

**FONDASYON KOLE ZEPÒL (FONKOZE)**

**Financial Statements**

**December 31, 2017**

**(With Independent Auditors' Report Thereon)**

## **Independent Auditors' Report**

The Board of Directors  
Fondasyon Kole Zepòl (FONKOZE):

We have audited the accompanying financial statements of Fondasyon Kole Zepòl (FONKOZE), which comprise the statement of financial position as of December 31, 2017, and the related statement of activities and net assets for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

### ***Management's responsibility for the financial statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America (US GAAP); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



The Board of Directors  
Fondasyon Kole Zepòl (FONKOZE):  
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***Basis for restriction***

A statement of cash flows and comparative figures have not been presented due to the fact that prior year adjustments were required following a change in accounting method of recognizing revenues as described in **note 1 c)**. It was not practicable from a cost benefit stand point to present restated financial statement as of December 31, 2016. Consequently, in the absence of comparative financial statements on a consistent basis with the current year, a statement of cash flows is not presented.

A complete set of financial statements under US GAAP requires comparative figures as of and for the year ended December 31, 2016 as well as the presentation of a statement of cash flows.

***Opinion***

In our opinion, except for the fact that comparative figures are not presented as required under US GAAP, and except for the fact that a cash flows statement is not presented, the financial statements referred to above present fairly, in all material respects, the financial position, the results of activities and net assets of Fondasyon Kole Zepòl as of December 31, 2017 and for the year then ended in accordance with US GAAP.

*Mérové-Pierre - Cabinet d'Experts - Comptables*

**MÉROVÉ-PIERRE - CABINET D'EXPERTS-COMPTABLES**

7, Rue Lechaud - Bourdon

Port-au-Prince, Haïti

July 18, 2018

**Fondasyon Kole Zepòl (FONKOZE)**  
**Statement of financial position**  
**December 31, 2017**  
**(Expressed in Gourdes)**

	Notes	2017
<b>Current assets</b>		
Cash and cash equivalents	2	G 98,952,140
Investments	3	4,776,533
Prepaid expenses		4,376,895
Grant receivable	4	40,935,453
Other receivable	5	500,093
Related party receivable	6	1,844,711
Loans	7	<u>23,713,976</u>
<b>Total current assets</b>		<b>175,099,801</b>
<b>Long term assets</b>		
Fixed assets, net of accumulated depreciation	8	12,477,415
Other assets	9	<u>19,157,316</u>
<b>Total long-term assets</b>		<b>31,634,731</b>
<b>TOTAL ASSETS</b>		<b>206,734,532</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>		
Notes payable – current portion	10	382,123
Other liabilities	11	<u>22,869,275</u>
<b>Total current liabilities</b>		<b>23,251,398</b>
<b>Long term liabilities</b>		
Deferred contributions	4 a)	57,323,500
Notes payable – long term portion	10	127,374
Promissory notes	12	<u>106,541,253</u>
<b>Total long-term liabilities</b>		<b>163,992,127</b>
<b>TOTAL LIABILITIES</b>		<b>187,243,525</b>
<b>Net assets</b>		
Unrestricted		(71,320,385)
Temporarily restricted – net assets		<u>90,811,392</u>
<b>Total net assets</b>		<b>19,491,007</b>
<b>COMMITMENTS AND CONTINGENCIES</b>	17	-
<b>TOTAL LIABILITIES AND NET ASSETS</b>		<b>G 206,734,532</b>

See accompanying notes to financial statements

**Fondasyon Kole Zepòl (FONKOZE)**  
**Statement of activities**  
**For the year ended December 31, 2017**  
**(Expressed in Gourdes)**

