

Audited Financial Statements

EL FUTURO INC.

June 30, 2021

El Futuro Inc.

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Mark S. Danes, CPA, PLLC

Certified Public Accountant and Consultant

Independent Auditor's Report

Board of Directors and Management
El Futuro Inc.
Durham, North Carolina

We have audited the accompanying financial statements of El Futuro Inc. (the Organization) (a nonprofit organization), which comprise the statement of financial position as of June 30, 2021 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 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 Organization'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 Organization'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, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2021, 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of state awards is required by the State of North Carolina. It is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2021, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Mark S. Danes, CPA, PLLC

Mark S. Danes, CPA, PLLC
5512 Frenchmans Creek Drive
Durham, North Carolina 27713
October 25, 2021

El Futuro Inc.
Statement of Financial Position
June 30, 2021

Assets

Cash and cash equivalents	\$ 2,441,016
Investments	14,861
Grants receivables	653,292
Medical billings receivables	30,735
Other receivables	13,938
Prepaid expenses	48,541
Security deposits	11,436
Property and equipment, net	<u>398,130</u>

Total assets	<u><u>\$ 3,611,949</u></u>
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Liabilities and Net Assets

Liabilities

Accounts payable	\$ 28,394
Accrued expenses	209,663
Deferred rent	47,295
Contingent liability	54,048
Forgivable loan	<u>394,670</u>

Total liabilities	<u>734,070</u>
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Net Assets

Without donor restrictions	
Undesignated	1,931,946
Board-designated	450,000
With donor restrictions	<u>495,933</u>

Total net assets	<u>2,877,879</u>
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Total liabilities and net assets	<u><u>\$ 3,611,949</u></u>
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See accompanying notes to financial statements.

El Futuro Inc.
Statement of Activities
For the Year Ended June 30, 2021

Without donor restrictions

Revenue and gains	
Contributions	\$ 1,386,590
Grants	1,151,051
Clinical services (program revenue)	918,960
PPP loan forgiveness	384,000
Special events, net	100,024
Return on investments	4,545
Miscellaneous revenue	25,369
Total revenue and gains	<u>3,970,539</u>
Net assets released from restrictions	<u>899,172</u>
Total revenue, gains and reclassifications	<u>4,869,711</u>
Expenses and Losses	
Program services	2,988,362
Management and general	366,735
Fundraising	163,053
Total expenses and losses	<u>3,518,150</u>
Change in net assets without donor restrictions	<u>1,351,561</u>

With donor restrictions

Contributions	363,000
Net assets released from restrictions	<u>(899,172)</u>
Change in net assets with donor restrictions	<u>(536,172)</u>
Change in net assets	815,389
Beginning net assets	<u>2,062,490</u>
Ending net assets	<u>\$ 2,877,879</u>

See accompanying notes to financial statements.

El Futuro Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2021

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 1,997,434	\$ 209,441	\$ 100,404	\$ 2,307,279
Rent	192,473	7,672	6,137	206,282
Contract services	233,867	2,944	1,250	238,061
Payroll taxes	145,111	15,728	7,745	168,584
Employee benefits	177,442	35,888	6,759	220,089
Professional fees	27,591	56,173	940	84,704
Depreciation	47,368	2,603	2,082	52,053
Office expenses	5,442	5,629	277	11,348
Travel	594	-	34	628
Insurance	32,754	2,091	1,480	36,325
Supplies	60,111	7,659	21,658	89,428
Miscellaneous	993	-	-	993
Training	14,627	2,923	328	17,878
Repairs and maintenance	16,267	1,650	696	18,613
Telephone and internet	17,624	893	714	19,231
Utilities	10,405	271	217	10,893
Printing and copying	1,631	677	6,878	9,186
Dues and subscriptions	3,735	904	227	4,866
Bank service charges	-	7,700	-	7,700
Postage and shipping	805	498	5,201	6,504
Meals and entertainment	2,088	166	26	2,280
Interest	-	5,225	-	5,225
	<u>\$ 2,988,362</u>	<u>\$ 366,735</u>	<u>\$ 163,053</u>	<u>\$ 3,518,150</u>

See accompanying notes to financial statements.

