



SOCIEDAD LATINA

Strengthening Our Youth and Families • Fortaleciendo A Nuestros Jóvenes y Familias

AND AFFILIATE

**COMBINING FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

SOCIEDAD LATINA, INC. AND AFFILIATE

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June 30, 2020 and 2019

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Independent Auditor's Report

To the Boards of Directors of
Sociedad Latina, Inc. and Affiliate:

Report on the Combining Financial Statements

We have audited the accompanying combining financial statements of Sociedad Latina, Inc. and Affiliate (Massachusetts corporations, not for profit) which comprise the combining statements of financial position as of June 30, 2020 and 2019, and the related combining statements of activities and changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the combining financial statements.

Management's Responsibility for the Combining Financial Statements

Management is responsible for the preparation and fair presentation of these combining financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the combining financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combining financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combining financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combining financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combining 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 combining 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 combining 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 combining financial statements referred to above present fairly, in all material respects, the combining financial position of Sociedad Latina, Inc. and Affiliate as of June 30, 2020 and 2019, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

AAFCPAs, Inc.

Westborough, Massachusetts
January 19, 2021

SOCIEDAD LATINA, INC. AND AFFILIATE

 Combining Statements of Financial Position
 June 30, 2020 and 2019

	2020						2019		
	Sociedad Latina, Inc.			Sociedad Real Estate Holdings, Inc.	Eliminations	Total	Without Donor Restrictions	With Donor Restrictions	Total
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions					
Assets									
Current Assets:									
Cash and cash equivalents	\$ 2,250,653	\$ 1,548,622	\$ 3,799,275	\$ -	\$ -	\$ 3,799,275	\$ 1,363,668	\$ 1,353,409	\$ 2,717,077
Restricted cash	-	-	-	225,714	-	225,714	-	-	-
Current portion of grants and pledges receivable	314,387	532,076	846,463	-	-	846,463	133,911	933,950	1,067,861
Prepaid expenses	44,878	-	44,878	-	-	44,878	107,128	-	107,128
Due (to) from	11,024	-	11,024	(11,024)	-	-	-	-	-
Total current assets	<u>2,620,942</u>	<u>2,080,698</u>	<u>4,701,640</u>	<u>214,690</u>	<u>-</u>	<u>4,916,330</u>	<u>1,604,707</u>	<u>2,287,359</u>	<u>3,892,066</u>
Cash - Construction	-	-	-	2,326,269	-	2,326,269	-	-	-
Grants and Pledges Receivable, net of current portion	-	58,298	58,298	-	-	58,298	-	195,000	195,000
Note Receivable	3,570,500	-	3,570,500	-	-	3,570,500	-	-	-
Property and Equipment, net	-	-	-	2,457,892	(204,798)	2,253,094	1,525,790	-	1,525,790
Total assets	<u>\$ 6,191,442</u>	<u>\$ 2,138,996</u>	<u>\$ 8,330,438</u>	<u>\$ 4,998,851</u>	<u>\$ (204,798)</u>	<u>\$ 13,124,491</u>	<u>\$ 3,130,497</u>	<u>\$ 2,482,359</u>	<u>\$ 5,612,856</u>
Liabilities and Net Assets									
Current Liabilities:									
Current portion of long-term debt	\$ 11,483	\$ -	\$ 11,483	\$ -	\$ -	\$ 11,483	\$ 19,186	\$ -	\$ 19,186
Conditional grant advances	157,590	-	157,590	-	-	157,590	61,460	-	61,460
Accounts payable and accrued expenses	74,256	-	74,256	127,186	-	201,442	123,279	-	123,279
Total current liabilities	<u>243,329</u>	<u>-</u>	<u>243,329</u>	<u>127,186</u>	<u>-</u>	<u>370,515</u>	<u>203,925</u>	<u>-</u>	<u>203,925</u>
Long-Term Liabilities:									
Paycheck Protection Program Loan and accrued interest	500,881	-	500,881	-	-	500,881	-	-	-
Long-term debt, net of current portion	923,517	-	923,517	4,680,778	-	5,604,295	838,588	-	838,588
Total long-term liabilities	<u>1,424,398</u>	<u>-</u>	<u>1,424,398</u>	<u>4,680,778</u>	<u>-</u>	<u>6,105,176</u>	<u>838,588</u>	<u>-</u>	<u>838,588</u>
Total liabilities	<u>1,667,727</u>	<u>-</u>	<u>1,667,727</u>	<u>4,807,964</u>	<u>-</u>	<u>6,475,691</u>	<u>1,042,513</u>	<u>-</u>	<u>1,042,513</u>
Net Assets:									
Without donor restrictions:									
Operating	1,888,215	-	1,888,215	(12,500)	-	1,875,715	1,441,657	-	1,441,657
Property and equipment	2,635,500	-	2,635,500	203,387	(204,798)	2,634,089	646,327	-	646,327
Total without donor restrictions	<u>4,523,715</u>	<u>-</u>	<u>4,523,715</u>	<u>190,887</u>	<u>(204,798)</u>	<u>4,509,804</u>	<u>2,087,984</u>	<u>-</u>	<u>2,087,984</u>
With donor restrictions:									
Purpose	-	1,200,548	1,200,548	-	-	1,200,548	-	1,765,984	1,765,984
Capital	-	538,095	538,095	-	-	538,095	-	400,000	400,000
Time	-	400,353	400,353	-	-	400,353	-	316,375	316,375
Total with donor restrictions	<u>-</u>	<u>2,138,996</u>	<u>2,138,996</u>	<u>-</u>	<u>-</u>	<u>2,138,996</u>	<u>-</u>	<u>2,482,359</u>	<u>2,482,359</u>
Total net assets	<u>4,523,715</u>	<u>2,138,996</u>	<u>6,662,711</u>	<u>190,887</u>	<u>(204,798)</u>	<u>6,648,800</u>	<u>2,087,984</u>	<u>2,482,359</u>	<u>4,570,343</u>
Total liabilities and net assets	<u>\$ 6,191,442</u>	<u>\$ 2,138,996</u>	<u>\$ 8,330,438</u>	<u>\$ 4,998,851</u>	<u>\$ (204,798)</u>	<u>\$ 13,124,491</u>	<u>\$ 3,130,497</u>	<u>\$ 2,482,359</u>	<u>\$ 5,612,856</u>

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

SOCIEDAD LATINA, INC. AND AFFILIATE

Combining Statements of Activities and Changes in Net Assets
For the Years Ended June 30, 2020 and 2019