	Note	2017		
		Restricted	Unrestricted	Total
<b>Revenues</b>				
Grant revenues from donors	G	291,322,873	22,703,156	314,026,029
Sales revenue – Boutik Santé		15,108,848	-	15,108,848
Impact monitoring services – SFF		-	2,750,000	2,750,000
Interest income		-	242,435	242,435
Other income		<u>4,887,141</u>	<u>2,242,859</u>	<u>7,130,000</u>
		311,318,862	27,938,450	339,257,312
Foreign exchange gain or (loss)		<u>-</u>	<u>(41,178,646)</u>	<u>(41,178,646)</u>
<b>Net revenues and other income</b>		<b><u>311,318,862</u></b>	<b><u>(13,240,196)</u></b>	<b><u>298,078,666</u></b>
<b>Expenditures</b>				
	13			
CLM		108,621,028	-	108,621,028
Alfa		14,451,851	-	14,451,851
Santé		156,797,255	-	156,797,255
Empak Social		9,384,190	-	9,384,190
Zafen		47,178,447	-	47,178,447
Other project		54,593	-	54,593
Central		<u>-</u>	<u>25,128,053</u>	<u>25,128,053</u>
<b>Total expenditures</b>		<b><u>336,487,364</u></b>	<b><u>25,128,053</u></b>	<b><u>361,615,417</u></b>
Excess of revenues over expenditures (deficit)		(25,168,502)	(38,368,249)	(63,536,751)
Net assets, at beginning of the year		655,854,527	(11,346,537)	644,507,990
Adjustments to net assets at the beginning of the year		<u>(539,874,633)</u>	<u>(21,605,599)</u>	<u>(561,480,232)</u>
<b>Net assets at the end of the year</b>	G	<b>90,811,392</b>	<b>(71,320,385)</b>	<b>19,491,007</b>

See accompanying notes to financial statements

**Fondasyon Kole Zepòl (FONKOZE)  
Notes to Financial Statements**

**1) NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**

**a) Nature of Activities**

Fondasyon Kole Zepòl (The FONKOZE Foundation) is a Haitian non-profit organization founded in 1994 by Fr. Joseph Philippe and a group of grassroots Haitian organizations with the aim of providing access to financial services and technical assistance to grassroots organizations. The Foundation started Fonkoze's microfinance programs and in collaboration with other investors created Sèvis Finansye Fonkoze (SFF) in 2004 to expand their work on a sustainable basis.

The Foundation is part of a family of organizations that are collectively referred to as Fonkoze. Fonkoze works in an integrated manner to offer a holistic approach to reducing poverty in Haiti. In addition to Fonkoze Foundation, the Fonkoze family includes Fonkoze S.A., Sevis Finansye Fonkoze, S.A. (SFF) and Fonkoze USA.

Fonkoze S.A. is the holding company Sèvis Finansye Fonkoze, S.A., a Haitian for-profit, joint-stock company that operates as a microfinance institution, with a network of 45 branches located throughout Haiti.

Fonkoze USA is an American 501 (c) (3) non-profit organization founded in 1997 to raise funds (donations, grants and loans) and to provide financial and technical resources to SFF, the Foundations, and its other Haitian partners. In addition, Fonkoze USA raises awareness of the work of its partners, and leads communication efforts for the Fonkoze Family.

Together, the three organizations share the same mission of working together to provide financial and non-financial services to empower Haitians – primarily women – to lift their families out of poverty.

The role of the Foundation in the Fonkoze Family is to work with its members and with all who want to collaborate to allow the underserved segment of the Haitian population to access quality financial services and stewardship in order to create more prosperity for their family and for their communities.

**b) Accounting Principles**

The accompanying financial statements are prepared using accounting principles generally accepted in the United States (GAAP) and 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.

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**Fondasyon Kole Zepòl (FONKOZE)**  
**Notes to financial statements**

**1) NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**c) Revenue Recognition grants**

In prior years, grants were recognized when received or upon notification of commitments from donors.

As of January 1, 2017, Management revised its method of accounting for grants. Management uses the following criteria for evaluating whether grants are unconditional (and thus recognized immediately to income) or conditional (for which income recognition is deferred).

When a grant agreement: 1) Specifies an obligation that the recipient organization must meet to be entitled to resources and 2) Releases the donor from its obligation to transfer resources (or if resources are advanced, a right to demand their return if the obligations are not met), the agreement creates a conditional contribution. Consequently, income is recognized progressively as the obligations are met and proportionally to the costs of meeting the obligations. Deferred contribution is recognized in liabilities when resources are received prior to the organization meeting its obligations in reference to the grants. Unearned commitments are not recorded in income, but are disclosed in **note 4 (b)**.

When a grant agreement omits one or both of these conditions, the agreement is unconditional and income is recognized immediately.

The change in accounting method was recognized retrospectively and the balance of net assets as of January 1, 2017 was adjusted to this effect, for an amount of G 644,507,990 receivables at December 31, 2017 were reduced by G 504,586,591 and deferred contributions for amounts advanced but not yet earned were recognized for G 57,323,500.

