



**ALFALIT INTERNATIONAL INC.
AND AFFILIATE
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018**

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INDEPENDENT AUDITORS' REPORT

Board of Directors of
Alfalit International, Inc. and Affiliate
Miami, Florida

We have audited the accompanying consolidated financial statements of Alfalit International, Inc. and Affiliate (a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated 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 consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; 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 consolidated 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Alfalit International, Inc. and Affiliate 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 of America.



CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida
September 18, 2019

ALFALIT INTERNATIONAL, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2018

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 733,459
Accounts receivable, net	73,064
Employee advances	6,889
Program materials and supplies	221,903
Deposits and prepaids	<u>50,000</u>
TOTAL CURRENT ASSETS	1,085,315

Property and equipment, net	111,835
Loan receivable, net	<u>50,958</u>
TOTAL ASSETS	<u>\$ 1,248,108</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$ <u>26,150</u>
TOTAL CURRENT LIABILITIES	26,150

NET ASSETS

Without donor restrictions	1,173,604
With donor restrictions	<u>48,354</u>
TOTAL NET ASSETS	<u>1,221,958</u>
	<u>\$ 1,248,108</u>

The accompanying notes are an integral part of these financial statements

ALFALIT INTERNATIONAL, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

		Without Donor Restriction	With Donor Restriction	Total
Support and revenues:				
Contributions		\$ 4,739,703	\$ 33,200	\$ 4,772,903
Special fundraising events revenues	806,155			
Less: Cost of direct benefits to donors	<u>(265,361)</u>			
Net revenues from special events		540,794	-	540,794
In-kind contributions		59,342	-	59,342
Interest, dividends and other income		11,473	-	11,473
Released from restrictions		<u>33,932</u>	<u>(33,932)</u>	-
Total support and revenues		5,385,244	(732)	5,384,512
Expenses:				
Program services		4,450,807	-	4,450,807
General and administrative		290,839	-	290,839
Fundraising		<u>407,161</u>	<u>-</u>	<u>407,161</u>
Total expenses		<u>5,148,807</u>	<u>-</u>	<u>5,148,807</u>
Change in net assets		236,437	(732)	235,705
Net assets at beginning of year		<u>937,167</u>	<u>49,086</u>	<u>986,253</u>
Net assets at end of year		<u>\$ 1,173,604</u>	<u>\$ 48,354</u>	<u>\$ 1,221,958</u>

The accompanying notes are an integral part of these financial statements

ALFALIT INTERNATIONAL, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

Cash Flows from Operating Activities:	
Change in net assets	<u>\$ 235,705</u>
Adjustments to reconcile change in net assets	
to net cash flows provided by operating activities:	
Depreciation expense	12,863
Supplies and materials reserve	86,440
Loan forgiveness and reserves	166,382
Changes in operating assets and liabilities:	
Increase in accounts receivable	(35,065)
Decrease in deposits and prepaids	117,801
Increase in program materials and supplies	(141,978)
Increase in accounts payable and accrued expenses	<u>5,875</u>
	<u>212,318</u>
Net Cash Provided by (Used In) Operating Activities	<u>448,023</u>
Cash Flows from Investing Activities:	
Collection of loans receivable	<u>18,618</u>
Net Cash Provided by Investing Activities	<u>18,618</u>
Net increase in cash during the year	466,641
Cash at beginning of year	<u>266,818</u>
Cash at end of year	<u><u>\$ 733,459</u></u>

The accompanying notes are an integral part of these financial statements

ALFALIT INTERNATIONAL, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Program Services	Supporting Services			
	Total Program services	General and Administrative	Fundraising	Total Supporting Services	Total
Operating expenses:					
Salaries	\$ 1,521,422	\$ 27,038	\$ 182,353	\$ 209,391	\$ 1,730,813
Payroll taxes	77,557	2,070	13,420	15,490	93,047
Employee benefits	165,822	9,447	17,726	27,173	192,995
Professional fees	126,656	143,931	166,473	310,404	437,060
Vehicles expense	84,455	-	-	-	84,455
Repairs and maintenance	38,080	17,353	-	17,353	55,433
Books and supplies	645,780	10,371	-	10,371	656,151
Telephone	37,341	4,845	-	4,845	42,186
Postage	5,175	1,726	-	1,726	6,901
Freight	63,793	-	-	-	63,793
Occupancy cost	111,266	60,590	-	60,590	171,856
Seminars and training	39,358	605	-	605	39,963
Travel expense	170,994	-	14,594	14,594	185,588
Philanthropic support to countries	164,853	-	-	-	164,853
Depreciation	-	12,863	-	12,863	12,863
In-Kind donations	59,342	-	-	-	59,342
Other expenses	1,138,913	-	12,595	12,595	1,151,508
Total functional expenses	<u>\$ 4,450,807</u>	<u>\$ 290,839</u>	<u>\$ 407,161</u>	<u>\$ 698,000</u>	<u>\$ 5,148,807</u>

