

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

Financial Statements

June 30, 2017 and 2016



**BAKER TILLY**

Candor. Insight. Results.

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

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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 assets, liabilities, and net assets - income tax basis as of June 30, 2017 and 2016, and the related statements of revenue, expenses, 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.

### 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 audits. We conducted our audits 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, 2017 and 2016, 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 December 6, 2017 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 solely to describe the scope of our testing of internal control over financial reporting and on compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Spanish American Civic Association for Equality, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Spanish American Civic Association for Equality, Inc.'s internal control over financial reporting and compliance.

*Baker Tilly Virchow Krause, LLP*

Wyomissing, Pennsylvania  
December 6, 2017

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

Statement of Assets, Liabilities and Net Assets - Income Tax Basis

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 83,708	\$ 74,786
Revenue receivable	825,279	778,915
Inventory, prepaid expenses, and other	<u>24,484</u>	<u>37,600</u>
Total current assets	933,471	891,301
<b>Property and Equipment, Net</b>	1,500,923	1,593,920
<b>Due from Related Parties</b>	170,539	94,645
<b>Note Receivable, SACA Development Corporation</b>	<u>764,362</u>	<u>764,362</u>
Total assets	<u>\$ 3,369,295</u>	<u>\$ 3,344,228</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Line of credit	\$ 676,195	\$ 539,956
Current portion of long-term debt	287,537	349,917
Current portion of capital lease payable	14,200	13,679
Accounts payable	502,504	387,505
Accrued expenses	222,745	345,404
Refundable advances	<u>75,074</u>	<u>120,414</u>
Total current liabilities	1,778,255	1,756,875
<b>Long-Term Debt, Net</b>	933,019	801,919
<b>Due to Related Parties</b>	181,551	69,427
<b>Capital Lease Payable, Net</b>	<u>43,234</u>	<u>57,361</u>
Total liabilities	<u>2,936,059</u>	<u>2,685,582</u>
<b>Net Assets</b>		
Unrestricted	354,034	577,484
Temporarily restricted	<u>79,202</u>	<u>81,162</u>
Total net assets	<u>433,236</u>	<u>658,646</u>
Total liabilities and net assets	<u>\$ 3,369,295</u>	<u>\$ 3,344,228</u>

See notes to financial statements

**Spanish American Civic Association for Equality, Inc.****Statement of Revenue, Expenses, and Changes in Net Assets - Income Tax Basis**

Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Unrestricted Revenue and Other Support</b>		
Program specific grants, contributions, and fees	\$ 5,299,325	\$ 5,229,398
Administrative fees	316,174	316,175
Other general contributions	176,348	119,449
Pass-through funds	300,000	100,000
Other general revenue	39,356	50,172
Rents	144,145	146,292
Net assets released from restriction	44,486	127,852
	<u>6,319,834</u>	<u>6,089,338</u>
<b>Expenses</b>		
Program services	5,325,608	4,696,446
Management and general	1,078,717	1,117,376
Fundraising	138,959	71,859
	<u>6,543,284</u>	<u>5,885,681</u>
Change in unrestricted net assets	<u>(223,450)</u>	<u>203,657</u>
<b>Temporarily Restricted Net Assets</b>		
Contributions	42,526	16,640
Net assets released from restriction	(44,486)	(127,852)
	<u>(1,960)</u>	<u>(111,212)</u>
Change in net assets	(225,410)	92,445
<b>Net Assets - Beginning of Year</b>	<u>658,646</u>	<u>566,201</u>
<b>Net Assets - End of Year</b>	<u>\$ 433,236</u>	<u>\$ 658,646</u>