	2020						2019		
	Sociedad Latina, Inc.			Sociedad Real Estate Holdings, Inc.	Eliminations	Total	Without Donor Restrictions	With Donor Restrictions	Total
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions					
Operating Revenue and Support:									
Corporate, foundation and other grants	\$ 769,800	\$ 885,530	\$ 1,655,330	\$ -	\$ -	\$ 1,655,330	\$ 32,353	\$ 1,393,639	\$ 1,425,992
Government grants and contracts	616,688	-	616,688	-	-	616,688	1,007,205	-	1,007,205
Donated goods and services	411,184	-	411,184	-	-	411,184	269,049	-	269,049
Special events	145,315	-	145,315	-	-	145,315	-	-	-
United Way support	84,364	-	84,364	-	-	84,364	85,379	-	85,379
Interest and other	24,964	-	24,964	-	-	24,964	5,981	-	5,981
Individual, community and other donations	20,656	-	20,656	-	-	20,656	40,678	-	40,678
Net assets released from purpose restrictions	1,110,612	(1,110,612)	-	-	-	-	1,105,121	(1,105,121)	-
Net assets released from time restrictions	256,376	(256,376)	-	-	-	-	105,000	(105,000)	-
Total operating revenue and support	<u>3,439,959</u>	<u>(481,458)</u>	<u>2,958,501</u>	<u>-</u>	<u>-</u>	<u>2,958,501</u>	<u>2,650,766</u>	<u>183,518</u>	<u>2,834,284</u>
Operating Expenses:									
Program services:									
Youth Internships	93,516	-	93,516	-	-	93,516	89,121	-	89,121
Community Organizing	329,295	-	329,295	-	-	329,295	316,088	-	316,088
Education	804,489	-	804,489	-	-	804,489	966,886	-	966,886
Arts & Culture	166,004	-	166,004	-	-	166,004	230,778	-	230,778
Latino Network	43,315	-	43,315	-	-	43,315	128,773	-	128,773
Total program services	<u>1,436,619</u>	<u>-</u>	<u>1,436,619</u>	<u>-</u>	<u>-</u>	<u>1,436,619</u>	<u>1,731,646</u>	<u>-</u>	<u>1,731,646</u>
Support:									
General and administrative	450,164	-	450,164	12,500	-	462,664	324,488	-	324,488
Fundraising	101,437	-	101,437	-	-	101,437	79,098	-	79,098
Total support	<u>551,601</u>	<u>-</u>	<u>551,601</u>	<u>12,500</u>	<u>-</u>	<u>564,101</u>	<u>403,586</u>	<u>-</u>	<u>403,586</u>
Total operating expenses	<u>1,988,220</u>	<u>-</u>	<u>1,988,220</u>	<u>12,500</u>	<u>-</u>	<u>2,000,720</u>	<u>2,135,232</u>	<u>-</u>	<u>2,135,232</u>
Changes in net assets from operations	<u>1,451,739</u>	<u>(481,458)</u>	<u>970,281</u>	<u>(12,500)</u>	<u>-</u>	<u>957,781</u>	<u>515,534</u>	<u>183,518</u>	<u>699,052</u>
Other Revenue (Expense):									
Capital grants	1,065,000	250,000	1,315,000	-	-	1,315,000	-	5,000	5,000
Gain on transfer	204,798	-	204,798	-	(204,798)	-	-	-	-
Capital campaign expenses	(194,324)	-	(194,324)	-	-	(194,324)	(128,173)	-	(128,173)
Net assets released from capital restrictions	111,905	(111,905)	-	-	-	-	5,000	(5,000)	-
Total other revenue (expense)	<u>1,187,379</u>	<u>138,095</u>	<u>1,325,474</u>	<u>-</u>	<u>(204,798)</u>	<u>1,120,676</u>	<u>(123,173)</u>	<u>-</u>	<u>(123,173)</u>
Changes in net assets	<u>2,639,118</u>	<u>(343,363)</u>	<u>2,295,755</u>	<u>(12,500)</u>	<u>(204,798)</u>	<u>2,078,457</u>	<u>392,361</u>	<u>183,518</u>	<u>575,879</u>
Net Assets:									
Beginning of year	2,087,984	2,482,359	4,570,343	-	-	4,570,343	1,695,623	2,298,841	3,994,464
Net asset transfer	(203,387)	-	(203,387)	203,387	-	-	-	-	-
End of year	<u>\$ 4,523,715</u>	<u>\$ 2,138,996</u>	<u>\$ 6,662,711</u>	<u>\$ 190,887</u>	<u>\$ (204,798)</u>	<u>\$ 6,648,800</u>	<u>\$ 2,087,984</u>	<u>\$ 2,482,359</u>	<u>\$ 4,570,343</u>

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

SOCIEDAD LATINA, INC. AND AFFILIATE

 Combining Statements of Cash Flows
 For the Years Ended June 30, 2020 and 2019

	2020			2019	
	Sociedad Latina, Inc.	Sociedad Real Estate Holdings, Inc.	Eliminations	Total	Total
Cash Flows from Operating Activities:					
Changes in net assets	\$ 2,295,755	\$ (12,500)	\$ (204,798)	\$ 2,078,457	\$ 575,879
Capital grants	(1,315,000)	-	-	(1,315,000)	(5,000)
Gain on transfer	(204,798)	-	204,798	-	-
Adjustments to reconcile changes in net assets to net cash provided by operating activities:					
Depreciation	13,975	-	-	13,975	34,240
Bad debts	2,500	-	-	2,500	-
Changes in operating assets and liabilities:					
Grants and pledges receivable	255,600	-	-	255,600	(181,079)
Prepaid expenses	62,250	-	-	62,250	(82,454)
Due (to) from	(11,024)	11,024	-	-	-
Conditional grant advances	96,130	-	-	96,130	61,460
Accounts payable and accrued expenses	(47,982)	127,186	-	79,204	29,907
Net cash provided by operating activities	<u>1,147,406</u>	<u>125,710</u>	<u>-</u>	<u>1,273,116</u>	<u>432,953</u>
Cash Flows from Investing Activities:					
Property and equipment purchases	(113,025)	(628,254)	-	(741,279)	(99,269)
Proceeds from (payment for) property and equipment transfer	<u>1,626,251</u>	<u>(1,626,251)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash provided by (used in) investing activities	<u>1,513,226</u>	<u>(2,254,505)</u>	<u>-</u>	<u>(741,279)</u>	<u>(99,269)</u>
Cash Flows from Financing Activities:					
Issuance of note receivable	(3,570,500)	-	-	(3,570,500)	-
Proceeds from capital grants	1,415,000	-	-	1,415,000	105,000
Proceeds from long-term debt	935,000	4,680,778	-	5,615,778	-
Proceeds from Paycheck Protection Program loan	499,840	-	-	499,840	-
Principal payments on notes payable	<u>(857,774)</u>	<u>-</u>	<u>-</u>	<u>(857,774)</u>	<u>(18,340)</u>
Net cash provided by (used in) financing activities	<u>(1,578,434)</u>	<u>4,680,778</u>	<u>-</u>	<u>3,102,344</u>	<u>86,660</u>
Net Change in Cash, Cash Equivalents and Restricted Cash	<u>1,082,198</u>	<u>2,551,983</u>	<u>-</u>	<u>3,634,181</u>	<u>420,344</u>
Cash, Cash Equivalents and Restricted Cash:					
Beginning of year	<u>2,717,077</u>	<u>-</u>	<u>-</u>	<u>2,717,077</u>	<u>2,296,733</u>
End of year	<u>\$ 3,799,275</u>	<u>\$ 2,551,983</u>	<u>\$ -</u>	<u>\$ 6,351,258</u>	<u>\$ 2,717,077</u>
Reconciliation of Cash, Cash Equivalents and Restricted Cash Reported Within the Combining Statements of Financial Position:					
Cash and cash equivalents	\$ 3,799,275	\$ -	\$ -	\$ 3,799,275	\$ 2,717,077
Restricted cash	-	225,714	-	225,714	-
Cash - construction	-	2,326,269	-	2,326,269	-
Total cash, cash equivalents and restricted cash	<u>\$ 3,799,275</u>	<u>\$ 2,551,983</u>	<u>\$ -</u>	<u>\$ 6,351,258</u>	<u>\$ 2,717,077</u>
Supplemental Disclosure of Cash Flow Information:					
Cash paid for interest	<u>\$ 60,104</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 60,104</u>	<u>\$ 44,699</u>
Property and equipment purchases included in accounts payable and accrued expenses	<u>\$ -</u>	<u>\$ 127,186</u>	<u>\$ -</u>	<u>\$ 127,186</u>	<u>\$ 27,689</u>

