

**CENTRO SOCIAL LA ESPERANZA, INC.
FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Centro Social La Esperanza, Inc.

Opinion

We have audited the accompanying financial statements of Centro Social La Esperanza, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses and cash flows for the years 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 Centro Social La Esperanza, Inc. as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Centro Social La Esperanza, 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 Centro Social La Esperanza, 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 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 generally accepted 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, 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 Centro Social La Esperanza, 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 Centro Social La Esperanza, 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.

Satty, Levine & Ciacco CPAs PC

Satty, Levine & Ciacco, CPAs, P.C.
Melville, New York
November 27, 2023

CENTRO SOCIAL LA ESPERANZA, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
ASSETS:		
Cash and cash equivalents	\$ 3,495,816	\$ 3,287,430
Restricted cash and cash equivalents	131,856	72,831
Accounts receivable, net	1,514,361	1,300,892
Security deposits	84,410	84,410
Property and equipment, net	1,800,346	1,846,294
Right of use assets - operating leases	15,059,508	-
	<u>15,059,508</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 22,086,297</u>	<u>\$ 6,591,857</u>
LIABILITIES:		
Accounts payable and accrued expenses	\$ 258,904	\$ 239,353
Accrued salaries and employee benefits	905,592	747,928
Accrued interest on bonds	11,065	-
Refundable advance	37,866	451,334
Long-term debt	961,694	970,525
Lease liabilities - operating leases	15,301,413	-
	<u>15,301,413</u>	<u>-</u>
TOTAL LIABILITIES	<u>17,476,534</u>	<u>2,409,140</u>
NET ASSETS:		
Without donor restrictions	<u>4,609,763</u>	<u>4,182,717</u>
TOTAL NET ASSETS	<u>4,609,763</u>	<u>4,182,717</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 22,086,297</u>	<u>\$ 6,591,857</u>

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

CENTRO SOCIAL LA ESPERANZA, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

	Without Donor Restrictions	
	2023	2022
<u>Operating activities</u>		
REVENUE AND OTHER SUPPORT:		
Program service revenues	\$ 15,304,196	\$ 12,245,737
Government contracts and grants	1,274,531	1,985,518
Interest and other income	30,031	681
	<u>16,608,758</u>	<u>14,231,936</u>
EXPENSES:		
PROGRAM SERVICES:		
Individualized residential alternative	7,403,771	6,946,359
Day habilitation	3,976,316	3,524,372
Family support services	1,560,570	1,129,339
Community habilitation	2,056,296	1,948,873
	<u>14,996,953</u>	<u>13,548,943</u>
SUPPORTING SERVICES:		
Management and general	1,184,759	1,044,095
	<u>16,181,712</u>	<u>14,593,038</u>
TOTAL EXPENSES	<u>16,181,712</u>	<u>14,593,038</u>
CHANGE IN NET ASSETS FROM OPERATIONS	<u>427,046</u>	<u>(361,102)</u>
NET ASSETS:		
Beginning of year	4,182,717	4,543,819
End of year	<u>\$ 4,609,763</u>	<u>\$ 4,182,717</u>

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

CENTRO SOCIAL LA ESPERANZA, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2023

