

SOUTHWEST ORGANIZING PROJECT  
FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2017  
(With summarized comparative information for the  
fiscal year ended June 30, 2016)

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## Independent Auditor's Report

The Steering Committee  
Southwest Organizing Project  
2558 W. 63rd Street  
Chicago, Illinois 60629

I have audited the accompanying financial statements of the Southwest Organizing Project (SWOP), an Illinois nonprofit organization, which comprise of the statement of financial position as of June 30, 2017, and the related statements of activities and cash flows for the fiscal 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 presentation 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 my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, 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 SWOP as of June 30, 2017, and the changes in its net assets and its cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

### Report on Prior Year Summarized Comparative Information

The prior year summarized comparative information has been derived from SWOP's June 30, 2016 financial statements and, in my report dated October 31, 2016, I expressed an unqualified opinion on those financial statements.

### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated October 31, 2017, on my consideration of SWOP's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SWOP's internal control over financial reporting and compliance.

James M. Babic, PC  
January 5, 2018

**SOUTHWEST ORGANIZING PROJECT  
STATEMENT OF FINANCIAL POSITION  
AS OF JUNE 30, 2017**

(With summarized comparative totals as of June 30, 2016)

	June 30, 2017			Totals as of June 30, 2016
	Unrestricted	Temporarily Restricted	Total	
<b><u>ASSETS</u></b>				
Current assets:				
Cash (Note 5)	\$ 548,964	\$ 55,475	\$ 604,439	\$ 1,108,375
Grants and contracts receivable	1,409,612	-	1,409,612	428,693
Membership dues receivable, net of allowance for uncollectible amounts of \$ZERO and \$7,800 as of June 30, 2017 and June 30, 2016, respectively	-	-	-	-
Other receivables	1,788	-	1,788	354
Prepaid expenses and other	6,524	-	6,524	5,782
Total current assets	1,966,888	55,475	2,022,363	1,543,204
Building and office equipment, net of accumulated depreciation (Note 6)	335,683	-	335,683	344,173
Other assets:				
Investments, housing related (Note 7)	2,269,428	-	2,269,428	2,269,428
Investment, used furniture store	5,743	-	5,743	-
Total other assets	2,275,171	-	2,275,171	2,269,428
Total assets	\$ 4,577,742	\$ 55,475	\$ 4,633,217	\$ 4,156,805
<b><u>LIABILITIES AND NET ASSETS</u></b>				
Current liabilities:				
Revolving line of credit (Note 8)	\$ -	\$ -	\$ -	\$ -
Accounts payable	912,033	-	912,033	231,414
Accrued real estate taxes	8,803	-	8,803	5,195
Contract advances	-	-	-	1,991
Tenant security deposits	750	-	750	750
Total liabilities	921,586	-	921,586	239,350
Net assets	3,656,156	55,475	3,711,631	3,917,455
Total liabilities and net assets	\$ 4,577,742	\$ 55,475	\$ 4,633,217	\$ 4,156,805

The accompanying notes are an integral part of these financial statements

**SOUTHWEST ORGANIZING PROJECT**  
**STATEMENT OF ACTIVITIES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**  
(With summarized comparative totals for the fiscal year ended June 30, 2016)