SOCIEDAD LATINA, INC. AND AFFILIATE

Combining Statement of Functional Expenses
 For the Year Ended June 30, 2020
 (With Summarized Comparative Totals for the Year Ended June 30, 2019)

	2020									2019		
	Sociedad Latina, Inc.											
	Program Services					Support				Sociedad Real Estate Holdings, Inc.	Total	Total
	Youth Internships	Community Organizing	Education	Arts & Culture	Latino Network	Total Program Services	General and Administrative	Fundraising	Total		Total	Total
Expenses:												
Personnel and related:												
Salaries - staff	\$ 43,315	\$ 181,787	\$ 390,295	\$ 62,240	\$ -	\$ 677,637	\$ 50,781	\$ 32,398	\$ 760,816	\$ -	\$ 760,816	\$ 873,516
Payroll taxes and fringe benefits	8,680	34,126	73,113	13,832	-	129,751	9,243	7,007	146,001	-	146,001	166,984
Youth leader stipends	6,331	52,711	63,285	17,584	-	139,911	1,362	-	141,273	-	141,273	156,137
Total personnel and related	58,326	268,624	526,693	93,656	-	947,299	61,386	39,405	1,048,090	-	1,048,090	1,196,637
Other expenses:												
Consultants	5,388	15,619	103,798	15,426	43,310	183,541	55,128	30,893	269,562	-	269,562	431,926
Interest	11,412	15,216	15,216	11,693	-	53,537	3,804	3,804	61,145	-	61,145	44,699
Office	4,634	9,346	8,359	6,579	-	28,918	21,360	4,998	55,276	-	55,276	50,696
Occupancy	1,765	4,412	3,530	2,647	-	12,354	26,083	882	39,319	12,500	51,819	39,045
Program support	-	-	129	-	-	129	38,034	-	38,163	-	38,163	3,164
Program supplies	403	3,989	10,500	1,114	5	16,011	3,880	15	19,906	-	19,906	38,579
Travel and vehicles	-	512	12,250	19	-	12,781	4,647	5	17,433	-	17,433	12,549
Depreciation	2,620	3,494	3,494	2,621	-	12,229	873	873	13,975	-	13,975	34,240
Insurance	1,633	4,084	3,267	2,450	-	11,434	817	817	13,068	-	13,068	12,050
Training	-	415	69	-	-	484	282	333	1,099	-	1,099	2,598
Total other expenses	27,855	57,087	160,612	42,549	43,315	331,418	154,908	42,620	528,946	12,500	541,446	669,546
In-kind expenses:												
Consultants	-	-	16,000	-	-	16,000	233,632	9,899	259,531	-	259,531	52,767
Space rental	7,335	356	99,000	19,880	-	126,571	-	8,500	135,071	-	135,071	119,369
Salary/benefits	-	3,228	2,076	7,327	-	12,631	-	1,013	13,644	-	13,644	96,913
Program/other support	-	-	108	2,592	-	2,700	238	-	2,938	-	2,938	-
Total in-kind expenses	7,335	3,584	117,184	29,799	-	157,902	233,870	19,412	411,184	-	411,184	269,049
Total expenses	\$ 93,516	\$ 329,295	\$ 804,489	\$ 166,004	\$ 43,315	\$ 1,436,619	\$ 450,164	\$ 101,437	\$ 1,988,220	\$ 12,500	\$ 2,000,720	\$ 2,135,232

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

SOCIEDAD LATINA, INC. AND AFFILIATE

Combining Statement of Functional Expenses
For the Year Ended June 30, 2019

	Program Services					Total Program Services	Support		Total
	Youth Internships	Community Organizing	Education	Arts & Culture	Latino Network		General and Adminis- trative	Fundraising	
Expenses:									
Personnel and related:									
Salaries - staff	\$ 41,591	\$ 153,131	\$ 433,085	\$ 107,287	\$ -	\$ 735,094	\$ 102,238	\$ 36,184	\$ 873,516
Payroll taxes and fringe benefits	8,715	37,546	65,762	21,974	-	133,997	25,388	7,599	166,984
Youth leader stipends	-	57,023	85,145	11,177	-	153,345	2,792	-	156,137
Total personnel and related	<u>50,306</u>	<u>247,700</u>	<u>583,992</u>	<u>140,438</u>	<u>-</u>	<u>1,022,436</u>	<u>130,418</u>	<u>43,783</u>	<u>1,196,637</u>
Other expenses:									
Consultants	7,958	14,807	136,224	29,721	126,175	314,885	98,241	18,800	431,926
Interest	8,381	11,175	11,175	8,381	-	39,112	2,793	2,794	44,699
Office	4,816	6,498	7,725	5,281	-	24,320	22,176	4,200	50,696
Occupancy	3,659	14,879	4,879	3,659	-	27,076	10,749	1,220	39,045
Program support	-	-	-	-	1,140	1,140	2,020	4	3,164
Program supplies	809	4,669	20,430	1,915	1,458	29,281	8,555	743	38,579
Travel and vehicles	42	529	6,557	133	-	7,261	4,908	380	12,549
Depreciation	6,420	8,561	8,561	6,420	-	29,962	2,138	2,140	34,240
Insurance	1,670	2,225	2,225	1,670	-	7,790	3,704	556	12,050
Training	-	741	231	-	-	972	1,019	607	2,598
Total other expenses	<u>33,755</u>	<u>64,084</u>	<u>198,007</u>	<u>57,180</u>	<u>128,773</u>	<u>481,799</u>	<u>156,303</u>	<u>31,444</u>	<u>669,546</u>
In-kind expenses:									
Consultants	-	-	15,000	-	-	15,000	37,767	-	52,767
Space rental	5,060	4,304	99,325	10,680	-	119,369	-	-	119,369
Salary/benefits	-	-	70,562	22,480	-	93,042	-	3,871	96,913
Total in-kind expenses	<u>5,060</u>	<u>4,304</u>	<u>184,887</u>	<u>33,160</u>	<u>-</u>	<u>227,411</u>	<u>37,767</u>	<u>3,871</u>	<u>269,049</u>
Total expenses	<u>\$ 89,121</u>	<u>\$ 316,088</u>	<u>\$ 966,886</u>	<u>\$ 230,778</u>	<u>\$ 128,773</u>	<u>\$ 1,731,646</u>	<u>\$ 324,488</u>	<u>\$ 79,098</u>	<u>\$ 2,135,232</u>