	PROGRAM SERVICES						
	Individualized		Family		Total	Management	
	Residential	Day	Support	Community	Program	and	Total
Alternatives	Habilitation	Services	Habilitation	Services	General	Expenses	
EXPENSES:							
Salaries and wages	\$ 4,670,821	\$ 1,675,699	\$ 1,140,960	\$ 1,598,209	\$ 9,085,689	\$ 596,778	\$ 9,682,467
Payroll taxes and employee benefits	1,106,966	409,729	269,059	412,199	2,197,953	132,938	2,330,891
Food	171,142	2,668	7,480	-	181,290	-	181,290
Maintenance	80,816	55,048	-	573	136,437	1,536	137,973
Utilities	136,742	59,360	-	874	196,976	3,455	200,431
Client travel	20,376	1,116	386	-	21,878	-	21,878
Staff travel	10,610	353	10	-	10,973	1,810	12,783
Expensed equipment	10,950	3,609	-	1,300	15,859	408	16,267
Expensed furniture	20,342	3,481	-	-	23,823	-	23,823
Staff development	10,211	4,676	285	7,786	22,958	2,322	25,280
Program supplies	132,133	26,934	45,859	314	205,240	-	205,240
Medical supplies	33,941	16,043	-	-	49,984	-	49,984
Office supplies	31,361	33,261	4,128	6,612	75,362	14,056	89,418
Household supplies	99,070	-	-	-	99,070	-	99,070
Telephone	14,077	29,830	-	1,575	45,482	2,118	47,600
Insurance	77,363	58,871	68	2,025	138,327	7,411	145,738
Professional fees	-	-	-	-	-	73,059	73,059
Payroll processing fees	22,108	6,878	2,501	11,512	42,999	2,824	45,823
Other expenses	1,694	8,694	390	206	10,984	53,670	64,654
Rent	502,158	734,854	-	10,871	1,247,883	284,510	1,532,393
Daily transportation	-	781,548	77,671	-	859,219	-	859,219
Family reimbursements	-	-	11,747	-	11,747	-	11,747
Client allowances	109,585	674	-	-	110,259	-	110,259
Interest and finance charges	81,238	731	-	-	81,969	5,573	87,542
Bad debts	-	-	-	-	-	-	-
Depreciation and amortization	60,067	62,259	26	2,240	124,592	2,291	126,883
TOTAL EXPENSES	\$ 7,403,771	\$ 3,976,316	\$ 1,560,570	\$ 2,056,296	\$ 14,996,953	\$ 1,184,759	\$ 16,181,712

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

CENTRO SOCIAL LA ESPERANZA, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2022

	PROGRAM SERVICES						
	Individualized		Family		Total	Management	
	Residential	Day	Support	Community	Program	and	Total
Alternatives	Habilitation	Services	Habilitation	Services	General	Expenses	
EXPENSES:							
Salaries and wages	\$ 4,447,032	\$ 1,518,041	\$ 839,675	\$ 1,526,026	\$ 8,330,774	\$ 646,932	\$ 8,977,706
Payroll taxes and employee benefits	1,033,413	331,585	153,455	382,955	1,901,408	181,958	2,083,366
Food	172,244	1,490	7,877	-	181,611	-	181,611
Maintenance	92,611	43,389	-	150	136,150	1,315	137,465
Utilities	148,240	59,361	-	521	208,122	4,556	212,678
Client travel	17,595	4,208	28,726	-	50,529	-	50,529
Staff travel	7,121	180	-	-	7,301	1,677	8,978
Expensed equipment	9,726	780	-	620	11,126	6,901	18,027
Expensed furniture	34,786	1,060	-	3,887	39,733	2,007	41,740
Staff development	4,981	5,338	-	5,526	15,845	2,105	17,950
Contracted services	-	300	-	-	300	-	300
Program supplies	67,109	33,650	9,768	-	110,527	-	110,527
Medical supplies	31,690	19,419	-	-	51,109	-	51,109
Office supplies	13,061	23,934	-	8,988	45,983	43,388	89,371
Household supplies	57,739	-	-	-	57,739	-	57,739
Telephone	13,861	18,036	-	1,369	33,266	1,933	35,199
Insurance	81,133	47,437	866	2,729	132,165	8,490	140,655
Professional fees	-	-	-	-	-	31,598	31,598
Payroll processing fees	23,090	7,882	3,953	8,331	43,256	3,359	46,615
Other expenses	1,392	4,100	139	24	5,655	32,544	38,199
Rent	474,805	779,870	-	6,841	1,261,516	59,858	1,321,374
Daily transportation	-	565,704	57,500	-	623,204	-	623,204
Family reimbursements	-	-	26,634	-	26,634	-	26,634
Client allowances	104,015	-	-	-	104,015	-	104,015
Interest and finance charges	56,449	-	-	-	56,449	3,540	59,989
Bad debts	-	-	-	-	-	10,019	10,019
Depreciation and amortization	54,266	58,608	746	906	114,526	1,915	116,441
TOTAL EXPENSES	\$ 6,946,359	\$ 3,524,372	\$ 1,129,339	\$ 1,948,873	\$ 13,548,943	\$ 1,044,095	\$ 14,593,038

