Spanish American Civic Association for Equality, Inc.

Financial Statements

June 30, 2018 and 2017

BAKER TILLY

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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, 2018 and 2017, 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, 2018 and 2017, 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 November 29, 2018 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
November 29, 2018

Spanish American Civic Association for Equality, Inc.

Statement of Assets, Liabilities, and Net Assets - Income Tax Basis
June 30, 2018 and 2017

	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	$ 132,792	$ 83,708
Revenue receivable	796,946	825,279
Prepaid expenses	32,520	24,484
Total current assets	962,258	933,471
Property and Equipment, Net	1,572,930	1,500,923
Due from Related Parties	359,341	170,539
Note Receivable, SACA Development Corporation	764,362	764,362
Total assets	$ 3,658,891	$ 3,369,295
Liabilities and Net Assets		
Current Liabilities		
Lines of credit	$ 783,126	$ 676,195
Current portion of long-term debt	248,572	287,537
Current portion of capital lease payable	14,742	14,200
Accounts payable	614,305	502,504
Accrued expenses	190,827	222,745
Refundable advances	43,507	75,074
Total current liabilities	1,895,079	1,778,255
Long-Term Debt, Net	717,331	933,019
Due to Related Parties	253,825	181,551
Capital Leases Payable, Net	28,531	43,234
Total liabilities	2,894,766	2,936,059
Net Assets		
Unrestricted	736,401	354,034
Temporarily restricted	27,724	79,202
Total net assets	764,125	433,236
Total liabilities and net assets	$ 3,658,891	$ 3,369,295

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, 2018 and 2017

	2018	2017
Unrestricted Revenue and Other Support		
Program specific grants, contributions, and fees	$ 5,980,634	$ 5,299,325
Administrative fees	316,174	316,174
Other general contributions	240,395	176,348
Pass-through funds	1,231,982	300,000
Other general revenue	97,960	39,356
Rents	154,215	144,145
Net assets released from restriction	51,478	44,486
Total unrestricted revenue and other support	8,072,838	6,319,834
Expenses		
Program services	6,282,601	5,325,608
Management and general	1,312,370	1,078,717
Fundraising	95,500	138,959
Total expenses	7,690,471	6,543,284
Change in unrestricted net assets	382,367	(223,450)
Temporarily Restricted Net Assets		
Contributions	-	42,526
Net assets released from restriction	(51,478)	(44,486)
Change in temporarily restricted net assets	(51,478)	(1,960)
Change in net assets	330,889	(225,410)
Net Assets - Beginning of Year	433,236	658,646
Net Assets - End of Year	$ 764,125	$ 433,236

See notes to financial statements

Spanish American Civic Association for Equality, Inc.

Statement of Functional Expenses - Income Tax Basis
Years Ended June 30, 2018 and 2017

	2018				2017			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Expenses								
Salaries and wages	$ 1,733,481	$ 614,587	$ 76,526	$ 2,424,594	$ 1,910,848	$ 495,693	$ 113,927	$ 2,520,468
Payroll taxes and fringe benefits	478,216	151,588	10,558	640,362	553,926	128,560	15,306	697,792
Contracted services	767,793	64,135	-	831,928	656,951	42,749	-	699,700
Food	222,861	-	-	222,861	212,351	-	-	212,351
Rent	538,959	59,833	3,149	601,941	537,628	59,457	3,129	600,214
Program supplies	646,545	-	-	646,545	370,015	-	-	370,015
Maintenance, repairs, building operations, taxes, and utilities	315,913	28,605	-	344,518	413,303	31,690	-	444,993
Travel and transportation	22,489	3,663	-	26,152	15,596	3,576	-	19,172
Telephone	48,261	8,532	449	57,242	46,284	8,345	439	55,068
Legal and professional	10,700	15,394	-	26,094	11,700	5,249	-	16,949
Interest	(1,114)	87,156	-	86,042	21,604	82,736	-	104,340
Office expense	21,741	12,759	672	35,172	13,600	11,735	618	25,953
Training/Tuition	146,973	14,194	-	161,167	183,917	6,902	-	190,819
Insurance	48,883	15,404	811	65,098	38,031	14,089	742	52,862
Pass-through funds, NPP	1,231,982	-	-	1,231,982	300,000	-	-	300,000
Depreciation	18,385	87,935	3,335	109,655	18,385	91,159	4,798	114,342
Miscellaneous	30,533	148,585	-	179,118	21,469	96,777	-	118,246
	$ 6,282,601	$ 1,312,370	$ 95,500	$ 7,690,471	$ 5,325,608	$ 1,078,717	$ 138,959	$ 6,543,284