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

SOCIEDAD LATINA, INC. AND AFFILIATE

Notes to Combining Financial Statements
June 30, 2020 and 2019

1. OPERATIONS AND NONPROFIT STATUS

Founded in 1968, Sociedad Latina, Inc. (Sociedad Latina) is a community-based nonprofit organization working in partnership with youth and families to create the next generation of Latino leaders. Sociedad Latina offers a broad array of positive youth development services which enable youth of color in Boston to grow and mature into confident, competent, and self-sustaining adults. To accomplish this mission, Sociedad Latina has developed an innovative, multi-service delivery model called The Pathways to Success, which engages youth (ages 8 through 21) over the long-term in multi-disciplinary programming to build skills in four areas: Education, Workforce Readiness, Civic Engagement, and Arts & Culture. These four content areas are infused into each program to ensure that all youth who engage with Sociedad Latina have the broad skill sets necessary for success in the 21st century. Sociedad Latina implements an asset-based approach to youth development, supporting young people to develop positive cultural identities which serve as protective factors, promote resiliency, and continue Latino cultural traditions in our community. Sociedad Latina's success relies on deep partnerships with families who engage with Sociedad Latina through education, advocacy, arts, and cultural activities.

During fiscal year 2019, Sociedad Real Estate Holdings, Inc. (Sociedad Real Estate) was incorporated as a Massachusetts not for profit corporation and as a supporting organization to Sociedad Latina. Sociedad Real Estate was utilized to facilitate New Markets Tax Credit (NMTC) financing which is being used to rehabilitate Sociedad Latina's main office. Sociedad Real Estate had no activity until the initial project closing in fiscal year 2020.

Sociedad Latina and Sociedad Real Estate (collectively, the Organization) are exempt from Federal income taxes as organizations (not a private foundations) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). The Organization is also exempt from state income taxes. Donors may deduct contributions made to the Organization within requirements of the IRC.

2. SIGNIFICANT ACCOUNTING POLICIES

The Organization prepares its combining financial statements in accordance with generally accepted accounting standards and principles (U.S. GAAP) established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

Principles of Combination

The combining financial statements include the activity of Sociedad Latina and Sociedad Real Estate. All significant balances between classes of net assets and intercompany balances and transactions are eliminated in the accompanying combining financial statements.

Accounting Principle Adoption

During fiscal year 2020, the Organization adopted FASB's Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU assists organizations in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions. In addition, it clarifies whether a contribution is conditional. As a result, it enhances comparability of financial information among not-for-profit entities. The Organization adopted ASU 2018-08 using a modified prospective method effective July 1, 2019. Under the modified prospective method, this ASU only applies to agreements not completed or entered into (revenue or expense that has not yet been recognized) as of July 1, 2019. As a result, the fiscal year 2019 combining financial statements are not restated and there was no cumulative-effect adjustment to opening net assets as of July 1, 2019.

SOCIEDAD LATINA, INC. AND AFFILIATE

Notes to Combining Financial Statements
June 30, 2020 and 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Principle Adoption (Continued)

In fiscal year 2020, the Organization also adopted FASB's ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This ASU amends the presentation of restricted cash within the combining statements of cash flows. The new guidance requires that restricted cash and cash equivalents be added to cash and cash equivalents for purposes of the combining statements of cash flows. This ASU has been applied retrospectively to all periods presented. The adoption of ASU 2016-18 did not result in any changes to the Organization's cash flow classification for the year ended June 30, 2019.

Cash and Cash Equivalents and Restricted Cash

For purposes of the combining statements of cash flows, cash and cash equivalents include checking, money market and savings accounts. Restricted cash represents funds held in a reserve account related to Sociedad Real Estate (see Note 10).

Fair Value Measurements

The Organization follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that the Organization would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

The Organization uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the Organization. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available.

The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

- Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.
- Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement. All qualifying assets and liabilities are valued using Level 1 inputs.

SOCIEDAD LATINA, INC. AND AFFILIATE

Notes to Combining Financial Statements
June 30, 2020 and 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

The preparation of combining financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the combining financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

Donated Goods and Services

The Organization receives goods, services and space in support of various aspects of its programs. These goods, services and space are reflected in the accompanying combining financial statements based upon the estimated value assigned to them by the donating volunteers, companies, or by management.

Income Taxes

The Organization accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the combining financial statements regarding a tax position taken or expected to be taken in a tax return. The Organization has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the combining financial statements at June 30, 2020 and 2019. The Organization's information returns are subject to examination by Federal and state jurisdictions.

Revenue Recognition

In accordance with ASC Subtopic 958-605, *Revenue Recognition*, the Organization must determine whether a contribution (or a promise) is conditional or unconditional for transactions deemed to be a contribution. A contribution is considered to be a conditional contribution if an agreement includes a barrier that must be overcome and either a right of return of assets or a right of release of a promise to transfer assets exists. Indicators of a barrier include a measurable performance-related barrier or another measurable barrier, a stipulation that limits discretion by the recipient on the conduct of an activity, and stipulations that are related to the purpose of the agreement. Topic 958 prescribes that the Organization should not consider probability of compliance with the barrier when determining if such awards are conditional and should be reported as conditional grant advance liabilities until such conditions are met. See Note 11 for disclosure of the Organization's conditional grants at June 30, 2020.

Grants, contributions, or donations without donor restrictions are recorded as revenue when received or unconditionally pledged. Revenues from donor restricted grants and contributions are recorded as revenue and net assets with donor restrictions when the Organization receives a commitment. Net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the combining financial statements as net assets released from restrictions as costs are incurred or time or program restrictions have lapsed.

Government grants and contracts revenue is recorded as the related services are rendered and costs are incurred. Special events revenues are recognized in the period in which the events occur. Other income is recorded when earned.

