCESS OF REVENUES OVER EXPENSES BEFORE NON OPERATING INCOME (EXPENSE)	22,285,576	6,955,191
Non-operating gain (loss)	(382,671)	(224,511)
In-kind contributions	8,236,957	7,864,851
Services received	<u>(8,236,957)</u>	<u>(7,864,851)</u>
CHANGE IN UNRESTRICTED NET ASSETS	21,902,905	6,730,680
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS		
Capital grant contribution	<u>928,726</u>	<u>-</u>
CHANGE IN NET ASSETS	22,831,631	6,730,680
NET DEFICIT AT BEGINNING OF YEAR	<u>(4,259,990)</u>	<u>(10,990,670)</u>
NET ASSETS (DEFICIT) AT END OF YEAR	HTG <u><u>18,571,641</u></u>	HTG <u><u>(4,259,990)</u></u>

See accompanying notes.

FONDASYON KOLE ZEPÒL (FONKOZE)

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2002 and 2001
(Expressed in Haitian Gourdes)

	<u>2002</u>	<u>2001</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	HTG 22,831,631	HTG 6,730,680
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	1,983,627	1,297,157
Unrealized loss on investments	161,162	-
(Increase) decrease in:		
Donations receivable	(3,478,711)	(5,912,425)
Loans	(19,875,683)	(4,350,429)
Other assets	(1,549,327)	(3,238,070)
Increase (decrease) in:		
Other liabilities	<u>(141,324)</u>	<u>1,272,679</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>(68,625)</u>	<u>(4,200,408)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of long-term investments	(18,527,041)	(34,468,862)
Purchase of fixed assets	<u>(21,247,963)</u>	<u>(2,942,474)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(39,775,004)</u>	<u>(37,411,336)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	48,304,955	28,277,217
Net proceeds from (payments on) debt	<u>(13,500,718)</u>	<u>6,793,083</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>34,804,237</u>	<u>35,070,300</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,039,392)	(6,541,444)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>28,476,092</u>	<u>35,017,536</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	HTG <u><u>23,436,700</u></u>	HTG <u><u>28,476,092</u></u>
SUPPLEMENTAL DISCLOSURES		
Cash paid during the year for:		
Interest	HTG 3,096,215	HTG 3,137,358
Income taxes	-	-

See accompanying notes

FONDASYON KOLE ZEPÒL (FONKOZE)

NOTES TO FINANCIAL STATEMENTS

December 31, 2002 and 2001

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Fondasyon Kole Zepòl (Fonkoze) is a national 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 Fonkoze's assets is located in Haiti.

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.

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.

Investments

Investments are composed mainly of money market funds and corporate debt and government securities and are recorded at market value.

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.

FONDASYON KOLE ZEPÒL (FONKOZE)

NOTES TO FINANCIAL STATEMENTS

December 31, 2002 and 2001

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

Loans (Continued)

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 financed by Fonkoze and managed by MEDA 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 their International headquarters and Fonkoze.

Specific rates of provisions applied to loans to women street 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 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

Except for land and buildings, which are stated at fair market value, fixed assets are recorded at cost.

The market value of land and buildings have been determined based on a recent independent expert's appraisal dated July 2001.

FONDASYON KOLE ZEPÒL (FONKOZE)

NOTES TO FINANCIAL STATEMENTS

December 31, 2002 and 2001

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

Fixed Assets (Continued)

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.

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, 2002 and 2001 was 29.2512 and 24.4290 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, 2002 and 2001 was 37.6092 and 26.3389 Haitian gourdes to one U.S. dollar, respectively.

FONDASYON KOLE ZEPÒL (FONKOZE)

NOTES TO FINANCIAL STATEMENTS

December 31, 2002 and 2001

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

Income Taxes

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

Market Value of Assets

Market value of monetary assets is equivalent to their cost.

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.

