

**THE ADELANTE FOUNDATION, INC.**

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*Report on the Review of Financial Statements  
Years ended december 31, 2021 and 2020*

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***PKF - Tovar López & Co.***  
Auditors - Business Consultants

**THE ADELANTE FOUNDATION, INC**

Financial Statements as at 31 December 2021  
with Report of the Independent Auditors

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## **INDEPENDENT AUDITORS REPORT**

To the Board of Directors  
The Adelante Foundation, Inc.  
San Francisco, California

We have audited the financial statements of The Adelante Foundation, Inc. (Adelante), which comprise the statement of financial position as at December 31, 2021 and 2020, and the related statements of activities, functional expenses, and statement of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits 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, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States.

### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in [jurisdiction], and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have identified the following as the key audit issue revealed in this report:

Tovar López & Co. SRL, es miembro de PKF Global, la red de firmas miembro de PKF International Limited, cada una de las cuales es una entidad legal separada e independiente y no acepta ninguna responsabilidad u obligación por las acciones o inacciones de cualquier miembro individual o firma(s) corresponsal(es).

Calculation, recording and impairment estimation for group and individual loans.	
<b>Key Audit Matters</b>	<b>Audit procedures to analyse the key audit issue</b>
<p>The estimation and impairment of the portfolio of bad loans and uncollectable is considered to be the major issue in our audit.</p> <p>The Foundation’s business focuses primarily on empowering women entrepreneurs from few opportunities to achieve economic self-sufficiency through group and individual loans, In this context, the foundation develops a general framework for its risk models in the different geographical areas where it has agencies, taking into account the specifications of each of the markets.</p> <p>The estimation of credit risk provisions for individually significant risks, which are those that exceed the materiality level set by the Foundation, involves a high degree of judgement and complexity.</p> <p>The estimates of these provisions take into account, primarily and among other factors, the debtor’s capacity to pay and its collateral, the foreseeable estimates of future business valuation (discounts on future cash flows).</p> <p>Also, the estimation of provisions involves a high component of judgement and technical difficulty, these evaluations are based on automated processes, linked to estimation models for provisions of complex design and implementation and other risk management applications necessary for the determination of parameters to be applied in the calculation of those provisions.</p>	<p>Our audit approach has included both the assessment of relevant controls linked to the processes for estimating loan and receivable impairment, as well as the conduct of substantive procedures on such estimation.</p> <ul style="list-style-type: none"> <li>• We have reached an understanding on the credit policies and resolutions of the Board.</li> <li>• Assessment of its alignment with the applicable accounting regulation and with the accounting policies of the Foundation, as well as assessment of the processes established by the Board for updates and development of new accounting policies.</li> <li>• We test the effectiveness of controls related to the financial assessment process performed by credit analysts based on risk factors.</li> <li>• Evaluation of the criteria and policies established for re-financing or restructuring credit risk operations, as well as the monitoring controls established.</li> <li>• Re-calculation of the age report of balances by evaluating the system parameters for the classification of the credit portfolio, validation of the methodology used to classify the portfolio.</li> <li>• Evaluation of clients who had arrears in their payments, which were readjusted and refinanced on time and interest rate.</li> <li>• Restatement of portfolio impairment losses and value adjustment at year-end.</li> </ul>

## **Responsibilities of Management and Those Charged with Governance 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Other matters Financial statements for 2020**

We did not audit the financial statements of Adelante's Honduras operations, as of December 31, 2020. These statements were audited by other auditors, whose report has been provided to us, and our opinion as regards the amounts included in the transactions of The Adelante Foundation, Inc., is based solely on the report of the other auditors.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



*PKF Tovar López*

**PKF-Tovar López & Co.**

Signature Member of PKF International, Ltd.

Tegucigalpa, Honduras.