SOCIEDAD LATINA, INC. AND AFFILIATE

Notes to Combining Financial Statements
June 30, 2020 and 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Combining Statements of Activities and Changes in Net Assets

Transactions deemed by management to be ongoing, major, or central to the provision of program services are reported as operating revenue and expenses in the accompanying combining statements of activities and changes in net assets. Other revenue (expenses) includes capital and capital campaign related activity.

Allocation of Expenses

Expenses related directly to a function are distributed to that function, while other expenses are allocated based upon management's estimate of the percentage attributable to each function.

Certain categories of expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated are personnel and related costs, which are allocated based on estimates of time and effort, and other expenses, which are allocated based on a combination of both time and effort and square footage.

Pledges Receivable

Pledges are recorded at their net present value when unconditionally committed. As of June 30, 2020 and 2019, the discount on pledges to be received in over one year was immaterial to the accompanying combining financial statements and therefore not recorded.

Allowance for Doubtful Accounts and Pledges

The allowance for doubtful accounts is recorded based on management's analysis of specific accounts and pledges and their estimate of amounts that may become uncollectible, if any. There was no allowance recorded as of June 30, 2020 and 2019.

Description of Net Assets

Net Assets Without Donor Restrictions

Net assets without donor restrictions are those net resources that bear no external restrictions and are generally available for use by the Organization. The Organization has grouped its net assets without donor restrictions into the following categories:

Operating net assets represent funds available to carry on the operations of the Organization.

Property and equipment net assets represent the net book value of the Organization's property and equipment, net of related debt.

Net Assets With Donor Restrictions

Net assets with donor restrictions represent funds contributed by donors for specific purposes or time designations. Purpose restricted net assets primarily consist of funds to support education and youth programs, in-line with the Organization's mission.

SOCIEDAD LATINA, INC. AND AFFILIATE

Notes to Combining Financial Statements
June 30, 2020 and 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment and Depreciation

Property and equipment are recorded at cost, if purchased, or at fair market value at the time of donation. Renewals and betterments are capitalized, while repairs and maintenance are expensed as they are incurred (see Note 4).

Depreciation of property and equipment is computed using the straight-line method over the following estimated useful lives:

Building and improvements	40 years
Office equipment	3 - 10 years
Software	5 years

Construction in process consists of costs related to the rehabilitation of the Organization's main office (see Note 4). These costs will be depreciated once the rehabilitation is complete and is placed in service. Land is not depreciated.

Subsequent Events

Subsequent events have been evaluated through January 19, 2021, which is the date the combining financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the accompanying combining financial statements.

3. GRANTS AND PLEDGES RECEIVABLE

Grants and pledges receivable are due as follows at June 30:

	<u>2020</u>	<u>2019</u>
Due within one year	\$ 846,463	\$ 1,067,861
Due within two to three years	\$ 58,298	\$ 195,000

4. PROPERTY AND EQUIPMENT

During fiscal year 2020, all property and equipment were transferred from Sociedad Latina to Sociedad Real Estate as part of obtaining the New Market Tax Credit financing (see Note 6). Property and equipment consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
Land	\$ 307,500	\$ 368,226
Building and improvements	1,070,347	1,075,329
Construction in process	1,080,045	120,958
Office equipment	-	194,487
Software	-	10,523
	<u>2,457,892</u>	<u>1,769,523</u>
Less - accumulated depreciation	-	243,733
Less - eliminations	<u>204,798</u>	<u>-</u>
Net property and equipment	<u>\$ 2,253,094</u>	<u>\$ 1,525,790</u>

SOCIEDAD LATINA, INC. AND AFFILIATE

Notes to Combining Financial Statements
June 30, 2020 and 2019

5. CONCENTRATIONS

Funding

The Organization receives a portion of its funding from various departments of the Commonwealth of Massachusetts and the City of Boston. These reimbursements are subject to audit by the appropriate government agencies. In the opinion of management, the results of such audits, if any, will not have a material effect on the financial position of the Organization as of June 30, 2020 and 2019, or on the changes in its net assets for the years then ended.

Funding agencies and donors exceeding 10% of the Organization's operating revenue and support or grants and pledges receivable as of and for the years ended June 30, 2020 and 2019, are as follows:

<u>Funder</u>	<u>Operating Revenue and Support %</u>		<u>Grants and Pledges Receivable %</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
DOE/DPH/MCC	15%	17%	10%	- %
Private Funder A	- %	- %	17%	11%
Private Funder B	- %	- %	11%	- %
Private Funder C	- %	- %	23%	16%
Private Funder D	- %	- %	- %	14%
Private Funder E	- %	15%	- %	14%

Credit Risk

The Organization maintains its cash balances in Massachusetts banks and is insured with the limits of the Federal Deposit Insurance Corporation (FDIC). At certain times during the year, the cash balance exceeded the insured amount. The Organization has not experienced any losses in those accounts.

6. NEW MARKETS TAX CREDITS TRANSACTION

The Organization has entered into agreements in connection with New Markets Tax Credit (NMTC) financing for the renovation of the Organization's programmatic and administrative headquarters located at 1530 Tremont Street, Roxbury, Massachusetts (the Project). The Project is estimated to cost approximately \$5,100,000.

The Project was funded through a variety of sources, including a capital campaign and NMTC equity from Capital One, N.A. (Capital One). The tax credit equity was combined with proceeds from the leveraged loan from Sociedad Latina (see below) to fund COCRF Investor 168, LLC (the Investment Fund).

The NMTC program offers credits against Federal income taxes over a seven-year period for Qualified Equity Investments (QEIs) in designated CDEs pursuant to Section 45D of the IRC in order to assist eligible businesses in making investments in certain low-income communities. Sociedad Real Estate is a Qualified Active Low Income Community Business (QALICB) and operates the Project in a manner intended to enable Sociedad Real Estate to continue to qualify as a QALICB for the purposes of the NMTC within the meaning of Section 45D(d)(2) of the IRC.

The Investment Fund, using equity proceeds from Capital One and loan proceeds from Sociedad Latina, made QEIs into Partnerships of Hope 32, LLC (the CDE) for a 99.99% membership interest in the CDE. The CDE used proceeds from the QEI to provide loans to Sociedad Real Estate (see Note 8).

SOCIEDAD LATINA, INC. AND AFFILIATE

Notes to Combining Financial Statements
June 30, 2020 and 2019

6. NEW MARKETS TAX CREDITS TRANSACTION (Continued)

Note Receivable

As part of the funding of the Project, Sociedad Latina entered into the following note receivable agreement with the Investment Fund using proceeds from Eastern Bank (see page 14) and capital campaign proceeds:

\$3,570,500 note receivable, bearing interest at 1.05%. This note requires quarterly payments of interest through December 2026. Commencing in March 2027, quarterly payments of principal and interest are due through maturity (December 2052) in accordance with the payment schedule in the note agreement. This note is secured by a first priority interest in the Investment Fund's ownership percentage in the CDE. Sociedad Latina has assigned its rights under the loan agreement to Eastern Bank as security for the prompt and complete payment of Sociedad Latina's loan obligations to Eastern Bank (see page 14). Prepayment of this note is not allowed at any time prior to the expiration of the NMTC compliance period of seven years.

