

**Spanish American Civic Association  
for Equality, Inc.**

Financial Statements

June 30, 2014 and 2013



**BAKER TILLY**

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# **Spanish American Civic Association for Equality, Inc.**

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Table of Contents

June 30, 2014 and 2013

	<u>Page</u>
<b>Independent Auditors' Report</b>	<b>1</b>
<b>Financial Statements</b>	
Statement of Financial Position - Income Tax Basis	3
Statement of Activities and Changes in Net Assets - Income Tax Basis	4
Statement of Functional Expenses - Income Tax Basis	5
Statement of Cash Flows - Income Tax Basis	6
Notes to Financial Statements	8
<b>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</b>	<b>18</b>



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## Independent Auditors' Report

Board of Directors  
Spanish American Civic Association for Equality, Inc.

### Report on the Financial Statements

We have audited the accompanying financial statements of the Spanish American Civic Association for Equality, Inc. (a nonprofit organization), which comprise the statement of financial position - income tax basis as of June 30, 2014 and 2013, and the related statements of activities - income tax basis, changes in net assets - income tax basis, functional expenses - income tax basis, and cash flows - income tax basis statements for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting the Spanish American Civic Association for Equality, Inc. uses for income tax purposes; this includes determining that the income tax basis of accounting is an acceptable basis for the for the presentation of the financial statements in the circumstances. Management is also responsible 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.

### Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and liabilities of the Spanish American Civic Association for Equality, Inc. as of June 30, 2014 and 2013, and its revenues, gains, other support, and expenses, and its cash flows for the years then ended in accordance with the basis of accounting the Spanish American Civic Association for Equality, Inc. uses for income tax purposes described in Note 1.

### **Basis of Accounting**

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the basis of accounting the Spanish American Civic Association for Equality, Inc. uses for income tax purposes, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2015 on our consideration of the Spanish American Civic Association for Equality, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Spanish American Civic Association for Equality, Inc.'s internal control over financial reporting and compliance.

*Baker Tilly Virchow Krause, LLP*

Lancaster, Pennsylvania  
January 5, 2015

# Spanish American Civic Association for Equality, Inc.

Statement of Financial Position - Income Tax Basis

June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 18,050	\$ 4,221
Revenue receivable	661,559	699,548
Inventory	18,711	-
Prepaid expenses and other	20,634	19,198
	<hr/>	<hr/>
Total current assets	718,954	722,967
<b>Property and Equipment, Net</b>	1,720,941	1,642,965
<b>Due from Related Parties</b>	113,704	283,186
<b>Note Receivable, SACA Development Corporation</b>	553,700	512,073
	<hr/>	<hr/>
Total assets	<u>\$ 3,107,299</u>	<u>\$ 3,161,191</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Line of credit	\$ 645,481	\$ 646,926
Current portion of long-term debt	290,511	152,509
Current portion of capital lease payable	11,293	10,631
Accounts payable	296,944	224,322
Accrued expenses	250,238	251,541
Security deposits	-	611
Refundable advances	45,746	29,219
	<hr/>	<hr/>
Total current liabilities	1,540,213	1,315,759
<b>Long-Term Debt, Excluding Current Portion</b>	930,857	1,018,373
<b>Due to Related Parties</b>	300,167	205,234
<b>Note Payable, Conestoga Plaza, L.P.</b>	-	72,500
<b>Capital Lease Payable</b>	4,004	14,530
	<hr/>	<hr/>
Total liabilities	2,775,241	2,626,396
<b>Net Assets</b>		
Unrestricted	332,058	534,795
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 3,107,299</u>	<u>\$ 3,161,191</u>

See notes to financial statements

**Spanish American Civic Association for Equality, Inc.**

## Statement of Activities and Changes in Net Assets - Income Tax Basis

Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Revenue, Gains, and Other Support</b>		
United Way	\$ 5,882	\$ 6,156
Program revenue	4,111,159	3,425,942
Administrative fees	303,172	285,703
Contributions, sponsorships and fundraisers	277,957	85,318
Pass-through funds	225,000	225,000
Other revenue	73,607	97,477
Rents	125,751	123,279
	<u>5,122,528</u>	<u>4,248,875</u>
<b>Expenses</b>		
Program services	4,291,751	3,538,450
Management and general	949,064	993,023
Fundraising	84,450	76,312
	<u>5,325,265</u>	<u>4,607,785</u>
(Decrease) in net assets	(202,737)	(358,910)
SACA Broadcasting Corporation net liability transfer	-	(123,111)
<b>Net Assets - Beginning of Year</b>	<u>534,795</u>	<u>1,016,816</u>
<b>Net Assets - End of Year</b>	<u>\$ 332,058</u>	<u>\$ 534,795</u>