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

CENTRO SOCIAL LA ESPERANZA, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 427,046	\$ (361,102)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	126,883	116,441
Provision for uncollectible receivables	-	(187,050)
Amortization of right of use assets - operating leases	831,570	-
(Increase) decrease in:		
Accounts receivable	(213,469)	239,276
Security deposits	-	(59)
Increase (decrease) in:		
Accounts payable and accrued expenses	19,551	120,823
Accrued salaries and employee benefits	157,664	(33,189)
Accrued interest	11,065	(13,675)
Lease liabilities - operating leases	(589,665)	-
Refundable advance	(413,468)	451,334
TOTAL ADJUSTMENTS	<u>(69,869)</u>	<u>693,901</u>
NET CASH FROM OPERATING ACTIVITIES	<u>357,177</u>	<u>332,799</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(23,854)	(55,000)
NET CASH FROM INVESTING ACTIVITIES	<u>(23,854)</u>	<u>(55,000)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt	(65,912)	(129,756)
NET CASH FROM FINANCING ACTIVITIES	<u>(65,912)</u>	<u>(129,756)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	267,411	148,043
CASH AND CASH EQUIVALENTS:		
Beginning of year	3,360,261	3,212,218
End of year	<u>\$ 3,627,672</u>	<u>\$ 3,360,261</u>
SUPPLEMENTAL DISCLOSURE:		
Cash paid during the year for interest	<u>\$ 87,542</u>	<u>\$ 59,989</u>
Non-cash purchase of vehicles	<u>\$ 49,036</u>	<u>\$ -</u>
CASH EQUIVALENTS AND RESTRICTED CASH CONSIST OF:		
Cash and cash equivalents	\$ 3,495,816	\$ 3,287,430
Cash - restricted	131,856	72,831
	<u>\$ 3,627,672</u>	<u>\$ 3,360,261</u>

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

CENTRO SOCIAL LA ESPERANZA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 1. ORGANIZATION AND BASIS OF ACCOUNTING AND PRESENTATION

A. ORGANIZATION

Centro Social La Esperanza, Inc. (the "Organization") is a not-for-profit organization incorporated under section 501(c)(3) of the Internal Revenue Code. The Organization's purpose is to develop and operate various programs that provide direct care and support services to individuals with developmental disabilities and their families. The primary sources of revenue are Medicaid from the New York State Office for People with Developmental Disabilities. Major programs operated by the Organization within New York City are as follows:

Individualized Residential Alternative (IRA) - Supervised activities are provided within a certified group residence with 24 hour staffing and support. Activities are formulated to stress individual abilities as well as to provide assistance training in core areas of life including: training in personal care, development in recreation, socialization, medication maintenance, and community integration.

Day Habilitation Program for Persons with Developmental Disabilities - Day Habilitation Services focus on the participant's choice and preferences. Emphasis is on attaining satisfying and rewarding relationships within the community. The program provides an opportunity for persons with developmental disabilities to develop prevocational and social skill training.

Community Habilitation Program - Residential Habilitation services are those that enhance skills necessary to perform activities that continuously occur in an individual's home. Habilitation services are directed toward acquiring, and improving the self-help, socialization and adaptive skills necessary to reside successfully at home and in community-based settings.

B. BASIS OF ACCOUNTING

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

C. BASIS OF PRESENTATION

The financial statements of Centro Social La Esperanza, Inc. have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require Centro Social La Esperanza, Inc. 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 Centro Social La Esperanza, Inc.'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 Centro Social La Esperanza, Inc. or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

CENTRO SOCIAL LA ESPERANZA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 1. ORGANIZATION AND BASIS OF ACCOUNTING AND PRESENTATION (continued)

D. MEASURE OF OPERATIONS

The statements of activities report all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to Centro Social La Esperanza, Inc.'s ongoing services and interest and dividends earned on investments. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. CASH AND CASH EQUIVALENTS

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

B. ACCOUNTS RECEIVABLE

Accounts receivable are stated at the amount the Organization expects to collect from the various state and local governments.

C. ALLOWANCE FOR DOUBTFUL ACCOUNTS:

The Organization provides an allowance for doubtful accounts equal to the estimated collection losses that will be incurred in the collection of its receivables. The Organization deems all receivables past due by two years or more to be uncollectible. All receivables deemed uncollectible and subsequently collected will be recorded as revenue in the period collected.

