

EL FUTURO, INC.

FINANCIAL STATEMENTS

For the Year Ended June 30, 2023

EL FUTURO, INC.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
El Futuro, Inc.
Durham, North Carolina

Opinion

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, 2023 and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of El Futuro, Inc. as of June 30, 2023 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of El Futuro, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about El Futuro, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. 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. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, and *Government Auditing Standards* we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- 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 El Futuro, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate that raise substantial doubt about El Futuro, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary 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 for the year ended June 30, 2023, as required by the State of North Carolina, 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 schedule of expenditures of federal and state awards 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 May 6, 2024, 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 solely 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 the effectiveness of the Organization's 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.

Neal, Bradsher & Taylor

CERTIFIED PUBLIC ACCOUNTANTS
Durham, North Carolina

May 6, 2024

EL FUTURO, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2023

ASSETS

	2023
CURRENT ASSETS:	
Cash and cash equivalents	\$ 2 641 217
Promises to give	652 169
Grants receivable	371 580
Contracts receivable	153 485
Accounts receivable – Medical billing	64 967
Accounts receivable – Other	19 043
Prepaid expenses	66 992
Total Current Assets	3 969 453
PROPERTY AND EQUIPMENT: (At Cost)	
Furniture and equipment	88 788
Leasehold improvements	392 056
	480 844
Less: Accumulated depreciation	(163 957)
Net Property and Equipment	316 887
OTHER ASSETS:	
Beneficial interest in assets held by The Triangle Community Foundation	19 575
Security deposits	11 336
Operating lease asset	1 516 142
Total Other Assets	1 547 053
Total Assets	\$ 5 833 393

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Accounts payable – Trade	\$ 22 525
Accrued salaries	81 460
Accrued compensated absences	196 226
Short-term operating lease liability	140 872
Total Current Liabilities	441 083
LONG-TERM LIABILITIES:	
Long-term operating lease liability	1 397 393
NET ASSETS:	
Without donor restrictions	2 827 437
With donor restrictions	1 167 480
Total Net Assets	3 994 917
Total Liabilities and Net Assets	\$ 5 833 393

See Notes to Financial Statements

EL FUTURO, INC.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2023

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
PUBLIC SUPPORT AND REVENUE			
Public Support:			
Contributions	\$ 622 191	\$ -	\$ 622 191
Grants	1 126 601	823 750	1 950 351
In-kind contributions	63 139	-	63 139
Total Public Support	1 811 931	823 750	2 635 681
REVENUES:			
Fundraising income	42 156	-	42 156
Fundraising expenses	(15 360)	-	(15 360)
Total Fundraising	26 796	-	26 796
Clinical services	1 116 390	-	1 116 390
Contract revenue	816 024	-	816 024
Miscellaneous income	1 970	-	1 970
Investment income, net of fees	51 051	-	51 051
Loss on disposal of fixed assets	(4 778)	-	(4 778)
Net assets released from restrictions	1 261 177	(1 261 177)	-
Total Revenues	3 268 630	(1 261 177)	2 007 453
Total Public Support and Revenues	5 080 561	(437 427)	4 643 134
EXPENSES:			
Program services	3 974 193	-	3 974 193
General and administrative	793 104	-	793 104
Fundraising	448 564	-	448 564
Total Expenses	5 215 861	-	5 215 861
CHANGE IN NET ASSETS	(135 300)	(437 427)	(572 727)
NET ASSETS AT BEGINNING OF YEAR	2 962 737	1 604 907	4 567 644
NET ASSETS AT END OF YEAR	\$ 2 827 437	\$ 1 167 480	\$ 3 994 917

See Notes to Financial Statements

EL FUTURO, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2023

	Program Services	General and Administrative	Fundraising	Total
Salaries	\$ 2 706 859	\$ 485 847	\$ 277 627	\$ 3 470 333
Benefits	318 816	57 222	32 698	408 726
Payroll taxes	203 108	36 457	20 833	260 408
Contract services	98 176	59 096	56 037	213 309
Occupancy	207 950	34 955	19 030	261 935
Office expense	57 262	46 071	3 221	106 554
Program supplies	10 104	24 161	19 216	53 481
Marketing and promotions	8 631	623	472	9 726
Depreciation	38 609	6 930	3 960	49 499
Insurance	38 488	-	-	38 488
Travel	18 378	15 693	6 635	40 706
Honorariums	66 194	400	-	66 594
Interest expense	12	-	-	12
Information technology	<u>201 606</u>	<u>25 649</u>	<u>8 835</u>	<u>236 090</u>
 Total	 <u>\$ 3 974 193</u>	 <u>\$ 793 104</u>	 <u>\$ 448 564</u>	 <u>\$ 5 215 861</u>