*See notes to financial statements*

**Spanish American Civic Association for Equality, Inc.**

Statement of Functional Expenses - Income Tax Basis

Years Ended June 30, 2014 and 2013

	2014				2013			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
<b>Expenses</b>								
Salaries and wages	\$ 1,743,503	\$ 425,249	\$ 61,216	\$ 2,229,968	\$ 1,588,990	\$ 444,733	\$ 58,294	\$ 2,092,017
Payroll taxes and fringe benefits	564,092	125,308	14,003	703,403	499,040	128,714	9,026	636,780
Contracted services	744,859	70,021	-	814,880	409,895	25,860	-	435,755
Food	147,098	-	-	147,098	120,939	-	-	120,939
Rent	305,285	55,633	2,928	363,846	258,773	54,989	2,894	316,656
Program supplies	97,240	-	-	97,240	53,010	-	-	53,010
Maintenance, repairs, building operations, taxes, and utilities	135,276	42,110	-	177,386	125,130	21,094	-	146,224
Travel and transportation	22,128	3,472	-	25,600	24,799	5,575	-	30,374
Telephone	42,860	13,934	733	57,527	36,664	13,089	689	50,442
Legal and professional	17,250	5,153	-	22,403	15,750	2,700	-	18,450
Interest	32,218	68,682	-	100,900	11,940	61,771	-	73,711
Office expense	7,144	16,004	842	23,990	12,592	17,030	896	30,518
Printing	-	-	-	-	-	68	-	68
Training	21,574	14,055	-	35,629	18,096	12,818	-	30,914
Insurance	26,078	11,470	604	38,152	26,763	7,096	373	34,232
Pass-through funds	225,000	-	-	225,000	225,000	95,000	-	320,000
Depreciation	45,905	79,704	4,124	129,733	86,222	16,579	4,140	106,941
Miscellaneous	114,241	18,269	-	132,510	24,847	85,907	-	110,754
	<u>\$ 4,291,751</u>	<u>\$ 949,064</u>	<u>\$ 84,450</u>	<u>\$ 5,325,265</u>	<u>\$ 3,538,450</u>	<u>\$ 993,023</u>	<u>\$ 76,312</u>	<u>\$ 4,607,785</u>

See notes to financial statements

## Spanish American Civic Association for Equality, Inc.

Statement of Cash Flows - Income Tax Basis

Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Cash Flows from Operating Activities</b>		
(Decrease) in net assets	\$ (202,737)	\$ (482,021)
Adjustments to (decrease) increase in net assets to net cash provided by (used in) operating activities:		
Cash transfer from SACA Broadcasting Corporation	-	3,468
Noncash transfer of SACA Broadcasting Corporation	-	123,111
Depreciation	129,733	106,941
Loss on disposal of property and equipment	-	16,737
Decrease increase in revenue receivable	37,989	(225,241)
(Increase) in inventory	(18,711)	-
(Increase) decrease in prepaid expenses	(1,436)	20,348
Increase in accounts payable	72,622	4,224
(Decrease) increase in accrued expenses	(1,303)	27,082
(Decrease) in security deposits	(611)	(230)
(Decrease) increase in refundable advances	16,527	(25,271)
	<u>32,073</u>	<u>(430,852)</u>
Net cash provided by (used in) operating activities		
<b>Cash Flows Used in Investing Activities</b>		
Additions to property and equipment	<u>(207,709)</u>	<u>(35,625)</u>
<b>Cash Flows from Financing Activities</b>		
Proceeds from issuance of long-term debt	131,851	-
Repayment of long-term debt and leases payable	(91,229)	(155,970)
Increase of note receivable, SACA Development Corporation	(41,627)	(29,500)
Decrease of note receivable, SACA Broadcasting Corporation	-	60,694
Change in due from related parties (net)	264,415	(55,478)
Increase (decrease) of note payable, Conestoga Plaza, L.P.	(72,500)	72,500
Net (repayments) proceeds on line of credit	<u>(1,445)</u>	<u>576,523</u>
	<u>189,465</u>	<u>468,769</u>
Net cash provided by financing activities		
Net increase in cash and cash equivalents	13,829	2,289
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>4,221</u>	<u>1,932</u>
<b>Cash and Cash Equivalents, Ending of Year</b>	<u>\$ 18,050</u>	<u>\$ 4,221</u>