NOTE B - CASH AND CASH EQUIVALENTS

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

		<u>2002</u>		<u>2001</u>
Cash	HTG	7,220,274	HTG	13,569,913
Deposits in Haitian banks		3,805,470		3,183,429
Deposits in foreign banks - USA (a)		6,696,303		8,917,806
Deposits in other foreign banks		<u>5,714,653</u>		<u>2,804,944</u>
	HTG	<u>23,436,700</u>	HTG	<u>28,476,092</u>

- (a) As a condition of a loan agreement between Fonkoze and Fonkoze USA (Note H), Fonkoze 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 to Fonkoze by Fonkoze USA. At December 31, 2002, an amount of 10,262,838 Haitian gourdes, equivalent to \$272,881 was held in U.S. bank accounts, and Fonkoze was in compliance with the above condition.

FONDASYON KOLE ZEPÒL (FONKOZE)

NOTES TO FINANCIAL STATEMENTS

December 31, 2002 and 2001

NOTE B - CASH AND CASH EQUIVALENTS (Continued)

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

		<u>2002</u>		<u>2001</u>
Interest bearing accounts:				
Money market funds	HTG	6,626,657	HTG	5,929,576
Certificate of deposits		1,880,460		3,975,527
Savings		5,734,022		2,818,522
Overnight deposits in local banks		2,498,238		387,159
		<u>16,739,377</u>		<u>13,110,784</u>
Non-interest bearing accounts		<u>(522,951)</u>		<u>1,795,395</u>
TOTAL BANK DEPOSITS	HTG	<u>16,216,426</u>	HTG	<u>14,906,179</u>

Interest bearing accounts earned an average interest rate of 0.64% to 6% during the year 2002 and 1.5% to 6% in 2001.

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

		<u>2002</u>		<u>2001</u>
Cash in Haitian gourdes	HTG	4,528,806	HTG	7,918,693
Cash in U.S. dollars		<u>2,691,468</u>		<u>5,651,220</u>
TOTAL CASH		<u>7,220,274</u>		<u>13,569,913</u>
Bank deposits in Haitian gourdes		(892,113)		816,463
Bank deposits in U.S. dollars		<u>17,108,539</u>		<u>14,089,716</u>
TOTAL BANK DEPOSITS		<u>16,216,426</u>		<u>14,906,179</u>
TOTAL CASH AND CASH EQUIVALENTS	HTG	<u>23,436,700</u>	HTG	<u>28,476,092</u>

FONDASYON KOLE ZEPÒL (FONKOZE)

NOTES TO FINANCIAL STATEMENTS

December 31, 2002 and 2001

NOTE C - INVESTMENTS

As of December 31, investments are as follows:

		<u>2002</u>		<u>2001</u>
Local investments:				
Long-term equity shares in SNI-Minoterie	HTG	944,367	HTG	661,370
Long-term equity shares in Prodisel		5,000		5,000
Foreign investments:				
U.S. government securities		3,522,612		4,893,911
Certificates of deposits		7,841,116		-
Corporate bonds		19,489,129		22,759,024
Fixed rate capital securities		5,896,446		-
Mutual funds		<u>17,676,940</u>		<u>8,533,338</u>
TOTAL INVESTMENTS	HTG	<u>55,375,610</u>	HTG	<u>36,852,643</u>

U.S. government securities had an average interest rate of 5.5% to 6.5% in 2002 and 5% to 6% in 2001 and mature in 2003, 2015, 2030 and 2031.

Corporate debt and fixed rate capital securities bear interest rates averaging between 3.8% and 10.25% and mature at various future dates.

Money market accounts and certificates of deposit held for long-term investment purposes bear interest rates averaging between 0.64% and 5.3%.

