

The Adelante Foundation, Inc.

Financial Statements

Year Ended December 31, 2018

(Together with Independent Auditors' Report)





Independent Auditors' Report

To the Board of Directors of
The Adelante Foundation, Inc.

We have audited the accompanying financial statements of The Adelante Foundation, Inc. (Adelante), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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; 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Adelante's Honduras operations, which statements reflect total assets of \$2,206,737 as of December 31, 2018, and total revenues of \$969,252 for the year then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included in Adelante's Honduras operations, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 judgment, 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.



Opinion

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of The Adelante Foundation, Inc. as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States.

Report on Summarized Comparative Information

We have previously audited Adelante's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 31, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Wipfli LLP

Wipfli LLP

September 23, 2019
Denver, Colorado

The Adelante Foundation, Inc.
Statements of Financial Position
December 31, 2018
(With Comparative Totals as of December 31, 2017)

ASSETS	2018	2017
Cash and cash equivalents	\$ 294,010	\$ 281,641
Certificate of deposit	268,968	242,649
Loans receivable, net of allowance for doubtful accounts of \$170,846 and \$110,320, respectively	1,657,773	1,643,216
Accounts receivable and other assets	40,115	45,281
	2,260,866	2,212,787
Property and equipment, at cost:		
Furniture, fixtures, and equipment	103,003	111,292
Vehicles	49,045	50,606
Software	42,220	43,198
	194,268	205,096
Less: accumulated depreciation and amortization	(139,296)	(134,271)
Net Property and Equipment	54,972	70,825
TOTAL ASSETS	\$ 2,315,838	\$ 2,283,612
LIABILITIES AND NET ASSETS		
LIABILITIES		
Guaranteed deposits	\$ 626,692	\$ 695,080
Accounts payable and accrued expenses	34,441	41,050
Notes payable	9,077	15,077
Total Liabilities	670,210	751,207
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Board designated	250,677	278,032
Undesignated	1,394,951	1,254,373
Total Net Assets Without Donor Restrictions	1,645,628	1,532,405
TOTAL LIABILITIES AND NET ASSETS	\$ 2,315,838	\$ 2,283,612

See accompanying notes to financial statements.

The Adelante Foundation, Inc.
Statements of Activities
For the Year Ended December 31, 2018
(With Comparative Totals for the Year Ended December 31, 2017)

	2018	2017
SUPPORT AND REVENUE		
Grants, contributions, and events	\$ 146,961	\$ 161,155
Loan interest and fees	949,594	1,026,126
Other operating revenue	19,682	17,666
Total Support and Revenue	1,116,237	1,204,947
EXPENSES		
Program services	717,118	708,392
General and administrative	194,078	194,412
Fundraising	45,062	57,553
Total Expenses	956,258	960,357
Change in Net Assets Without Donor Restrictions Before Other Items	159,979	244,590
OTHER ITEMS		
Foreign exchange rate (loss)	(46,756)	(6,816)
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	113,223	237,774
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Beginning of year	1,532,405	1,294,631
End of year	\$ 1,645,628	\$ 1,532,405

See accompanying notes to financial statements.

The Adelante Foundation, Inc.
Statements of Functional Expenses
For the Year Ended December 31, 2018
(With Comparative Totals for the Year Ended December 31, 2017)

	2018				2017
	Program	General and Administrative	Fund Raising	Total	Total
Salaries and wages	\$ 256,228	\$ 69,466	\$ 15,943	\$ 341,637	\$ 367,088
Employee benefits and taxes	80,978	20,684	1,296	102,958	89,092
Total Employee Expenses	337,206	90,150	17,239	444,595	456,180
Bad debt expense	84,990	21,247	-	106,237	53,409
Other administrative expenses	60,502	16,480	3,991	80,973	94,392
Occupancy	46,900	11,725	-	58,625	65,766
Vehicle cost	46,176	11,544	-	57,720	70,118
Office expenses	42,021	11,215	2,092	55,328	75,186
Professional fees	17,904	8,917	13,089	39,910	30,710
Travel	26,159	8,081	4,542	38,782	34,857
Program costs	30,575	7,343	-	37,918	28,144
Depreciation and amortization	24,650	7,201	-	31,851	33,237
Advertising and promotion	-	-	3,620	3,620	10,189
Interest expense	35	175	489	699	8,169
Total Expenses	\$ 717,118	\$ 194,078	\$ 45,062	\$ 956,258	\$ 960,357

See accompanying notes to financial statements.