*See notes to financial statements*

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

Statement of Functional Expenses - Income Tax Basis

Years Ended June 30, 2017 and 2016

	2017				2016			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
<b>Expenses</b>								
Salaries and wages	\$ 1,910,848	\$ 495,693	\$ 113,927	\$ 2,520,468	\$1,839,191	\$547,860	\$ 62,763	\$ 2,449,814
Payroll taxes and fringe benefits	553,926	128,560	15,306	697,792	534,711	159,573	-	694,284
Contracted services	656,951	42,749	-	699,700	650,657	63,550	-	714,207
Food	212,351	-	-	212,351	181,995	-	-	181,995
Rent	537,628	59,457	3,129	600,214	507,017	56,287	2,963	566,267
Program supplies	370,015	-	-	370,015	241,709	-	-	241,709
Maintenance, repairs, building operations, taxes, and utilities	413,303	31,690	-	444,993	200,881	24,954	-	225,835
Travel and transportation	15,596	3,576	-	19,172	18,641	4,438	-	23,079
Telephone	46,284	8,345	439	55,068	44,741	8,053	424	53,218
Legal and professional	11,700	5,249	-	16,949	17,528	4,600	-	22,128
Interest	21,604	82,736	-	104,340	33,331	73,855	-	107,186
Office expense	13,600	11,735	618	25,953	15,308	12,921	680	28,909
Training/Tuition	183,917	6,902	-	190,819	220,338	12,615	-	232,953
Insurance	38,031	14,089	742	52,862	37,307	14,083	741	52,131
Pass-through funds - NPP	300,000	-	-	300,000	100,000	-	-	100,000
Depreciation	18,385	91,159	4,798	114,342	18,385	81,462	4,288	104,135
Miscellaneous	21,469	96,777	-	118,246	34,706	53,125	-	87,831
	<u>\$ 5,325,608</u>	<u>\$ 1,078,717</u>	<u>\$ 138,959</u>	<u>\$ 6,543,284</u>	<u>\$ 4,696,446</u>	<u>\$ 1,117,376</u>	<u>\$ 71,859</u>	<u>\$ 5,885,681</u>

See notes to financial statements

**Spanish American Civic Association for Equality, Inc.**Statement of Cash Flows - Income Tax Basis  
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ (225,410)	\$ 92,445
Adjustments to change in net assets to net cash (used in) provided by operating activities:		
Depreciation	114,342	104,135
Change in assets and liabilities:		
Revenue receivable	(46,364)	(56,063)
Inventory, prepaid expenses, and other	13,116	(12,516)
Accounts payable	114,999	133,284
Accrued expenses	(122,659)	81,056
Refundable advances	(45,340)	(70,808)
	<u>(197,316)</u>	<u>271,533</u>
<b>Cash Flows Used in Investing Activities</b>		
Purchases of property and equipment	<u>(21,345)</u>	<u>(84,451)</u>
<b>Cash Flows from Financing Activities</b>		
Net borrowings (repayments) on line of credit	136,239	(3,882)
Proceeds from issuance of long-term debt	210,398	191,419
Repayment of long-term debt and capital leases	(155,284)	(104,120)
Note receivable, SACA Development Corporation	-	(34,415)
Change in due from related parties (net)	<u>36,230</u>	<u>(217,185)</u>
	<u>227,583</u>	<u>(168,183)</u>
Net cash provided by (used in) financing activities		
	8,922	18,899
Net change in cash and cash equivalents		
	74,786	55,887
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>74,786</u>	<u>55,887</u>
<b>Cash and Cash Equivalents, Ending of Year</b>	<u>\$ 83,708</u>	<u>\$ 74,786</u>
<b>Supplementary Cash Flows Information</b>		
Cash paid for interest	<u>\$ 104,340</u>	<u>\$ 107,186</u>

See notes to financial statements



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

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Notes to Financial Statements  
June 30, 2017 and 2016

## **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, vocational training, and services to at risk youth. SACA also operates WLCH, a radio and television station.

During 2015, SACA formed a subsidiary, Tec Centro Foundation to raise funds for the Tec Centro Workforce Investment program. Tec Centro Foundation had no activity during 2017 or 2016.

SACA is the "parent" of a subsidiary Organization, 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 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 a 100% owner of Tec Centro, Ltd., a not for profit corporation. Tec Centro, Ltd. was formed in conjunction with the utilization of New Market Tax Credits.