See Notes to Financial Statements

EL FUTURO, INC.
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2023

	2023
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from contributions and grants	\$ 2 951 348
Cash received from program service revenue	1 780 509
Cash received from other revenue	28 766
Cash received from interest and dividend income	50 476
Cash paid to employees and suppliers	<u>(5 114 206)</u>
Net Cash Used by Operating Activities	<u>(303 107)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Cash paid for property and equipment	(24 798)
Cash transferred to beneficial interest	<u>(19 000)</u>
Net Cash Used by Investing Activities	<u>(43 798)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(346 905)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>2 988 122</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2 641 217</u>
 RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH USED BY OPERATING ACTIVITIES:	
Change in net assets	\$ (572 727)
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation	49 499
Loss on disposal of fixed assets	4 778
Beneficial interest investment income	(575)
Operating lease	9 872
(Increase) decrease in current assets:	
Grants receivable	378 806
Contracts receivable	(153 485)
Accounts receivable – Medical billing	3 650
Accounts receivable – Other	(2 070)
Prepaid expenses	(19 605)
Increase (decrease) in current liabilities:	
Accounts payable – Trade	(21 387)
Accrued expenses	(76 650)
Accrued salaries	33 394
Accrued compensated absences	<u>63 393</u>
Net Cash Used by Operating Activities	<u>\$ (303 107)</u>

EL FUTURO, INC.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2023

1. NATURE OF ACTIVITIES:

El Futuro, Inc. (the “Organization”) is a North Carolina nonprofit organization recognized by the Internal Revenue Service as a charitable, tax-exempt organization. El Futuro, Inc. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

BASIS OF ACCOUNTING

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

FINANCIAL STATEMENT PRESENTATION

The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets Without Donor Restrictions – Net assets that are not subject to or are no longer subject to donor-imposed stipulations.

Net Assets With Donor Restrictions – Net assets whose use is limited by donor-imposed time and/or purpose restrictions.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investment and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor restrictions on the net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. The Organization has adopted a policy to classify donor-restricted contributions as without donor restrictions to the extent that donor restrictions were met in the year the contribution was received.

ACCOUNTS RECEIVABLE

Accounts receivable are stated at unpaid balances. The management of the Organization believes that all receivables will be collected. Therefore, no allowance for uncollectible accounts is considered necessary. It is the Organization’s policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

EL FUTURO, INC.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

GRANTS RECEIVABLE

The Organization's grants receivable are from various government and private agencies. All items are expected to be collected.

PROMISES TO GIVE

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Promises to give are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

CONTRACTS RECEIVABLE

Contracts receivable are recognized in the period that the expenses associated with the contract are recognized. All contracts are based on reimbursable expenses associated with the agreement.

DONATED GOODS AND SERVICES

El Futuro, Inc. recognizes donated services that creates or enhances nonfinancial assets or that require specialized skills. Those services were provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The Organization recorded \$63,139 for goods and services in the financial statements for the year ended June 30, 2023.

No amounts have been reflected in the financial statements for volunteer hours since these services do not meet the requirements for recognition in the financial statements.

PROPERTY AND EQUIPMENT

All acquisitions of property and equipment in excess of \$5,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation.

Depreciation of property and equipment is provided over the estimated useful lives of the respective assets, ranging from 3 to 15 years, using the straight-line method.

COMPENSATED ABSENCES

Unused vacation pay will be reimbursed at the employee's current rate of pay upon the last day of their employment with the Organization. Employees are allowed to carry forward 18 days to a new calendar year. As of June 30, 2023, there was \$196,226 reported on the Statement of Financial Position for accrued compensated absences.

EL FUTURO, INC.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

EXPENSE ALLOCATION

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities. The Statement of Functional Expenses presents the natural classification of expenses by function. Salaries, payroll taxes, and employee benefits are based on time spent on the particular activity. Other expenses are based on actual cost based on the program. Any other items in which actual costs cannot be directly attributed are split evenly amongst the categories.

ESTIMATES

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could differ from those estimates.

INCOME TAX STATUS

The Organization is exempt from federal income tax under Section 501(c) (3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income.

Management has considered the tax positions taken in its tax returns and believes that all of the positions taken by the Organization in its federal exempt organization tax returns are more likely-than-not to be sustained upon examination.