**d) 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. There were no in-kind contribution during the year ended December 31, 2017.

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**Fondasyon Kole Zepòl (FONKOZE)**  
**Notes to financial statements**

1) **NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

e) **Management Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("US GAAP") requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates relate to the allowance for doubtful accounts, depreciation and amortization, and income taxes. The actual outcome of the estimates could differ from the estimates made in the preparation of the financial statements. Estimated and underlying assumptions are reviewed periodically.

f) **Accounts receivables**

Accounts receivables consist of grants receivable, interest receivable and other receivable which are generally collectible on demand. The organization believes these receivables are all collectible and therefore has made no allowance for doubtful accounts.

g) **Loans**

Loans are stated at cost, no allowances are calculated on loans since for the most part loans are guaranteed by third parties (note 7).

h) **Investments**

Investments are recorded at cost (note 3).

i) **Fixed assets**

Purchased property and equipment are capitalized at cost. Donated property and equipment when applicable, 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.

Property and equipment, all of which are used exclusively to provide program services, are depreciated using the straight-line method over their estimated useful lives as follows:

Vehicles	4 years
Equipments	4 years
Computers	2 years

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**Fondasyon Kole Zepòl (FONKOZE)**  
**Notes to financial statements**

**1) NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**i) Fixed assets (continued)**

The Foundation annually reviews the property and equipment records for impairment of value and records any adjustments necessary to reflect material impacts in value.

**j) Cash and cash equivalents**

Cash and cash equivalents consist of cash held in bank accounts.

**k) Conversion in foreign currencies**

The functional currency of Fonkoze is the haitian gourdes. Consequently, monetary 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 conversions are recorded in the statement of activities.

Transactions incurred in foreign currencies are converted at the exchange rate in effect at the transaction date. Gains and losses on foreign exchange transactions are reported in the statement of activities.

The official exchange rates published by the “Banque de la Republique d’Haiti”, Haiti’s Central bank, as of December 31, 2017 and 2016 were 63.6871 and 67.3944 haitian gourdes to one U.S. dollar, respectively.

**l) Net Assets**

Fonkoze’s net assets, revenues/gains, and expenses are classified as temporarily restricted and unrestricted based on the existence or absence of donor-imposed restrictions. These classifications are defined as follows:

- Temporarily restricted net assets contain donor-imposed restrictions that permit Fonkoze to use or expend the donated assets as specified and are satisfied either by the passage of time or by actions of Fonkoze.
- Unrestricted net assets are free of restrictions at initiation or the donor-imposed restrictions have expired.

**m) Income taxes**

By its statute, as a not for profit entity recognized as a public interest company, the organization is tax exempt.

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**Fondasyon Kole Zepòl (FONKOZE)**  
**Notes to financial statements**

**2) CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of the following:

	<b>2017</b>
Savings and current accounts held in US banks	<b>G 16,467,580</b>
Current accounts held in Haitian bank	<b>50,071,164</b>
Current accounts held in Sevis Finansye Fonkoze	<b><u>32,413,396</u></b>
<b>Total</b>	<b><u>98,952,140</u></b>
Deposit in US dollars	<b>69,933,889</b>
Deposits in Haitian Gourdes	<b><u>29,018,251</u></b>
<b>Total</b>	<b>G 98,952,140</b>

As of December 31, 2017, deposits held in U.S. banks are insured by the Federal Deposit Insurance Corporation (FDIC) for an amount up to \$250,000 (G 15,921,755). The savings account held in a US bank, is an interest-bearing account, however all other accounts are non-interest-bearing accounts.

**3) INVESTMENTS**

Investments as of December 31, 2017 are as follows:

	<b>2017</b>
Microinsurance catastrophic risk Organization (MiCRO) (a)	<b>G 4,776,533</b>

(a) As of December 31, 2017, Fonkoze's investment in MiCRO represents 5% interest in the common shares of the company, which operates as licensed reinsurance company that issues reinsurance protections for catastrophic events. There is a permanent decline in value of the investment which has been written down to book value as of January 1, 2017.

The shares of MiCRO are traded among a limited circle of entities which share the common interest of helping the segment of population in under develop countries which do not have access to credit through the regular channels. Although the book value of the shares are lower than their cost, they are maintained at the cost of \$US 1 per share, which is the cost at which the shares are traded among participants in this market.