See notes to financial statements

## Spanish American Civic Association for Equality, Inc.

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Statement of Cash Flows - Income Tax Basis

Years Ended June 30, 2014 and 2013

### Supplementary Cash Flows Information

Cash paid for interest for the years ended June 30, 2014 and 2013 totaled \$104,587 and \$74,659, respectively.

On January 1, 2013, SACA merged SACA Broadcasting Corporation, its subsidiary, into its operations as described in Note 1. This resulted in the transfer of the following assets, liabilities, and net liabilities:

Cash	\$	3,468
Revenue receivable		73,580
Prepaid expenses and other		3,865
Property and equipment, Net		88,629
Accounts payable		(134,999)
Accrued expenses		(11,134)
Refundable advances		(52,084)
Long-term debt		(94,436)
Unrestricted net liabilities		123,111

*See notes to financial statements*

# **Spanish American Civic Association for Equality, Inc.**

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Notes to Financial Statements

June 30, 2014 and 2013

## **1. Organizational Operations and Summary of Significant Accounting Policies**

### **Organizational Operations**

The Spanish American Civic Association for Equality, Inc. (“SACA” or the “Organization”), is a Latino founded and managed community based organization whose mission is to enable the community it serves to integrate itself into the social, economic, and political mainstream of life in Lancaster County. Towards this end, SACA provides case management, employment, behavioral health, services to the elderly, continuing education, and services to at risk youth.

SACA also operates SACA Broadcasting Corporation, which merged into SACA January 1, 2013.

SACA is the “parent” of a subsidiary corporation, SACA Development Corporation (“SDC”), whose primary purpose is to purchase and rehabilitate blighted properties to be sold or rented to low-to-moderate income families.

SDC is the 100% owner of General Cigar Place, Inc., a Pennsylvania C-Corporation.

General Cigar Place, Inc. is the sole general partner of The Apartments at General Cigar Place, L.P., a limited partnership. The Apartments at General Cigar Place, L.P. owns and operates an apartment building whose units are rented to low to moderate income individuals and families.

General Cigar Place, Inc. is the sole general partner of The Shops at General Cigar Place, L.P., a limited partnership. The Shops at General Cigar Place, L.P. owns and operates commercial real estate, which is rented to not-for-profit organizations.

SDC is also the sole member of Conestoga Plaza Development, LLC, a Pennsylvania limited liability company.

Conestoga Plaza Development, LLC, is the sole general partner in Conestoga Plaza, L.P, a limited partnership which owns and operates real property

SDC is also a 100% owner if Tec Centro, Ltd., a Pennsylvania C corporation.

SACA is also the managing agent for La Academia: The Partnership Charter School.

The Organization is supported primarily through donor contributions, federal and state grants, and the United Way, and any reduction in this support would negatively affect the operations of the Organization.

### **Basis of Accounting**

SACA utilizes the basis of accounting the Organization uses for income tax purposes, which differs from generally accepted accounting principles (GAAP) because it does not consolidate its subsidiaries (SDC and SACA Broadcasting Corporation, prior to merger) as required by GAAP.

# **Spanish American Civic Association for Equality, Inc.**

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Notes to Financial Statements

June 30, 2014 and 2013

## **Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, the Organization's operating cash accounts, and all highly liquid debt instruments purchased with a maturity of three months or less.

## **Revenue Receivable**

Revenue receivable is stated at outstanding balances. The Organization considers revenue receivable to be fully collectible. Under the basis of accounting the Organization uses for income tax purposes, uncollectible receivables are charged to income when they are deemed uncollectible. Unpaid balances remaining after the stated payment terms are considered past due. Recoveries of previously written off receivables are recorded when received.