SDC is a 100% owner of Centro Lancaster, Ltd. Centro Lancaster, Ltd, was formed in conjunction with the utilization of New Market Tax Credits.

SDC is a 100% owner of Conestoga North, LLC. As of the year ended June 30, 2017 there was no activity related of Conestoga North, LLC. Subsequent to June 30, 2017, Conestoga North, LLC purchased real property with the intent to construct apartments.

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

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

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

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Notes to Financial Statements

June 30, 2017 and 2016

## **Basis of Accounting**

SACA utilizes the basis of accounting the Organization uses for income tax purposes, which differs from accounting principles generally accepted in the United States of America ("GAAP") because it does not consolidate its subsidiaries (SDC and its affiliates) as required by GAAP.

## **Cash and Cash Equivalents**

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

## **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.

## **Advertising**

The Organization expenses the costs of advertising the first time the advertising takes place.

## **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 \$1,000 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 revenue, expenses, and changes in net assets - income tax basis.

Property and equipment are evaluated for impairment whenever events or changes in circumstances have indicated the carrying value of an asset may not be recoverable. The methods and significant assumptions used to determine estimated future cash flows and fair values to test the recoverability of long-lived assets are reasonable and result in a measure appropriate to determine whether impairment has occurred. The amounts used are derived from internal budget forecast models as well as historical activity. Based on these measures, the Organization's long-lived assets are not impaired at June 30, 2017 or 2016.

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

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Notes to Financial Statements  
June 30, 2017 and 2016

## **Contributions**

Contributions received are measured at their fair values and are reported as an increase in 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 purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of revenue, expenses, and changes in net assets - income tax basis as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support. Gifts of goods 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. The Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Temporarily restricted net assets of \$79,202 and \$81,162 at June 30, 2017 and 2016, respectively, consist of contributions received restricted for specific purposes primarily related to the upgrading the halfway house, and expansion of WLCH programming. Net assets were released of \$44,486 and \$127,852 during June 30, 2017 and 2016, respectively, in satisfaction of these restrictions.

The Organization had no permanently restricted net assets at June 30, 2017 or 2016.

## **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. There were no donated professional services reflected in the financial statements for either 2017 or 2016. In addition, a substantial number of volunteers donated significant amounts of their time to the Organization's operations. No amounts have been reflected in the financial statements for these donated services from volunteers since no objective basis is available to measure the value of such services.

## **Use of Estimates**

The preparation of financial statements – income tax basis 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## **Revenue Recognition**

The Organization receives funds under the terms of different grant agreements. According to the terms of some of these agreements, the Organization may have a responsibility to repay some of the proceeds if the terms of the agreement are not met. Proceeds received under these grant agreements are treated as deferred revenue until the terms of the agreement have been satisfied. Once the terms of the grant agreement have been satisfied, the Organization recognizes the revenue from these agreements.

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

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Notes to Financial Statements  
June 30, 2017 and 2016

## **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 (the "Code") and is exempt from income taxes on related activities pursuant to Section 509(a) of the Code.

The Organization follows the provisions of accounting for uncertainty in income taxes which prescribes a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. The provision also provides guidance on de-recognition, classification, interest and penalties, and disclosure. Management has determined that these provisions do not have a material impact on the financial statements – income tax basis.

## **Reclassifications**

Certain items in the June 30, 2016 financial statements – income tax basis have been reclassified to conform to the June 30, 2017 financial statement presentation. The reclassifications had no effect on the change in net assets.

## **Recent Accounting Pronouncements**

### **Revenue Recognition**

During May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. ASU No. 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. During August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of ASU No. 2014-09. ASU No. 2014-09 is effective for fiscal years beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The Organization may elect to apply the guidance earlier, but no earlier than fiscal years beginning after December 15, 2017. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Organization is currently assessing the effect that ASU Nos. 2014-09 and 2015-14 will have on its financial statements – income tax basis.

