

**SABATHANI COMMUNITY CENTER, INC.  
AUDITED FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2017 AND 2016**

**PREPARED BY  
MICHAEL S. WILSON  
REPORT OF CERTIFIED PUBLIC ACCOUNTANT**

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**Michael S. Wilson**  
**Certified Public Accountant**  
**Minneapolis, Minnesota**

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of  
Sabathani Community Center

I have audited the accompanying financial statements of Sabathani Community Center (a non-profit corporation) which comprise the statements of financial position as of December 31, 2017, and the related statements of activities, functional expenses and cash flows for the year 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 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 representation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

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

An audit also includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. These 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 controls 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 purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sabathani Community Center as of December 31, 2017 and the changes in its net assets, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Summarized Comparative Information**

I have previously audited the Sabathani Community Center 2016 financial statements, and my report dated April 7, 2017, expressed an unmodified opinion on those audited financial statements. In my opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Michael S. Wilson, CPA*

May 15, 2018

Minneapolis, Minnesota

**SABATHANI COMMUNITY CENTER  
STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2017 AND 2016**

<b>ASSETS</b>	<b>2017</b>	<b>2016</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 327,398	\$ 350,255
Tenant rents receivable, net of allowance	56,435	28,690
Accounts receivable	4,927	3,437
Grants receivable	25,037	-
Contracts receivable, net of allowance	12,183	90,988
Prepaid expenses	2,558	5,854
<b>Total Current Assets</b>	<u>428,538</u>	<u>479,224</u>
<b>Long Term Assets</b>		
Investments	353,278	549,385
Construction in progress	249,456	194,650
	<u>602,734</u>	<u>744,035</u>
<b>Property and Equipment</b>		
Fixed assets	<u>801,818</u>	<u>838,247</u>
<b>Total Assets</b>	<u><u>\$ 1,833,090</u></u>	<u><u>\$ 2,061,506</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts Payable	\$ 50,765	\$ 118,030
Unearned revenue	5,300	8,319
Project financing loan	40,000	-
Accrued expenses	37,948	54,447
<b>Total current liabilities</b>	<u>134,013</u>	<u>180,796</u>
<b>Long Term Liabilities</b>		
Security deposit	<u>41,799</u>	<u>37,687</u>
<b>Total long-term liabilities</b>	<u>41,799</u>	<u>37,687</u>
<b>Total Liabilities</b>	175,812	218,483
<b>Net Assets</b>		
Unrestricted	1,627,241	1,839,771
Temporarily restricted	30,037	3,252
<b>Total Net Assets</b>	<u>1,657,278</u>	<u>1,843,023</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 1,833,090</u></u>	<u><u>\$ 2,061,506</u></u>

The accompanying notes are an integral part of these financial statements

**SABATHANI COMMUNITY CENTER**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEARS ENDED DECEMBER 31, 2017**  
**WITH COMPARATIVE TOTALS FOR 2016**

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	2017 <u>Total</u>	2016 <u>Total</u>
<b>Support and revenue:</b>				
Contributions	\$ 368,896	\$ 30,037	\$ 398,933	\$ 400,059
United Way	190,507	-	190,507	328,834
Government contracts	429,371	-	429,371	478,470
Rental income	974,974	-	974,974	953,535
Program service fees	1,000	-	1,000	2,635
Investment income	3,893	-	3,893	7,405
Special events, net	-	-	-	3,870
Miscellaneous	248	-	248	12,037
In-kind donations	-	-	-	200,000
Net assets released from restrictions	3,252	(3,252)	-	-
<b>Total Support and Revenue</b>	<u>1,972,141</u>	<u>26,785</u>	<u>1,998,926</u>	<u>2,386,845</u>
<b>Expenses</b>				
Program expenses				
Family Resources	983,413	-	983,413	738,485
Horizons Youth	142,247	-	142,247	203,157
Senior Center	168,925	-	168,925	155,849
Health and Wellness	38,721	-	38,721	146,496
Community events	-	-	-	53,770
Building operations	418,126	-	418,126	633,481
Total program expenses	1,751,432	-	1,751,432	1,931,238
Supporting services				
Management and general	307,998	-	307,998	386,101
Fundraising	125,241	-	125,241	69,312
<b>Total expenses</b>	<u>2,184,671</u>	<u>-</u>	<u>2,184,671</u>	<u>2,386,651</u>
Change in net assets	(212,530)	26,785	(185,745)	194
Net assets beginning of the year	<u>1,839,771</u>	<u>3,252</u>	<u>1,843,023</u>	<u>1,842,829</u>
Net assets, end of year	<u>1,627,241</u>	<u>30,037</u>	<u>1,657,278</u>	<u>1,843,023</u>