September 23, 2024

**THE ADELANTE FOUNDATION, INC.**

**Financial Position Statements**

Years ended December 31, 2021 and 2020

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	<u>Notes</u>	<u>2021</u>	<u>2020</u>
<b>Assets</b>			
Cash and cash equivalents	4	750,868	725,258
Loans and receivables, net	5	1,402,009	1,365,470
Vehicles, furniture and equipment, Less: Accumulated depreciation		26,847	33,513
other assets		<u>2,105</u>	<u>2,105</u>
Total, Assets		<u>2,181,829</u>	<u>2,126,346</u>
<b><u>Liabilities and net assets</u></b>			
<b><u>Liabilities</u></b>			
Guaranteed deposits		448,640	529,718
Accounts payable and accrued expenses		19,595	29,762
Obligation for employee benefits		<u>22,591</u>	<u>16,100</u>
Total Liabilities		<u>490,826</u>	<u>575,580</u>
<b>Net assets</b>			
Without donor restrictions:			
Board designated		245,021	211,887
Undesignated		<u>1,445,982</u>	<u>1,338,879</u>
Total net assets without donor restrictions		<u>1,691,003</u>	<u>1,550,766</u>
Total Liabilities and net assets		<u>2,181,829</u>	<u>2,126,346</u>

The notes are an integral part of the financial statements

**THE ADELANTE FOUNDATION, INC.**

**Statements of activities**

Years ended 31 December 2021 and 2020

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	<u>Notes</u>	<u>2021</u>	<u>2020</u>
<b>Support and Revenue</b>			
Loan Interest and fees		889,652	745,754
Grants, contributions, and events		155,682	147,927
Other operating revenue		<u>16,436</u>	<u>20,215</u>
Total support and revenue		<u>1,061,770</u>	<u>913,896</u>
<b>Expenses</b>			
Program services		618,137	819,144
General and administrative		154,534	221,235
Fundraising		<u>96,220</u>	<u>48,486</u>
Total Expenses		<u>868,891</u>	<u>1,088,865</u>
Change in Net Assets Before Other Item		192,879	(174,969)
<b>Other Item</b>			
Foreign exchange rate gain (loss)		<u>(52,642)</u>	<u>30,514</u>
Change in net assets		<u>140,237</u>	<u>(144,455)</u>
Net Assets without donor restrictions			
Beginning of year		<u>1,550,766</u>	<u>1,695,221</u>
<b>End of year</b>		<u>1,691,003</u>	<u>1,550,766</u>

The notes are an integral part of the financial statements



**THE ADELANTE FOUNDATION, INC.****Statements of functional expenses**

Years ended 31 December 2021 and 2020

Description	<b>Program Services</b>	<b>General and administrative</b>	<b>Fundraising</b>	<b>2021</b>
Salaries and wages	288,114	72,028	53,748	413,890
Employee benefits and taxes	95,195	23,799	22,654	141,647
Total employee expenses	383,309	95,827	76,402	555,538
Bad debt expense	17,237	4,309	0	21,546
Other loan administrative expenses	36,154	9,038	151	45,343
Occupancy	46,361	11,590	0	57,951
Office expenses	51,005	12,751	5,227	68,983
Program costs	10,470	2,618	0	13,088
Vehicle cost	46,812	11,703	0	58,515
Professional fees	10,155	2,539	0	12,693
Depreciation and amortization	10,969	2,742	0	13,711
Travel	5,666	1,417	13,928	21,011
Financial expenses	0	0	512	512
Sub Total	234,828	58,707	19,818	313,353
Total expenses	618,137	154,534	96,220	868,891
Description	<b>Program Services</b>	<b>General and administrative</b>	<b>Fundraising</b>	<b>2020</b>
Salaries and wages	324,019	94,067	38,500	456,586
Employee benefits and taxes	93,541	24,437	3,100	121,078
Total employee expenses	417,560	118,504	41,600	577,664
Bad debt expense	180,174	45,044	0	225,218
Other loan administrative expenses	51,971	13,591	1,763	67,325
Occupancy	39,587	9,897	0	49,484
Vehicle cost	35,711	9,564	1,876	47,151
Office expenses	31,525	7,881	0	39,406
Travel	26,293	6,573	0	32,866
Professional fees	12,047	3,882	2,567	18,496
Program costs	13,557	3,389	0	16,946
Depreciation and amortization	10,670	2,667	0	13,337
Interest expense	49	243	680	972
Sub Total	401,584	102,731	6,886	511,201
Total expenses	819,144	221,235	48,486	1,088,865

The notes are an integral part of the financial statements

## THE ADELANTE FOUNDATION, INC

Notes to the financial statements  
Years ended 31 December 2021 and 2020

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### THE ADELANTE FOUNDATION, INC.