See notes to financial statements

Statement of Cash Flows - Income Tax Basis
Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Change in net assets	$ 330,889	$ (225,410)
Adjustments to change in net assets to net cash provided by (used in) operating activities:		
Depreciation	109,655	114,342
Change in assets and liabilities:		
Revenue receivable	28,333	(46,364)
Prepaid expenses	(8,036)	13,116
Accounts payable	111,801	114,999
Accrued expenses	(31,918)	(122,659)
Refundable advances	(31,567)	(45,340)
Net cash provided by (used in) operating activities	509,157	(197,316)
Cash Flows Used in Investing Activities		
Purchases of property and equipment	(181,662)	(21,345)
Cash Flows from Financing Activities		
Net borrowings on lines of credit	106,931	136,239
Proceeds from issuance of long-term debt	29,000	210,398
Repayment of long-term debt and capital leases	(297,814)	(155,284)
Change in due from related parties (net)	(116,528)	36,230
Net cash (used in) provided by financing activities	(278,411)	227,583
Net change in cash and cash equivalents	49,084	8,922
Cash and Cash Equivalents, Beginning of Year	83,708	74,786
Cash and Cash Equivalents, Ending of Year	$ 132,792	$ 83,708
Supplementary Cash Flows Information		
Cash paid for interest	$ 86,042	$ 104,340

See notes to financial statements

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 2018 or 2017.

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 which 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.

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, 2018 or 2017.

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 $27,724 and $79,202 at June 30, 2018 and 2017, respectively, consist of contributions received restricted for specific purposes primarily related to programming. Net assets were released of $51,478 and $44,486 during June 30, 2018 and 2017, respectively, in satisfaction of these restrictions.

The Organization had no permanently restricted net assets at June 30, 2018 or 2017.

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 2018 or 2017. 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 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 revenue 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.

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 .

Recent Accounting Pronouncements

Presentation of Financial Statements

During August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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. The Organization will be required to retrospectively adopt the guidance in ASU No. 2016-14 in the year ending June 30, 2019. The Organization is currently is assessing the effect ASU No. 2016-14 will have on its financial statements.

Revenue Recognition

During May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 supersedes the revenue recognition requirements in *Topic 605, Revenue Recognition*, and most industry-specific guidance. Under the requirements of ASU No. 2014-09, the core principle is that entities should recognize revenue to depict the transfer of promised goods or services to customers (residents) in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Organization will be required to retrospectively adopt the guidance in ASU No. 2014-09 in the year ending June 30, 2020. The Organization is currently assessing the effect that ASU No. 2014-09 will have on its financial statements.

Contributions

During June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) subject to other guidance and (2) determining whether a contribution is conditional. The Organization will be required to adopt the guidance in ASU No. 2018-08 in the year ending June 30, 2020. The Organization is currently assessing the effect that ASU No. 2018-08 will have on its financial statements.

Leases

During February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU No. 2016-02 requires lessees to recognize the assets and liabilities that arise from leases on the statement of assets, liabilities, and net assets - income tax basis. A lessee should recognize in the statement of assets, liabilities, and net assets - income tax basis a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. Lessor accounting under the new guidance will be similar to the current model. ASU No. 2016-02 is effective for the Organization in its year ending June 30, 2021. Early adoption is permitted. The Organization is currently assessing the effect that ASU No. 2016-02 will have on its financial statements.

Subsequent Events

The Organization has evaluated subsequent events through November 29, 2018, 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:

	2018	2017
Senior Citizen Nutrition Program	$ 10,131	$ 16,429
Latino HIV/AIDS Program	57,102	65,997
Drug and Alcohol Prevention Program	15,146	16,408
NCR Program	222,142	166,871
Contribution receivable	51,655	160,000
Children and Youth Agency Program	22,757	26,234
Drug and Alcohol Outpatient Program	47,656	55,797
MH/MR Program	69,744	114,970
340B Pharmacy Program	103,747	76,785
PREP Program	19,052	20,580
WLCH	13,605	23,320
Halfway House	109,534	-
Other	54,675	81,888
	$ 796,946	$ 825,279

3. Property and Equipment

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

	2018	2017	Depreciable Lives
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	935,386	779,943	10 - 40 years
Equipment	667,783	641,564	3 - 5 years
Vehicles	56,687	56,687	5 years
	2,976,676	2,795,014	
Less accumulated depreciation	(1,403,746)	(1,294,091)	
	$ 1,572,930	$ 1,500,923	

Depreciation expense totaled $109,655 and $114,342 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017.