Notes Payable

As part of the NMTC financing, the CDE made two loans totaling \$4,900,000 to Sociedad Real Estate (see Note 8).

Lease

In December 2019, Sociedad Latina and Sociedad Real Estate entered into a multi-year lease agreement for the 1530 Tremont Street Property. The lease is for thirty-five years through December 2054, with base rent being due in equal quarterly payments, pro-rated for partial periods. Sociedad Latina is also required to pay additional rent, as defined in the agreement. There was no rent expense under the lease in fiscal year 2020.

Future minimum lease payments are as follows:

<u>Fiscal Year</u>	
2021	\$ 68,544
2022	71,500
2023	74,546
2024	85,182
2025	103,412
Thereafter	<u>7,000,360</u>
	<u>\$ 7,403,544</u>

Put and Call Option

Sociedad Latina has granted Capital One the right and option (the Put Option), but not the obligation, to sell their entire interest in the Investment Fund to Sociedad Latina for certain amounts, as defined in the agreement. The Put Option may be exercised at any time during the period commencing on the last day of the compliance period and ending 180 days after the Put Exercise date (the Put Option Period).

In the event that Capital One does not exercise the Put Option during the Put Option Period, Sociedad Latina has the right and option (the Call Option), but not the obligation, to purchase the entire interest in the Investment Fund for certain amounts, as defined in the agreement, within 180 days of expiration of the Put Option Period (or 180 days from the Put Rejection Notice, if applicable).

SOCIEDAD LATINA, INC. AND AFFILIATE

Notes to Combining Financial Statements
June 30, 2020 and 2019

6. NEW MARKETS TAX CREDITS TRANSACTION (Continued)

Compliance Cost Reimbursement

In accordance with the loan agreements with the CDE (see Note 8), Sociedad Real Estate is required to pay an annual fee of \$12,500 to the CDE commencing in January 2020 to cover compliance related costs of the Project. This fee is payable annually so long as the Investment Fund maintains interest in the CDE. This fee is payable annually from the Fee Reserve Account (see Note 10).

Capital Contribution

Sociedad Latina made a \$203,387 capital contribution to Sociedad Real Estate. The total amount consists of a \$92,432 pre-development cost donation for payments of expenses related to the Project and \$110,955 of pro-bono legal services related to the Project. The capital contribution is reflected as net asset transfer in the accompanying combining statement of activities and changes in net assets.

7. LINE OF CREDIT

Sociedad Latina entered into a line of credit agreement with a bank. Borrowings under this agreement are up to \$150,000 and are due on demand. Interest is payable monthly at the bank's base rate (3.25% and 5.5% at June 30, 2020 and 2019, respectively), plus 1%. Borrowings are secured by substantially all of Sociedad Latina's assets. Sociedad Latina is required to meet certain covenants under this agreement. Sociedad Latina was in compliance with the covenants under this agreement. There were no outstanding borrowings at June 30, 2020 and 2019.

8. LONG-TERM DEBT

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

Sociedad Latina	<u>2020</u>	<u>2019</u>
4.68% term loan payable to Eastern Bank with interest-only payments through December 2020. Commencing in January 2021, monthly payments of principal and interest of \$5,588 are due through December 2029. This note is secured by a pledge of Sociedad Latina's note receivable from the CDE (see Note 6).	\$ 935,000	\$ -
\$666,860 bridge loan payable to Eastern Bank with interest at 4.19%. Monthly payments of interest only were due through December 2021. Repayments of principal are required upon receipt of certain pledged funds, as described in the loan agreement. As of June 30, 2020, this note had been fully repaid.	-	-
Sociedad Latina had a note payable to a Eastern Bank, due in monthly principal and interest installments of \$5,253, with an interest rate of 5.08% through December 2022, at which time the rate was set to adjust to equal the Classic Rate (as defined in the agreement) plus 1.5% (with a floor of 4.5%). This note was set to mature in December 2027, but was repaid in fiscal year 2020 as part of the NMTC transaction closing.	-	857,774
	<u>935,000</u>	<u>857,774</u>
Less - current portion	<u>11,483</u>	<u>19,186</u>
Total - Sociedad Latina	<u>\$ 923,517</u>	<u>\$ 838,588</u>

SOCIEDAD LATINA, INC. AND AFFILIATENotes to Combining Financial Statements
June 30, 2020 and 2019**8. LONG-TERM DEBT (Continued)**

Future minimum principal payments on the note on page 14 are as follows over the next five years:

<u>Fiscal Year</u>	<u>Amount</u>	
2021	\$	11,483
2022	\$	23,657
2023	\$	24,787
2024	\$	25,885
2025	\$	27,243
Sociedad Real Estate	<u>2020</u>	<u>2019</u>
1.20% note payable to the CDE (Loan A). Quarterly payments of interest only are due on this note through December 2026. Commencing in March 2027, quarterly payments of principal and interest are due through maturity (December 2054) in accordance with the payment schedule in the note agreement. This note is secured by a shared security interest in the Project, an assignment of rents and leases, and any reserves of the Project.	\$ 3,570,500	\$ -
1.20% note payable to the CDE (Loan B). Quarterly payments of interest only are due on this note through December 2026. Commencing in March 2027, quarterly payments of principal and interest are due through maturity (December 2054) in accordance with the payment schedule in the note agreement. This note is secured by a shared security interest in the Project, an assignment of rents and leases, and any reserves of the Project.	<u>1,329,500</u>	<u>-</u>
	4,900,000	-
Less - debt issuance costs	<u>219,222</u>	<u>-</u>
Total - Sociedad Real Estate	<u>\$ 4,680,778</u>	<u>\$ -</u>

Debt issuance costs of \$219,222 are amortized over the period the related obligation is outstanding using the straight-line method, which approximates the effective interest method.

The long-term debt agreements contain covenants with which the Organization must comply with. The Organization was in compliance with these covenants at June 30, 2020 and 2019.

SOCIEDAD LATINA, INC. AND AFFILIATE

Notes to Combining Financial Statements
June 30, 2020 and 2019

9. PAYCHECK PROTECTION PROGRAM LOAN

The Organization applied for and was awarded a forgivable loan of \$499,840 from the Paycheck Protection Program (PPP) established by the Coronavirus Aid, Relief and Economic Security Act (CARES Act) through a bank. The funds will be used to pay certain payroll costs, including benefits as well as rent and utilities during the covered period as defined in the CARES Act. A portion of these funds may be forgiven, as defined in the agreement, at the end of the covered period and the remainder of the funds will be due over a two-year period with interest at 1%. Any repayment will be deferred until the Small Business Administration notifies the lender of the amount of the loan that will be forgiven, provided that the Organization submits the application for forgiveness within ten months after the completion of the covered period. The balance of the note which was not forgiven, plus interest, will be due in equal monthly payments through the maturity date as defined by the bank. There are no covenants with which to comply and the note is not secured by any collateral as of June 30, 2020. Accrued interest on the note payable is \$1,041 as of June 30, 2020, and is included in Paycheck Protection Program loan and accrued interest in the accompanying combining statement of financial position.