The accompanying notes are an integral part of these financial statements

**ALFALIT INTERNATIONAL, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 – ORGANIZATION

Organization and Operations

Alfalit International, Inc. was incorporated in Florida in 1975 as a faith based, world literacy grassroots movement committed to improving the lives of the less privileged by teaching illiterates to read and write. The programs include literacy, adult education, preschool, health, and nutrition and community development. The Organization operates in 13 countries in Latin America, Africa, and the Caribbean, as well as, Portugal and the United States for a total of 23 countries. The Organization provides methodology, training and literacy materials in Spanish, English, Portuguese, Haitian Creole, French and several indigenous languages. The Organization operates in these 23 countries by either direct project control, providing the use of the Alfalit program materials or collaboration with other organizations with similar missions. The Organization's volunteers have taught millions of people to read and write using a simple, yet effective methodology. Alfalit's methodology and educational programs have been recognized nationally and internationally. In 1983, UNESCO presented Alfalit's program in Peru with its First Prize in Adult Literacy. In 1992, it gave special recognition to Alfalit's programs in Guatemala. Moreover, in September 2006, Alfalit was recognized for its program in Bolivia at the first White House Conference on Global Literacy. In 2011, President Barak Obama honored Alfalit's Board President Emeritus Roberto Perez with the 2011 Presidential Citizens Medal for bringing the gift of literacy to communities worldwide.

Alfalit Realty Holdings, Inc. was incorporated in Florida in 2002 for the purpose of owning certain real property used by Alfalit International, Inc.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation – The consolidated financial statements include the accounts of Alfalit International, Inc. and Alfalit Realty Holdings, Inc. ("The Organization"). The financial statements of these organizations have been consolidated because they have overlapping Board of Directors. All significant inter-company balances and transactions have been eliminated from the consolidated financial statements.

Financial Statement Presentation - The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 *Accounting for Statements of Not-for-Profit Organizations* dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) "Audit and Accounting Guide for Not-for-Profit Organizations" (the "Guide"). (ASC) 958-205 was effective January 1, 2018.

Under the provisions of the Guide, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Foundation. The Foundation's board may designate assets without restrictions for specific operational purposes from time to time.

ALFALIT INTERNATIONAL, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Cash and Cash Equivalents – For purposes of the statements of cash flows, the Organization has defined cash and cash equivalents as those highly liquid investments purchased with an original maturity of three months or less. Financial instruments which potentially subject the Organization to concentrations of credit risk consists principally of cash in excess of federally insured limits. The Organization generally limits the amount of credit exposure by maintaining its cash balances under these limits.

Program Materials and Supplies – Program materials and supplies consist of books and other teaching materials acquired by the Organization for use in teaching participants to read, write, and do basic math. Program materials and supplies are stated at cost.

Contributions and Pledges Receivable – Contributions and pledges are recorded as receivables in the year made, net of estimated uncollectible amounts and discounts.

Loans Receivable – The organization has made a loan to one of its correspondent in Liberia, Africa as a community development organization to provide loans to small businesses with the end purpose of supporting and stimulating local economic activity. Loan receivables are initially recorded at the stated amount on the date of disbursement. The Organization maintains allowances for loan losses for potential credit losses through a charge to earnings and a credit to a valuation allowance. The allowance for loan losses on small-balance loans reflects management's best estimate of probable losses determined principally on the basis of historical experience. For larger loans, the allowance for losses is determined primarily on the basis of management's best estimate of probable losses, including specific allowances for known troubled accounts. All accounts or portions thereof deemed to be uncollectible or to require an excessive collection cost are written off to the allowance for losses through a charge to the allowance and a credit to loans receivable. When collateral is repossessed in satisfaction of a loan, the receivable is written down against the allowance for losses to the estimated fair value of the asset less costs to sell, transferred to other assets, and subsequently carried at the lower of cost or estimated fair value less costs to sell.

Property and Equipment – Property and equipment are stated at cost, less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives used to compute depreciation range from 5 years to 31 years. Donated property and equipment are recorded at their estimated fair market value at the date of donation. Costs of major additions and improvements that extend the life of the asset are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

ALFALIT INTERNATIONAL, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Support and Revenue – Unconditional contributions are recognized when pledged and recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Gifts of cash and other assets are reported with donor restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as net assets without donor restriction support. Donations of property and equipment are recorded as support at their estimated fair value at the date of donation.

In-Kind Contributions and Services - In-kind contributions of donated non-cash assets are recorded at their fair value in the period received. They consist primarily of volunteer services, donated books, facilities and supplies. The Organization only recorded the value of donated services for field personnel, classrooms and materials for Angola, Bolivia, and Liberia supported operations, but it is estimated that there are over 6,500 additional facilitators in the field donating services to the Organization in Central America, Latin America, Africa, Europe, and the Caribbean that have not been accounted for.