El Futuro Inc.
Statement of Cash Flows
For the Year Ended June 30, 2021

Cash Flows From Operating Activities	
Change in net assets	\$ 815,389
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation	52,053
Forgiveness of first PPP loan	(384,000)
Donated investments	(10,477)
Unrealized loss (gain) on investments	(445)
Changes in assets and liabilities:	
Grants receivable	208,932
Medical billings receivables	(1,762)
Other receivables	(6,960)
Prepaid expenses	(2,728)
Security deposits	9
Accounts payable	12,348
Deferred rent	13,683
Accrued expenses and contingencies	133,666
Total adjustments	<u>14,319</u>
Net cash provided by (used in) operating activities	<u>829,708</u>
Cash Flows From Investing Activities	
Purchases of property and equipment	(101,915)
Purchases of investments	(486)
Net cash provided by (used in) investing activities	<u>(102,401)</u>
Cash Flows From Financing Activities	
Proceeds from second forgivable loan	394,670
Net cash provided by (used in) financing activities	<u>394,670</u>
Net increase (decrease) in cash and cash equivalents	1,121,977
Cash, cash equivalents and restricted cash at start of year	1,319,039
Cash, cash equivalents and restricted cash at end of year	<u><u>\$ 2,441,016</u></u>
Supplemental Disclosures	
Cash paid for interest	<u><u>\$ -</u></u>
Cash paid for taxes	<u><u>\$ -</u></u>

See accompanying notes to financial statements.

El Futuro Inc.
Notes to Financial Statements
June 30, 2021

Note 1 - Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities

\$

El Futuro (the Organization) is a North Carolina nonprofit organization recognized by the Internal Revenue Service as a charitable, tax-exempt organization. El Futuro was volunteer-founded in 2004 in direct response to the increasing wave of Latin American immigrants and the critical lack of bilingual mental health providers to meet the needs of this growing part of our community. Today, the Organization serves the mental health and substance abuse needs of Latinos and their families primarily in central North Carolina with clinics offering therapy in Siler City and Durham. It aims to address the unique mental health needs of the Latino community through three initiatives: 1) Promotion of Latino behavioral health awareness, 2) Enhancement of existing services in the community, and 3) Provision of culturally competent clinical services.

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. It is also exempt from North Carolina income and franchise taxes under the North Carolina Non-Profit Corporation Act. However, income from certain activities not directly related to the Organization's tax-exempt purpose, if present, may be subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

Summary of Significant Accounting Policies:

Use of Estimates

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

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to the following net asset classifications:

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 Organization. These net assets may be used at the discretion of the Organization 's management and the Board of Directors.

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 Organization or by the passage of time. Other donor restrictions, if any, are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

El Futuro Inc.
Notes to Financial Statements
June 30, 2021

Note 1 - Nature of Activities and Summary of Significant Accounting Policies (Continued)

Cash, Cash Equivalents and Restricted Cash

As a general rule, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

There was no restricted cash for the period presented.

Receivables

The Organization uses the allowance method to determine uncollectible receivables. The allowance is based on prior years' experience and management's analysis of specific account balances. For medical billing, only half of the total charge is recorded as a receivable. All other balances are deemed to be fully collectible. After management has used reasonable collection efforts or insurance claims have been denied, account balances are directly written off.

Property and Equipment

The Organization capitalizes all property and equipment purchases over \$500 that benefit more than one year. Purchased property and equipment are carried at cost. Donated property and equipment are recorded as revenue at their estimated fair value as of the date of the contribution.

Major additions and betterments are charged to the property and equipment accounts while replacements, maintenance or repairs, which do not improve or extend the life of the respective assets, are expensed in the year incurred. Fully depreciated assets are retained in the property and equipment accounts until they are removed from service.

The Organization reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, and the effects of obsolescence, demand, competition, and other economic factors. Based on this assessment, there were no impairments at June 30, 2021 .