The accompanying notes are an integral part of these financial statements

**SABATHANI COMMUNITY CENTER**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**  
**WITH COMPARATIVE TOTALS FOR 2014**

	Family Resources	Horizons Youth	Senior Center	Health & Wellness	Building Operations	Program Services	Management & General	Fundraising	2017	2016
Salaries	289,243	76,382	70,424	5,300	92,127	533,476	48,840	88,969	671,285	644,172
Payroll taxes	29,712	7,846	7,234	544	9,463	54,799	5,017	9,140	68,956	74,470
Benefits	30,392	1,904	7,676	-	13,755	53,727	5,493	5,510	64,730	59,910
Total personnel	349,347	86,132	85,334	5,844	115,345	642,002	59,350	103,619	804,971	778,552
Staff development	415	-	388	-	-	803	610	246	1,659	13,217
Occupancy	297,673	38,089	45,094	13,439	72,136	466,431	28,811	746	495,988	559,478
Program expenses	120,905	9,300	8,983	8,658	10,712	158,558	-	-	158,558	251,387
Professional fees	66,900	5,341	25,160	10,365	53,872	161,638	114,166	10,525	286,329	356,287
Office expense	3,904	2,628	3,609	415	15,243	25,799	10,553	7,274	43,626	54,658
Insurance	-	-	-	-	-	-	33,811	-	33,811	41,673
Furniture and equipment	4,654	50	-	-	632	5,336	15,679	1,912	22,927	29,763
Transportation	4,518	653	357	-	754	6,282	9,341	-	15,623	21,499
Miscellaneous	-	-	-	-	-	-	-	-	-	532
Dues, licenses and subscriptions	200	54	-	-	2,028	2,282	3,310	919	6,511	4,196
Property taxes	-	-	-	-	-	-	25,335	-	25,335	-
Public relations and marketing	-	-	-	-	-	-	-	-	-	-
Bad debts	15,000	-	-	-	10,000	25,000	-	-	25,000	79,176
Subgrantees	119,897	-	-	-	-	119,897	-	-	119,897	52,036
Bank and credit card fees	-	-	-	-	-	-	7,032	-	7,032	4,524
Total expenses before depreciation	983,413	142,247	168,925	38,721	280,722	1,614,028	307,998	125,241	2,047,267	2,246,978
Depreciation					137,404	137,404	-	-	137,404	139,674
Total Expenses	983,413	142,247	168,925	38,721	418,126	1,751,432	307,998	125,241	2,184,671	2,386,652
As a percentage of total expenses	45%	7%	8%	2%	19%	80%	14%	6%	100%	100%

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

**SABATHANI COMMUNITY CENTER**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

<b>Cash Flow From Operating Activities</b>	<u><b>2017</b></u>	<u><b>2016</b></u>
Increase (decrease) in net assets	(185,745)	194
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Prior period adjustment	-	(114,106)
Depreciation	137,404	139,674
Unrealized gain on investments	-	-
Bad debt expense	-	79,176
(Increase) decrease in current assets:		
Accounts receivable	(29,235)	24,903
Grants receivable	(25,037)	190,000
Contracts receivable	78,805	(62,213)
Prepaid expenses	3,296	621
Increase (decrease) in current liabilities:		
Accounts payable	(67,265)	45,870
Accrued payroll and benefits	(16,499)	(63,386)
Project financing	40,000	-
Deferred rent	(3,018)	-
Total adjustments	<u>118,451</u>	<u>240,539</u>
<b>Cash flow from operating activities</b>	<u>(67,294)</u>	<u>240,733</u>
 <b>Cash Flow From Investing Activities</b>		
Purchase of property plan and equipment	(100,976)	(237,972)
Investment in construction in progress	(54,806)	(170,658)
(Purchase) Sale of investments	<u>196,107</u>	<u>292,609</u>
<b>Cash flow from investing activities</b>	40,325	(116,021)
 <b>Cash Flow From Investing Activities</b>		
Increase in security deposit	4,112	1,595
 <b>Decrease in Cash and Cash Equivalents</b>	<u>(22,857)</u>	<u>126,307</u>
 <b>Cash and Cash Equivalents - Beginning of Year</b>	<u>350,255</u>	<u>223,948</u>
 <b>Cash and Cash Equivalents - End of Year</b>	<u><u>\$ 327,398</u></u>	<u><u>\$ 350,255</u></u>
 Supplemental disclosure:		
Cash paid for interest	\$ -	\$ -

