LATINO MEMPHIS, INC.

FINANCIAL STATEMENTS

JUNE 30, 2023

HHM

CERTIFIED PUBLIC ACCOUNTANTS

LATINO MEMPHIS, INC.

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CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Latino Memphis, Inc.
Memphis, Tennessee

Opinion

We have audited the financial statements of Latino Memphis, Inc. (a Tennessee nonprofit corporation), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Latino Memphis, 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 (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Latino Memphis, 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 the 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 Latino Memphis, Inc.'s ability to continue as a going concern for one year after the date that the financial statements are issued.

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Auditor's Responsibilities for the Audit of the Financial Statements

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

Memphis, Tennessee
October 2, 2023

Henderson Hutcherson
& McCullough, PLLC

LATINO MEMPHIS, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2023

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	$ 982,052
Investments	51,302
Accounts receivable	439,409
Grants receivable	125,500
ERTC receivable	197,739
Prepaid expenses	12,178
Total current assets	1,808,180
PROPERTY AND EQUIPMENT	
Furniture and equipment	75,797
Less accumulated depreciation	(75,511)
Total property and equipment	286
OTHER ASSETS	
Security deposits	300
Total other assets	300
TOTAL ASSETS	$ 1,808,766

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Current portion of long-term debt	$ 3,767
Accounts payable	6,499
Accrued payroll expenses	41,409
Total current liabilities	51,675
LONG-TERM LIABILITIES	
Long-term debt	138,345
Total liabilities	190,020
NET ASSETS	
Net assets without donor restrictions	1,503,246
Net assets with donor restrictions	115,500
Total net assets	1,618,746
TOTAL LIABILITIES AND NET ASSETS	$ 1,808,766

The accompanying notes are an integral part of the financial statements.

LATINO MEMPHIS, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Contributions and grants	$ 936,924	$ 343,834	$ 1,280,758
Service revenue	827,302	-	827,302
Employee Retention Tax Credits	197,739	-	197,739
Other	4,696	-	4,696
Net assets released from restriction:			
Satisfaction of program restrictions	244,334	(244,334)	-
Total support and other revenues	2,210,995	99,500	2,310,495
EXPENSES			
Program services	1,166,445	-	1,166,445
Management and general	648,957	-	648,957
Total expenses	1,815,402	-	1,815,402
OTHER CHANGES			
Investment return, gain (loss), net	(3,267)	-	(3,267)
Total other changes	(3,267)	-	(3,267)
CHANGE IN NET ASSETS	392,326	99,500	491,826
Net assets - beginning of year	1,110,920	16,000	1,126,920
Net assets - end of year	$ 1,503,246	$ 115,500	$ 1,618,746

LATINO MEMPHIS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2023

	Program Services	Management and General	Total Expenses
Salaries	$ 850,677	$ 254,098	$ 1,104,775
Payroll taxes	63,676	19,020	82,696
Employee benefits	94,377	28,191	122,568
Total salaries and benefits	1,008,730	301,309	1,310,039
Advertising and printing	7,867	63,647	71,514
Auto expenses	5	521	526
Bank and credit card fees	1,838	38	1,876
Contract labor	10,965	38,875	49,840
Depreciation	-	285	285
Dues and subscriptions	1,827	3,111	4,938
Educational programming	9,667	822	10,489
Insurance	3,699	16,851	20,550
Interest	-	6,201	6,201
Licenses and fees	449	764	1,213
Meals	2,493	2,301	4,794
Occupancy	1,085	35,092	36,177
Office expenses	11,351	19,292	30,643
Other	-	2,588	2,588
Professional fees	9,436	63,153	72,589
Repairs and maintenance	-	2,021	2,021
Special events	882	2,791	3,673
Technology	41,617	34,232	75,849
Training and development	12,979	7,300	20,279
Travel	41,555	41,554	83,109
Utilities	-	6,209	6,209
Total functional expenses	$ 1,166,445	$ 648,957	$ 1,815,402

LATINO MEMPHIS, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2023

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ 491,826
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation	285
Loss from marketable securities	5,031
Changes in operating assets and liabilities:	
Accounts receivable	(142,684)
Grants receivable	(125,500)
ERTC receivable	(197,739)
Prepaid expenses	8,437
Accounts payable	(11,122)
Accrued expenses	(18,280)
Net cash from operating activities	10,254
CASH FLOWS FROM INVESTING ACTIVITIES	
Redemption of marketable securities	150,000
Interest, dividends and capital gains reinvested, net	(1,764)
Net cash from investing activities	148,236
CASH FLOWS FROM FINANCING ACTIVITIES	
Net payments of principal on long-term debt	(3,267)
Net cash from financing activities	(3,267)
NET CHANGE IN CASH AND CASH EQUIVALENTS	155,223
Cash and cash equivalents - beginning of year	826,829
Cash and cash equivalents - end of year	$ 982,052
SUPPLEMENTAL CASH FLOW INFORMATION	
Interest paid	$ 4,018