Generally, the Organization's tax returns remain open for three years for examination by taxing authorities. The Organization does not believe there are any material uncertain tax positions and, accordingly, it did not recognize any liability for unrecognized tax benefits.

CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

INTANGIBLE ASSETS

Intangible assets are amortized over their estimated useful lives to their estimated residual values. The assets are carried at cost less accumulated amortization. The cost of the intangible assets as of June 30, 2023 is \$13,500. Accumulated amortization at June 30, 2023 is \$13,500.

EL FUTURO, INC.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

LEASES

In February 2016, the Financial Accounting Standards Board (FASB) issued guidance (Accounting Standards Codification [ASC] 842, Leases) to increase transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the statement of financial position. Most prominent among the changes in the standard is the recognition of the ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. We adopted the standard effective July 1, 2022 and recognized and measured leases existing at, or entered into after July 1, 2021 using a modified retrospective approach with certain practical expedients available. We elected the available practical expedients to account for our existing operating lease as an operating lease under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of an operating lease would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement. In addition, we elected the hindsight practical expedient to determine the lease term for existing leases. Our election of the hindsight practical expedient resulted in the shortening of the lease terms for the existing lease. As a result of the adoption of the new lease accounting guidance, we recognized on July 1, 2021 a lease liability of \$1,792,803, which represents the present value of the remaining operating lease payments of \$2,292,638, discounted using the risk-free rate of 4.08%, and a right-of-use asset of \$1,792,803. The standard had a material impact on our statement of financial position, but did not have an impact on our statement of activities, nor statement of cash flows. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases.

FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accounting standards set a framework for measuring fair value using a three-tier hierarchy based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or inputs (interest rates, currency exchange rates, commodity rates, and yield curves) that are observable or corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Inputs that are not observable in the market and reflect management's judgment about the assumptions that market participants would use in pricing the asset or liability.

ADVERTISING

The Organization expenses advertising costs as the costs are incurred.

EL FUTURO, INC.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2023

3. UNCONDITIONAL PROMISES TO GIVE:

Unconditional promises to give are measured at fair value upon receipt. If a promise is not expected to be collected within one year, it is discounted at 4.08% to its estimated fair value using a present value technique. The fair value of a pledge that is collectible within one year is recognized at its net realizable value. Unconditional promises to give are considered level 3 inputs. Unconditional promises to give at June 30, 2023 are as follows:

	2023
Promises expected to be collected:	
In less than one year	\$ 652 169
In one to five years	-
Fair value promises to give	652 169
Unamortized discounts at 4.08%	-
Net Unconditional Promises to Give	\$ 652 169

4. 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 include 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.

EL FUTURO, INC.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2023

4. REVENUE RECOGNITION – EXCHANGE TRANSACTIONS: (Continued)

The timing of revenue recognition results in contract assets that are captured on the statement of financial position in the line item “Accounts receivable – medical billing”. The balance as of June 30, 2023 is \$64,967.

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. 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.

5. LIQUIDITY:

The below reflects El Futuro, Inc.’s financial assets as of the Statement of Financial Position date, reduced by amounts that are not available for general use due to donor-imposed restrictions within one year of the statement of financial position date.

	2023
Financial assets, at June 30	\$ 3 969 453
Less those unavailable for general expenditures within one year, due to:	
Contractual or donor-imposed restrictions:	
Prepaid expenses	(66 992)
Restricted by donor with time or purpose restrictions	(1 167 480)
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	\$ 2 734 981

The Organization is substantially supported by a combination of individual donations, program revenue, and grants. As part of the Organization’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

6. CONCENTRATIONS:

Cash Deposits

The Organization maintains cash balances at a financial institution that at times exceed the insured amounts of \$250,000 provided by the U.S. Federal Deposit Insurance Corporation.

At June 30, 2023, amounts in excess of FDIC limits approximated \$1,300,000.

EL FUTURO, INC.
 NOTES TO FINANCIAL STATEMENTS
 For the Year Ended June 30, 2023

7. BENEFICIAL INTEREST IN ASSETS HELD BY THE TRIANGLE COMMUNITY FOUNDATION:

El Futuro, Inc. has established a “Fund” with the Triangle Community Foundation (the “Foundation”). The Fund is administered by the Foundation for the benefit of El Futuro, Inc. (charitable designee). The Foundation has discretion as to the investment of assets in the fund. El Futuro, Inc. can withdraw the funds at any time with a 75% board of directors’ vote.