## **Property and Equipment**

Property and equipment are recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets. The Organization's policy is to review items purchased with a unit cost of \$500 or more to determine whether it should be capitalized or charged to expense. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. When items of property or equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the statement of activities.

## **Restricted Net Assets**

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Organization reports program income as unrestricted net assets. The only limits on the use of the assets are for the programs that result from the nature of the Organization, the environment in which it operates, the purposes specified in its articles of incorporation or bylaws, and limits resulting from contractual agreements with suppliers, creditors, and others entered into by the Organization in the course of its business.

## **Donated or Contributed Services and Materials**

The Organization values donated materials, if significant in amount and clearly measurable, at their fair market value. Donated or contributed services vary in range from limited to active participation. No amounts have been reflected in the statement for donated services of individuals since no objective basis is available to measure the value of such services. Nevertheless, a substantial number of volunteers donated significant amounts of their time to the Organization's operations.

# Spanish American Civic Association for Equality, Inc.

Notes to Financial Statements

June 30, 2014 and 2013

## Lease Agreements

Annual rentals pertaining to leases which merely convey the right to use property are charged to current operations. Lease agreements which are substantially installment purchases of property are recorded as assets and depreciated over their estimated useful lives.

## Income Taxes

SACA is a not-for-profit entity as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from income taxes on related activities pursuant to Section 509(a) of the Internal Revenue Code.

The Federal Form 990, Organization Exempt from Income Tax, for the Organization for the years ended June 30, 2013, 2012, and 2011 remain subject to examination by the appropriate taxing authorities.

## Subsequent Events

The Organization has evaluated subsequent events through January 5, 2015, which is the date the financial statements were available to be issued.

## 2. Revenue Receivable

Revenue receivable consists of the following as of June 30:

	<u>2014</u>	<u>2013</u>
Senior Citizen Nutrition Program	\$ 15,251	\$ 17,405
Latino HIV/AIDS Programs	65,213	14,971
Drug and Alcohol Outpatient Program	22,400	37,573
Drug and Alcohol Prevention Program	15,928	20,237
Tec Centro Workforce Investment Program	24,321	17,297
NCR Program	208,625	256,547
Partial Hospitalization Program	-	44,639
Children and Youth Agency Program	19,213	25,630
MH/MR Program	254,337	225,275
Broadcasting	12,512	19,838
Other	23,759	20,136
	<u>\$ 661,559</u>	<u>\$ 699,548</u>

## Spanish American Civic Association for Equality, Inc.

Notes to Financial Statements  
June 30, 2014 and 2013

### 3. Property and Equipment

Major classifications of property and equipment and their respective depreciable lives are summarized below as of June 30:

	<u>2014</u>	<u>2013</u>	<u>Depreciable Lives</u>
Land	\$ 15,000	\$ 15,000	
Buildings	133,500	133,500	40 years
Building improvements	1,168,320	1,168,320	15 - 40 years
Leasehold improvements	793,098	793,098	10 - 40 years
Equipment	542,224	392,264	3 - 5 years
Vehicles	56,688	56,688	5 years
	2,708,830	2,558,870	
Less accumulated depreciation	<u>(987,889)</u>	<u>(915,905)</u>	
	<u>\$ 1,720,941</u>	<u>\$ 1,642,965</u>	

Depreciation expense totaled \$129,733 and \$106,941 for the years ended June 30, 2014 and 2013, respectively.

Equipment purchased with the proceeds of certain grant agreements is owned by the granting authorities. Accordingly, these assets have not been recorded in the financial statements of Spanish American Civic Association for Equality, Inc. The Organization did not purchase any assets funded through these granting authorities for the years ended June 30, 2014 and 2013.

The Organization leases property from a related party, the terms of which are subject to change, at will. Because the related party lease is always subject to change, the Organization is presently amortizing leasehold improvements over their estimated useful lives. The leaseholds are reviewed annually to determine if the estimated useful lives are still appropriate.