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

Latino Memphis, Inc. (the "Organization") is a Tennessee nonprofit organization founded in 1995 whose mission is to assist Latinos in the greater Memphis area access available services by connecting, collaborating, and advocating for health, education, and justice. The Organization envisions a future in which every Latino in the Memphis metropolitan area has the opportunity and the resources to become an engaged and active member of the larger community.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Organization prepares its financial statements using the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The Financial Accounting Standards Board (FASB) establishes GAAP in the Accounting Standards Codification (ASC). Updates to the ASC are done through the issuance of Accounting Standards Updates (ASU).

Financial Statement Presentation

GAAP requires not-for-profit organizations to report 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 are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. The Organization has no net assets with perpetual restrictions.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities and changes in net assets.

Measure of Operations

The statement of activities and changes in net assets reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Organization’s ongoing programs. Nonoperating activities are limited to activities considered to be of a more unusual or nonrecurring nature, including investment income.

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Latino Memphis receives revenues from providing post release and home study services for unaccompanied children through a contract with a human services organization. Revenues from these services are recognized when the services have been provided. Revenue from contributions and grants are recorded in the period in which they are pledged or received.

Contributions and Grants

Contributions and grants are recognized when the actual gift is received. Contributions and grants received are recorded as with or without donor restrictions depending on the existence and/or nature of the restrictions as stipulated by the donor.

Functional Allocation of Expenses

The costs of providing the various programs and other activities of the Organization have been summarized on a functional basis in the statement of activities and changes in net assets and shown in more detail in the statement of functional expenses. Costs which are associated with a specific program or activity are charged directly to that program or activity. Costs that are not specifically identifiable are allocated based upon management estimates of the functions benefited.

The expenses that are allocated include the following:

Expense	Method of Allocation
Salaries and benefits	Time and effort
Contract labor	Time and effort
Insurance	Use of assets
Travel	Specific purpose
Professional fees	Time and effort
Office expense	Specific purpose
Advertising	Specific purpose

Contributed Services

During the year ended June 30, 2023, the value of contributed services did not meet the requirements for recognition in the financial statements and therefore has not been recorded.

Use of Estimates in the Preparation of Financial Statements

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

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Organization is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code.

Advertising Costs

The Organization expenses advertising costs as incurred. For the year ended June 30, 2023, advertising costs approximated $72,000.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents.

Accounts Receivable

The Organization does not sell products or services, and therefore does not extend credit in the commercial sense. However, if a grant is received, a contract is executed, or another contribution is promised, the amount not yet received is booked as income once the Organization has met all conditions. As of June 30, 2023, accounts receivable consisted of grants, contracts, and other contributions receivable for which all conditions required of the Organization, if any, had been met. Accounts receivable is shown net of the allowance for doubtful accounts, when applicable. Management bases its allowance for doubtful accounts on historical collection rates. Management considers the entire balance of accounts receivable as of June 30, 2023, to be collectible and therefore does not consider an allowance to be necessary.

As of June 30, 2022, the opening balance of accounts receivable was $296,724.

Property and Equipment

Property and equipment are recorded at cost, if purchased, or at fair market value on the date of the gift, if received as a donation. The Organization capitalizes purchases or gifts that have an estimated useful life of more than one year unless the cost or value is de minimis. Depreciation for property and equipment is provided over the estimated useful lives of the assets, which range from 3-5 years and is computed using the straight-line method. Gifts of furniture, fixtures and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets, are reported as restricted support. Absent explicit donor stipulations about how those long-lived assets must be maintained, the Organization reports expirations of these donor restrictions when the acquired long-lived assets are placed in service.

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments are carried at fair value. Securities are held in a custodial account administered by a local community foundation. Interest and dividend income are recorded on the accrual basis. Realized gains and losses on the sales of securities are calculated based on specific identification of the securities sold, as reported by the custodian.