The accompanying notes are an integral part of these financial statements

**SABATHANI COMMUNITY CENTER, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2016 AND 2017**

**NOTE 1. ORGANIZATION**

Sabathani Community Center, Inc. (Sabathani) is a multi-purpose social service center committed to making a difference in people's lives by providing access to quality programs and human services. The programs presently conducted by Sabathani include the following:

Family Resource Services

A resource center to meet basic family needs through counseling, resource education, food and clothing shelves, housing information and referrals, advocacy and case follow-up.

Horizons Youth

An after-school program that assists youth in overcoming barriers to social, emotional, and educational development. The program focuses on math and reading, plus opportunities to learn computer skills.

Health & Wellness

An integrated health and wellness initiative that focuses on preventative care and health education. The program features a pediatric clinic and health and wellness classes to encourage healthy lifestyle choices.

Senior Center

A senior center that provides a supportive social environment for the elderly. Activities include medical and legal clinics, hot meal programs, field trips, workshops, daily open lounge, as well as information, referral and advocacy services for seniors.

Building Operations

Building Operations provides office and program space to nonprofit organizations and small businesses. The land and buildings were renovated for this purpose. Building Operations is operated as an independent component of the community center. As such, community service programs are considered tenants of the Building Operations with rent paid under an annual lease. The rental income and expenses have been eliminated and appropriate occupancy costs have been allocated to the community service programs.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of presentation

The accompanying financial statements have been prepared on an accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.



**SABATHANI COMMUNITY CENTER, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2016 AND 2017**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Net Assets Classifications

Sabathani reports information regarding its financial position and activities according to three classes of net assets:

- Unrestricted net assets are not subject to donor-imposed restrictions and represent funds that are fully available, at the discretion of management and the Board of Directors, for Sabathani to utilize for any of its programs or supporting services.
- Temporarily restricted net assets are comprised of funds that are restricted by donors for specific purposes or time periods.
- Permanently restricted net assets are subject to a donor-imposed restriction that they be maintained permanently by Sabathani. At December 31, 2017 and 2016, Sabathani held no permanently restricted net assets.

Cash and Cash Equivalents

For purposes of the statements of cash flows, Sabathani considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

Receivables are recorded at amounts billed and are generally due when billed. Amounts outstanding for more than 30 days are considered delinquent. Accounts receivable are generally uncollateralized and the Organization does not charge interest on accounts receivable balances.

The Organization reviews accounts receivable balances on a periodic basis and writes off delinquent receivable when they are considered uncollectible. The Organization provides an allowance for doubtful accounts based on historical experience and management's evaluation of outstanding accounts receivable at the end of each year.

Property, Plant and Equipment

All major expenditures for furniture, equipment, and building improvements are capitalized at cost. Contributed items are recorded at fair market value at date of donation. Depreciation is provided through the use of the straight-line method over the useful life of the asset, ranging from three to thirty-five years. When the Organization commits to the disposal or abandonment of equipment, the assets are written off or down to the net realizable value. The cost of maintenance and repairs is charged to expense as incurred. Significant renewals or betterments are capitalized.

**SABATHANI COMMUNITY CENTER, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2016 AND 2017**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Revenue Recognition

Revenues and public support are reported as an increase in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are recognized as an increase or a decrease in unrestricted net assets unless their use is restricted by explicit donor stipulations. Expirations of temporary restrictions on net assets are reported as net assets released from restrictions.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Donor restricted contributions, the restriction of which are met in the same year as the contributions is made, are reported as unrestricted contributions.