#### **Statements of cash flows**

Years ended December 31, 2021 and 2020

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	<u>2021</u>	<u>2020</u>
<b>Cash flows from operating activities</b>		
Change in net assets Adjustments to reconcile the change in net assets to net cash flows from operating activities:		
	140,237	(144,455)
Foreign exchange rate (gain) loss	52,642	(30,514)
Bad debt and impairment expenses	24,946	225,218
Depreciation and amortization	13,711	16,946
(Gain) on disposal of assets	10	(22)
Loans (Disturbed) to clients	(2,395,026)	(2,223,386)
Loans repaid by clients	2,313,843	2,315,360
(Increase) decrease in accounts receivable and other assets	(1,293)	6,999
(Decrease) increase in accounts payable and accrued expenses	(3,676)	(5,659)
Guaranteed deposits received	181,757	127,958
Guaranteed deposits (disbursed)	(254,460)	(205,492)
Net Cash Flows from Operating Activities	72,691	82,953
<b>Cash flows from investing activities</b>		
(Purchase) of property and equipment	(7,960)	(3,048)
Proceeds from the sale of assets	431	0
Net Cash Flows from Investing Activities	(22,791)	(3,048)
<b>Cash flows from financing activities</b>		
(Repayment) of note payable	0	(3,041)
Net Cash Flows from Financing Activities	0	(3,041)
Effect of exchange rate changes on cash	(39,552)	(17,445)
Net change in cash and cash equivalents	25,610	59,419
Cash and cash equivalents at beginning of year	725,258	665,839
<b>Cash and cash equivalents at end of year</b>	<b>750,868</b>	<b>725,258</b>
Supplemental financial information		
Interest Paid	0	972

The notes are an integral part of the financial statements

## **THE ADELANTE FOUNDATION, INC**

Notes to the financial statements  
Years ended 31 December 2021 and 2020

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### **1. ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS.**

#### **General Information**

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.

The Adelante Foundation, Inc. has obtained a permit to operate a branch in Honduras by resolution No. 158-2003 of 3 March 2003 issued by the Ministry of Interior and Justice recognizing it as a non-governmental development organization (NGO) of private nature, non-profit, apolitical.

The Foundation's mission is to empower women entrepreneurs of limited opportunities to achieve economic self-sufficiency by its vision "That no one live in poverty".

Among its primary objectives is to assist in a responsible manner with the promotion of individual initiative and the strengthening of the poorest communities in Honduras and promote development through investment, Education, through solidarity loans using the Grameen Bank model.

The Grameen methodology allows providing financial services with an educational component (organization training, credit administration, business, integral and preventive health, rights, etc.), the model becomes a vehicle for learning and development at personal, economic and social levels.

The institution does not seek to concentrate credit in a few hands, on the contrary, the model allows the granting of small credits to a large number of clients, for this reason the massification of the service ensures the institutional success and sustainability of the program.

### **2. BASIS OF PRODUCTION AND MAIN ACCOUNTING POLICIES**

The main accounting policies applied in the preparation of the financial statements of The Adelante Foundation Inc. are described below:

## THE ADELANTE FOUNDATION, INC

Notes to the financial statements  
Years ended 31 December 2021 and 2020

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- a) Basis for the preparation of financial statements. Honduras operations have been prepared in accordance with the International Financial Reporting Standards for Small and Medium Enterprises issued by the International Accounting Standards Board (IASB). The financial statements of The Adelante Foundation have been prepared in accordance with generally accepted accounting principles of the United States of America.

These two conceptual frameworks are applicable to the formulation of financial reporting; however, the application of generally accepted accounting principles for non-profit entities is more appropriate because they are more specific to the type of entity.

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 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 those 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, 2021 and 2020, Adelante does not have any net assets with donor restrictions.

### **Classification of expenses**

Program services include administrative and general expenses, fundraising, and membership development. Administrative and general expenses include those incurred that are not necessary for the direct conduct of program services; fundraising expenses include advertising, promotion, and conducting fundraising drives, maintaining donor lists, preparing and distributing instructional manuals and other materials used in fundraising.