### 4. Refundable Advances

Refundable advances consist primarily of advances by federal and state grants and are summarized below as of June 30:

	<u>2014</u>	<u>2013</u>
SACA Broadcasting program	\$ 14,783	\$ 20,219
SACA general programming	-	9,000
Other fees received in advance	20,963	-
Tec Centro	10,000	-
	<u>\$ 45,746</u>	<u>\$ 29,219</u>

## Spanish American Civic Association for Equality, Inc.

Notes to Financial Statements  
June 30, 2014 and 2013

### 5. Line of Credit

The Organization has a renewable \$700,000 line of credit with Fulton Bank, at prime plus 0.75% (4.0% at both June 30, 2014 and 2013), collateralized by all real and personal property and revenue receivable. The line is guaranteed by SDC.

As part of the agreement, the Organization created a negotiated cash management system where the line of credit is utilized automatically when necessary. As of June 30, 2014 and 2013, the net amount drawn on the line of credit was \$645,481 and \$646,926, respectively, and is shown as a line of credit outstanding.

### 6. Long-Term Debt

Long-term debt consists of the following as of June 30:

	<u>2014</u>	<u>2013</u>
Note payable to PNC Bank payable in monthly installments of \$4,320, including principal and interest at a rate of 3.75% until October 2025. The note is secured by 38 North Ann Street, Lancaster, PA, 17602, including all improvements thereon. The note is guaranteed by SDC.	\$ 474,888	\$ 508,099
Note payable to Fulton Bank at 7.25%, interest payable monthly. Principal payments of \$12,000 annually for six years beginning April, 2009, with the balance due April 2015. The final payment will be for all principal and all accrued interest not yet paid. The note is guaranteed by SDC.	72,553	84,553
Note payable to Community First Fund (CFF), at 7.99% in interest and principal payments of \$528, through February 2019. The note is secured by real estate identified as 38-40 North Ann Street, Lancaster, PA 17602, including all improvements and equipment, thereon and is also guaranteed by SDC.	47,480	48,507
Note payable to CFF payable interest only on unpaid principal balance at 7.99%. The note is secured by real estate identified as 38-40 North Ann Street, Lancaster, PA 17602, including all present and future improvements and equipment, thereon. The loan was amended during December 2013 and is due in monthly payments of principal and interest of \$1,843, beginning in August 2014 through December 2020, and is also guaranteed by SDC.	117,666	117,666
Note payable to CFF payable calculated on unpaid principal balance at 8.0%, interest only, with a final payment due December 15, 2014, subject to an annual renewal. The note is secured by 38-40 North Ann Street, Lancaster, PA 17602, including all improvements, and equipment, thereon. The note is also guaranteed by SDC.	131,851	-

## Spanish American Civic Association for Equality, Inc.

Notes to Financial Statements  
June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Note payable to Fulton Bank payable in monthly installments of \$2,136, including principal and interest at a rate of 5.25% for the first sixty months of the loan term to July 2017. Thereafter, the loan shall be repaid in consecutive monthly installments of principal and interest in an amount necessary to fully amortize the outstanding balance over the remaining 180 months of the loan. Interest over the remaining 180 months will be calculated using Fulton Bank's Prime Rate plus 0.75% and shall be subject to change as the Prime Rate changes, with the balance due June 2032. The note is secured by 30 North Ann Street, 445-447 East King Street, and 545 Pershing Avenue, Lancaster PA 17602. The note is also guaranteed by SDC.	\$ 296,185	\$ 305,772
Note payable to Community First Fund payable in monthly installments of \$1,970, including principal and interest at 8.50% until November 2017.	69,739	86,514
Note payable to Ford Motor Credit payable in monthly installments of \$820, including principal and interest at a rate of 6.79% until August 2015. The note is secured by the vehicle purchased.	<u>11,006</u>	<u>19,771</u>
	1,221,368	1,170,882
Less current portion	<u>(290,511)</u>	<u>(152,509)</u>
	<u>\$ 930,857</u>	<u>\$ 1,018,373</u>

Long-term debt maturing in the next five years and thereafter is as follows:

2015	\$ 290,511
2016	85,252
2017	88,783
2018	80,200
2019	106,266
Thereafter	<u>570,356</u>
	<u>\$ 1,221,368</u>

Interest expense from all sources totaled \$100,900 and \$73,711 for the years ended June 30, 2014 and 2013, respectively.