Government Grants and Contracts

Government grants and contract funds are considered exchange contracts and are recorded as revenue when earned. Revenue is earned when eligible expenditures, as defined in each grant or contract, are made. Funds received but not yet earned are shown as refundable advances. Expenditures under government contracts are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, Sabathani Community Center, Inc. will record such disallowance at the time the final assessment is made.

Donated Material and Services

Contributed services are recorded as contributions, at fair value, when the service creates or enhances non-financial asset or donation. Some unpaid volunteers have made contributions of their time to the Organization's programs. The value of this contributed time is not reflected in these statements since it does not meet the requirements for recognition in the financial statements.

Promises to Give (Grants Receivable)

Unconditional promises to give are recognized in the period the promises are made. Conditional promises to give are recognized when the conditions on which they depend are substantially met, that is, when the conditional promise becomes unconditional.

Risks and Uncertainties

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and functional expenses.

**SABATHANI COMMUNITY CENTER, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2016 AND 2017**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Functional Expenses

The majority of expenses are directly identified with the program or supporting services to which they relate. Expenses not directly identifiable by function are allocated to program and supporting services on the basis of salaries, space occupied, and other bases determined by management.

Tax Exempt Status

Sabathani is recognized by the Internal Revenue Services (IRS) as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the Code) and, accordingly, is generally not subject to income taxes, except for taxes pertaining to unrelated business income. Sabathani is exempt from state taxes under Minnesota Statute 290.05. Therefore, there is no provision for income taxes; and unrelated income subject to tax is considered to be insignificant.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Ultimate results could differ from those estimates.

Concentrations of Risk

Sabathani provides services within the Twin Cities area. The amounts related to contracts receivable are specifically from local governments and institutions. Sabathani also maintains its cash deposits at financial institution where balances, at times, may exceed federally insured limits. Sabathani has not experienced any losses in such accounts.

Reclassifications

Certain account balances have been reclassified to make the 2016 presentation consistent with the 2017 presentation.

Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

**SABATHANI COMMUNITY CENTER, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2016 AND 2017**

Subsequent events

The Organization has evaluated subsequent events through April 30, 2018 the date which the financial statements were available to be issued.

**NOTE 3: RECEIVABLES**

Tenant rent receivables are recognized in the financial statements based on occupancy. Contracts receivable are recognized in the financial statements based on eligible expenses incurred related to cost reimbursement contracts. Pledges receivable are recognized when an unconditional pledge is made. Accounts receivable are recognized when the earnings process is complete. The amount of uncollectible accounts using an aging schedule. At December 31, the following status of tenant rent receivables was recognized in the financial records.

	<u>2017</u>	<u>2016</u>
Rent receivable	\$ 66,435	\$ 31,690
Less: Allowance for doubtful accounts	<u>13,000</u>	<u>3,000</u>
Tenant receivables, net of allowance	\$56,435	\$28,690
Contracts receivable	27,183	90,988
Less: Allowance for doubtful accounts	<u>15,000</u>	---
Contracts receivable, net of allowance	12,183	90,988
Grants receivable	25,037	---
Accounts receivable	<u>4,927</u>	<u>3,437</u>
Total receivables	<u>\$91,082</u>	<u>\$123,115</u>

**NOTE 4: INVESTMENTS**

Sabathani maintains a diversified investment portfolio that includes restricted and unrestricted investments. Restricted investments are related to a capital campaign from 2000 to raise money for capital improvements. Amounts collected were restricted by donors to investments in property and equipment. An analysis was performed in 2017 that determined that Sabathani had used all of the capital campaign funds in compliance with donor restrictions. At December 31, the amount of investments that were restricted and unrestricted were as follows:

	<u>2017</u>	<u>2016</u>
Marketable Debt Securities	\$ 185,906	\$ 292,241
Money Market Funds	<u>168,371</u>	<u>257,144</u>
Total Investments	<u>\$ 353,277</u>	<u>\$ 549,385</u>