## THE ADELANTE FOUNDATION, INC

Notes to the financial statements  
Years ended 31 December 2021 and 2020

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- b) 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.
- c) Loans and interest receivable on loans. Loans receivable is stated at cost, which corresponds to the amount initially valued, less any repayments of capital that may have occurred and the provision for doubtful loans and interest. Loans and receivables are stated at amortized cost using the effective interest method, less any impairment.
- d) Estimate for Doubtful Recovery Loans. The management has decided that to calculate and record the estimate for doubtful loans and interest take the evaluation and classification criteria established and required by the National Commission of Banks and Insurance (CNBS) of Honduras for each classification category.

The percentages required for each of the classification categories are compiled according to criteria set out in a table and represent a calculation basis. The balance of this estimate is an amount that Finance Management considers sufficient to absorb losses arising from default by borrowers, to which the Foundation is exposed according to the level of risk assumed.

Recovery of receivables is determined on the basis of the debtor's payment behavior, capacity to pay and availability of collateral for credit. Loans considered uncollectible by the administration are cancelled against the estimate.

The allowance for doubtful recovery loans is established through percentage calculations, which are charged to expenses.

- e) Interest and commission income on loans. Interest income on loans is recognized when collected; however, to be consistent with the accrual hypothesis, the organization recognizes as income at the end of the year the uncollected interest that has been accrued. Income from commissions and other services arising from the granting of loans and others is recognized on an accrual basis when the services have been provided to customers.
- f) Contribution Revenue. Contributions, including promises to give, are considered conditional or unconditional, depending on the nature and existence of any donor or grantor conditions. A contribution or promise to give contains a donor or grantor condition when both of the following are present:

## THE ADELANTE FOUNDATION, INC

Notes to the financial statements  
Years ended 31 December 2021 and 2020

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- An explicit identification of a barrier that is more than trivial, that must be overcome before the revenue can be earned and recognized.
- An implicit right of return of assets transferred or a right of release of a donor or grantor's obligation to transfer assets promised, if the condition is not met.

Conditional contributions are recognized when the barrier(s) to entitlement are overcome. Unconditional contributions are recognized as revenue when received.

Unconditional contributions or conditional contributions in which the conditions have been substantially met or explicitly waived by the donor are recorded as support with or without donor restrictions, depending on the existence and nature of any donor restrictions. When a restriction expires, 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. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized.

- g) Grant Revenue. Grants are either recorded as contributions or exchange transactions based on criteria contained in the grant award.

Grant Awards That Are Contributions - Grant awards that are contributions are evaluated for conditions and recognized as revenue when conditions in the award are satisfied.

Unconditional awards are recognized as revenue when the award is received. Amounts received in which conditions have not been met are reported as a refundable advance liability.

Grant Awards That Are Exchange Transactions - Exchange transactions are those in which the resource provider or grantor receives a commensurate value in exchange for goods or services transferred. Revenue is recognized when control of the promised goods or services is transferred to the customer (grantor) in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Amounts received in excess of recognized revenue are reflected as a contract liability.

- h) Post-employment benefit plans. The liability for employee benefit obligations of the Branch is related to what is established by the Labor Code of the Republic of Honduras for payments for long periods of service. At the end of each year of employment, a provision is made for the salaries paid. This benefit is calculated from the third

## THE ADELANTE FOUNDATION, INC

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month after the hiring and paid if the employee is unjustifiably dismissed. The cost and obligation are measured using the individual method taking into account the beginning of the employment relationship using the legal framework of the Honduran labor law, all full-time staff on the payroll are eligible and covered by the program.

By Decree No. 56-2015 of the Framework Law of the Social Protection System in articles 29 and 30, the creation of an Individual Capitalization Labor Reserve was established, constituted through mandatory employer contributions equivalent to four percent (4%) monthly of the Ordinary Salary, in this sense, Fundación Adelante Honduras branch requested before the competent authority to be exempt from this commitment. Payment of the accrued severance costs totaled approximately \$27,000 and \$28,000, for the years ended December 31, 2021 and 2020, respectively.

- i) 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

- j) 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.

- k) 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. The statements of functional expenses present the natural classification detail of expenses by function. 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.

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Indirect costs such as occupancy and office related expenses are allocated based upon time spent, utilization, and square footage.