Property and equipment are depreciated over the estimated useful lives of the assets based on the straight-line method. The estimated lives of the assets (in years) are shown below:

Leasehold improvements	14-15
Computers and equipment	3-10
Website	3

Accrued Expenses

Accrued expenses are primarily made up of accrued salaries and wages, paid leave and retirement plan contributions.

El Futuro Inc.
Notes to Financial Statements
June 30, 2021

Note 1 - Nature of Activities and Summary of Significant Accounting Policies (Continued)

Uncertain Tax Positions

The Organization has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. It should be noted that the prior three tax years remain subject to examination by major tax jurisdictions.

General Expenditures

The Organization considers the costs related to its normal activities to be general expenditures unless such costs are limited by the donors for specified, restricted purposes. Accordingly, the related resources for the latter have been excluded in the quantitative information detailing the financial assets available to meet general expenditures within one year.

Functional Allocation of Expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

Expense	Method of Allocation
Salaries and benefits	Time and effort
Depreciation	Square footage
Occupancy expenses	Square footage
Insurance	Square footage
Telephone and internet	Time and effort

The remaining categories on the statement of functional expenses are allocated based on approximate direct usage.

Revenue Recognition - Contributions

Contributions are recognized when the donor makes a promise to give the Organization that is, in substance, unconditional.

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with 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 statement of activities as net assets released from restrictions.

El Futuro Inc.
Notes to Financial Statements
June 30, 2021

Note 1 - Nature of Activities and Summary of Significant Accounting Policies (Continued)

Donated Material and Services

Special events revenue includes donated material sold at auction for \$29,119.

Donated services have not been reflected in the accompanying financial statements since they do not meet the criteria for recognition under U.S. GAAP. Nevertheless, a substantial number of volunteers have donated significant amounts of their time for both program and supporting services. Management estimates 500 volunteer hours for the year ended June 30, 2021.

Revenue Recognition - Exchange Transactions

The Organization considers a contract with a client (or patient) to exist when there is approval and commitment from the Organization and the client, the rights of the parties and payment terms are identified, the contract has commercial substance, and the collectability of consideration is probable.

The Organization evaluates each service deliverable contracted with the client to determine whether it represents promises to transfer distinct services. These are referred to as performance obligations. One or more service deliverables often represent a single performance obligation. This evaluation requires significant judgment and the impact of combining or separating performance obligations may change the time over which revenue from the contract is recognized.

The Organization derives its program revenue from clinical service fees charged to clients and third-party payers (including health insurers and government programs) for the provision of mental health counseling services. Clinical service revenue is reported at the amount that reflects the consideration to which the Organization expects to be entitled to in exchange for providing patient care. These amounts are due from patients, third-party payers and others and includes variable consideration for retroactive adjustments due to settlement of audits, reviews and investigations. Generally, the Organization bills patients and third-party payers several days after the services are performed. Revenue is recognized over time as performance obligations are satisfied. The Organization determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payers, discounts provided to uninsured patients in accordance with the Organization's policies. Consistent with the Organization's mission, care is often provided to patients who do not have the ability to pay. Therefore, the Organization has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). Patients who meet the Organization's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

The viability of the Organization's program service fees is dependent on [1] the strength of the overall economy in Durham and Siler City, North Carolina and the general vicinities, and [2] the Organization's ability to collect on its contracts.

The timing of revenue recognition results in contract assets that are captured on the statement of financial position in the line item "Medical billings receivables". The balance at the beginning of the year was \$28,973.

The Organization considers receivables to be past due if payments are not received within 365 days. Past due accounts are not charged interest and there are no late fees.

El Futuro Inc.
Notes to Financial Statements
June 30, 2021

Note 1 - Nature of Activities and Summary of Significant Accounting Policies (Continued)

Revenue Recognition - Exchange Transactions (Continued)

The Organization assesses certain economic factors and the potential for significant changes in those economic factors and its impact on the nature, amount, timing and uncertainty of revenue and cash flows. Factors such as type of customer, geographical location of customers, and type of contract have been assessed and management feels have limited impact on the performance of the Organization.