The Adelante Foundation, Inc.
Statements of Cash Flows
For the Year Ended December 31, 2018
(With Comparative Totals for the Year Ended December 31, 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 113,223	\$ 237,774
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Foreign exchange rate loss	46,756	6,816
Bad debt expense	106,237	53,409
Depreciation and amortization	31,851	33,237
Loans (disbursed to) clients	(3,573,633)	(3,969,339)
Loans repaid by clients	3,421,186	3,779,809
(Increase) decrease in accounts receivable and other assets	5,166	(1,948)
(Decrease) in accounts payable and accrued expenses	(6,609)	(27,136)
Guaranteed deposits received	318,862	344,225
Guaranteed deposits (disbursed)	(366,540)	(243,716)
Net Cash Provided by Operating Activities	96,499	213,131
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(17,951)	(11,217)
Purchase of certificate of deposit	(26,319)	(143,300)
Net Cash (Used In) Investing Activities	(44,270)	(154,517)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of notes payable	(5,621)	(9,950)
Repayment of line of credit, net	-	(39,692)
Net Cash (Used In) Financing Activities	(5,621)	(49,642)
Effect of exchange rate changes on cash	(34,239)	24,169
NET CHANGE IN CASH AND CASH EQUIVALENTS	12,369	33,141
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	281,641	248,500
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 294,010	\$ 281,641
SUPPLEMENTAL FINANCIAL INFORMATION:		
Interest Paid	\$ 699	\$ 8,169

See accompanying notes to financial statements.

The Adelante Foundation, Inc.

Notes to Financial Statements

Note 1: Nature of Organization

The Adelante Foundation, Inc. (Adelante) is a Tennessee nonprofit corporation classified as a 501(c)(3) organization by the United States Internal Revenue Service, which is other than a private foundation. As such, it is exempt from income taxes in the United States, and contributions to it are deductible for income tax purposes as charitable donations.

Adelante was founded in 2000 to provide support for a Microfinance Institution (MFI) established on the northern coast of Honduras. The MFI is registered in Honduras in accordance with Honduran law. Adelante is a Grameen Replicator using a Micro Finance model developed by the Grameen Bank in the mid 1980's. The model provides for the establishment of solidarity groups of four to six persons who will guarantee the loans of each. These groups are also members of an Assembly which is generally composed of thirty people and meets at least monthly to receive training in business, health and other topics as well carry out administrative functions. Adelante focuses on providing loans to those with little or no economic opportunity so that they may achieve economic self-sufficiency.

Note 2: Summary of Significant Accounting Policies

Basis of Presentation

The financial statements include the accounts of both the U.S. and the Honduran operations of Adelante Foundation, Inc. The Honduran operations have been granted permission to operate pursuant to Resolution 158-2003 conferred by the Ministry of Governance and Justice in 2003.

Basis of Accounting

The financial statements are presented on the accrual basis of accounting, and accordingly, reflect all significant receivables, payables, and other assets and liabilities.

Net Assets

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets of Adelante, and changes therein, are classified and reported as follows:

Net assets without donor restrictions: Net assets available for use in general operations and not subject to donor restrictions.

Net assets with donor restrictions: Net assets subject to donor or certain grantor imposed restrictions. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time, or other events specified by the donor. Other explicit donor imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, or when the stipulated purpose for which the resource was restricted has been fulfilled. At December 31, 2018 and 2017, Adelante does not have any net assets with donor restrictions.

The Adelante Foundation, Inc.