# Spanish American Civic Association for Equality, Inc.

Notes to Financial Statements  
June 30, 2017 and 2016

## Presentation of Financial Statements

During August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance is intended to improve and simplify the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU No. 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU No. 2016-14 is to be applied retroactively with transition provisions. The Organization currently is assessing the effect ASU 2016-14 will have on its financial statements – income tax basis.

## Leases

During February 2016, the FASB issued ASU 2016-02, *Leases*. ASU No. 2016-02 establishes principles that require a lessee to recognize a lease asset and a lease liability for those leases classified as operating leases under previous accounting principles generally accepted in the United States of America. ASU 2016-02 is effective for annual periods beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. The Organization is currently assessing the effect that ASU 2016-02 will have on its results of operations, financial position and cash flows.

## Subsequent Events

The Organization has evaluated subsequent events through December 6, 2017, which is the date the financial statements – income tax basis were available to be issued.

## 2. Revenue Receivable

Revenue receivable consists of the following as of June 30:

	<u>2017</u>	<u>2016</u>
Senior Citizen Nutrition Program	\$ 16,429	\$ 15,720
Latino HIV/AIDS Program	65,997	43,841
Drug and Alcohol Prevention Program	16,408	11,356
Tec Centro PA Department of Education Grant	-	250,000
NCR Program	166,871	138,114
Contribution receivable	160,000	-
Children and Youth Agency Program	26,234	29,060
Outpatient Program	170,767	174,014
340B Pharmacy Program	76,785	18,207
PREP Program	20,580	23,104
WLCH	23,320	26,709
Other	81,888	48,790
	<u>\$ 825,279</u>	<u>\$ 778,915</u>

## Spanish American Civic Association for Equality, Inc.

Notes to Financial Statements  
June 30, 2017 and 2016

### 3. Property and Equipment

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

	<u>2017</u>	<u>2016</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	779,943	793,098	10 - 40 years
Equipment	641,564	640,760	3 - 5 years
Vehicles	56,687	56,687	5 years
	2,795,014	2,807,365	
Less accumulated depreciation	<u>(1,294,091)</u>	<u>(1,213,445)</u>	
	<u>\$ 1,500,923</u>	<u>\$ 1,593,920</u>	

Depreciation expense totaled \$114,342 and \$104,135 for the years ended June 30, 2017 and 2016, 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 SACA. The Organization did not purchase any assets funded through these granting authorities for the years ended June 30, 2017 and 2016.

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 of federal and state grants monies received that are to expend in the next fiscal year and are summarized below as of June 30:

	<u>2017</u>	<u>2016</u>
WLCH sponsorships	\$ 13,031	\$ 20,706
Latino HIV/Aids Program	-	16,389
Tec Centro Workforce Investment Program	-	75,705
Lancaster County Community Foundation - Call Center	37,175	-
Halfway House	12,918	-
Other fees received in advance	11,950	7,614
	<u>\$ 75,074</u>	<u>\$ 120,414</u>

## Spanish American Civic Association for Equality, Inc.

Notes to Financial Statements  
June 30, 2017 and 2016

### 5. Line of Credit

The Organization has a renewable \$700,000 line of credit with Fulton Bank, N.A. ("Fulton Bank") at prime plus 0.75% (5.00% at June 30, 2017), 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, 2017 and 2016, the net amount drawn on the line of credit was \$676,195 and \$539,956, respectively, and is shown as a line of credit outstanding.

During 2017, the Organization obtained a renewable \$100,000 line of credit with PeoplesBank at prime plus 1.00% (5.25% at June 30, 2017), the loan is unsecured and there were no borrowings as of June 30, 2017.