## Spanish American Civic Association for Equality, Inc.

Notes to Financial Statements  
June 30, 2014 and 2013

### 7. Capital Leases

The Organization leases certain assets for use in operations which have been classified as capital leases and included as property and equipment in the accompanying balance sheet.

Capital leases and related accumulated depreciation at June 30 are as follows:

	<u>2014</u>	<u>2013</u>
Equipment	\$ 42,196	\$ 42,196
Accumulated depreciation	(11,252)	(7,033)
	<u>\$ 30,944</u>	<u>\$ 35,163</u>

Future minimum lease payments under capital leases as of June 30, 2014 are as follows:

2015	\$ 11,841
2016	3,947
	<u>15,788</u>
Less amount representing interest	(491)
	<u>15,297</u>
Less current maturities	(11,293)
	<u>\$ 4,004</u>

### 8. Related Party Transactions and Commitments and Contingencies

As described in Note 1, the Organization is the “parent” of SDC and its affiliates: General Cigar Place, Inc., The Apartments at General Cigar Place, L.P., The Shops at General Cigar Place, L.P., Conestoga Plaza Development, LLC., Conestoga Plaza, L.P., and Tec Centro, Ltd.

The corporations share central office space and certain individuals serve on the Board of Directors of all the corporations. The Organization also maintains the ability to ratify or deny acceptance to individuals selected to serve on the Board of Directors of SDC.

The Organization is also affiliated and serves as the management agent with La Academia: The Partnership Charter School (Charter School). The President of SACA also serves on the Board of Directors of the Charter School.

Related party balances have no stated repayment terms, are non-interest bearing, and are funded periodically as funds become available from operations.

## Spanish American Civic Association for Equality, Inc.

### Notes to Financial Statements

June 30, 2014 and 2013

The following is a summary of the transactions and balances with these related parties as of June 30:

	<u>2014</u>	<u>2013</u>
Due from Related Parties:		
SDC	\$ 12,500	\$ 182,273
The Apartments at General Cigar Place, L.P.	81,868	81,920
The Shops at General Cigar Place, L.P.	18,959	18,959
Charter School	377	34
	<u>\$ 113,704</u>	<u>\$ 283,186</u>
Note receivable, SDC	<u>\$ 553,700</u>	<u>\$ 512,073</u>
Due to Related Parties:		
SDC	\$ 25,898	\$ 55,089
The Shops at General Cigar Place, L.P.	235,869	138,145
Charter School	38,400	12,000
	<u>\$ 300,167</u>	<u>\$ 205,234</u>
Note payable, Conestoga Plaza, L.P.	<u>\$ -</u>	<u>\$ 72,500</u>
Rent expense:		
SDC	\$ 218,060	\$ 206,208
The Shops at General Cigar Place, L.P.	130,552	125,388
	<u>\$ 348,612</u>	<u>\$ 331,596</u>
Other (revenue) expenses:		
SDC (shared employee)	<u>\$ (25,000)</u>	<u>\$ (56,495)</u>
Charter School	<u>\$ 26,400</u>	<u>\$ 22,400</u>
Administrative fee revenue:		
SDC	\$ 170,000	\$ 170,000
Charter School	126,354	114,704
	<u>\$ 296,354</u>	<u>\$ 284,704</u>
Rent revenue, Charter School	<u>\$ 125,751</u>	<u>\$ 123,279</u>
NAA Grant passed through to SDC	<u>\$ 225,000</u>	<u>\$ 225,000</u>

## Spanish American Civic Association for Equality, Inc.

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Notes to Financial Statements  
June 30, 2014 and 2013

The Organization has cross collateralized several debt agreements by obtaining guarantees from SDC. The Organization has, in turn, guaranteed several debt agreements of SDC. The outstanding balances of SACA loans and line of credit guaranteed by SDC were \$1,786,104 and \$1,593,857 as of June 30, 2014 and 2013, respectively. The outstanding balances of SDC loans guaranteed by SACA were \$1,406,174 and \$1,103,029 as of June 30, 2014 and 2013, respectively. SACA would be required to settle these obligations in the event of default. Based on information gathered as part of monitoring its risks, SACA believes there is only a remote possibility that SDC will incur an event of default and SACA will be required to perform under the guarantees.