- l) Use of Estimates. The preparation of the financial statements requires the management of the Honduras Branch to make certain estimates and assumptions that affect the balances of assets and liabilities, the disclosure of contingent liabilities at the date of the financial statements, as well as income and expenses for the years reported. The estimate that is particularly susceptible to significant changes in the short term relates to provisions for doubtful loans. The Board of Directors, as the responsible body, periodically reviews such estimates when it deems appropriate.
- m) Provisions. Provisions are recognized when the branch has a present obligation (legal or constructive) as a result of a past event, where it is probable that the obligation will have to be settled, and a reliable estimate of the obligation can be made. The amount recognized as a provision is the best estimate of the amount required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. The provision that is particularly susceptible to significant changes in the short term is the provision for employee benefits.
- n) Combination Principles. There are significant transactions and relationships that have been eliminated in the preparation of the financial statements.
- o) Exchange Rate. Adelante Foundation Honduras branch records its accounting operations in Lempiras (L) Monetary Unit of the Republic of Honduras and the exchange rate in relation to the United States Dollar (US\$) is regulated by the Central Bank of Honduras.

As of December 31, 2021 and 2020, the average simple purchase price of the reference exchange rate of the Public Foreign Exchange Auction in the interbank system was L.24.5158 and L.24.1141 US\$1, respectively.

Beginning and ending accumulated translation adjustments are as follows:



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<u>For the year ended december 31</u>	<u>2021</u>	<u>2020</u>
Accumulated translation (loss) – beginning of year	(242,357)	(272,871)
Translation gain (loss)	<u>(52,642)</u>	<u>30,514</u>
Accumulated translation (loss) - end of year	<u>(294,999)</u>	<u>(242,357)</u>

### 3. MONETARY ASSETS AND LIABILITIES

As of December 31, total monetary assets and liabilities, expressed in US dollars and Lempiras, amounted to:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	447,873	437,525
Certificates of deposit	<u>302,995</u>	<u>287,733</u>
	750,868	725,258
Loans receivable, net	1,362,959	1,327,713
Interest receivable and other assets	<u>41,155</u>	<u>39,862</u>
Total financial assets	2,154,982	2,092,833
Less:		
Guarantee deposits	<u>(448,640)</u>	<u>(529,718)</u>
Total financial assets available for general expenditure	<u>1,706,342</u>	<u>1,563,115</u>

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.

### 4. CASH AND CASH EQUIVALENTS

A breakdown of this availability as of December 31 is detailed below:

	<u>2021</u>	<u>2020</u>
Cash in foreign banks	306,752	293,873
Cash in banks National currency	141,121	<u>143,652</u>
Investments - Fixed-term certificates of deposits	<u>302,995</u>	<u>287,733</u>
	<u>750,868</u>	<u>725,258</u>

By directive of Adelante Foundations Inc., the branch in Honduras has established that 40% of the clients' guarantee deposits must be backed by a restricted cash reserve in a savings account in local currency and a fixed-term deposit certificate, the reserve amounts to \$245,021 and 211,887 respectively.

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Fixed-term deposit maturing on October 26, 2022, renewable, interest rate 4.75% per year with monthly interest payments.

### 5. LOANS RECEIVABLE

Loans receivable as of December 31 accrue interest on average at 5.41% per month calculated on a level installment basis and are presented below:

	<u>2021</u>	<u>2020</u>
Current unrestricted loans	1,696,630	1,783,968
Less: Allowance for doubtful account	333,671	456,255
Loans receivable, net	1,362,959	1,327,713
Interest receivable	<u>39,050</u>	<u>37,757</u>
	<u>1,402,009</u>	<u>1,365,470</u>

For 2021 and 2020, the portfolio risk rate amounts to 25.18% and 30.41% respectively and corresponds to loans greater than 30 days. The terms of the solidarity group loans have maturity periods ranging from three to eight months, and payments are set on a biweekly, biweekly, fortnightly and monthly basis. The loans are guaranteed in their entirety by the solidarity of the members in a joint and indivisible manner, which means that there is no individualization of the debt among the members of the group, but rather they assume the total amount of the loan as their own debt. Individual loan terms range from three months to five years, and payments are made weekly, biweekly, monthly, and at maturity.