	Fiscal Year Ended June 30, 2017			Totals for Fiscal Year Ended June 30, 2016
	Unrestricted	Temporarily Restricted	Total	
Public support and revenue:				
Public support:				
Grants and contributions (Note 9)	\$ 627,013	\$ 55,475	\$ 682,488	\$ 3,225,505
Net assets released from restrictions upon satisfaction of program requirements	254,571	(254,571)	-	-
Revenues:				
Contract fees and awards (Note 9)	1,917,792	-	1,917,792	1,655,710
Program service fees	100	-	100	-
Membership dues	25,750	-	25,750	23,250
Developer fees (Note 10)	113,405	-	113,405	73,418
Rental income (Note 11)	6,800	-	6,800	19,075
Expense reimbursements and other miscellaneous income	9,411	-	9,411	18,160
Interest	930	-	930	1,204
Total revenues	2,074,188	-	2,074,188	1,790,817
Total public support and revenues	2,955,772	(199,096)	2,756,676	5,016,322
Expenses:				
Program services:				
General community organizing	587,222	-	587,222	384,204
Education-related organizing	1,794,484	-	1,794,484	1,793,300
LISC New Communities	62,717	-	62,717	48,054
Citizenship and immigration	86,269	-	86,269	92,802
Health care organizing	15,635	-	15,635	167,142
Housing issues	129,042	-	129,042	269,947
Violence prevention	127,765	-	127,765	9,886
Total program services	2,803,134	-	2,803,134	2,765,335
Supporting services:				
Management and general	136,799	-	136,799	118,840
Resource development	22,567	-	22,567	26,589
Total supporting services	159,366	-	159,366	145,429
Total expenses	2,962,500	-	2,962,500	2,910,764
Net increase (decrease) in net assets	(6,728)	(199,096)	(205,824)	2,105,558
Net assets:				
Beginning of the year, as originally reported	1,399,345	254,571	1,653,916	1,811,897
Prior year adjustment (Note 13)	2,263,539	-	2,263,539	-
Beginning of the year, adjusted	3,662,884	254,571	3,917,455	1,811,897
End of the year	<u>\$ 3,656,156</u>	<u>\$ 55,475</u>	<u>\$ 3,711,631</u>	<u>\$ 3,917,455</u>

The accompanying notes are an integral part of these financial statements

**SOUTHWEST ORGANIZING PROJECT**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**  
(With summarized comparative totals for the fiscal year ended June 30, 2016)

	PROGRAM SERVICES							SUPPORTING SERVICES			TOTALS		
	General Community Organizing	Education - Related Organizing	LISC New Communities	Citizenship and Immigration	Health Care Organizing	Housing Issues	Violence Prevention	Total	Management and General	Resource Develop- ment	Total	2017	2016
Salaries	\$ 343,651	167,906	\$ 46,023	\$ 58,946	\$ 2,650	\$ 74,597	\$ 16,155	\$ 709,928	\$ 5,521	\$ 16,562	\$ 22,083	\$ 732,011	\$ 700,334
Staff retirement plan benefits (Note 12)	15,494	7,570	2,075	2,658	119	3,363	728	32,007	249	747	996	33,003	33,720
Staff health insurance benefits	58,046	28,361	7,774	9,957	448	12,600	2,729	119,915	933	2,796	3,729	123,644	135,653
Payroll taxes	32,160	15,713	4,307	5,516	248	6,981	1,512	66,437	517	1,549	2,066	68,503	66,952
Contracted services and stipends	19,966	429,181	-	-	12,024	19,177	72,933	553,281	52,941	-	52,941	606,222	547,887
Payments to subgrantees	-	1,076,013	-	-	-	-	-	1,076,013	-	-	-	1,076,013	1,056,638
Program-specific expenses	1,300	101	-	-	-	-	-	1,401	-	-	-	1,401	3,312
Professional fees	20,950	20,009	-	-	-	480	-	41,439	22,937	-	22,937	64,376	69,915
Real estate taxes	-	-	-	-	-	-	-	-	11,472	-	11,472	11,472	7,236
Utilities and other occupancy expenses	18,951	9,259	2,538	3,251	146	4,114	891	39,150	304	913	1,217	40,367	21,441
Equipment rent, repairs and maintenance	7,046	-	-	-	-	343	-	7,389	793	-	793	8,182	13,505
Depreciation (Note 6)	-	-	-	-	-	-	-	-	8,490	-	8,490	8,490	9,327
Office supplies and expenses	6,898	22,919	-	786	-	1,467	800	32,870	4,581	-	4,581	37,451	35,090
Dues and subscriptions	18,662	250	-	-	-	-	-	18,912	335	-	335	19,247	21,773
General liability and officers insurance	-	-	-	2,817	-	-	-	2,817	8,530	-	8,530	11,347	11,409
Postage and courier	57	26	-	-	-	-	-	83	1,077	-	1,077	1,160	856
Printing and duplicating	2,046	-	-	354	-	3,522	778	6,700	1,538	-	1,538	8,238	7,762
Telecommunications	6,770	750	-	242	-	2,366	-	10,128	5,772	-	5,772	15,900	15,568
Leadership and staff training	2,909	-	-	-	-	-	-	2,909	-	-	-	2,909	5,304
Travel and meals	30,717	11,355	-	1,742	-	32	477	44,323	-	-	-	44,323	46,062
Write-off of uncollectible receivables	1,220	5,071	-	-	-	-	-	6,291	8,717	-	8,717	15,008	-
Banking and finance charges	-	-	-	-	-	-	-	-	2,092	-	2,092	2,092	1,661
Grant and contract refunds	-	-	-	-	-	-	30,762	30,762	-	-	-	30,762	-
Miscellaneous	379	-	-	-	-	-	-	379	-	-	-	379	2,849
<b>Total functional expenses</b>	<b>\$ 587,222</b>	<b>1,794,484</b>	<b>\$ 62,717</b>	<b>\$ 86,269</b>	<b>\$ 15,635</b>	<b>\$ 129,042</b>	<b>\$ 127,765</b>	<b>\$ 2,803,134</b>	<b>\$ 136,799</b>	<b>\$ 22,567</b>	<b>\$ 159,366</b>	<b>\$ 2,962,500</b>	<b>\$ 2,814,254</b>