Note 2 - Investments

The Organization's portfolio at June 30, 2021 consists of cash and stocks held at a brokerage firm and are recorded at market value. Given the amounts involved, further disclosure related to the Organization's investments is not considered necessary.

Note 3 - Grants Receivable

The Organization's grants receivable are from various government and private agencies and all are unsecured. All items are expected to be collected within one year of the statement of financial position date.

Note 4 - Conditional Grants

Several grantors have made funds available totaling approximately \$1,412,000 based on the Organization's ability to perform specific services in the future. These grants will expire at various times through fiscal year 2023. No portion of this amount has been reflected as revenue or net assets in the accompanying financial statements.

Note 5 - Property and Equipment

Property and equipment consisted of the following as of June 30, 2021:

Leasehold improvements	\$ 367,258
Equipment	159,528
Website	13,500
Total property and equipment	<u>540,286</u>
Less accumulated depreciation	<u>(142,156)</u>
	<u><u>\$ 398,130</u></u>

Depreciation expense totaled \$52,053 for the year ended June 30, 2021.

Note 6 - Line of Credit

The Organization has a line of credit with a financial institution. The line of credit allows the Organization to borrow on a revolving basis up to \$60,000 with interest accruing at a variable rate equal to the prime rate (3.25% at June 30, 2021) plus 1.0%. The line expires on May 5, 2024. As of June 30, 2021, the outstanding balance was zero.

El Futuro Inc.
Notes to Financial Statements
June 30, 2021

Note 7 - Forgivable Loans

In April 2020, the Organization received a forgivable loan of \$384,000 with an interest rate of 1% per annum under the Paycheck Protection Program (PPP) implemented by the Small Business Administration (SBA) with support from the U.S. Department of the Treasury. If the loan had not been forgiven, monthly payments of \$22,872 would have been required for two years. No repayments were made in fiscal years 2020 or 2021 and the loan was formally forgiven on June 28, 2021. As such, it was taken into revenue for the year presented.

In March 2021, the Organization received another forgivable loan of \$394,670 with an interest rate of 1% per annum under the PPP implemented by the SBA. If the loan is not forgiven, monthly payments of \$6,746 will be required for five years. No repayments were made in fiscal year 2021.

Based on the SBA criteria and the loan agreement, the Organization expects the second loan to be fully forgiven. If this debt instrument is not forgiven, future maturities of principal are as follows for the years ended June 30:

2022	\$	77,359
2023		78,136
2024		78,921
2025		79,714
2026		80,540
	\$	<u>394,670</u>

Note 8 - Lease Commitments to Others

Effective November 1, 2018, the Organization leased additional space in Lakewood Shopping Center in Durham, North Carolina from RAD Durham. The lease will expire on June 30, 2033. Monthly rent requirements for the leases increase annually 1 to 2 percent until 2028. Accounting standards require rent expense to be recognized equally over the life of the lease. As such, the difference between actual rental payments versus straight-lined annualized rent creates a deferred rent liability that is adjusted each year. Rates for future years vary and have been accounted for in the future minimum lease payments schedule below.

The Organization also leases office space in Siler City for \$2,100 a month through January 2022. Future minimum lease payments for these arrangements are as follows for the years ended June 30:

2022	\$	186,697
2023		175,437
2024		178,946
2025		182,397
2026		184,246
Thereafter		1,309,029
	\$	<u>2,216,752</u>

El Futuro Inc.
Notes to Financial Statements
June 30, 2021

Note 9 - Restricted Net Assets

Net assets with donor restrictions are as follows at June 30, 2021:

Passage of time:		
Kenan Charitable Trust	\$	150,000
Specific purpose:		
Blue Cross Blue Shield of NC Year 2		100,000
Duke University Hospital Chaplain Fund		100,000
LENS Grant		52,819
Blue Cross Blue Shield of NC Year 3		50,000
Oak Foundation		10,000
TCF Education and Youth		10,000
Duke Office of Durham & Community Affairs		9,243
NC Area Health Education Centers		6,383
Kenan Charitable Trust		4,155
Galloway Ridge Foundation		3,333
	\$	<u>495,933</u>