Adoption of New Accounting Standard

Effective July 1, 2022, the Organization adopted the new lease accounting guidance in ASU No. 2016-02, *Leases* (Topic 842), using transition method B, which allows adjustment of the current period only. The Organization elected the package of practical expedients permitted in ASC Topic 842. Accordingly, the Organization accounted for its existing leases with the same classification under the new guidance, without reassessing (a) whether the contract contains a lease under ASC Topic 842, (b) whether classification of either lease would be different in accordance with ASC Topic 842, or (c) whether the unamortized initial direct costs before transition adjustments (as of June 30, 2022) would have met the definition of initial direct costs in ASC Topic 842 at lease commencement.

The Organization has elected the short-term lease recognition exemption. For those leases that qualify, the Organization will not recognize right-of-use assets or lease liabilities. The Organization also elected the practical expedient to not separate lease and non-lease components for all leases, where non-lease components are applicable. For calculating the lease liability (present value of future lease payments), the Organization has elected to first use the rate implicit in the lease, when available; second, the Organization's incremental borrowing rate; or lastly, a risk-free rate determined as the relevant applicable federal rate.

As of July 31, 2022, all the Organization's significant operating leases became month-to-month leases. Due to significant disrepair of the leased location (see Note 11), the Organization is unsure of how long it will remain in its current location; thus, elected to apply the short-term lease exemption to its operating leases at the implementation date. As such, there was no impact to the Organization from implementing this new standard as of and for the year ended June 30, 2023.

NOTE 3 – AVAILABILITY AND LIQUIDITY

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.

The following represents the Organization's financial assets as of June 30, 2023:

Description	Amount
Financial assets at year-end:	
Cash	$ 982,052
Investments	51,302
Accounts receivable	439,409
Grants receivable	125,500
ERTC receivable	197,739
Total financial assets	1,796,002
Less amounts not available to be used within one year:	
Net assets with donor restrictions	115,500
Less net assets with purpose restrictions to be met in less than a year	(94,500)
	21,000
Financial assets available to meet general expenditures over the next four months	$ 1,775,002

NOTE 4 – INVESTMENTS AND FAIR VALUE MEASUREMENT

The Organization follows ASC Topic 820, *Fair Value Measurements and Disclosures*. This standard defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value, and specifies disclosure requirements for fair value measurements. This guidance maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy is broken down into three levels based on the transparency of inputs as follows:

Level 1: Quoted prices available in active markets for identical assets or liabilities as of the report date.

Level 2: Pricing inputs other than quoted prices in active markets, which are either directly or indirectly observable, available as of the report date.

Level 3: Inputs into the determination of fair value are not observable as of the report date and significant management judgment or estimation is required.

(Continued)

NOTE 4 – INVESTMENTS AND FAIR VALUE MEASUREMENT (Continued)

The Organization has a beneficial interest in assets held by the Community Foundation of Greater Memphis (CFGM) which are presented at fair value.

The beneficial interest in assets held by CFGM are certain assets transferred to CFGM under the terms of a designated fund agreement. These funds are to be reflected in the statement of financial position as an asset if the transferor retains the right to direct the fund. Distributions from the fund are not subject to variance power and the Organization can request principal and interest from the fund at any time. Assets held by CFGM are considered Level 3 securities since the Organization's interest is a component of the asset pool.

The Organization's investments measured at fair value on a recurring basis consist of the following as of June 30, 2023:

Investments	Fair Value	(Level 1)	(Level 2)	(Level 3)
Beneficial interest in pooled fund	$ 51,302	$ -	$ -	$ 51,302
Total assets	$ 51,302	$ -	$ -	$ 51,302

The following table presents a reconciliation of the beginning and ending balances of the fair value measurements using significant unobservable inputs (Level 3):

Description	Amount
Balance, July 1, 2022	$ 204,569
Withdrawals made from the fund	(150,000)
Investment return (loss)	(3,267)
Balance, June 30, 2023	$ 51,302

Quantitative Information about Significant Unobservable Inputs Used in Level 3 Fair Value Measurements

The following table represents the Organization's level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs and the ranges of values for those inputs:

Instrument	Value at 06/30/2023	Principal Valuation Technique	Unobservable Inputs	Weighted Average Return
Balanced pool	$ 51,302	Fair market value of the underlying pool of assets	Pooled Fund	-2.6%

NOTE 5 – INVESTMENT INCOME

For the year ended June 30, 2023, investment return included in the statement of activities is as follows:

Category	Amount
Realized gains (loss)	$ 411
Unrealized gains (loss)	(4,399)
CFGM management fee	(690)
Investment expenses	(353)
Loss from marketable securities	(5,031)
Dividends and interest income	1,764
Total investment return (loss)	$ (3,267)

NOTE 6 – EMPLOYEE BENEFIT PLAN

The Organization has a SIMPLE IRA plan for qualifying employees. Employees may elect to contribute, on a tax deferred basis, a portion of their compensation, subject to IRS limitations. The Organization will match 100% of employee deferrals up to 3% of wages. The Organization's contribution to the plan for the year ended June 30, 2023, was $16,095.