### 9. Operating Leases

The Organization leases a building on an annual basis from its affiliates, SDC and The Shops at General Cigar Place, L.P., based on its program needs. This lease is classified as an operating lease and goes through June 30, 2015. Additionally, the Organization leases office space and conference rooms from SDC. The Organization has also leased one tower through July 14, 2021 and another tower through October 13, 2014. Future minimum lease payments, assuming no change in current terms, consist of the following for the years ending June 30:

2015	\$ 347,303
2016	7,129
2017	7,343
2018	7,564
2019	7,791
Amount due after 2019	16,289

The Organization also leases items on a month-to-month basis.

Total rent expense under leases totaled \$363,846 and \$316,656 for the years ended June 30, 2014 and 2013, respectively.

### 10. Administrative Fees, Intraorganizational Charges

In order to receive reimbursement for indirect costs, the Organization has prepared a cost allocation plan that provides the basis for allocating indirect costs to programs and activities. The Organization calculates indirect costs based on actual financial data from the prior year and budgeted data for the current year. The operating fund allocates the administrative fees to the programs based on this data. Intraorganizational charges for administrative fees totaled \$429,623 and \$393,295 for the years ended June 30, 2014 and 2013, respectively.

### 11. Concentration of Cash Risk

The Organization typically maintains cash and cash equivalents in local banks, which may at times exceed what is insured by the Federal Deposit Insurance Corporation. The Organization has not experienced any losses from maintaining cash accounts in excess of federally insured limits. Management believes it is not subject to any significant credit risk on its cash accounts.

## **Spanish American Civic Association for Equality, Inc.**

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Notes to Financial Statements  
June 30, 2014 and 2013

### **12. Retirement Plan**

The Organization sponsors a 401(k) retirement plan which covers all employees of the Organization. The Organization is required to contribute 100% of the amount deferred by the employee, not to exceed 4% of the employee's compensation. The Organization's expenses associated with the retirement plan were \$66,668 and \$50,107 for the years ended June 30, 2014 and 2013, respectively.

### **13. Reclassifications**

Certain items in the June 30, 2013 financial statements have been reclassified to conform to the June 30, 2014 financial statement presentation. The reclassifications had no effect on the change in net assets.

### **14. Other Matters**

The accompanying financial statements contemplate continuation of the Organization as a going concern. The Organization has experienced liquidity issues in recent years. As of June 30, 2014, the Organization's current liabilities exceeded its current assets by \$821,259. In addition, approximately 55% of the assets shown in the statement of financial position - income tax basis at June 30, 2014, were property and equipment which could not be easily liquidated.

In view of these matters, realization of a major portion of the assets in the accompanying statement of financial position - income tax basis is dependent on the continued operations of the Organization, which in turn is dependent upon the Organization's ability to meet its current operating expenses and the success of its future operations. Management believes, but can provide no assurance, that the actions presently being taken to resolve the Organization's cash flow and operating issues provide the Organization the opportunity to continue as a going concern. These actions include restructuring primarily in the Nuestra Clinica outpatient program to control costs and make the program sustain on its own, enhancing the financial partners and grant programs relating to the Centro TV, and additional grants, state tax credits and corporate support for the Tec Centro Workforce Investment program which was newly created in 2014 and will be fully funded in 2015. Additionally, Community First Fund issued new debt and refinanced other debt in 2014, PNC refinanced existing debt in 2013, to a long-term basis, and the Organization always had the support of local financial institutions, who have been willing to work with them to raise capital and help fund their vital programs within the community.

**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 Governance Auditing Standards**

Board of Directors  
Spanish American Civic Association for Equality, Inc.

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 the Spanish American Civic Association for Equality, Inc. (the "Organization"), which comprise the statement of financial position - income tax basis as of June 30, 2014 and 2013, and the related statements of activities and changes in net assets - income tax basis, functional expenses - income tax basis, and cash flows - income tax basis statements for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated January 5, 2015.

**Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of 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 internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

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

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Baker Tilly Virchow Krause, LLP*

Lancaster, Pennsylvania  
January 5, 2015