The accompanying notes are an integral part of these financial statements

SOUTHWEST ORGANIZING PROJECT  
STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEARS ENDED  
JUNE 30, 2017 AND JUNE 30, 2016

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Net increase (decrease) in net assets	\$ (205,824)	\$ 2,105,558
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Depreciation	8,490	9,327
(Increase) decrease in:		
Grants and contracts receivable	(980,919)	(59,124)
Pledges receivable	-	180,000
Membership dues receivable	-	1,875
Other receivables	(1,434)	2,008
Prepaid expenses and other	(742)	(2,395)
Increase (decrease) in:		
Accounts payable	680,619	58,184
Accrued real estate taxes	3,608	745
Contract advances	(1,991)	1,991
Tenant security deposits	-	(750)
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<u>(498,193)</u>	<u>2,297,419</u>
<b>CASH FLOW USED IN INVESTING ACTIVITIES</b>		
Investment in limited liability company	<u>(5,743)</u>	<u>(2,266,345)</u>
Total cash flow used in investing activities	<u>(5,743)</u>	<u>(2,266,345)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(503,936)</b>	<b>31,074</b>
<b>CASH, BEGINNING OF THE YEAR</b>	<u>1,108,375</u>	<u>1,077,301</u>
<b>CASH, END OF THE YEAR</b>	<u><u>\$ 604,439</u></u>	<u><u>\$ 1,108,375</u></u>

The accompanying notes are an integral part of these financial statements

SOUTHWEST ORGANIZING PROJECT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2017

NOTE 1 - HISTORY AND NATURE OF THE ORGANIZATION

The Southwest Organizing Project (SWOP) was incorporated on June 18, 1996 under the State of Illinois General Not-For-Profit Corporation Act of 1987. SWOP was formed by, and is composed of, dues-paying not-for-profit member institutions for the purpose of achieving an economically stable, open, multiracial community within Chicago's southwest neighborhoods through leadership education and development.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and presentation

The financial statements are prepared on the accrual basis of accounting.

Financial statement presentation follows the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) No. 958-605 and No. 958-205.

Under FASB ASC No. 958-605 contributions are recognized in the period received, or in the period in which an unconditional promise to give is made.

Under FASB ASC 958-205, SWOP is required to report information regarding its financial position according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Classification of net assets as unrestricted, temporarily restricted, or permanently restricted is based on the absence or existence of donor imposed restrictions.

Donor-imposed restrictions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. However, restricted support that is received and fulfilled within the same fiscal year is reported as unrestricted.

Income taxes

SWOP is exempt from federal taxes under Section 501(c)3 of the Internal Revenue Code. Contributions to SWOP qualify as charitable contributions under Section 170(b)(1)(A). SWOP is classified as an organization that is not a private foundation under Section 509(a)(2). SWOP's management has determined that FIN 48, which addresses accounting for uncertainty in income taxes, has no effect on its financial statements due to SWOP's tax-exempt status.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenditures. Actual results could differ from those estimates.