NOTE 7 – UNCERTAIN TAX POSITIONS

The Organization follows the accounting guidance for uncertainty in income taxes using the provisions of ASC Topic 740, *Income Taxes*. Based on its evaluation, the Organization has concluded that there are no significant uncertain tax positions requiring recognition in its financial statements. The Organization's evaluation was performed for the tax years ended June 30, 2020 through June 30, 2023, the years which remain subject to examination by major tax jurisdictions.

NOTE 8 – LONG-TERM DEBT

In June 2020, the Organization was granted an unsecured loan from a local bank in the amount of $149,900 as an Economic Injury Disaster Loan (EIDL) under Section 7(b) of the Small Business Act.

The loan bears interest at a rate of 2.75% per annum and is payable in monthly installments of $641 commencing in June 2021. The note is due in full thirty years from the date of the promissory note.

Minimum annual principal payments for the long-term debt as of June 30, 2023, are as follows:

Fiscal Year	Amount
2024	$ 3,767
2025	3,884
2026	3,994
2027	4,106
2028	4,213
Thereafter	122,148
Total	$ 142,112

NOTE 9– NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as of June 30, 2023, are available for the following purposes:

Description	Amount
Subject to expenditure for specific purposes:	
Human services	$ 115,500
Total net assets with donor restrictions	$ 115,500

During the year ended June 30, 2023, net assets released from donor restrictions were as follows:

Description	Amount
Human services and advancing racial equity	$ 94,500
Legal services for unaccompanied minors	15,000
Digital Divide and Coaching	54,500
Hustle application	21,000
Financial empowerment and other	59,334
	$ 244,334

NOTE 10 – CONCENTRATIONS

The Organization received grant income from two entities that accounted for 35% of the total revenue for the year. No long-term contracts or pledges exist as a guarantee that these levels of grants will continue in the future. The organization has service contracts with two entities that accounted for 39% of the total annual revenue. In aggregate, these four organizations account for 74% of total revenue and are considered revenue concentrations material to the Organization.

NOTE 11 – LEASE COMMITMENTS

The Organization leases office space for several adjacent suites which it uses as its principal office. The lease terms matured as of July 31, 2022; at which time the Organization began paying rent on a month-to-month basis. Monthly rent payments total $1,940. The Organization is currently negotiating longer term renewal with its landlord, pending completion of significant repairs. In addition, the Organization also leases copiers (fixed rent and variable usage rent) and storage space on a month-to-month basis. Total rent expense for the year ended June 30, 2023, was as follows:

Category	Amount
Short-term lease cost	$ 30,838
Variable lease cost	3,399
Total lease cost	$ 34,237

NOTE 12 – RISKS AND UNCERTAINTIES

Custodial Risk

The Organization's financial instruments that are exposed to concentrations of custodial risk consist primarily of cash and cash equivalents and investments. The Organization maintains its cash and cash equivalents at local financial institutions. From time-to-time, such balances may have exceeded the FDIC insurance limit; however, management does not believe it is exposed to any significant custodial risk on cash and cash equivalents.

Market Risk

The Organization's investments are subject to various risks, such as interest rate, credit, and overall market volatility risks. Further, the level of risk inherent in most investments, it is reasonably possible that changes in the values of these investments could occur in the near term and such changes could affect the amounts reported in the financial statements.

NOTE 13 – EMPLOYEE RETENTION TAX CREDIT REVENUE AND RECEIVABLE

The Organization recognized revenue of $197,739 related to the Employee Retention Tax Credit (ERTC). ERTC was provided to promote continued employment to small businesses harmed during the worldwide COVID-19 pandemic. A significant amount of these funds were collected in July 2023.

NOTE 14 – SUBSEQUENT EVENTS

Management has evaluated events and transactions subsequent to the statement of financial position date through October 2, 2023, the date the financial statements were available to be issued, for potential recognition or disclosure in the financial statements. There have been no events or transactions requiring recognition or disclosure.