Donations, ticket sales, auction sales and sponsorships revenues related to special events are recognized when the events take place net of the costs of direct donor benefits that are not program related costs and are provided in exchange transactions.

Functional Allocation of Expenses - The costs of providing the various programs and activities have been summarized on a functional basis in the consolidated statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. During the year ended December 31, 2018, general and administrative expenses represents 5.15% of total support and revenues.

Income Taxes - Alfalit International, Inc. is a nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified as a public charity. Accordingly, no provision for income taxes is required as of December 31, 2018.

Alfalit Realty Holdings, Inc has been granted an exemption from income taxes under Internal Revenue Code 501(c)(2) for the purpose of holding title to property. Accordingly, no provision for income taxes is required as of December 31, 2018.

The Organization has adopted “*Accounting for Uncertainties in Income Taxes*” as prescribed by the *Accounting Standards Codification*, which provides guidance for financial statement recognition and measurement of uncertain tax positions taken or expected to be taken in a tax return for open tax years (generally a period of three years from the later of each return’s due date or the date filed) that remain subject to examination.

ALFALIT INTERNATIONAL, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncement - On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Foundation has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Management's Use of Estimates - The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at December 31, 2018 and the reported amounts of revenue and expenses during the year then ended. Actual results could differ from those estimates.

Subsequent Events - In accordance with ASC 855, the Organization has evaluated subsequent events and transactions for potential recognition or disclosure through September 18, 2019, which is the date the financial statements were available to be issued.

NOTE 3 – NET ASSETS – WITH DONOR RESTRICTIONS

Donor restricted net assets consist for the following purposes as of December 31, 2018:

Not subject to appropriation or expenditure:	
Original donor-restricted gift amounts required to be held indefinitely	<u>\$48,354</u>
Total net assets with donor restrictions	<u>\$48,354</u>

Releases from Donor restricted net assets for the year 2018 are as follows:

Subject to expenditure for specified purpose	<u>\$33,932</u>
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NOTE 4 – ACCOUNTS RECEIVABLE

At December 31, 2018 accounts receivable consist of trade and rents receivables and gala pledges totaling \$75,064, net of an estimated \$2,000 allowance for uncollectible promises.

ALFALIT INTERNATIONAL, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 5 – PROVISION FOR LOAN LOSSES

As indicated in Note 2, the Organization extended a higher risk loan to a correspondent in Liberia, Africa as a community development organization to provide loans to small businesses with the end purpose of supporting and stimulating local economic activity. Such a loan is tied to foreign risk and therefore, subject to various political, economic, and other risks and uncertainties inherent in that foreign country. Among other risks, the collection of this loan is subject to the risks of restrictions on transfer of funds; export duties, quotas, and embargoes; domestic and international customs and tariffs; changing taxation policies; foreign exchange restrictions; and political conditions and governmental regulations. Accordingly, the Organization has recorded a loan loss provision of \$94,892 relating to these loans. Activity in the allowance for loan losses is as follows:

	2018
Balance, beginning of the year	\$ 14,224
Provision adjustment	166,382
Amounts written off	<u>(85,714)</u>
Balance, end of the year	<u>\$ 94,892</u>

NOTE 6 – PROPERTY AND EQUIPMENT

At December 31, 2018, property and equipment consisted of the following:

Building	\$ 152,677
Building improvements	147,711
Furniture, fixtures and equipment	3,063
Software	<u>4,270</u>
	307,721
Less accumulated depreciation	<u>(195,886)</u>
	\$ <u>111,835</u>

NOTE 7 - RELATED PARTY TRANSACTIONS

Contributions include the following for the year ending December 31, 2018:

Total Board Members Support	\$ 4,551,621
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NOTE 8 – REVENUE AND OTHER SUPPORT

For the year ended December 31, 2018, the Organization had total gross support and revenue of \$5,649,873 of which \$4,551,621 was received from board members. The support received from board members represented approximately 81% of its total support for the year.

ALFALIT INTERNATIONAL, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 9 – SPECIAL EVENTS

Special events generate revenue for the Organization as well as raise awareness about the organization's mission. Some events are annual and some are incidental to the Organization's central activities and do not happen regularly. Incidental events are recorded net in the accompanying Statement of Activities.

The Organization held one major annual event during the year ended December 31, 2018 related to its annual gala as follows:

Changes in net assets without donor restrictions		
Revenues:		
Contributions		\$ 122,780
Special event revenue	\$ 625,245	
Less; Cost of direct benefit to donors	<u>(265,361)</u>	
Net revenues from special events		<u>359,884</u>
Total revenues		<u>\$ 482,664</u>