As of January 19, 2021, the Organization has not submitted the application for forgiveness. However, the Organization anticipates the note payable will be forgiven in full and, therefore, the balance has been classified as long-term in the accompanying combining statement of financial position as of June 30, 2020.

10. RESTRICTED CASH

Fee Reserve Account

Pursuant to certain loan agreements (see Note 8), Sociedad Real Estate was required to establish a reserve account with an initial balance of \$250,000, which was funded by the initial disbursement from the CDE. No withdrawals are to be made from this account without the written consent of the lender. Withdrawals from this account are to be used solely to pay the compliance cost reimbursement (see Note 6) and a portion of the interest due on the loan in the amount of \$5,357 per quarter. The balance of this reserve was \$225,714 as of June 30, 2020.

11. CONDITIONAL GRANTS

During fiscal year 2020, the Organization was awarded multiple other conditional commitments from private donors, which contain funder-imposed conditions that represent a barrier that must be overcome as well as a release from obligations. The Organization recognizes related revenue from these private contributions when funder-imposed conditions are substantially met (see Note 2). The funder-imposed conditions for these amounts include the requirement for the Organization to incur qualifying expenses.

The Organization was awarded \$1,515,250 in conditional contributions, of which \$900,071 was recognized as revenue and \$157,590 was recorded as conditional grant advances. Amounts recognized as revenue are included in corporate, foundation and other grants in the accompanying combining statement of activities and changes in net assets. The remaining \$457,590 of these commitments is not included in the accompanying combining financial statements.

12. CONTINGENCY

The COVID-19 pandemic in the United States has caused business disruption and a reduction in economic activity. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration. While the Organization expects this matter to negatively impact its operating results, the related financial impact and duration cannot be reasonably estimated at this time.

SOCIEDAD LATINA, INC. AND AFFILIATE

Notes to Combining Financial Statements
June 30, 2020 and 2019

13. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Organization's financial assets available within one year from the combining statements of financial position date for general operating purposes are as follows as of June 30, 2020:

	<u>2020</u>	<u>2019</u>
Cash	\$ 2,250,653	\$ 1,363,668
Current portion of grants and pledges receivable	<u>314,387</u>	<u>133,911</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,565,040</u>	<u>\$ 1,497,579</u>

As part of Sociedad Latina's liquidity management, Sociedad Latina has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligation come due. Sociedad Latina also has access to a \$150,000 line of credit (see Note 7) that can be drawn upon as needed to cover operating costs.

14. RECLASSIFICATIONS

Certain amounts in the fiscal year 2019 combining financial statements have been reclassified to conform with the fiscal year 2020 presentation.



50 Washington Street
Westborough, MA 01581
508.366.9100
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To the Boards of Directors and Management of
Sociedad Latina, Inc. and Affiliate:

In planning and performing our audit of the combining financial statements of Sociedad Latina, Inc. and Affiliate (collectively, the Organization) as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the combining 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 Organization's combining financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. 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.

This communication is intended solely for the information and use of management, the Executive Committee, the Boards of Directors, and others within the Organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

AAFCPAs, Inc.

Westborough, Massachusetts
January 19, 2021



50 Washington Street
Westborough, MA 01581
508.366.9100
aafcpcpa.com

January 19, 2021

To the Boards of Directors and Management of
Sociedad Latina, Inc. and Affiliate:

We have audited the combining financial statements of Sociedad Latina, Inc. and Affiliate (collectively, the Organization) for the year ended June 30, 2020, and have issued our report thereon dated January 19, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 7, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Required Communications

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Organization are described in Note 2 to the combining financial statements. During fiscal year 2020, the Organization adopted the following accounting standards:

- Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU assists entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions. In addition, it clarifies whether a contribution is conditional. The Organization adopted ASU 2018-08 using a modified prospective method. Under the modified prospective method, this ASU only applies to agreements not entered into or completed (revenue or expense that has not yet been recognized) as of July 1, 2019. As a result, the fiscal year 2019 combining financial statements are not restated and there was no cumulative-effect adjustment to opening net assets as of July 1, 2019.
- During fiscal year 2020, the Organization also adopted FASB's ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This ASU amends the presentation of restricted cash within the combining statement of cash flows. The new guidance requires that restricted cash and cash equivalents be added to cash and cash equivalents for purposes of the combining statement of cash flows.

There were no other new accounting policies adopted and the application of existing policies was not changed during fiscal year 2020. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the combining financial statements in the proper period.

Accounting estimates are an integral part of the combining financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the combining financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Required Communications (Continued)

Qualitative Aspects of Accounting Practices (Continued)

The most sensitive estimates affecting the combining financial statements were:

- Determination of grants and pledges receivable to be collected, which is based on management's analysis of each individual donor's collection history.
- Allocation of indirect costs, which is based on management's estimate of the percentage attributable to each function, and is based on time and effort and square footage.
- Value of donated services and space, which is based on the valuation assigned by the donor, hourly rates for equivalent services performed, and comparable market rent for similar space.
- Useful lives of depreciable assets, which are based on management's expectation of the period of time the class of the asset will provide future economic benefit to the Organization.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the combining financial statements taken as a whole.

The combining financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management concurs with and has corrected the attached material misstatements.

The attached schedule summarizes uncorrected misstatements of the combining financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the combining financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the combining financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 19, 2021.

Required Communications (Continued)

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Organization’s combining financial statements or a determination of the type of auditor’s opinion that may be expressed on those combining statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Comments, Observations and Recommendations on Internal Controls

The following comments, observations and recommendations on internal controls were noted during our audits:

Prior Year Item Addressed

The Organization has developed a formal, written fraud risk assessment and monitoring program.

Current Year Item

Automation

The Organization principally uses a manual, hard copy process for purchasing and cash disbursements. While the system has worked well over the years, new technologies have been introduced that can make this function more efficient and digital so that one can access the information from multiple locations. We suggest that as the Organization’s employees are working from remote locations more often, a conversion to an automated billing and banking systems would facilitate that trend as well as increase the overall efficiency of the process.

Prior Year Item in Process

Cost Allocations

The Organization does not have a formalized cost allocation policy which outlines the specific basis for significant allocations. As required under ASU No. 2016-14, management should document the basis of all allocations and the Organization’s procedures for allocating costs in a formal policy to provide clarity on how costs are allocated.

Other Matters for Your Information

Coronavirus: Business Impacts and Planning

The Coronavirus pandemic (COVID-19) is impacting our lives and businesses in a way that none of us has experienced before. The global economy is certainly impacted, and businesses and individuals are reacting to an uncharted situation that continues to evolve rapidly. Certainly, health and safety are our primary concerns. Business leaders have been forced to make difficult decisions related to employees, customers, and planning.