Notes to Financial Statements

Note 2: Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounting for Uncertainty in Income Taxes

In accordance with U.S. Generally Accepted Accounting Principles, management is required to make an assessment of uncertain tax positions that they believe would not meet a "more-likely-than-not" standard of being sustained under an income tax audit, and to record a liability for any such taxes including penalty and interest. Management of Adelante has not identified any U.S. uncertain tax positions that would require the recording of a liability as of December 31, 2018 and 2017. However, as discussed in Note 10, in December 2013, the Honduran government issued a decree which eliminated the permanent tax exempt status granted to organizations such as Adelante. As a result, an annual review of tax exempt status must be performed by the Executive Agency of Revenue and the submissions for the years ended December 31, 2017 and 2018, are still in process.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, cash and cash equivalents consist of cash and short-term investments with original maturity dates of ninety days or less.

Loans Receivable

Loans receivable are reflected at cost, that is, the original loan amount, less payments received. An allowance for doubtful loans has been established based on management's estimates of uncollectible balances. The minimum provision percentages required for each of the qualifying loan categories are based upon criteria established by several organizations in the microfinance industry. Adelante's policy for charging-off uncollectible loans is when future receipt is deemed improbable.

Interest income on loans is calculated using the effective interest rate multiplied by the carrying value of the loan.

The Adelante Foundation, Inc.

Notes to Financial Statements

Note 2: Summary of Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment are stated at cost. Betterments which materially add to the value of the related assets and materially extend the useful life of the assets are capitalized. Normal replacements and minor equipment purchases are included as expenses of the operating net assets without donor restrictions.

Depreciation is recorded on the straight-line basis over the following estimated useful lives:

Furniture, fixtures, and equipment	5-10 years
Vehicles	5 years
Software	5 years

Revenue Recognition and Support

The Organization accounts for contributions as with or without donor restrictions depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Retirement Obligation to Honduran Employees

In September 2015, the Honduran Government amended its retirement law such that four percent (4%) of an employee's pay is to be paid to and maintained by an agency specified by the Honduran government for the benefit of each employee. As a result of this amendment, Adelante elected to pay its employees their accrued obligation pursuant to a provision of the amended retirement law that provides for such an election. Simultaneously, Adelante elected to pay each employee their severance pay annually commencing in September 2016, also an election pursuant to the law. Accordingly, Adelante entered into an agreement to pay one-half of the accrued severance pay in February of 2016, and one-half in February 2017, to each employee. Adelante has also elected to pay to each employee the current retirement benefit commencing in September 2016, reduced by the four percent noted above. Payment of the accrued severance costs totaled approximately \$65,000, for both February 2016 and 2017. Management estimates that the current annual cost of funding the retirement obligation will be approximately \$50,000. This includes the amount to be paid to the Honduran Government as a result of the law change.

Donated Services and In-Kind Contributions

Financial Accounting Standards Board Statements require that the value of services provided by individuals with specialized skill be recognized in Adelante's financial statements. No amounts have been recognized in the accompanying financial statements for such services.

Other similar costs such as donated travel and out of pocket expenses by volunteers and members of the Board of Directors cannot be reasonable determined and therefore have not been recorded in these financial statements.

The Adelante Foundation, Inc.

Notes to Financial Statements

Note 2: Summary of Significant Accounting Policies (Continued)

Interest Rate Risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of change in the market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

Adelante is exposed to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Management sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored monthly.

The loans receivable and notes payable are at fixed interest rates. The loans receivable mature much faster than the related borrowings. Furthermore, the term of the loans receivable is typically less than one year which allows Adelante to adjust the fixed interest rates of the notes receivable to market conditions.

Market Risk

Market risk is defined as external influences, generally outside of the control of Adelante, but which can be identified, assessed, and mitigated via actions put into place to reduce any adverse impact.

Credit Risk

Credit risk is the risk of financial loss to Adelante if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from Adelante's lending activities.

Adelante takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Allowances for impairment are accounted for where there is objective evidence that the loans and advances to customers are impaired.