Net assets released from donor restrictions are as follows for the year ended June 30, 2021:

Satisfaction of time restrictions	\$	515,000
Satisfaction of purpose restrictions:		
Blue Cross Blue Shield of NC Year 2		100,000
Kenan Charitable Trust - Katy Sims		89,845
NC Area Health Education Centers		68,617
LENS Grant		67,287
Triangle Community Foundation (TCF) Environmental		20,000
Duke University Health System Grant		15,000
Galloway Ridge Foundation		12,667
Oak Foundation - Triangle Capacity Building Award		10,000
Duke Office of Durham & Community Affairs		757
	\$	<u>899,172</u>

Note 10 - Commitments

The Organization receives significant financial assistance from its grantors. Entitlement to the recovery of the applicable direct and indirect costs is generally conditioned upon compliance with the terms and conditions of the grant agreements and applicable federal or state regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance reviews and audits by grantors. In management's opinion, the likelihood of an adverse material outcome upon its financial position from those reviews and audits is remote.

El Futuro Inc.
Notes to Financial Statements
June 30, 2021

Note 11 - Concentration of Risk

The Organization's accounts at various financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 and may at times exceed the federally insured limits. The Organization has never experienced any losses in such accounts. Amounts over the FDIC limit totaled \$1,672,000 at June 30, 2021.

The Organization had receivables from one grantor that accounted for 59% of total receivables at June 30, 2021.

Note 12 - Defined Contribution Plan

The Organization has a Section 403(b) Retirement Plan. Each employee is eligible to participate in the plan and to elect to have elective deferrals made on his or her behalf immediately upon becoming employed by the Organization. The employee elects to become a participant by executing an election to reduce his or her compensation and filing it with the Organization. Employee contributions can be made up to the maximum amount allowed by the Internal Revenue Code. The plan provides for employer matching contributions or employer non-elective contributions. Retirement expense totaled \$38,000 for the year ended June 30, 2021.

Note 13 - Availability and Liquidity

The following represents the Organization's financial assets availability and liquidity at June 30, 2021:

Financial assets at year end:	
Cash and cash equivalents	\$ 2,441,016
Investments	14,861
Grants receivables	653,292
Other receivables	13,938
Total	<u>3,153,842</u>
Less amounts not available to be used within one year:	
Net assets with donor restrictions	495,933
Less net assets with time restrictions to be met in less than a year	(150,000)
Board-designated cash reserves	450,000
	<u>795,933</u>
Financial assets available to meet general expenditures over the next twelve months	<u><u>\$ 2,357,909</u></u>

The Organization's goal is generally to maintain financial assets to meet three months of operating expenses (approximately \$600,000). As part of the Organization's liquidity management plan, cash in excess of daily requirements is invested in money market funds and other conservative investments.

El Futuro Inc.
Notes to Financial Statements
June 30, 2021

Note 14 - Related Party Transactions

It is not unusual for members of the Board of Directors to make contributions to the Organization, either as individuals or through their business interests. Collectively, Board members contributed a combined \$101,725 to the Organization during the year ended June 30, 2021, with gifts as much as \$31,000. Management does not believe that additional information is warranted.

Note 15 - Contingencies

The Organization is subject to various claims and legal proceedings covering matters that arise in the ordinary course of its business activities and has accrued a contingent liability of \$54,048 for all such known claims. Management believes that any liability that may ultimately result from the resolution of these matters will not have a material adverse effect on the financial condition or results of operations of the Organization.

Note 16 - Subsequent Events

In accordance with U.S. GAAP, the Organization has evaluated all events subsequent to the statement of financial position date of June 30, 2021 through October 25, 2021, which is the date these financial statements were available to be issued, and has determined that there are no subsequent events that require disclosure.