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

	2018	2017
WLCH sponsorships	$ 18,318	$ 13,031
Lancaster County Community Foundation - Call Center	11,223	37,175
Halfway House	8,171	12,918
Other fees received in advance	5,795	11,950
	$ 43,507	$ 75,074

5. Lines of Credit

The Organization has a renewable $700,000 line of credit with Fulton Bank, N.A. ("Fulton Bank") at prime plus 0.75% (5.75% at June 30, 2018), 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, 2018 and 2017, the net amount drawn on the line of credit was $683,126 and $676,195, 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% (6.0% at June 30, 2018), the loan is unsecured and the amount outstanding was $100,000 at June 30, 2018. There were no borrowings as of June 30, 2017.

6. Long-Term Debt

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

	2018	2017
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.	$ 328,396	$ 367,106
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.	23,691	35,691
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, Pennsylvania 17602 and a guarantee by SDC.	35,792	39,080
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, Pennsylvania 17602 and a guarantee by SDC.	70,741	86,425

	2018	2017
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, Pennsylvania 17602 and a guarantee by SDC.	$ 217,677	$ 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 Pennsylvania 17602 and a guarantee by SDC.	252,318	264,215
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
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 at 6.00%, interest payable monthly. Principal payment is due November 2018 for all principal and all accrued interest not yet paid. The note is guaranteed by SDC and Tec Centro, Ltd. and additionally secured by pledges and grants receivables.	29,000	-
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.	8,288	10,398
	965,903	1,220,556
Less current portion	(248,572)	(287,537)
	$ 717,331	$ 933,019

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

2019	$ 248,572
2020	118,271
2021	112,457
2022	118,224
2023	74,952
Thereafter	293,427
	$ 965,903

Interest expense from all sources totaled $86,042 and $104,340 for the years ended June 30, 2018 and 2017, 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:

	2018	2017
Equipment	$ 80,608	$ 80,608
Accumulated depreciation	(34,903)	(18,869)
	$ 45,705	$ 61,739

Future minimum lease payments under capital leases as of June 30, 2018 are as follows:

2019	$ 16,109
2020	16,109
2021	13,412
	45,630
Less amount representing interest	(2,357)
	$ 43,273

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.

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:

	2018	2017
Due from Related Parties:		
SDC	$ 274,560	$ 86,908
The Apartments at General Cigar Place, L.P.	84,752	81,852
The Shops at General Cigar Place, L.P.	-	1,745
Charter School	29	34
	$ 359,341	$ 170,539
Note receivable, SDC	$ 764,362	$ 764,362
Due to Related Parties:		
SDC	$ 83,597	$ 94,743
Tec Centro, Ltd.	42,023	23,532
Conestoga Plaza	5,570	6,570
The Shops at General Cigar Place, L.P.	122,635	23,506
Charter School	-	33,200
	$ 253,825	$ 181,551
Rent expense:		
SDC	$ 492,294	$ 394,656
The Shops at General Cigar Place, L.P.	94,037	135,216
	$ 586,331	$ 529,872
Other (revenue) expenses:		
SDC (shared employee)	$ (25,000)	$ (25,000)
Charter School	$ 107,550	$ 73,400
Administrative fee revenue:		
SDC	$ 170,000	$ 170,000
Charter School	146,174	146,174
	$ 316,174	$ 316,174
Rent revenue, Charter School	$ 132,169	$ 132,169
Grants passed through to SDC	$ 1,231,982	$ 300,000

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 $1,649,029 and $1,887,110 as of June 30, 2018 and 2017, respectively. The outstanding balances of SDC loans guaranteed by SACA were $2,156,421 and $580,365 as of June 30, 2018 and 2017, 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 building space on an annual basis from its affiliates, SDC and The Shops at General Cigar Place, L.P., based on its program needs. The leases are classified as operating leases and are annually renewable and have been renewed through June 30, 2019. 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:

2019	$ 461,266
2020	33,223
2021	18,872
2022	19,544
2023	20,241

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

Total rent expense under leases totaled $601,941 and $600,214 for the years ended June 30, 2018 and 2017, respectively.

10. Administrative Fees, Intra-Organizational 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 $732,627 and $678,219 for the years ended June 30, 2018 and 2017, 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.

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 $68,884 and $80,183 for the years ended June 30, 2018 and 2017, respectively.

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, 2018 and 2017, 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 November 29, 2018. 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 modifies 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
November 29, 2018