D. PROPERTY AND EQUIPMENT

Building and equipment are stated at cost or at their estimated fair market value if donated. Costs in excess of \$5,000 and the value of donated property and equipment are capitalized. Depreciation is provided on the straight-line method over the estimated useful life of the asset. The estimated useful lives of assets are as follows:

Building and improvements	5-40 years
Furniture, fixtures and equipment	5-7 years
Auto and truck	3-10 years

E. REVENUE RECOGNITION

The Organization recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met.

The Organization records Medicaid revenue based on established rates multiplied by the number of units of service provided. The federal and state grants and contracts are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position.

CENTRO SOCIAL LA ESPERANZA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. DONATED PROPERTY AND EQUIPMENT

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

G. FUNCTIONAL EXPENSE ALLOCATION

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Expenses which are easily and directly associated with a particular program or supporting service are charged directly to that functional area. Certain other expenses 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:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries and related benefits	Time and effort
Rent and utilities	Actual or square footage
Daily transportation	Actual or number of trips
Food	Actual or units of service
Repairs and maintenance	Actual or square footage
Depreciation and amortization	Actual or square footage
Other	Actual, square footage, time and effort or units of service

H. USE OF 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. On an ongoing basis, management evaluates the estimates and assumptions based on new information. Management believes that the estimates and assumptions are reasonable in the circumstances; however, actual results could differ from those estimates.

I. INCOME TAXES

The Organization is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and comparable New York State law. Contributions to it are tax deductible within the limitations prescribed by the code.

The Organization's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending June 30, 2023, 2022, 2021 and 2020 are subject to examination by the IRS, generally for 3 years after they were filed. The Organization has concluded that there are no material uncertain tax liabilities to be recognized at this time.

CENTRO SOCIAL LA ESPERANZA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. RECLASSIFICATIONS

Certain amounts in the prior year’s financial statements have been reclassified to conform to the current year’s presentation.

K. ADOPTION OF NEW ACCOUNTING PRONOUNCEMENT

Effective July 1, 2022 the Organization adopted FASB ASC 842, *Leases*. The new standard requires lessees to recognize leases on the statement of financial position and disclose key information about leasing arrangements. The new standard establishes a right-of-use model (“ROU”) that requires a lessee to recognize a ROU asset and lease liability on the statement of financial position for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the statement of activities.

The Organization elected to adopted the new standard on its effective date using a modified retrospective transition approach as required, applying the new standard to all leases existing at the date of initial application. Consequently, financial information will not be updated and the disclosures required under the new standard will not be provided for dates and periods before July 1, 2022. The new standard provides a number of optional practical expedients in transition. The Organization elected the package of practical expedients, which permits the Organization not to reassess under the new standard prior conclusions about lease identification, lease classification and initial direct costs. The Organization also elected the practical expedient which permits the use of a risk -free rate as the discount rate for all leases and the practical expedient to not separate lease and non-lease components for all the Organization’s leases.

The adoption of the new standard had a material effect on the Organization’s statement of financial position but did not have a material impact on the statement of activities. The most significant impact related to the recognition of ROU assets and lease liabilities is for operating leases. Adoption of the standard required the Organization to restate amounts as of July 1, 2022, resulting in an increase in operating lease ROU assets of \$15,891,078 and an increase in operating lease liabilities of \$15,891,078.

NOTE 3. AVAILABILITY AND LIQUIDITY

The following represents Centro Social La Esperanza, Inc.’s financial assets at June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 3,495,816	\$ 3,287,430
Restricted cash and cash equivalents	131,856	72,831
Accounts receivable, net	<u>1,514,361</u>	<u>1,300,892</u>
	5,142,033	4,661,153
Less amounts not available to be used within one year:	<u>(131,856)</u>	<u>(72,831)</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 5,010,177</u>	<u>\$ 4,588,322</u>

CENTRO SOCIAL LA ESPERANZA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 4. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2023 and 2022 consisted of the following:

	<u>2023</u>	<u>2022</u>
Accounts receivable	\$ 1,764,501	\$ 1,551,032
Less: Allowance for doubtful accounts	<u>(250,140)</u>	<u>(250,140)</u>
Accounts receivable, net	<u>\$ 1,514,361</u>	<u>\$ 1,300,892</u>

NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2023 and 2022 consisted of the following:

	<u>2023</u>	<u>2022</u>
Land (non-depreciable)	\$ 85,000	\$ 85,000
Building and improvements	3,317,207	3,317,207
Furniture, fixtures and equipment	517,415	517,415
Auto and truck	<u>421,129</u>	<u>427,729</u>
Total property and equipment	4,340,751	4,347,351
Less: Accumulated depreciation	<u>(2,540,405)</u>	<u>(2,501,057)</u>
Property and equipment, net	<u>\$ 1,800,346</u>	<u>\$ 1,846,294</u>

NOTE 6. LONG-TERM DEBT

	<u>2023</u>	<u>2022</u>
Bond payable through New York City Industrial Development Agency, payable in monthly installments of principal and interest of \$11,538. The bond bears interest at 5% and matures in 2029 (see IDA bond payable). The 2023 principal payment was paid on June 30, 2022.	\$ 365,000	\$ 365,000
Mortgage payable to a bank secured by the property located in New York, N.Y., payable in monthly installments of principal and interest of \$5,038. The mortgage bears interest at 4.95% and matures in 2035.	541,219	573,620
Mortgage payable to a bank secured by the property located in New York, N.Y., payable in monthly installments of principal and interest of \$959. The mortgage has a variable interest rate ranging from 3.13% to 5.00% and matures in 2033.	58,173	62,994
Loan payable to Ford Credit secured by the 2023 Ford T350 payable in monthly installments of principal and interest of \$724. The loan bears interest at a rate of 8.44% and matures in 2029.	<u>24,217</u>	<u> </u>
TOTAL LONG-TERM DEBT	<u>\$ 988,609</u>	<u>\$ 1,001,614</u>

CENTRO SOCIAL LA ESPERANZA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 6. LONG-TERM DEBT (continued)

Future minimum principal payments on long-term debt are as follows:

<u>June 30,</u>	
2024	\$ 91,397
2025	98,906
2026	101,561
2027	97,580
2028	97,718
Thereafter	<u>501,447</u>
	988,609
Less: unamortized debt issue costs	<u>(26,915)</u>
	<u>\$ 961,694</u>

INDUSTRIAL DEVELOPMENT AGENCY BOND PAYABLE:

The Organization acquired and renovated the location at 171st in New York, NY in 2008, which houses its Individual Residential Alternative Program (“the Program”). The financing was provided through the issuance by the New York City Industrial Development Agency (NYCIDA) of a 5.5% to 6.2% Civic Facility Revenue Bond (“Bond”) due July 1, 2028. The balance at June 30, 2023 and 2022 for this bond was \$365,000 and \$365,000, respectively.

In accordance with the terms of the above bond agreements, the Organization has leased the Facilities and Program to NYCIDA and transferred leasehold title to the Facilities and Program including all improvements and other tangible assets acquired with the proceeds of the bonds. The leasehold titles to the Facilities and Program are to be returned to the Organization on July 1, 2017 and July 1, 2028, respectively, or at an earlier redemption date at such time as the bond obligation has been fully satisfied. NYCIDA is required to sub-lease the facilities back to the Organization for the purpose of providing services to developmentally disabled individuals. The rental payments made by the Organization to NYCIDA are for the monthly principal and interest due and payable on the bonds. Additionally, the Organization is prohibited from selling the Facilities and Program without the express consent of NYCIDA.

The accompanying financial statements reflect the historical costs of the Facilities and Program, including any improvements made, because the Organization retains substantially all incidents of ownership. NYCIDA has a first lien on the Facilities and Program.

In accordance with its agreements, the Organization is required to make monthly principal and interest payments to a debt service reserve fund, to be used by the Trustee to pay annual principal and semi-annual interest payments to bondholders as they become due. The Organization has funds on deposit in a debt service reserve fund (“DSRF”) held by the Trustee in accordance with NYCIDA bond indentures. The deposits in the fund are to be used by the Trustee to make principal and interest payments to bondholders should the Organization default on the required principal and interest payments. Any funds remaining at the conclusion of the bond term shall be returned to the Organization or credited by the trustee as part of the final bond payments.