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**Fondasyon Kole Zepòl (FONKOZE)**  
**Notes to financial statements**

**4) GRANT RECEIVABLE**

(a) A receivable is recorded in relation to an unconditional grant if there is no performance obligation on the part of FONKOZE, the amount of the grant is certain and collectibility is assured. As a Foundation, Fonkoze has signed several agreements with various donors. The following represent amounts receivable from unrestricted grants or amounts earned from restricted grants at December 31, 2017:

	Grant receivable as of 12/31/16	Grant agreement signed and earned during the year ended 12/31/17	Amount received during the year ended 12/31/17	Grant receivable as of 12/31/17
Opportunity Int's Deutsh-Health	\$ -	87,280	-	87,280
Opportunity Int's Deutsh-CLM	-	16,884	-	16,884
Haitian Timoun Foundation	-	13,160	-	13,160
The Kellogg Foundation	-	7,656	-	7,656
FKZ USA/Capacity building	270,000	-	65,000	205,000
Fonkoze USA 2015	200,000	-	-	200,000
Haitian Timoun Foundation	89,712	(19,894)	44,960	24,858
Konbit/Papyrus S.A.	-	48,072	24,036	24,036
FKZ USA/CLM Unrestricted	-	11,955	-	11,955
The Kanpe Foundation	35,491	-	25,000	10,491
Beyond Borders	-	18,550	8,550	10,000
FKZ USA/Malzone	-	9,000	-	9,000
Pan American Development Foundation (PADF)	-	40,727	31,930	8,797
FKZ USA LaPagesse-ES Pajas School	-	6,000	-	6,000
Pan American Development Foundation (PADF)	5,000	-	-	5,000
FKZ USA/Education and Health Unrestricted	-	1,472	-	1,472
FKZ USA/JanRabel Education	-	1,170	-	1,170
Haitian Timoun Foundation	18,927	-	18,927	-
Seamont Foundation	91,666	-	91,666	-
Aid Still Required	<u>14,948</u>	<u>-</u>	<u>14,948</u>	<u>-</u>
<b>Total to be reported</b>	<b>\$ 725,744</b>	<b>242,032</b>	<b>325,017</b>	<b>642,759</b>

(Continued)

**Fondasyon Kole Zepòl (FONKOZE)**  
**Notes to financial statements**

**4) GRANT RECEIVABLE (CONTINUED)**

	Grant receivable as of 12/31/16	Grant agreement signed and earned during the year ended 12/31/17	Amount received during the year ended 12/31/17	Grant receivable as of 12/31/17
<b><u>Reported balance</u></b>	\$ <b><u>725,744</u></b>	<b><u>242,032</u></b>	<b><u>325,017</u></b>	<b><u>642,759</u></b>
Vista Hermosa Foundation	186,084	-	186,084	-
Concern Worlwide	-	4,247	4,247	-
FKZ USA/Sister of Bon Secours	-	27,000	27,000	-
FKZ USA/Education	-	3,930	3,930	-
FKZ USA/ Matt Balitsaris	-	90,000	90,000	-
FKZ USA/Linked Foundation	-	9,000	9,000	-
FKZ USA/Sister of Charity	-	1,350	1,350	-
Grant Challenge Canada	-	3,650	3,650	-
Andrew Greene Foundation	-	8,861	8,861	-
Lions Club Gifts	-	2,492	2,492	-
Hope for Haiti	-	1,545	1,545	-
Haitian Timoun Foundation Summer Camp	-	10,000	10,000	-
Indiana University	-	4,979	4,979	-
Institute of Development Studies (IDS)	-	16,151	16,151	-
Other Funds	-	40	40	-
Whole Planet Foundantion	-	61,980	61,980	-
Fanmvin - (reimbursement of unexpended grant)	-	(7,130)	(7,130)	-
<b>Total</b>	\$ <b><u>911,828</u></b>	<b><u>480,127</u></b>	<b><u>749,196</u></b>	<b><u>642,759</u></b>
Gourdes/US Exchange Rate	<u>67.3944</u>	<u>64.7707</u>	<u>64.7707</u>	<u>63.6871</u>
Gourdes Equivalent (effective rate)	G <u>61,452,102</u>	<u>31,098,112</u>	<u>48,525,888</u>	<u>40,935,453</u>
Effect of revaluation	<u>(3,380,429)</u>	<u>(520,278)</u>	<u>(811,835)</u>	<u>-</u>
<b>Total in Gourdes</b>	G <b><u>58,071,673</u></b>	<b><u>30,577,834</u></b>	<b><u>47,714,053</u></b>	<b><u>40,935,453</u></b>