Beneficial interest in assets held by the Organization is carried on the books of El Futuro, Inc. at fair market value. The contributed basis and fair market value are undeterminable at the date of the financial statements.

The change in fair market value of the Beneficial Interest in Assets Held by the Foundation includes investment gains of \$575 for the year ended June 30, 2023, (which include unrealized/realized gains and losses, interest and dividends), less fees of \$150 for the year ended June 30, 2023.

El Futuro, Inc. has directed the Foundation to invest the funds in its endowment option, which is invested in approximately 75% equities and 25% fixed income.

The fair value of investments as of June 30 was as follows:

	2023
Instruments at Fair Value:	
Triangle Community Foundation	\$ 19 575

Values of assets held by the Foundation are based upon quoted market prices of observable market prices with observable market data.

All of El Futuro, Inc.’s investments in the beneficial interest are measured using Level 2 inputs. There was no beneficial interest measured using Level 1 or Level 3 inputs. There were no transfers between categories and no changes in valuation methods during the year ended June 30, 2023.

	2023
Net Investment Gain:	
Interest and dividends, net of investment expenses of \$150	\$ (146)
Net realized and unrealized gain	721
Total Net Investment Gain	\$ 575

8. 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
For the Year Ended June 30, 2023

9. 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 \$500,000 with interest accruing at a variable rate equal to the prime rate (4.75% at June 30, 2023) plus .50%. The line expires on June 15, 2025. As of June 30, 2023, the outstanding balance was zero.

10. OPERATING LEASE:

As of the date of this report, the Organization leases its office facilities under a two leases dated November 2018 and July 2022 to expire at May 3033 and June 2025, respectively. There is currently no option to extend these leases. Operating lease expense for the year ended June 30, 2023 totaled \$208,956.

The determinate of discount rate was based on what was considered a risk-free interest rate. The risk-free rate was based on applicable federal rates provided by IRS revenue ruling. The weighted-average discount rate for operating leases for the year ended June 30, 2023 was 4.08%.

The weighted-average of remaining lease term (years) for operating leases for the year ended June 30, 2023 was 10.62.

Cash paid for amounts included in the measurement of the lease liabilities are as follows:
Operating cash outflows from operating leases for the year ended June 30, 2023 totaled \$21,617.

Future maturities of operating lease liabilities are as follows:

	Amount
2024	\$ 203 633
2025	207 051
2026	183 669
2027	185 506
2028 and thereafter	1 116 990
Total lease payments	1 896 849
Less: Imputed interest	(358 584)
Total lease obligations	1 538 265
Less: Short-term operating lease liability	(140 872)
Total Long-term Operating Lease Liability	\$ 1 397 393

9. DEFINED CONTRIBUTION PLAN:

The Organization has a Section 403(b) Retirement Plan. Each employee is eligible to participate in the plan and 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 \$58,132 for the year ended June 30, 2023.

EL FUTURO, INC.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2023

10. NET ASSETS WITH DONOR RESTRICTIONS:

Net assets with donor restrictions for the year ended June 30, 2023 consist of the following:

	2023
Blue Cross Blue Shield BH Crisis	\$ 100 000
Blue Cross Blue Shield Immigrant MH Policy	100 000
Kate B. Reynolds	217 876
Kenan Trust	300 000
Leon Levine Foundation	150 000
Various	299 604
Total Net Assets With Donor Restrictions	\$ 1 167 480

11. NET ASSETS RELEASED FROM RESTRICTIONS:

Net assets released from restrictions for the year ended June 30, 2023 consist of the following:

	2023
Blue Cross Blue Shield BH Crisis	\$ 100 000
Duke Endowment	200 000
Fidelity Foundation	200 632
Kate B. Reynolds	29 624
Kenan Trust	300 000
Leon Levine Foundation	125 000
Various	305 921
Total Net Assets Released from Restrictions	\$ 1 261 177

12. NET ASSETS WITHOUT DONOR RESTRICTIONS:

Net assets without donor restrictions for the year ended June 30, 2023 consist of the following:

	2023
Board designated	\$ 930 000
Undesignated	1 897 437
Total Net Assets Without Donor Restrictions	\$ 2 827 437

13. SUBSEQUENT EVENTS:

The Organization evaluated the effect subsequent events would have on the financial statements through the date of the report, May 6, 2024, which is the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

EL FUTURO, INC.
Schedule of Expenditures of State Awards
For the Year Ended June 30, 2023