NOTE D - LOANS

As of December 31, loans are as follows:

		<u>2002</u>		<u>2001</u>
Women street vendor solidarity groups	HTG	32,816,340	HTG	18,688,362
Small organizations		-		129,882
Concern Worldwide/La Gonave Project		1,923,295		1,922,134
Business development		5,497,181		1,154,347
MEDA		<u>2,160,500</u>		<u>1,781,335</u>
TOTAL LOANS	HTG	<u>42,397,316</u>	HTG	<u>23,676,060</u>

FONDASYON KOLE ZEPÒL (FONKOZE)

NOTES TO FINANCIAL STATEMENTS

December 31, 2002 and 2001

NOTE D - LOANS (Continued)

As of December 31, 2002, annual effective interest rates and maturity on loans are as follows:

	<u>Interest rates</u>	<u>Maturity</u>
Women street vendor solidarity groups	31 - 32%	3 to 6 months
Concern Worldwide/La Gonave Project	15%	12 months
Business development	18 - 36%	4 to 24 months
MEDA	15%	36 months

As of December 31, 2001, annual effective interest rates and maturity on loans are as follows:

	<u>Interest rates</u>	<u>Maturity</u>
Women street vendor solidarity groups	31 - 32%	3 to 6 months
Small organizations	28 - 36%	6 to 12 months
Concern Worldwide/La Gonave Project	15%	12 months
Business development	18 - 36%	(a)
MEDA	15%	36 months

(a) Except for one 10-year loan of 517,416 Haitian gourdes at December 31, 2001, which matures in 2008, business development loans mature within 4 to 24 months.

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

The provision for loan losses is as follows:

		<u>2002</u>		<u>2001</u>
Balance at beginning of the year	HTG	1,494,423	HTG	1,703,031
Provision for the year		-		1,151,474
Amount of write offs		(1,244,467)		(1,487,302)
Recoveries restored to allowance		90,040		127,220
Balance at end of year	HTG	<u>339,996</u>	HTG	<u>1,494,423</u>

FONDASYON KOLE ZEPÒL (FONKOZE)

NOTES TO FINANCIAL STATEMENTS

December 31, 2002 and 2001

NOTE E - FIXED ASSETS

As of December 31, 2002, fixed assets are as follows:

		Fixed Assets	Accumulated Depreciation	Net Value
At market				
Land	HTG	570,500	-	570,500
Buildings		4,422,000	442,200	3,979,800
		<u>4,992,500</u>	<u>442,200</u>	<u>4,550,300</u>
Total at market				
		<u>4,992,500</u>	<u>442,200</u>	<u>4,550,300</u>
At cost				
Furniture and equipment		2,365,375	881,965	1,483,410
Computer equipment		18,817,288	239,788	18,577,500
Vehicles		4,616,921	1,601,631	3,015,290
Leasehold improvements		1,196,550	449,773	746,777
		<u>26,996,134</u>	<u>3,173,157</u>	<u>23,822,977</u>
Total at cost				
		<u>26,996,134</u>	<u>3,173,157</u>	<u>23,822,977</u>
TOTAL FIXED ASSETS	HTG	<u>31,988,634</u>	<u>3,615,357</u>	<u>28,373,277</u>

As of December 31, 2001, fixed assets are as follows:

		Fixed Assets	Accumulated Depreciation	Net Value
At market				
Land	HTG	570,500	-	570,500
Buildings		4,422,000	221,100	4,200,900
		<u>4,992,500</u>	<u>221,100</u>	<u>4,771,400</u>
Total at market				
		<u>4,992,500</u>	<u>221,100</u>	<u>4,771,400</u>
At cost				
Furniture and equipment		1,380,581	499,256	881,325
Computer equipment		496,005	131,932	364,073
Vehicles		4,156,289	1,365,304	2,790,985
Leasehold improvements		696,652	238,406	458,246
		<u>6,729,527</u>	<u>2,234,898</u>	<u>4,494,629</u>
Total at cost				
		<u>6,729,527</u>	<u>2,234,898</u>	<u>4,494,629</u>
TOTAL FIXED ASSETS	HTG	<u>11,722,027</u>	<u>2,455,998</u>	<u>9,266,029</u>