At June 30, 2023 and 2022, the total market value of the debt service reserve funds presented in the financial statements as restricted cash and cash equivalents is \$131,856 and \$72,831, respectively.

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NOTE 7. EMPLOYEE BENEFIT PLANS

The Organization offers a 403(b) pension plan to all of its eligible employees. Employees become eligible when they attain both age twenty-one and complete one year of service. The Organization contributes up to 3% of the eligible employees' salaries annually. Pension expense for the years ended June 30, 2023 and 2022 was \$247,636 and \$135,889, respectively.

NOTE 8. OPERATING LEASES

The Organization evaluated current leases to determine which met the criteria of a lease. The right-of-use (ROU) assets represent the Organization's right to use underlying assets for the lease term, and the lease liabilities represent the Organization's obligation to make lease payments arising from these leases. The ROU assets and lease liabilities, all of which arise from operating leases, were calculated based on the present value of future lease payments over the lease terms. The Organization has made an accounting policy election to use a risk-free rate in lieu of its incremental borrowing rate to discount future lease payments. The weighted-average discount rate applied to calculate lease liabilities as of June 30, 2023, was 2.03%.

The Organization's operating leases consist primarily of real estate leases for its various facilities. These leases expire at various dates through 2040. The leases generally contain renewal options for periods ranging up to 5 years. Rental expenses for these leases were \$1,532,393 and \$1,321,374 for the years ending June 30, 2023 and 2022, respectively.

Cash paid for operating leases included in the calculation of the ROU assets and lease liabilities for the year ended June 30, 2023 was \$904,722. There were no noncash investing and financing transactions related to leasing.

The right-of-use asset and corresponding liability associated with future lease payments at June 30, 2023 are shown below:

	<u>Operating leases</u>
Right-of-use assets	\$ 15,891,078
Amortization	(831,570)
Right-of-use assets, net	<u>\$ 15,059,508</u>
Lease liability	<u>\$ 15,301,413</u>
<u>Weighted average:</u>	
Discount rate	2.03%
Remaining lease term (years)	17.11

Future maturities of lease liabilities under these operating leases are as follows:

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NOTE 8. OPERATING LEASES (continued)

<u>June 30,</u>	
2024	\$ 928,191
2025	952,363
2026	782,027
2027	727,600
2028	897,977
Thereafter	<u>14,108,111</u>
Total lease payments	18,396,269
Less: Present value discount	<u>(3,094,856)</u>
Present value of lease liability	<u>\$ 15,301,413</u>

The Organization has several leases which are either short-term or month-to-month leases. Based on criteria in ASC 842, the Organization concluded that these short-term or month-to-month leases will not require a ROU asset or lease liability to be recognized.

NOTE 9. CONTINGENCIES

Cost reimbursements from governmental funding sources are based on a prescribed reimbursement methodology that is subject to audit by those funding sources. Management has estimated that any costs disallowed or adjusted by governmental agencies would not have a material effect on the accompanying financial statements.

Property and equipment purchased under certain grant agreements, in which the resource provider retains legal title, have been capitalized as it is probable that the Organization will be permitted to keep the assets at the conclusion of the grant agreement.

In the ordinary course of operations, claims have been filed or are pending against the Organization. In the opinion of management, all such matters are without merit or are of such kind, or involve such amounts, as would not have a significant effect on the financial position or results of activities of the Organization if disposed of unfavorably.

NOTE 10. CONCENTRATION OF CREDIT RISK

The Organization maintains all of its cash and cash equivalents in high credit quality financial institutions. Accounts at the institutions are insured by the Federal Depository Insurance Corporation ("FDIC"). The FDIC insured limit for the years ended June 30, 2023 and 2022 was \$250,000. At June 30, 2023 and 2022 the Organization had assets that were in excess of the insured limits.

The Organization's revenues are primarily from the New York State Office for People with Developmental Disabilities. Most clients are primarily from the metropolitan area.

NOTE 11. SUBSEQUENT EVENTS

The Organization has evaluated events and transactions that occurred through November 27, 2023, which is the date the financial statements were available to be issued, for possible disclosure and recognition in the financial statements.