(Continued)

**Fondasyon Kole Zepòl (FONKOZE)**  
**Notes to financial statements**

**4) GRANT RECEIVABLE (CONTINUED)**

(b) Grant commitments not yet earned are not reflected in the financial statements and are as follows:

	Grant agreements signed as of 12/31/16	Grant agreements signed during the year ended 12/31/17	Amount received during the year ended 12/31/17	Expenses incurred	Unearned amounts based on grants signed
<b><u>Promise to give</u></b>					
FKZ USA/Women's Empowerment Int'l	\$ -	29,182	(14,591)	-	14,591
The Kellogg Foundation Swiss Development Cooperation/CLM + (Annex I)	-	93,377	-	(7,656)	85,721
USAID/FAA Wash	1,001,000	-	(578,000)	-	423,000
USAID/AKSYON	350,050	-	(300,000)	-	50,050
The Kellogg Foundation	5,478,529	-	(2,333,407)	-	3,145,122
The Kellogg Foundation - CLM	657,491	-	-	-	657,491
Sister of Mercy	-	871,123	(582,966)	-	288,157
Opportunity Int's Deutsh-Health	-	640,669	(170,068)	-	470,601
Opportunity Int's Deutsh-CLM	-	103,525	-	(87,280)	16,245
Haitian Timoun Foundation	-	240,595	-	(16,884)	223,711
<b>Total in US dollars</b>	<b>\$ <u>7,487,070</u></b>	<b><u>2,177,496</u></b>	<b><u>(3,979,032)</u></b>	<b><u>(124,980)</u></b>	<b><u>5,560,554</u></b>
Gourdes Exchange Rate	<u>67.3944</u>	<u>64.7707</u>	<u>64.7707</u>	<u>63.6871</u>	<u>63.6871</u>
Gourdes Equivalent	<b>G <u>504,586,591</u></b>	<b><u>141,037,940</u></b>	<b><u>(257,724,669)</u></b>	<b><u>(7,959,613)</u></b>	<b><u>379,940,249(a)</u></b>
Reevaluation effect at year end	<u>(27,756,890)</u>	<u>(2,359,518)</u>	<u>4,311,718</u>	<u>-</u>	<u>(25,804,690)</u>
	<b>G <u>476,829,701</u></b>	<b><u>138,678,422</u></b>	<b><u>(253,412,951)</u></b>	<b><u>(7,959,613)</u></b>	<b><u>354,135,559</u></b>

(a) Of the balance of amount received, G 57,323,500 have been advanced and are recorded as deferred contributions.

(Continued)

**Fondasyon Kole Zepòl (FONKOZE)**  
**Notes to financial statements**

**5) OTHER RECEIVABLES**

As of December 31, 2017 other receivables are as follows:

		2017
Interest receivables on loans	G	142,823
Other receivables		<u>357,270</u>
	G	<u>500,093</u>

**6) RELATED PARTY RECEIVABLES**

As of December 31, 2017 related party receivables are as follows:

		2017
SFF Solidarity loan receivable	G	1,008,465
Fonkoze USA <sup>(1)</sup> - SFF		<u>836,246</u>
	G	<u>1,844,711</u>

<sup>(1)</sup> In June 2014, the SFF board agreed to pay a fee of G 15 on each SFF Solidarity Loan as contributions to the Foundation.

**7) LOANS**

The component of loans by funding source as of December 31, 2017 is as follows:

		2017
Zafen loans under Kiva partnership (a)	G	20,686,301
Other Zafen loans (b)		1,508,470
Zanmi Lasante loans (c)		1,340,085
Comite Proto Haiti (CPH) loans (d)		<u>179,120</u>
	G	<u>23,713,976</u>

**a) Zafen Loans under Kiva partnership**

Zafen loans represent loans granted to small community borrowers.

In March 13, 2015, Fonkoze entered into an agreement with Kiva Micro funds, a non-profit public benefit corporation. Kiva operates a web-based – Pier-to-Pier lending platform which allows website users throughout the world to connect with individuals or groups in developing countries who receive small loans from organizations.