	Project Number(s)	State Expenditures
NC Department of Public Safety		
<i>Governor's Crime Commission:</i>		
El Futuro – Enhanced Latino Mental Health Services – 2022	015653	\$ 162 380
El Futuro – Enhanced Latino Mental Health Services – 2021	014801	344 714
El Futuro – Enhanced Latino Mental Health Services – 2020	014209	84 329
		591 423
 NC Department of Health and Human Services		
<i>Office of Rural Health:</i>		
Health Center Program	44063; 45822	60 067
 <i>Division of Mental Health, Developmental Disabilities and Substance Abuse Services:</i>		
Mental Health Block Grant	083820-1	71 637
 <i>Alliance Behavioral Health:</i>		
Substance Abuse Outpatient Program	Various	309 780
Total		\$ 1 032 907

The schedule of expenditures of state awards (the Schedule) includes the state grant activity of El Futuro, Inc. under programs of the State of North Carolina for the year ended June 30, 2023. 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.



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INDEPENDENT AUDITORS' 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*

To the Board of Directors
El Futuro, Inc.
Durham, North Carolina

We have audited, in accordance with the 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. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 6, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered El Futuro, Inc.'s internal control over financial reporting (internal control) as a basis for designing 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 El Futuro, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of El Futuro, Inc.'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 the 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 the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether El Futuro, Inc.'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 financial statements. 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*.

El Futuro, Inc.'s Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on El Futuro, Inc.'s response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. El Futuro, Inc.'s response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.



CERTIFIED PUBLIC ACCOUNTANTS
Durham, North Carolina
May 6, 2024

Schedule of Findings and Questioned Cost
June 30, 2023

2024-001 – Lack of internal control over year-end closing entries

Statement of condition – Organization failed to record significant accounts receivable in the proper period.

- Criteria – The Organization should be reviewing grants and contracts to determine the proper revenue recognition.
- Effect – The Organization under reported revenue for the year ending June 30, 2022 by \$335,000 and over reported revenue for the year ending June 30, 2023 by \$35,000.
- Cause – A lack of understanding of accounting pronouncements.
- Recommendation – The Organization should gain an understanding of all new accounting standards and have implementation strategies to stay in compliance.
- Management’s Response – Management’s conversation with the auditor about revenue recognition on multi-year awards with varying types of requirements to receive the subsequent year funding has built our team’s capacity to ensure accuracy of revenue recognition on future awards. Additionally, a new Controller was hired in Jan. 2024 who has further expertise in revenue recognition for grants and contracts based on various funder requirements. Finally, we will provide additional training for our finance staff regarding revenue recognition for grants and contracts. We will also continue to consult with the auditor regarding any areas of questions that we have moving forward to ensure accuracy.

2024-002 – Lack of internal control over year-end closing entries

Statement of condition – Organization failed to record lease obligation properly to meet the new lease standard ASC 842.

- Criteria – The Organization should implement internal controls to ensure that all new standards are being followed.
- Effect – The Organization assets and liabilities were materially understated \$1,516,142 and \$1,464,966, respectively. Expenses were also understated by \$6,001.
- Cause – A lack of understanding of accounting pronouncements.
- Recommendation – The Organization should gain an understanding of all new accounting standards and have implementation strategies to stay in compliance.
- Management’s Response – Management is now aware of the GAAP accounting standard update ASC 842 pertinent to leases of equipment and real estate. We will utilize the schedule provided by the auditor moving forward to ensure compliance and accurate financial reporting. We will be providing training for our finance staff to ensure understanding of ASC 842 and how to maintain and update the schedule for leases, as well as proper accounting in this area.

2024-003 – Lack of internal control over the processing of payroll

Statement of condition – During testing of payroll we noted several instances where the number of hours reported on the time sheets did not match the number of hours paid.

- Criteria – Payroll should be reviewed by someone other than the preparer before being submitted for processing.
- Effect – The effect of the difference was considered immaterial on the items sampled, but were not discovered by the Organization’s controls.
- Cause – One person was involved in the payroll process at the time the errors occurred.
- Recommendation – The Organization should design internal controls to mitigate errors during the processing of payroll.
- Management’s Response – At the time of the audit, Management had already shifted to have more control over payroll accuracy, specifically through initiating a two-step and two-person process for checks and balances. Additionally, management also recently acquired a Human Resources Information System that provides payroll processing, time tracking, and advanced reporting to improve data accuracy. Manual entry errors for time tracking are now significantly reduced by using this automated software.