Expense allocation

The cost of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Subsequent Events

SWOP has evaluated subsequent events through January 5, 2018, the date financial statements were available to be issued.



SOUTHWEST ORGANIZING PROJECT  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED  
 JUNE 30, 2017

NOTE 3 - PRIOR YEAR SUMMARIZED INFORMATION

The financial statements include certain prior-year summarized information presented for comparative purposes. Such comparative information is in total but not by net asset class and, therefore, 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 SWOP's financial statements for the fiscal year ended June 30, 2016, from which the summarized information was derived.

NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2017 are available for the following programs:

<u>Program:</u>	<u>Amount</u>
Elev8 .....	\$ 20,123
Southwest Corridor Collaborative .....	1,352
Recreational activities for youth .....	17,000
Immigration services and organizing .....	17,000
Total .....	<u>\$ 55,475</u>

NOTE 5 - CONCENTRATION OF RISK

At various times during the fiscal year SWOP's bank balances exceeded the federally insured limit. As of June 30, 2017, SWOP's uninsured cash balance was \$22,639. SWOP has not experienced a loss, and believes it is not exposed to any significant risk of loss, on such bank balances.

NOTE 6 - BUILDING AND OFFICE EQUIPMENT, net of accumulated depreciation

Purchased computer and office equipment is recorded at cost. Donated computer and office equipment is recorded at the estimated fair market value on the date of receipt. Depreciation is provided on a double-declining balance basis over an estimated useful life of five years. As of June 30, 2017 and June 30, 2016 computer and office equipment and related accumulated depreciation were as follows:

	<u>06/30/2017</u>	<u>06/30/2016</u>
Building .....	\$ 352,744	\$ 352,744
Computer and office equipment, at cost .....	48,894	48,894
Total cost .....	401,638	401,638
Less accumulated depreciation .....	(65,955)	(57,465)
Computer and office equipment, net of accumulated depreciation ...	<u>\$ 335,683</u>	<u>\$ 344,173</u>

SOUTHWEST ORGANIZING PROJECT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2017

NOTE 7 - INVESTMENT IN LIMITED LIABILITY COMPANIES

SWOP is a partner in several limited liability companies that were created to facilitate housing-related program activities. SWOP's capital in these partnerships was funded through government grants. The value of these partnerships is reported using the equity method whereby the value of the investment is increased by capital contributions, loans, and net operating income; and the investment value is decreased by distributions of capital, loan repayments, and net operating losses.

NOTE 8 - REVOLVING LINE OF CREDIT

On June 28, 2017 SWOP entered into a \$300,000 revolving line of credit agreement with Local Initiatives Support Corporation. This revolving line credit agreement has a two-year term and bears a fixed interest rate of 6%. The primary purpose for this revolving line of credit is to provide working capital for SWOP's Parent Mentor program funded by the Illinois State Board of Education. SWOP did not utilize this line credit during the fiscal year ended June 30, 2017.

NOTE 9 - GRANTS AND CONTRIBUTIONS, AND CONTRACT FEES AND AWARDS

SWOP recognized grants and contributions, and contracts and awards from the following benefactors for the fiscal years ended June 30, 2017 and June 30, 2016:

<u>Grants and contributions:</u>	<u>06/30/2017</u>	<u>06/30/2016</u>
AT&T Midwest . . . . .	\$ 25,000	\$ -
Chicago Community Foundation . . . . .	37,500	57,917
Chicago Community Trust . . . . .	113,070	119,500
Chicago Teachers Union Foundation, Inc. . . . .	35,000	-
City of Chicago, Department of Planning and Development . . . . .	-	900,000
Communities United . . . . .	25,000	55,000
Esperanza Health Centers . . . . .	-	30,000
Illinois Attorney General . . . . .	-	1,460,000
Institute of International Education . . . . .	25,000	-
Landau Family Foundation . . . . .	20,000	20,000
Local Initiatives Support Corporation of Chicago . . . . .	131,480	244,110
Phalarope Foundation . . . . .	10,000	-
United Way of Metropolitan Chicago . . . . .	-	205,000
Wieboldt Foundation . . . . .	25,000	50,000
Woods Fund of Chicago . . . . .	154,475	40,000
Individual donor(s), \$10,000 or more each . . . . .	10,000	-
Others under \$10,000 each, both years . . . . .	70,963	43,978
Total grants and contributions . . . . .	<u>\$ 682,488</u>	<u>\$ 3,225,505</u>