### 6. Long-Term Debt

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

	<u>2017</u>	<u>2016</u>
Note payable to PNC Bank, N.A., 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 substantially all assets and a guarantee by SDC.	\$ 367,106	\$ 404,266
Note payable to Fulton Bank at 7.25%, interest payable monthly. Principal payments of \$12,000 annually for through April 2020. The note is secured by substantially all assets and a guarantee by SDC.	35,691	47,691
Note payable to Community First Fund ("CFF"), payable in monthly installments of \$528, including principal and interest at a rate of 7.99% through February 2019. The note is secured by 38-40 North Ann Street, Lancaster, PA 17602 and a guarantee by SDC.	39,080	42,111
Note payable to CFF, payable in monthly installments of \$1,843, including principal and interest at 7.99% through January 2019. The note is secured by 38-40 North Ann Street, Lancaster, PA 17602 and a guarantee by SDC.	86,425	100,893

## Spanish American Civic Association for Equality, Inc.

### Notes to Financial Statements

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Demand line of credit of \$250,000 converted to a note payable in July 2017 to CFF payable in monthly installments of \$4,962, including principal and interest at 7.00% through September 2022. The note is secured by 38-40 North Ann Street, Lancaster, PA 17602 and a guarantee by SDC.	\$ 250,000	\$ 250,000
Note payable to Fulton Bank payable in monthly installments of \$2,136, including principal and interest at a rate of 5.25% to July 2017. Thereafter, in monthly principal and interest using Fulton Bank's Prime Rate plus 0.75%, amortizing through June 2032. The note is secured by 30 North Ann Street, 445-447 East King Street, and 545 Pershing Avenue, Lancaster PA 17602 and a guarantee by SDC.	264,215	275,455
Note payable to CFF payable in monthly installments of \$1,970, including principal and interest at 8.50% until November 2017. The note is secured by substantially all assets.	9,641	31,420
Note payable to CFF at 7.00%, interest payable monthly. The final payment in December of 2017 will be for all principal and all accrued interest not yet paid. The note is guaranteed by SDC and Tec Centro, Ltd. and additionally secured by a pledge agreement collateralizing grant receivables related to the Tec Centro Bilingual Training Center Project.	58,000	-
Note payable to CFF at 6.00%, interest payable monthly. Principal payment of \$50,000 due in January 2018 and the final payment due April 2018 will be for all principal and all accrued interest not yet paid. The note is guaranteed by SDC and Tec Centro, Ltd. and additionally secured by a pledge agreement of \$100,000 of grants receivable.	100,000	-
Note payable to CFF payable in monthly installments of \$497, including principal and interest at 7.00% until March 2022. The note is secured by substantially all assets and a guarantee by SDC.	10,398	-
	<u>1,220,556</u>	<u>1,151,836</u>
Less current portion	<u>(287,537)</u>	<u>(349,917)</u>
	<u>\$ 933,019</u>	<u>\$ 801,919</u>



## Spanish American Civic Association for Equality, Inc.

Notes to Financial Statements  
June 30, 2017 and 2016

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

2018	\$	287,537
2019		219,514
2020		118,271
2021		112,457
2022		118,145
Thereafter		<u>364,632</u>
	\$	<u>1,220,556</u>

Interest expense from all sources totaled \$104,340 and \$107,186 for the years ended June 30, 2017 and 2016, respectively.

### 7. Capital Leases

The Organization leased certain network and hardware equipment over a five year term beginning in May 2016.

Capital leases on the statement of assets, liabilities, and net assets – income tax basis and related accumulated depreciation at June 30 are as follows:

	<u>2017</u>	<u>2016</u>
Equipment	\$ 80,608	\$ 80,608
Accumulated depreciation	<u>(18,869)</u>	<u>(2,685)</u>
	<u>\$ 61,739</u>	<u>\$ 77,923</u>

Future minimum lease payments under capital leases as of June 30, 2017 are as follows:

2018	\$	16,109
2019		16,109
2020		16,109
2021		<u>13,412</u>
		61,739
Less amount representing interest		<u>(4,305)</u>
	\$	<u>57,434</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., Tec Centro, Ltd, Centro Lancaster, Ltd. and Conestoga North, LLC.

## Spanish American Civic Association for Equality, Inc.

Notes to Financial Statements  
June 30, 2017 and 2016

The Organizations share central office space and certain individuals serve on the Board of Directors of all the Organizations. 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.