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**Fondasyon Kole Zepòl (FONKOZE)**  
**Notes to financial statements**

**7) LOANS (CONTINUED)**

**a) Zafen Loans under Kiva partnership (suite)**

Under the terms of this agreement, Fonkoze has the ability to post loan requests from borrowers in need of funds and Kiva, through one or more donors advised funds (DAF), provides a monthly fundraising limit, as well as a credit limit applicable during the term of the agreement. Since November 2016, the Company benefits from a non interest bearing credit limit of US\$ 400,000 with Kiva. As of December 31, 2017, Fonkoze has a remaining unused balance of \$181,167.

The terms of Kiva loans vary from twelve to twenty-four months with zero interest rate and management fees of 18% for the benefit of FONKOZE which provides support to the lenders (training and loan Management) per year as of December 31, 2017.

The company does not establish a loan allowance on the loan portfolio financed by Kiva based on the fact that loan losses are supported by Kiva lenders providing that the portfolio is adequately managed and delinquency rates are maintained at a low level.

As of December 31, 2017, the portfolio comprises 262 active clients.

**b) Other Zafen loans**

The other Zafen loans, are loans financed by Fonkoze's investment funds. The portfolio was created during the year to respond to the demand during the period when Fonkoze did not have any available credit under the Kiva agreement.

As of December 31, 2017, the portfolio comprises 24 active clients.

**c) Zanmi Lasante loans**

Zanmi Lasante loans are disbursed directly to employees of, Partner in Health (Zanmi Lasante), an operational partner of Fondasyon Kole Zepòl's CLM program. The terms of Zanmi Lasante loans are twelve months and interest rate are fixed at 6% per year.

The organization does not record an allowance for the Zanmi Lasante loans due to the low level of risk associated with these loans. These loans are guaranteed by Zanmi Lasante, employer of the lenders for this portfolio.

(Continued)

**Fondasyon Kole Zepòl (FONKOZE)**  
**Notes to financial statements**

**7) LOANS (CONTINUED)**

**d) Comité Protos Haiti loans**

Comité Protos Haiti (CPH) loans are disbursed under a credit line agreement signed with Fonkoze. The credit line cannot exceed US\$ 30,000 and the interest rate is 20% per year. Late fees of US\$ 1/day are also applied. No additional amount was disbursed under the credit line agreement since the parties agreed to progressively settle the loan.

The portfolio of loans has evolved as follows:

Balance as of December 31, 2016	G	303,275
Reimbursements		<u>(124,155)</u>
	G	<u>179,120</u>

**8) FIXED ASSETS**

During the year, fixed assets and related cumulated depreciation have evolved as follows:

<u>Cost</u>		<u>12/31/16</u>	<u>Acquisitions</u>	<u>12/31/17</u>
Vehicles	G	16,868,659	6,132,344	23,001,003
Furniture and equipment		1,343,823	-	1,343,823
Computer equipment		<u>3,399,458</u>	<u>504,804</u>	<u>3,904,262</u>
	G	21,611,940	6,637,148	28,249,088
<hr/>				
<u>Accumulated depreciation</u>		<u>12/31/16</u>	<u>Depreciation</u>	<u>12/31/17</u>
Vehicles	G	(7,925,011)	(4,051,654)	(11,976,665)
Furniture and equipment		(619,223)	(278,479)	(897,702)
Computer equipment		<u>(1,523,201)</u>	<u>(1,374,105)</u>	<u>(2,897,306)</u>
	G	(10,067,435)	(5,704,238)	(15,771,673)
<hr/>				
Fixed Assets, net	G	11,544,505		12,477,415

(Continued)



**Fondasyon Kole Zepòl (FONKOZE)**  
**Notes to financial statements**

**9) OTHER ASSETS**

As of December 31, 2017 other assets are as follows:

		<b>2017</b>
Advances to subgrantees (a)	<b>G</b>	<b>13,905,815</b>
Advances to subcontractants		<b>3,887,796</b>
Stock of books – Alfa Central		<b><u>1,363,705</u></b>
	<b>G</b>	<b><u>19,157,316</u></b>

(a) Advances to subgrantees are composed as follows:

		<b>2017</b>
Related party - SFF	<b>G</b>	<b>1,845,461</b>
Other subgrantees		<b><u>12,060,354</u></b>
	<b>G</b>	<b><u>13,905,815</u></b>

**10) NOTES PAYABLE**

As of December 31, 2017 notes payables are as follows:

		<b>2017</b>
Payable to investors living abroad with interest at fixed annual percentage rate from zero to threepercent and maturities up to March 31, 2021	<b>G</b>	<b>509,497</b>
Less current portion		<b><u>(382,123)</u></b>
	<b>G</b>	<b><u>127,374</u></b>

Of the total notes payable of G 509,497, G 382,123 will mature in 2017 and the balance in the following years until March 31, 2021.