(Continued on the following page)

SOUTHWEST ORGANIZING PROJECT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2017

NOTE 9 - GRANTS AND CONTRIBUTIONS, AND CONTRACT FEES AND AWARDS (Continued)

<u>Contract fees and awards:</u>	<u>06/30/2017</u>	<u>06/30/2016</u>
Brighton Park Neighborhood Council .....	\$ -	\$ 31,626
Chicago Public Schools .....	184,178	174,381
Illinois Coalition for Immigrant and Refugee Rights .....	31,091	-
Illinois Department of Human Services .....	97,200	-
Illinois State Board of Education .....	1,466,300	1,430,406
Northeastern Illinois University .....	-	12,664
Resurrection Project .....	16,184	-
University of Illinois Chicago .....	119,557	-
Others under \$10,000 each, both years .....	3,282	6,633
Total contract fees and awards .....	<u>\$ 1,917,792</u>	<u>\$ 1,655,710</u>

NOTE 10 - DEVELOPER FEES

Through its investment in limited liability companies created to facilitate housing-related programs (see Note 7) SWOP realized \$113,405 and \$73,418 of developer fees during the fiscal years ended June 30, 2017 and June 30, 2016, respectively.

NOTE 11 - RENT INCOME

SWOP rents retail space located within real property owned by SWOP under an agreement that commenced in February, 2015 and has no set termination date. SWOP rents this space on a month-to-month basis. The agreement can be terminated by either party upon 30 days notice. Monthly rent under this agreement was \$500 through October, 2016. After October, 2016 monthly rent under this agreement was \$600. Rent income realized under this agreement for the fiscal year ended June 30, 2017 was \$6,800.

NOTE 12 - STAFF RETIREMENT PLAN BENEFITS

SWOP participates in the National Organizer's Alliance Retirement Pension Plan ( the "Plan"), a multi-employer retirement plan under Internal Revenue Code 413(c). Under the Plan SWOP is obligated to make a minimum contribution equal to 5% of compensation paid to each eligible employee. The Plan considers an employee eligible after one year of employment with a community organizing entity.

SWOP's employer contributions to this plan for the fiscal years ended June 30, 2017 and June 30, 2016 were \$33,003 and \$33,720; respectively.

SOUTHWEST ORGANIZING PROJECT  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED  
 JUNE 30, 2017

NOTE 13 - PRIOR YEAR ADJUSTMENTS

Adjustments to net assets as of June 30, 2016 consist of the following:

	Increase (Decrease) Net Assets As of June 30, 2016
Government grants received on or before June 30, 2016 to fund SWOP's capital contributions to limited liability companies created to facilitate housing-related programs . . . . .	\$ 2,360,000
Net operating losses passed through to SWOP relating to limited liability companies created to facilitate housing-related programs.	(96,461)
Net increase in net assets as of June 30, 2016 . . . . .	\$ <u>2,263,539</u>

Financial information related to SWOP's interest in the limited liability companies per above was received after the audit report for the fiscal year ended June 30, 2016 was issued.

The statement of financial position as of June 30, 2016 and the statement of activities for the fiscal year ended June 30, 2016 have been restated to reflect these adjustments.

Independent Auditor's Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with Government Auditing Standards

The Steering Committee  
Southwest Organizing Project  
2558 W. 63rd Street  
Chicago, Illinois 60629

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Southwest Organizing Project (SWOP), a nonprofit organization, which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the fiscal year then ended, and the related notes to the financial statements, and have issued my report thereon dated January 5, 2018.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of SWOP's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SWOP's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

James M. Babic, PC

January 5, 2018