FONDASYON KOLE ZEPÒL (FONKOZE)

NOTES TO FINANCIAL STATEMENTS

December 31, 2002 and 2001

NOTE F - OTHER ASSETS

As of December 31, other assets are as follows:

		<u>2002</u>		<u>2001</u>
Accounts receivable	HTG	976,363	HTG	-
Prepaid expenses		3,149,352		2,359,992
Literacy games		515,810		463,960
Other		-		268,246
		<u> </u>		<u> </u>
TOTAL OTHER ASSETS	HTG	<u>4,641,525</u>	HTG	<u>3,092,198</u>

NOTE G - DEPOSITS

As of December 31, deposits are as follows:

		<u>2002</u>		<u>2001</u>
Savings deposits:				
Gourdes	HTG	78,769,343	HTG	46,661,822
Dollars U.S.		33,658,500		14,949,286
		<u> </u>		<u> </u>
TOTAL SAVINGS		<u>112,427,843</u>		<u>61,611,108</u>
Term deposits:				
Gourdes		2,498,301		1,773,273
Dollars U.S.		302,376		3,539,185
		<u> </u>		<u> </u>
TOTAL TERM		<u>2,800,677</u>		<u>5,312,458</u>
		<u> </u>		<u> </u>
TOTAL DEPOSITS	HTG	<u>115,228,520</u>	HTG	<u>66,923,566</u>

FONDASYON KOLE ZEPÒL (FONKOZE)

NOTES TO FINANCIAL STATEMENTS

December 31, 2002 and 2001

NOTE G - DEPOSITS (Continued)

As of December 31, 2002, annual effective interest rates paid on deposits and maturity are as follows:

	<u>Interest rates</u>	<u>Maturity</u>
Savings deposits:		
Haitian gourdes	2.5%	-
Dollars U.S.	0 - 1%	-
Term deposits:		
Haitian gourdes	9 - 12%	12 months
Dollars U.S.	0 - 1.5%	12 months

As of December 31, 2001, annual effective interest rates paid on deposits and maturity are as follows:

	<u>Interest rates</u>	<u>Maturity</u>
Savings deposits:		
Haitian gourdes	3.6%	-
Dollars U.S.	0 - 1%	-
Term deposits:		
Haitian gourdes	7%	12 months
Dollars U.S.	0 - 1.5%	12 months

NOTE H - DEBTS

As of December 31, 2002, debts are as follows:

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.	HTG	19,192,727
Payable to Foundation Stitching Doen at 8%, maturing in January 2008.		3,760,920
Payable to investors living abroad, at interest rates ranging from 0 to 4%, for periods from one to seven years.		6,995,764
Less: current portion		<u>(6,966,519)</u>
Long-term portion	HTG	<u>22,982,892</u>

FONDASYON KOLE ZEPÒL (FONKOZE)

NOTES TO FINANCIAL STATEMENTS

December 31, 2002 and 2001

NOTE H - DEBTS (Continued)

As of December 31, 2001, debts are as follows:

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.	HTG	30,165,283
Payable to Foundation Stitching Doen at 8%, maturing in January 2008.		7,901,274
Payable to investors living abroad, at interest rates ranging from 0 to 4%, for periods from one to seven years.		5,382,072
Less: current portion		<u>(6,002,351)</u>
Long-term portion	HTG	<u>37,446,278</u>

NOTE I - NON-OPERATING GAINS AND LOSSES

Non-operating losses during the years include the following:

		<u>2002</u>		<u>2001</u>
Unrealized losses on securities	HTG	(125,347)	HTG	(251,472)
Realized gains (losses) on sale of securities		<u>(257,324)</u>		<u>26,961</u>
TOTAL NON-OPERATING LOSSES	HTG	<u>(382,671)</u>	HTG	<u>(224,511)</u>

FONDASYON KOLE ZEPÒL (FONKOZE)