Significant changes in the economy, depreciation of local currencies against the currencies of the indexed portfolios, or in the health of a particular industry segment could result in evidence that the expected future cash flows are different from those provided for at the end of the reporting period. Management, therefore, monitors and manages its exposure to credit risk.

Currency Risk

Adelante is exposed to currency risk through transactions in foreign currencies against the U.S. dollar. There is also a statement of financial position risk that the net monetary liabilities will take a higher value when translated into U.S. dollars as a result of currency movements.

The Adelante Foundation, Inc.

Notes to Financial Statements

Note 2: Summary of Significant Accounting Policies (Continued)

Liquidity Risk

Liquidity risk is the risk that a company will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry-up immediately. To mitigate this risk, management has diversified funding sources and assets are managed with a liquidity approach, maintaining a healthy balance of cash and cash equivalents. Management monitors the maturity profile of its financial assets and liabilities to ensure that adequate liquidity is maintained. Adelante finances the loan portfolio with the income produced by the portfolio and with contributions received. The average loan term is less than 12 months.

Functional Allocation of Expenses

The costs of providing various programs and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Salaries and fringes are allocated based upon estimations of time and effort. Indirect costs such as occupancy and office related expenses are allocated based upon time spent, utilization, and square footage.

Subsequent Events

Adelante has performed an evaluation of subsequent events through September 23, 2019, which is the date the financial statements were available to be issued, and determined there were no material subsequent events that required recognition or additional disclosure in the financial statements.

Change in Accounting Policy

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities*. This ASU provides for certain improvements in financial reporting for not-for-profit organizations and requires changes to net asset classification, enhancements to liquidity presentation and disclosures, presentation of an analysis of expenses by function and by nature, and netting of investment expenses with return, among other changes. This guidance in this ASU was adopted effective January 1, 2018, and was applied retrospectively to these financial statement.

New Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU, as amended, provides comprehensive guidance on the recognition of revenue from customers arising from the transfer of goods and services, guidance on accounting for certain contract costs, and new disclosures. The new standard supersedes current revenue recognition requirements in FASB Accounting Standards Codification (ASC) *Topic 605 Revenue Recognition*, and most industry specific guidance. ASU No. 2014-09 is effective for nonpublic companies for fiscal years beginning after December 15, 2018. Management is currently evaluating the impact of this ASC on its financial statements.

The Adelante Foundation, Inc.

Notes to Financial Statements

Note 3: Liquidity and Availability of Financial Resources

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

<i>As of December 31,</i>	2018
Cash and cash equivalents	\$ 294,010
Certificate of deposit	268,968
Loans receivable	1,657,773
Accounts receivable and other assets	40,115
Total financial assets	2,260,866
Less: Guaranteed deposits	626,692
Total financial assets available for general expenditure	\$ 1,634,174

Adelante does not have a formal liquidity policy. Adelante manages its liquidity position to meet expenditures, liabilities, and other obligations as they fall due and maintains sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

Note 4: Concentration of Credit Risk

Cash and certificates of deposit totaling approximately \$454,000 and \$409,000 at December 31, 2018 and 2017, respectively, are deposited in Honduran financial institutions which are uninsured.

Note 5: Loan Receivable

Loans receivable consist of loans provided to groups of impoverished women in Honduras. The total number of individuals participating in the program at the end of 2018 and 2017 was 5,700 and 7,200, respectively. The loans are initially made for periods of three to six months and bear interest at a rate of 2.5% to 3.5% per month. Based on credit evaluations, longer term loans for home improvement or individual loans are made available.

Loans receivable consist of the following:

<i>As of December 31,</i>	2018	2017
Current unrestricted loans	\$ 1,828,619	\$ 1,753,536
Less: Allowance for doubtful accounts	(170,846)	(110,320)
Loans receivable, net	\$ 1,657,773	\$ 1,643,216

The Adelante Foundation, Inc.