When approved amounts exceed US\$3,300, a mortgage guarantee is required.

The movement of the estimate for Doubtful Recovery Loans as of December 31 is presented below:

	<u>2021</u>	<u>2020</u>
<u>Current</u>		
Opening balance as of December 31	456,255	276,861
Plus: Estimate charged to results	21,432	193,059
Portfolio impairment loss	3,514	32,159
Less:		
Loans written off due to non-payment	139,741	45,824
Waiver of capitalized interest due to 2020 adjustments	575	0
Monetary differences by exchange rate	<u>7,214</u>	<u>0</u>
Closing balance as of December 31	<u>333,671</u>	<u>456,255</u>

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### **Modification of the way of calculating the reserve for doubtful loans.**

As of 2021, Fundación Adelante Honduras branch reformed its method of calculating the reserve for doubtful loans to a progressive table similar to that currently used by the regulated financial system. As of December 31, 2021 and 2020, the foundation made effective the use of the corresponding provision as a portfolio write-off for a value of \$139,741 and \$45,824 respectively.

The amount of capitalized interest on readjusted loans from 2020, which became delinquent in 2021, was also applied against the reserve.

Impairment losses on commercial loans amounted to \$ 3,514 as of December 31, 2021, which represents an increase of 155% in relation to what was recognized in 2020. This increase is mainly due to agricultural loans that have their payment scheduled at maturity.

The Board of Directors of Fundación Adelante issued guidelines aimed at granting additional grace periods. In this regard, starting in July 2020, clients whose economic activities were affected by the National Health Emergency due to COVID-19 were granted grace periods starting in July of this year.

This benefit was carried out with the analysis carried out by the Finance Management and the Compliance and Risk Unit, considering the debtor's payment capacity, the circumstances they currently face, and the financial conditions of the institution.

### **Types of Credits**

The granting of additional grace periods was applied to the credit operations of the clients most affected by the pandemic, corresponding to individual and group credits.

The condition was only given as long as the clients show their inability to pay, whether this is derived from an impact on their business or another source of income.

### **Deadline for refinancing or readjustments**

To formalize the refinancing or readjustments of the credit obligations of debtors covered by the relief mechanisms, the operations and business management as a relief mechanism approved to carry out credit operations, where the clients will have a maximum term until December 31, 2020, however, this strategy generated an outbreak of default in the period 2021, which caused the portfolio risk to be extreme.

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Faced with this risk, management approved a waiver of capitalized interest for adjustments approved in 2020. This step allowed a turnaround and a better management of the portfolio. The new adjustments approved in 2021 were established under conditions that allow the debtor to comply with the payment of its obligations, in accordance with the new payment plans established between the parties.

### **6. GUARANTEE DEPOSITS**

Each solidarity group constitutes a "Security Deposit" that backs the loans. The deposit is 10% of the loan amount, which is charged to the amount approved at the beginning of the loan. For subsequent loans, it is mandatory to make a deposit to complete 10% of the value of the current loan; if the client wants to continue saving, she can deposit 10% of the value of each loan requested in each cycle.

A client can withdraw his deposit once he has fully cancelled the loan granted (including all the debt of the solidarity group) and has cancelled his debts to his Assembly. In the event that a client or group does not withdraw his deposit immediately after cancelling his loan, the Foundation is obliged to find it and return it. The loan write-off policy has been implemented for those clients who have entered into arrears on their loan payments with a delinquency of more than 90 days. During 2021 and 2020, deposits were applied against the portfolio in guarantee for \$ 76,917 and \$ 34,109 respectively

### **7. TAX EXEMPTIONS**

#### **Income Tax, Solidarity Contribution and Net Assets**

According to decree 278-2013 article 5 numeral 12 issued on December 30, 2013, the Adelante Foundation Honduras branch enjoys the benefit of exemption from income tax, solidarity contribution and net assets.

According to decree 278-2013 of December 30, 2013, it establishes that all exemptions from income tax for non-profit associations are repealed if they do not have the resolution issued by the competent tax authority. According to the current tax code, to be eligible for the resolution, it is required to be registered in the Registry of Exempted Persons administered by the Secretary of State in the Office of Finance (SEFIN); the obligation to update the registry must be annual and done by written or electronic means provided by the Secretary of State in the Office of Finance (SEFIN).