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

	<u>2017</u>	<u>2016</u>
Due from Related Parties:		
SDC	\$ 86,908	\$ 12,076
The Apartments at General Cigar Place, L.P.	81,852	82,455
The Shops at General Cigar Place, L.P.	1,745	90
Charter School	34	24
	<u>\$ 170,539</u>	<u>\$ 94,645</u>
Note receivable, SDC	<u>\$ 764,362</u>	<u>\$ 764,362</u>
Due to Related Parties:		
SDC	\$ 94,743	\$ 24,427
Tec Centro, Ltd.	23,532	45,000
Conestoga Plaza	6,570	-
The Shops at General Cigar Place, L.P.	23,506	-
Charter School	33,200	-
	<u>\$ 181,551</u>	<u>\$ 69,427</u>
Rent expense:		
SDC	\$ 394,656	\$ 390,099
The Shops at General Cigar Place, L.P.	135,216	134,938
	<u>\$ 529,872</u>	<u>\$ 525,037</u>
Other (revenue) expenses:		
SDC (shared employee)	<u>\$ (25,000)</u>	<u>\$ (12,500)</u>
Charter School	<u>\$ 73,400</u>	<u>\$ 39,200</u>
Administrative fee revenue:		
SDC	\$ 170,000	\$ 170,000
Charter School	146,174	146,175
	<u>\$ 316,174</u>	<u>\$ 316,175</u>
Rent revenue, Charter School	<u>\$ 132,169</u>	<u>\$ 132,169</u>
NPP Grant passed through to SDC	<u>\$ 300,000</u>	<u>\$ 100,000</u>

# Spanish American Civic Association for Equality, Inc.

Notes to Financial Statements  
June 30, 2017 and 2016

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 \$1,887,110 and \$1,693,418 as of June 30, 2017 and 2016, respectively. The outstanding balances of SDC loans guaranteed by SACA were \$580,365 and \$917,500 as of June 30, 2017 and 2016, 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 is annually renewable and has been renewed through June 30, 2018. Additionally, the Organization leases office space and conference rooms from SDC. The Organization also leases towers for its radio station. Future minimum lease payments, assuming no change in current terms, consist of the following for the years ending June 30:

2018	\$ 465,806
2019	48,673
2020	33,872
2021	19,544
2022	20,241

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

Total rent expense under leases totaled \$600,214 and \$566,267 for the years ended June 30, 2017 and 2016, 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. Intra-organizational charges for administrative fees totaled \$678,219 and \$652,360 for the years ended June 30, 2017 and 2016, respectively. These intra-organizational administrative fees are eliminated in preparation of these financial statements.

## 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, 2017 and 2016

### **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 \$80,183 and \$77,465 for the years ended June 30, 2017 and 2016, respectively.

### **13. 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, 2017, the Organization's current liabilities exceeded its current assets by \$844,784. In addition, approximately 45% of the assets shown in the statement of assets, liabilities, and net assets - income tax basis at June 30, 2017, were property and equipment which could not be easily liquidated. It should be noted that this is consistent with the Organization's mission and purpose, and that the Organization operates on a yearly funding basis, and has always been able to obtain the support of the local community and banks to meet its obligations.

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 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 enhancing successful programs to use profits made from those programs to fund other program losses, and continue to seek financial partners, corporate support, and grants for their mission and programs. Additionally the Organization is pursuing additional funding to support its Tec Centro Workforce Investment Program which has been underfunded including pursuing additional state tax credits, enhancing training programs and partnerships, and launching and endowment campaign. The Organization is not aware of any funding cuts for the year ended June 30, 2018 that would negatively affect operations. Additionally, the Organization has always had the support of local financial institutions that have been willing to work with them to raise capital, and refinance debt as needed, 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 *Government 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 assets, liabilities, and net assets - income tax basis as of June 30, 2017 and 2016, and the related statements of revenue, expenses, 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 December 6, 2017. Our report disclosed that the Organization's financial statements are prepared on the income tax basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion was not modified with respect to this matter.

**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*

Wyomissing, Pennsylvania  
December 6, 2017