NOTES TO FINANCIAL STATEMENTS

December 31, 2002 and 2001

NOTE J - DONATIONS

Donations for the years are as follows:

		<u>2002</u>		<u>2001</u>
Fonkoze USA	HTG	24,929,335	HTG	9,172,859
MicroStart		1,462,560		1,221,450
Foundation Stichting Doen		4,387,680		-
Other		<u>5,065,891</u>		<u>10,808,707</u>
TOTAL DONATIONS	HTG	<u>35,845,466</u>	HTG	<u>21,203,016</u>

NOTE K - IN-KIND CONTRIBUTIONS

In-kind contributions and services received are as follows:

		<u>2002</u>		<u>2001</u>
Director of Fonkoze	HTG	438,768	HTG	703,351
Other private donors		301,287		251,619
Fonkoze USA		49,727		757,299
Chadbourne & Park LLP		<u>7,447,175</u>		<u>6,152,582</u>
TOTAL IN-KIND CONTRIBUTIONS	HTG	<u>8,236,957</u>	HTG	<u>7,864,851</u>

These contributions were recorded in the following expense categories:

		<u>2002</u>		<u>2001</u>
Salaries	HTG	438,768	HTG	703,351
Training		301,287		251,619
Professional fees		<u>7,496,902</u>		<u>6,909,881</u>
	HTG	<u>8,236,957</u>	HTG	<u>7,864,851</u>

FONDASYON KOLE ZEPÒL (FONKOZE)

NOTES TO FINANCIAL STATEMENTS

December 31, 2002 and 2001

NOTE L - COMMITMENTS

Fonkoze leases office space under a long-term operating lease.

During the years ended December 31, 2002 and 2001, rentals under long-term lease obligations were 1,195,822 and 596,072 Haitian gourdes, respectively. Future obligations over the primary terms of the lease as of December 31, 2002 are:

2003	HTG	1,527,707
2004		73,385
2005		13,871
2006		6,996
2007		6,996
Thereafter		<u>18,073</u>
TOTAL	HTG	<u>1,647,028</u>

NOTE M - 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 commitments in the normal course of business. Fonkoze has suffered significant losses in the past, and although 2002 activity results in a positive net asset position, it is mainly the result of one large donation received in December of 2002. As a consequence, some doubt remains about its ability to continue as a going concern. The Board of Directors and management believe they have taken and continue to take appropriate steps to ensure the financial health of Fonkoze. 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 program and other financial services to create a fully licensed commercial bank with new equity capital. Fonkoze plans to retain a significant interest in the new entity by its controlling interest in Fonkoze S.A., the new corporation formed for the expressed purpose of receiving the assets that will be transferred. Fonkoze S.A. has been approved by Haitian authorities and published in the official journal Le Moniteur #49 dated June 24, 2002 and #20 dated March 13, 2003. In turn, Fonkoze S.A. will be a major shareholder (99.93%) in Bank Fonkoze, the new bank which held its first board meeting on July 12, 2002. The application to the Haitian Central Bank was submitted to the Minister of Finance and Economy on August 6, 2002. The Minister transmitted it without objection to the Governor of the central Bank on September 11, 2002.

FONDASYON KOLE ZEPÒL (FONKOZE)

NOTES TO FINANCIAL STATEMENTS

December 31, 2002 and 2001

NOTE M - GOING CONCERN (Continued)

- Fonkoze's 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.
- Fonkoze has already obtained commitments for more than \$2 million in investment capital for the new bank. These funds are being held, conditioned on the Central Bank's approval of the bank license. The Confidential Offering Memorandum was released in September 2002. The offering will close on June 30, 2003.
- Most of the assets shown in these financial statements will be transferred to the bank, while some of the liabilities will remain in Fonkoze.
- Fonkoze USA will continue its fundraising activities to cover any net asset deficit.

In order to continue as a viable entity into the year 2003 and beyond, Fonkoze will need to successfully implement the strategies discussed above. These financial statements do not include any adjustments that might be necessary if Fonkoze is unable to continue as a going concern.