Management should consider the following:

- Prepare a monthly financial forecast for the remainder of your fiscal year. The forecast should consider what impact this has on your revenues, cash flows, and financial performance. Your forecast should also include contingency plans in case this situation extends out to identify what you should do and when.
- Make sure your management team and governance are engaged and in constant communication to strategize.
- Talk to your lenders to see if refinancing is an option and to evaluate what impact this current situation may have on your loan covenants.
- Revisit your current and future investing strategy and liquidity needs.
- Track and monitor the impact this pandemic is having on your revenues and expenses. The Federal government's potential stimulus provisions could be beneficial to your business.
- Review insurance policies to evaluate whether there is any coverage that would apply to any of your losses.

In addition, management needs to consider the accounting and financial statement disclosure implications resulting from the Coronavirus outbreak, including, but not limited to, fair value measurement, assets impairment, revenue recognition, leases, accounting estimates, and loss contingency.

AAFCPAs is available to help you understand the economic impact the Coronavirus is having on current operations and finances as well as your long-term sustainability.

Computer System Review

As we have discussed, there continues to be an increasing threat that an organization's computer systems may be taken hostage by computer hackers and other such cyber criminals. In addition, the phishing schemes are getting more creative using social engineering. While our walkthroughs of your IT controls did not indicate any of this type of activity occurring, we feel that management should implement as many procedures and safeguards as possible to offset these threats. A review of your Cyber Health, consistent employee training and a review of cyber insurance policies are prudent. All organizations must know where they have vulnerabilities and a regular annual review is encouraged. Cyber Health must be an annual review and process as hackers get more and more sophisticated each year. We can help you reduce your risk in this area and develop an annual cyber review.

Other Matters for Your Information (Continued)

New Lease Accounting

Last year, we made the Board of Directors and management aware of the new lease standard, ASU No. 2016-02, *Leases (Topic 842)*, issued by the FASB in February 2016. Since then, the FASB also issued several subsequent amendments to the initial guidance. The new lease standard codified in Topic 842 supersedes the existing lease guidance in Topic 840. The core principle of the new guidance is for lessees to recognize lease assets and lease liabilities for those leases classified as operating leases, as defined in the new standard.

In June 2020, the FASB issued ASU No. 2020-05 to defer the effective date of the lease guidance for non-public companies for an additional year. Therefore, the new lease standard is effective for fiscal years beginning after December 15, 2021. Early application is still allowed.

With respect to the transition to the new guidance, the FASB offers two methods of adopting this standard – Modified Retrospective Approach and an Optional Transition Method:

- **Modified Retrospective Approach** requires lessees and lessors to recognize and measure leases at the beginning of the earliest period presented in the combining financial statements. The modified retrospective approach includes a number of optional practical expedients that entities may elect to apply.
- **Optional Transition Method** is a practical expedient that allows an entity to present comparative combining financial statements for the year before adoption in accordance with the old standard, while the new standard is applied for presentation of leases in the year of adoption.

If you have any questions or need further assistance with these items, please contact a member of your audit service team.

This information is intended solely for the use of the Executive Committee, the Boards of Directors and management of the Organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "AAFCPAs, Inc." in a cursive, slightly stylized font.

AAFCPAs, Inc.
Certified Public Accountants

Client: **74030 - Sociedad Latina, Inc.**
Engagement: **74030 - Sociedad Latina, Inc.**
Period Ending: **6/30/2020**
Trial Balance: **TB - Epace Trial Balance**
Workpaper: **Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit	P&L Effect
Unadjusted changes in net assets					<u>\$ 2,245,485</u>
Adjusting Journal Entries					
Adjusting Journal Entries JE # 1					
Client proposed entry to properly state PPP loan as debt at June 30, 2020.					
2700-00	PPP Conditional Grant Advance		760.00		
4335-12-00	PPP Conditional Grant		152,836.00		
6210-10-00	Telephone Exp: General		1.00		
6510-10-00	Interest Expense: General		280.00		
2700-00	PPP Conditional Grant Advance			152,836.00	
9999-xx-xx	Accrued Interest			1,041.00	
Total			<u>153,877.00</u>	<u>153,877.00</u>	(153,117)
Adjusting Journal Entries JE # 2					
SSTT-01					
To properly state equity transfer from Sociedad Latina to Sociedad Real Estate at June 30, 2020.					
3280-00	Unrestricted Net Assets		203,387.00		
7600-00	Gain/Loss on sale			203,387.00	
Total			<u>203,387.00</u>	<u>203,387.00</u>	203,387
Total Adjusting Journal Entries			<u>357,264.00</u>	<u>357,264.00</u>	
Total All Journal Entries			<u>\$ 357,264.00</u>	<u>\$ 357,264.00</u>	
Net effect of audit adjustments					<u>50,270</u>
Adjusted changes in net assets					<u><u>\$ 2,295,755</u></u>

SOCIEDAD LATINA, INC.

Uncorrected Misstatements Report
June 30, 2020

PAJE #	Adjustment Accounts	Journal Entry		Description of Audit Difference	Financial Statement Effect				
		Debit	Credit		Total Assets	Total Liabilities	Working Capital	Total Net Assets	Change in Net Assets
1	Contribution revenue Discount on long-term accounts receivable	\$ 22,800 -	\$ - 22,800	To properly state the discount on long-term receivables as of June 30, 2020.	\$ - (22,800)	\$ - -	\$ - -	\$ - -	\$ (22,800) -
2	Temp restricted Accounts receivable	20,000 -	- 20,000	To properly record net assets with donor restrictions as of June 30, 2020	- (20,000)	- -	- (20,000)	- -	(20,000) -
	Total				<u>\$ (42,800)</u>	<u>\$ -</u>	<u>\$ (20,000)</u>	<u>\$ -</u>	<u>\$ (42,800)</u>

SOCIEDAD REAL ESTATE

Uncorrected Misstatements Report
June 30, 2020

PAJE #	Adjustment Accounts	Journal Entry		Description of Audit Difference	Financial Statement Effect				
		Debit	Credit		Total Assets	Total Liabilities	Working Capital	Total Net Assets	Change in Net Assets
1	Depreciation expense Accumulated depreciation	\$ 13,201 -	\$ - 13,201	To properly state depreciation expense as of June 30, 2020.	\$ - (13,201)	\$ - -	\$ - (13,201)	\$ - -	\$ (13,201) -
2	Construction in progress Accrued expenses	20,116 -	- 20,116	To properly accrue for retainage costs as of June 30, 2020.	20,116 -	- 20,116	20,116 (20,116)	- -	- -
	Total				<u>\$ 6,915</u>	<u>\$ 20,116</u>	<u>\$ (13,201)</u>	<u>\$ -</u>	<u>\$ (13,201)</u>