Notes to Financial Statements

Note 5: Loan Receivable (Continued)

During the years ended December 31, 2018 and 2017, Adelante recorded a charge of \$106,237 and \$53,409, respectively, of bad debt expense, representing 6.44% and 3.14% of the average outstanding loans in 2018 and 2017, respectively. It also charged \$45,711 and \$19,538, respectively, against the allowance for doubtful accounts for loans written-off.

The allowance for doubtful accounts consisted of the following:

<i>For the year ending December 31,</i>	2018	2017
Balance, at beginning of year	\$ 110,320	\$ 76,449
Provision for loan losses	96,675	53,409
Portfolio impairment loss	9,562	-
Amounts applied against the allowance	(45,711)	(19,538)
Balance, end of year	\$ 170,846	\$ 110,320

Note 6: Notes Payable

The Organization has the following notes payable:

<i>As of December 31,</i>	2018	2017
Note payable to Banco Occidente, SA with interest at 11.51%, due June 30, 2020	\$ 9,077	\$ 15,077
	\$ 9,077	\$ 15,077

The following are the future scheduled maturities of notes payable for the years ending December 31:

2019	\$ 6,051
2020	3,026
	\$ 9,077

Note 7: Line of Credit

During the year ended December 31, 2015, Adelante entered into a \$50,000 line of credit with Collegiate Peaks Bank. The interest rate was one percent above the Wall Street Journal prime rate with a floor rate of 5.25%, and the line was personally guaranteed by a member of the Board of Directors of Adelante. As of December 31, 2017, the outstanding balance on the line of credit was \$-0-. The line matured in February of 2018 and was not renewed.

The Adelante Foundation, Inc.

Notes to Financial Statements

Note 8: Guaranteed Deposits

Adelante accepts deposits from its borrowers, which must be repaid upon a borrower leaving the program. In accordance with local law, these deposits do not pay interest and are considered partial collateral for the loans. The deposit is set at 10% of the original amount borrowed. If a borrower requires additional loan funds, the borrower may make an additional payment of 10% of the value of the loan in each cycle.

Management has adopted the policy to have dedicated cash accounts of at least 40% of the outstanding guaranteed deposits.

Note 9: Board Designated Net Assets

The Board of Directors implemented a policy to designate specific cash balances for the repayment of the guaranteed deposits described in Note 8. As of December 31, 2018 and 2017, the total board designated net assets were \$250,677 and \$278,032, respectively.

Note 10: Commitments and Contingencies

Leases

Adelante rents office space for its five offices for terms of one year or less. Monthly rent expense pursuant to these leases is approximately \$ 2,400.

General

Adelante provides microcredit and education to women in Honduras and, consequently, maintains a significant portion of its assets within Honduras. The future results of its programs could be adversely affected by factors such as currency devaluation or changes in the political climate. As of December 31, 2018 and 2017, approximately 95% and 99%, respectively, of the total assets of Adelante were located in Honduras.

In 2013, the Honduran government issued a decree which eliminated the permanent tax-exempt status granted to organizations like Adelante. The prior regulations were replaced with a requirement for an annual review by the Executive Agency of Revenue. This Agency has reviewed submissions for years prior to 2017 and determined Adelante is tax exempt for those years. The 2017 and 2018 submissions are in process. Management estimates the potential tax exposures to be approximately \$85,000 in the event the submissions for exoneration are denied. Adelante has not accrued this potential liability based on advice from local professionals and the approval of the prior submissions.

The Adelante Foundation, Inc.

Notes to Financial Statements

Note 11: Honduran Operations

Adelante's program activities take place in Honduras, where the currency is the lempira. As of December 31, 2018 and 2017, the exchange rate was L24.3388 and L23.5879 to one dollar, respectively. Beginning and ending accumulated translation adjustments are as follows:

<i>For the years ended December 31,</i>	2018	2017
Accumulated translation (loss) - beginning of year	\$ (209,665)	\$ (202,849)
Translation (loss)	(46,756)	(6,816)
Accumulated translation (loss) - end of year	\$ (256,421)	\$ (209,665)