**SABATHANI COMMUNITY CENTER, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2016 AND 2017**

**NOTE 4: INVESTMENTS (CONTINUED)**

The following table presents information on investments for the year ended December 31,

	<u>2017</u>	<u>2016</u>
Beginning Balance	\$ 549,385	\$ 841,994
Distributions	(200,000)	(300,000)
Investment Returns (dividends, realized, and unrealized gains)	<u>3,893</u>	<u>7,391</u>
Investment Balance	<u>\$ 353,278</u>	<u>\$ 549,385</u>

**NOTE 5: FAIR VALUE**

Sabathani adopted FASB standards for, "fair value" as defined as the price that an organization would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market for the investment. Various inputs are used in determining the value of investments.

The three-tier hierarchy of inputs is summarized in the three broad levels listed below:

- Level 1: Quoted prices in active markets for identical investments
- Level 2: Other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- Level 3: Significant unobservable inputs

The following is a summary of the inputs used to determine the fair value of the investments at December 31, 2017:

	<u>2017</u>	<u>2016</u>
Level I: Quoted Prices		
Money Market Funds	\$ 257,144	\$ 287,198
Marketable Debt Securities	<u>292,241</u>	<u>292,241</u>
Total Investments	<u>\$ 549,385</u>	<u>\$ 549,385</u>

**NOTE 6: CONSTRUCTION IN PROGRESS**

A total of \$249,456 of fixed assets, not used in operations, reflects investments made in the costs necessary to build a senior facility on the Sabathani property. This multi-million long term project that is in the initial planning phase is expected to not become available until 2020 at the earliest.

**SABATHANI COMMUNITY CENTER, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2016 AND 2017**

**NOTE 7: PROPERTY AND EQUIPMENT**

Fixed assets consisted of the following amounts at December 31:

	<u>2017</u>	<u>2016</u>
Land, Building and Improvements	\$ 4,625,265	\$ 5,948,879
Furniture and Equipment	64,872	404,325
Vehicles	<u>16,911</u>	<u>76,224</u>
Total Investment	\$ 4,707,048	\$ 6,429,448
Accumulated Depreciation (less)	<u>3,905,230</u>	<u>5,689,497</u>
Net book value	<u>\$ 801,818</u>	<u>\$ 739,951</u>

Depreciation expenses of \$137,404 and \$139,674 were recorded for the years ending December 31, 2017 and 2016 respectively.

**NOTE 8: RETIREMENT PLAN**

Sabathani maintains a 401(k) defined contribution pension plan covering substantially all of its employees. This plan provides benefits to employees based on the individual account balance each employee has accumulated in the plan at retirement. Sabathani matched employee contributions at 4%. The amount of the match was for the years' ended December 31, 2017 and 2016. The amount of the match was \$8,075 and \$ for 2017 and 2016, respectively.

**NOTE 9: TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consisted of the following balances at December 31:

	<u>2017</u>	<u>2016</u>
Future Years Program Support	\$ 3,252	\$ 33,252
Capital Campaign Assets	<u>---</u>	<u>303,923</u>
Total Temporary Restricted Net Assets	<u>\$ 3,252</u>	<u>\$ 337,135</u>

**NOTE 10: NET ASSETS RELEASED FROM RESTRICTIONS**

Net assets released from restrictions consisted of the following amounts at December 31:

	<u>2017</u>	<u>2016</u>
Program Support	\$ 28,606	\$ 10,000
Expiration of Time Restrictions	30,000	15,000
Building Improvements and Renovation	<u>304,123</u>	<u>76,350</u>
Total Temporary Restricted Net Assets	<u>\$ 362,729</u>	<u>\$ 101,350</u>

**SABATHANI COMMUNITY CENTER, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2016 AND 2017**

**NOTE 11: BOARD DESIGNATED NET ASSETS**

The Board of Directors has designated unrestricted net assets as follows as of December 31:

	<u>2017</u>	<u>2016</u>
Sabathani Fund	\$ ---	\$ 383,918
Building Operations/ Capital Reserve Total Board	---	334,657
Total	<u>\$ ---</u>	<u>\$718,575</u>

**NOTE 12: SUBSEQUENT EVENTS**

The Organization has evaluated subsequent events through the date the financial statements were issued, April 13, 2017. There are no subsequent events required to be disclosed in accordance with accounting standards.