(Continued)

**Fondasyon Kole Zepòl (FONKOZE)**  
**Notes to financial statements**

**11) OTHER LIABILITIES**

As of December 31, 2017 other liabilities are as follows:

	<b>2017</b>
Payable to Kiva <sup>(1)</sup>	<b>G 12,313,235</b>
Payable to Zafen funders (1)	<b>3,520,455</b>
Withholding taxes payable	<b>1,650,362</b>
ONA payable	<b>712,280</b>
Employee savings and loan program (2)	<b>686,763</b>
Insurance and OFATMA payable	<b>218,473</b>
Other payables	<b><u>3,767,707</u></b>
	<b>G 22,869,275</b>

(1) These amounts represent reimbursement received from borrowers financed by these institutions. These amounts are generally reimbursed progressively to the lenders whose loans are fully paid.

(2) This amount represents the retirement savings contribution for the month of December 2017 to be paid for employees participating in the employee savings and loan program.

**12) PROMISSORY NOTE**

At September 30, 2015, Fonkoze held a non-interest bearing promissory note due to Sèvis Finansye Fonkoze with a balance of G 161,068,253. This note, dating back from the creation of the branches, had an original term of 10 years maturing in 2022.

Per agreement effective December 30, 2015, the Foundation reimbursed G 11,220,000 equivalent (\$US 204,000) at the rate of the contract.

In addition, part of the debt of the Foundation for an amount of \$US 674,900 (equivalent to G 37,119,500 at the rate of the contract) was assumed by Fonkoze USA.

As of December 31, 2015, the remaining balance of the promissory note was G 112,728,753. On December 30, 2015 the Fonkoze Family of organizations signed a new agreement governing the reimbursement of the intercompany debt between the Foundation and SFF by September 30<sup>th</sup> 2031. The contrat stipulates that all amounts owed to SFF pursuant to the Fondasyon Kole Zepòl Debt facility can be net off against the amounts owed by SFF to the Fondasyon Kole Zepòl pursuant to the Brand Licence and Services Agreements. As of December 31, 2017 and 2016 respectively, G 2,750,000 and G 3,437,500 were applied to the promissory note, bringing the balance of the promissory note to G 106,541,253.

(Continued)

**Fondasyon Kole Zepòl (FONKOZE)**  
**Notes to financial statements**

**13) CLASSIFICATION OF EXPENSES BY NATURE**

For the year ended December 31, 2017, the classification of expenses by nature are as follows:

		2017							Unrestricted		
		Restricted Funds							Funds		
		SANTE									
		CLM	ALFA	AKSYON	OTHERS	ENSO	ZAFEN	OTHERS	TOTAL	CENTRAL	TOTAL
Salaries and											
fringe benefits	<b>G</b>	33,223,823	8,030,808	22,537,610	2,476,259	4,164,540	7,691,628	42,299	78,166,967	15,307,376	93,474,343
Professional fees		1,880,972	1,643	67,274,255	45,480	44,347	23,747,062	-	92,993,759	1,627,907	94,621,666
Program operations		30,859,012	1,816,248	26,550,952	9,348,636	355,101	975,520	-	69,905,469	2,290	69,907,759
Transportation expenses		23,126,796	3,495,877	17,629,613	875,970	1,036,253	6,829,531	11,400	53,005,440	77,023	53,082,463
Audit and evaluation		8,681,007	152,047	199,979	2,413,664	1,902,193	463,163	-	13,812,053	49,418	13,861,471
Other expenses		2,528,485	186,984	989,010	100,657	1,355,999	5,414,443	-	10,575,578	2,293,725	12,869,303
Rent		1,989,966	208,511	2,727,773	3,509	134,751	1,177,882	-	6,242,392	2,649,535	8,891,927
Depreciation expense		-	-	-	-	-	-	-	-	5,704,241	5,704,241
IT costs and communication		1,127,617	268,433	1,278,418	66,794	260,584	631,111	894	3,633,851	761,626	4,395,477
Utilities and equipment											
expenses		249,962	-	336,220	-	-	-	-	586,182	-	586,182
Promotion		-	226,607	-	365,827	-	-	-	592,434	439,217	1,031,651
Investments		4,953,388	64,693	1,314,676	261,953	130,422	248,107	-	6,973,239	(3,784,305)	3,188,934
	<b>G</b>	<b>108,621,028</b>	<b>14,451,851</b>	<b>140,838,506</b>	<b>15,958,749</b>	<b>9,384,190</b>	<b>47,178,447</b>	<b>54,593</b>	<b>336,487,364</b>	<b>25,128,053</b>	<b>361,615,417</b>