NOTE N - RECLASSIFICATIONS

Certain items in the 2001 report have been reclassified to conform to current year classifications. Such reclassifications had no effect on previously reported change in net assets.

NOTE O - PERMANENTLY RESTRICTED CAPITAL

During 2002, a "Capital Grant Campaign" was initiated where letters were mailed out to small investors to encourage them to convert their loans into grants to Fonkoze's micro-credit loan fund. The amount of the loans converted in 2002 was HTG 928,726 and is permanently restricted as loan capital for the micro-credit program.

SUPPLEMENTARY INFORMATION



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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors
Fondasyon Kole Zepòl (Fonkoze)

Our report on our audits of the basic financial statements of Fondasyon Kole Zepòl (Fonkoze) as of December 31, 2002 and 2001 appears on page 1. Those audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information presented on page 21 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.

Kamerow, Weintraub & Swain, LLP

March 23, 2003

FONDASYON KOLE ZEPÒL (FONKOZE)

SCHEDULE OF ACTIVITIES

Year Ended December 31, 2002
(Expressed in Haitian Gourdes)

		Non-Financial Services Division	Financial Services Division	Combined
INTEREST INCOME				
Loans	HTG	622,304	5,967,404	6,589,708
Other		116,420	3,113,053	3,229,473
		<u>738,724</u>	<u>9,080,457</u>	<u>9,819,181</u>
INTEREST EXPENSES				
Deposits & debt		<u>1,137,116</u>	<u>2,472,697</u>	<u>3,609,813</u>
NET INTEREST INCOME				
Provision for loan losses		<u>(398,392)</u>	<u>6,607,760</u>	<u>6,209,368</u>
		<u>(398,392)</u>	<u>6,607,760</u>	<u>6,209,368</u>
OTHER INCOME				
Donations		4,810,042	31,035,424	35,845,466
Foreign exchange gain:				
Trading gain		-	10,100,461	10,100,461
Gain (loss) on revaluation		415,579	6,749,578	7,165,157
		<u>415,579</u>	<u>16,850,039</u>	<u>17,265,618</u>
Net foreign exchange gain		<u>415,579</u>	<u>16,850,039</u>	<u>17,265,618</u>
Membership dues		-	1,358,750	1,358,750
Other		46,134	2,703,416	2,749,550
		<u>46,134</u>	<u>2,703,416</u>	<u>2,749,550</u>
NET INTEREST INCOME AND OTHER INCOME				
		<u>4,873,363</u>	<u>58,555,389</u>	<u>63,428,752</u>
OPERATING EXPENSES				
Salaries and other employee benefits		1,820,006	20,334,518	22,154,524
Premises and equipment expenses		501,844	5,625,925	6,127,769
Depreciation		362,031	1,621,596	1,983,627
Other expenses		674,390	10,202,866	10,877,256
		<u>3,358,271</u>	<u>37,784,905</u>	<u>41,143,176</u>
EXCESS OF REVENUES OVER EXPENSES BEFORE NON OPERATING INCOME (EXPENSE)				
		1,515,092	20,770,484	22,285,576
Non-operating losses		-	(382,671)	(382,671)
In-kind contributions		282,274	7,954,683	8,236,957
Services received		<u>(282,274)</u>	<u>(7,954,683)</u>	<u>(8,236,957)</u>
CHANGE IN UNRESTRICTED NET ASSETS				
		1,515,092	20,387,813	21,902,905
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS				
Capital grant contributions		-	928,726	928,726
NET ASSETS (DEFICIT) AT BEGINNING OF YEAR				
		<u>4,341,908</u>	<u>(8,601,898)</u>	<u>(4,259,990)</u>
NET ASSETS AT END OF YEAR				
	HTG	<u>5,857,000</u>	<u>12,714,641</u>	<u>18,571,641</u>