**NOTE 13: INCOME TAX UNCERTAINTIES**

The Organization follows the guidance in the income tax standard regarding the recognition and measurement of uncertain tax positions. The guidance clarifies the accounting for uncertainty in income taxes recognized in the entity's financial statements. The guidance further prescribes recognition and measurement of tax provisions taken or expected to be taken on a tax return that is not certain to be realized. The application of this standard has no impact on the Organization's financial statements.

The Organization's tax returns are subject to review and examination by federal, state, and local authorities. The tax returns for the years 2014 to 2017 are open to examination by federal, state, and local authorities.

**NOTE 14: PRIOR PERIOD ADJUSTMENT**

In a prior year (2014), SCC changed their billing process and invoiced tenants for 13 months of rent in one fiscal year. An analysis was performed in 2017 by SCC management that reconciled billing records with occupancy. Tenant receivables and rental income for 2014 were overstated by one month by \$76,106. A \$76,106 adjustment was made to reduce the beginning balance of equity and tenant receivables for 2016.

**SABATHANI COMMUNITY CENTER, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2016 AND 2017**

**NOTE 15: IN-KIND CONTRIBUTION**

In the prior year, SCC received a significant contribution of playground equipment. The gift was valued at the fair value of \$200,000, and made available to program participants and the public.

**NOTE 16: CONTINGENT LIABILITY**

In 2016, the Minnesota Department of Employment and Economic Development (DEED) contracted with EMERGE to provide employment and training programs to Minnesota African and African-American communities with the highest concentration of joblessness. EMERGE collaborated with community partners including Sabathani to assist in providing the contracted services on a cost reimbursement basis.

Sabathani hired staff, allocated space, and incurred additional expenses to execute the contract from June 2016 to October 2017. SCC and African American Women and Men in Need (AWMIN), a sub-grantee/fiscal agent, identified and provided follow-up services to 894 clients at a reasonable cost of \$622 per client (\$556,068 SCC's submitted expenses/ 894 clients). SCC and AWMIN were also responsible for 3 clients receiving a general education diploma (GED) and 98 clients earning a certified credential

In 2017, DEED conducted a Financial and Compliance Review and Investigation. Phase I of the review evaluated financial records and related supporting documentation of cash advance payments and expenditures reported for the six-month period from July 1, 2016, through December 31, 2016, for the community partners. An auditor contracted by DEED determined that the objectives of the program was not met because there was not satisfactory evidence of payments and financial reconciliations back to the ledger.

Based on the Phase I results, Phase II of the audit covered expenses submitted for reimbursement from January 1, 2017 until August, 2017. As a result, essentially all SCC expenditures incurred during the program (\$547,183) were classified as a disallowed amount and subject to recapture by DEED from Sabathani. An internal review by SCC identified questionable costs in the range of 6% (\$35,000) of total costs primarily due to issues with occupancy allocation costs, and allowable costs. It is also notable that DEED did not accept payroll records submitted by Sabathani. The SCC payroll vendor, which also serves Emerge, was the accountant for the lead agency Emerge and was responsible for providing SCC direction on submitting costs properly.

In April 2018, Emerge and DEED agreed to enter mediation. Emerge as the lead defendant and hired attorneys to dispute the charges calling the DEED position "a source of confusion," and "without legitimate and demonstrable cause." Based on the political nature of the litigation, SCC believes the likelihood of DEED recapturing all funds is remote but some funds are possible. A contingent liability of an amount between \$35,000 and \$547,183 exist. Due to the nature of the litigation, it is possible the amount will be resolved within the fiscal year.



**SABATHANI COMMUNITY CENTER, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2016 AND 2017**

**NOTE 17: PROJECT FINANCING LOAN**

A non-recourse forgivable loan with the Local Support Initiative Corporation for pre-development construction financing dated X with terms of 0%. The original amount of \$40,000 is provided with an interest rate of 0%. Repayment required on the earlier to occur of (i) the close of construction financing, or (ii) December 31, 2018 the maturity date. An extension is available under certain circumstances.

Total amount due	<u>\$ 40,000</u>
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