**Fondasyon Kole Zepòl (FONKOZE)**  
**Notes to financial statements**

**14) TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Organization receives grants and donations that are restricted for many purposes including branch development, capacity development, social impact and various programs and projects.

**15) EMPLOYEE RETIREMENT SAVINGS AND LOAN PROGRAM**

In 2009, the Organization received a promise of a gift to fund a retirement saving plan for its employees and the employees of related company, Sevis Finansye Fonkoze. Prior to the creation of the retirement savings and loan program, these gift funds in the amount of USD 240,000 combined with employee contributions were held in an FDIC insured savings account in CNB Bank. As of December 31, 2011, all funds were transferred to the Association of Specialists in Microfinance (ASMF) who manages the program. The program is open to all employees having successfully completed their 3 months probationary period with the Organization or Sevis Finansye Fonkoze. Employees who choose to participate will have regular deductions taken from their paychecks based on their age as shown below:

<u>Employee age</u>	<u>% of salary deducted</u>
<45	5%
45 – 50	6%
>50	10%

The Organization and Sevis Finansye will match employees' contributions subject to the following vesting scheme:

<u>Number of years with Fonkoze/SFF</u>	<u>% of matching funds vested</u>
<1 year	0%
1 – 3 years	30%
4 – 5 years	50%
>5 years	100%

The Organization's expense for matching funds under this program was G 2,817,969 for the year ended December 31, 2017. Employees have the option of borrowing against the funds they accumulated in their savings and loans account.

Continued)

**Fondasyon Kole Zepòl (FONKOZE)**  
**Notes to financial statements**

**16) RELATED PARTY TRANSACTIONS**

The identified related parties of The Foundation, are Sevis Fonkoze (SFF) and Fonkoze USA, and related party balances as of December 31, 2017 are as follows:

	<u>2017</u>
<b><u>Assets</u></b>	
Deposits held in SFF	G 98,952,140
Grants receivables from FONKOZE USA	25,793,275
Prepaid rent SFF	3,954,679
Advances to SFF	1,845,461
SFF	1,008,465
Related party receivables FONKOZE USA	836,246
Other receivables from SFF	<u>30,251</u>
	<b>132,420,517</b>
<b><u>Liabilities</u></b>	
Promissory note to SFF	106,541,253
Other payable to SFF	<u>1,554,247</u>
	<b>G 108,095,500</b>

**During the year:**

	<u>2017</u>
<b><u>Revenues (SFF)</u></b>	
Impact monitoring services	G <u>2,750,000</u>
<b><u>Expenditures (SFF)</u></b>	
Utilities for the Head Office	2,720,369
Rent of the Head Office	1,943,121
IT costs	1,848,151
Human resources service	656,516
Executive secretary	647,704
Legal service	502,880
Payroll service	345,357
Parking	252,606
Utilities for the branches	142,196
Storage in PAP branch	<u>43,526</u>
	<b>G 9,102,426</b>

**Fondasyon Kole Zepòl (FONKOZE)**  
**Notes to financial statements**

**17) COMMITMENTS AND CONTINGENCIES**

Fonkoze could be obligated to reimburse USAID an amount of US\$ 110,000 based on the outcome of USAID's evaluation of questioned costs for which documentation was not fully in agreement with USAID policies or Fonkoze 's internal controls.

The organization is obligated to pay an amount of US\$ 161,000 annually to Sèvis Finansye Fonkoze under the terms of a rent contract and other shared services.