By resolution No. ISR-E2021002339 issued on October 29, 2021 by the Revenue Administration Service (SAR), Fundación Adelante,

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Honduras branch, is exempt from paying income tax, solidarity contribution, and net assets corresponding to the 2021 fiscal period.

### **8. COMMITMENTS AND CONTINGENCIES**

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, 2020 and 2021, approximately 90% and 94%, respectively, of the total assets of Adelante were located in Honduras.

### **9. MAIN FINANCIAL RISKS OF MICROCREDITS**

#### **Interest Rate Risk**

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes 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 matures 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.

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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.

### **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.

### **Money Laundering Risk**

This is the risk that the Foundation's services and products may be used to legitimize financial assets, so that they may be used without the illegal activity that produces them being detected. This could have legal implications or sanctions for failure to comply with the current claim for the prevention and detention of the misuse of financial products and services in money laundering, in addition to the deterioration that it could cause to the Foundation's image.

The compliance and risk department manages this risk by using good practices for the prevention and detection of the misuse of financial products and services in money laundering, which requires the application of procedures related to customer knowledge, staff training, transaction reporting and monitoring of atypical transactions.

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### **LAW FOR THE REGULATION OF DESIGNATED NON-FINANCIAL ACTIVITIES AND PROFESSIONS**

In order to prevent the institution from being used to promote the crime of money laundering, Fundación Adelante as a non-profit non-governmental organization, in 2018 acquired the obligation to comply with the guidelines established by the government of Honduras regarding the Prevention of Money Laundering and Financing of Terrorism.

The regulation and monitoring process is regulated by the Registration, Monitoring and Prevention Unit of Money Laundering and Financing of Terrorism (URMOPRELAFT), a unit dependent on the National Commission of Banks and Insurance (CNBS), in charge of keeping records of natural or legal persons who are engaged in Designated Non-Financial Activities and Professions (APNFD), their supervision, surveillance and establishment of the measures that, according to the level of risk, must be implemented by said natural and legal persons considered as Obligated Subjects.

On September 28, 2018, Fundación Adelante Honduras branch obtained registration certificate 09-02-51/2018 as compliant with the requirements established in the Rules for the Registration of Designated Non-Financial Activities and Professions, registered in the sector of natural or legal persons who regularly engage in non-banking loan services; and subsector Legal Entities Non-Bank Lenders under file No. UIFEX-AD-565/2018 of said Registry, which for such purpose is controlled by the National Commission of Banks and Insurance of Honduras (CNBS).

#### **10. SUBSEQUENT EVENTS**

Adelante has performed an evaluation of subsequent events through January 19, 2022, 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.

No events or transactions have occurred from January 1 to March 8, 2022, that could have a significant impact on the financial statements that require disclosure therein, except the following:

#### **SUBSEQUENT CONSEQUENCES DUE TO THE EFFECT OF THE COVID 19 GLOBAL PANDEMIC**

**Going concern:**

**Portfolio impairment in accordance with IFRS section 11 Basic financial instruments.**

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As of December 31, 2021, the portfolio risk index with a default of more than 30 days is 25.18% compared to 30.41% that closed in 2020. This slight improvement is not enough to reduce the risk of non-payment by clients, which still remains high. However, in the face of this challenge, management has implemented more drastic measures to manage credit risk and liquidity risk. Among others, the granting of loans with short terms and smaller amounts has allowed to improve liquidity gaps and improve profitability.

For the 2021 period, there was an upturn in the demand for loans and this prompted management to increase the placement of loans by 7% more than the previous year. Likewise, the reform to the write-off table for doubtful recovery loans allowed for the write-off of nearly \$140,000 in 2021.

For 2021, there was a decrease in the deceleration process of the agencies' activities, which allowed business activities to normalize.

With the transfer of funds from the parent company and the proper management of the crisis by the Management, it has allowed for an improvement in the profitability and liquidity indices.

Given this upturn and the good figures, we can see that the organization is on track to generate positive cash flows from its operations, so the uncertainty that the Adelante Foundation Honduras branch generates significant doubts about the Foundation's ability to continue as a going concern has been reduced.