El Futuro Inc.
Schedule of Expenditures of State Awards
For the Year ended June 30, 2021

	<i>Project Number(s)</i>	<i>State Expenditures</i>
NC Department of Public Safety,		
<i>Governor's Crime Commission:</i>		
El Futuro - UVS Rural Latino Crime Victims - 2018	012947	\$ 55,379
El Futuro - Enhanced Latino MH Services	013508	348,119
El Futuro - UVS Rural Latino Crime Victims - 2020	014209	<u>154,205</u>
		557,703
NC Department of Health and Human Services,		
<i>Office of Rural Health:</i>		
Health Center Programs	40180 / 42290	68,998
NC Department of Health and Human Services,		
<i>Division of Mental Health, Developmental Disabilities and Substance Abuse Services</i>		
Effective Families	120283	<u>58,388</u>
		<u>\$ 685,089</u>

The schedule of expenditures of state awards (the Schedule) includes the state grant activity of El Futuro Inc. under programs of the the State of North Carolina for the year ended June 30, 2021. Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization. Amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The Schedule is presented on the accrual basis of accounting.

None of the state expenditures above represents payments to subreipients.

See accompanying independent auditor's report.

Mark S. Danes, CPA, PLLC

Certified Public Accountant and Consultant

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors and Management
El Futuro Inc.
Durham, North Carolina

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of El Futuro Inc. (the Organization), which comprise the statement of financial position as of June 30, 2021 and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 25, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of an entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mark S. Danes, CPA, PLLC

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5512 Frenchmans Creek Drive
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October 25, 2021

El Futuro Inc.
Schedule of Prior Audit Findings
For the Year Ended June 30, 2021

Finding 2020-01 [from the prior auditor]:

Criteria: The Organization must establish and maintain effective internal control over federal awards that provides reasonable assurance that the Organization is managing the federal awards in compliance with federal statutes, regulations and terms and conditions of the federal award.

Condition: One expenditure from a sample of 46 selected for testing did not agree to the provided support.

Cause: Lack of compliance with designed internal controls over disbursements allows for payment of expenditures that were not accurate.

Effect: Amount requested from the Governors Crime Commission (GCC) was not accurate.

Recommendation: We recommend that adequate documentation be retained to support the amounts charged to the grant.

Action Taken in 2021: [1] Developed a comprehensive checks/balances spreadsheet to confirm accuracy of amounts charged to the award; [2] Developed Standard Operating Procedures for documentation for reimbursement requests, including final amounts charged and paid in detail; [3] Initiated and completed conversations with GCC staff to maintain clarity of statutes, regulations, terms, and conditions. These conversations resulted in a transition to a new Grants Manager at GCC with whom there have been no discrepancies in understanding to date; and [4] Increased staffing capacity to ensure accuracy on all federal awards.

Finding 2020-02 [from the prior auditor]:

Criteria: The Organization must establish and maintain effective internal control over federal awards that provides reasonable assurance that the Organization is managing the federal awards in compliance with federal statutes, regulations and terms and conditions of the federal award.

Condition: The Organization was unable to provide a lead schedule that identified all direct costs that had been reimbursed by Federal Awards for the first three months of one grant award.

Cause: This was the Organization's first single Audit and they were unaware of this requirement.

Effect: Without lead sheets identifying all costs, it is difficult for auditors to get comfortable with direct costs.

Recommendation: We recommend that adequate lead schedules be prepared to support the amounts charged to the grant.

Action Taken in 2021: In FY20, staff was not aware that the payment detail reports from the online award management system managed by GCC would become unavailable once the award closed. When we realized that we would no longer have access to these payment detail reports, we requested them from GCC staff and they were not able to provide. With this new knowledge, we took the following actions: [1] Developed Standard Operating Procedures for documentation for reimbursement requests and federal expenditures, including final amounts charged and paid in detail; [2] These procedures include drawing down payment detail from the online award management system each month; and [3] Increased staffing capacity to ensure accuracy on all federal awards.