Olsen Thielen & Co., Ltd.
CPAS AND ADVISORS

# East Side Neighborhood Services, Inc.

## Financial Statements
## Together with
## Independent Auditors' Report
## and Uniform Guidance Supplementary
## Financial Reports

## December 31, 2019

## EAST SIDE NEIGHBORHOOD SERVICES, INC.

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OlsenThielen & Co., Ltd.
CPAS AND ADVISORS

# INDEPENDENT AUDITORS' REPORT

Board of Directors
East Side Neighborhood Services, Inc.
Minneapolis, Minnesota

## Report on the Financial Statements

We have audited the accompanying financial statements of East Side Neighborhood Services, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2019 and 2018 and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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.

## Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of East Side Neighborhood Services, Inc. as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards shown on pages 22-23 as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards,* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated December 17, 2020 on our consideration of East Side Neighborhood Services, Inc.'s internal control over financial reporting and our 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 our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of East Side Neighborhood Services, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering East Side Neighborhood Services, Inc.'s internal control over financial reporting and compliance.

Olsen Thielen & Co., Ltd.

Roseville, Minnesota
December 17, 2020

## EAST SIDE NEIGHBORHOOD SERVICES, INC.

### STATEMENT OF FINANCIAL POSITION
### DECEMBER 31, 2019 AND 2018

ASSETS

| | 2019 | 2018 |
|---|---|---|
| CURRENT ASSETS: | | |
| Cash | **$ 119,531** | $ 280,372 |
| Restricted Cash | **20,807** | 102,578 |
| Accounts and Grants Receivable, Net of Allowance for Doubtful Accounts of $20,000 for 2019 and 2018 | **926,552** | 457,032 |
| Prepaid Expenses | **62,494** | 33,048 |
| Investments | **354,822** | 660,424 |
| Total Current Assets | **1,484,206** | 1,533,454 |
| PROPERTY AND EQUIPMENT, NET | **6,053,511** | 5,877,803 |
| TOTAL ASSETS | **$ 7,537,717** | $ 7,411,257 |

LIABILITIES AND NET ASSETS

| | 2019 | 2018 |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Current Portion of Long Term Debt | **$ 62,666** | $ 78,529 |
| Accounts Payable | **131,456** | 84,013 |
| Accrued Compensation and Benefits | **234,720** | 371,303 |
| Other Current Liabilities | **5,299** | 18,053 |
| Total Current Liabilities | **434,141** | 551,898 |
| LONG-TERM LIABILITIES: | | |
| Long Term Debt, Net of Current Portion | **547,400** | 168,148 |
| NET ASSETS: | | |
| Without Donor Restrictions | | |
| Undesignated | **829,613** | 902,557 |
| Board Designated - Property and Equipment | **5,443,445** | 5,631,126 |
| Total Net Assets Without Donor Restrictions | **6,273,058** | 6,533,683 |
| With Donor Restrictions | **283,118** | 157,528 |
| Total Net Assets | **6,556,176** | 6,691,211 |
| TOTAL LIABILITIES AND NET ASSETS | **$ 7,537,717** | $ 7,411,257 |

*The accompanying notes are an integral part of the financial statements.*

# EAST SIDE NEIGHBORHOOD SERVICES, INC.

## STATEMENT OF ACTIVITIES
## YEAR ENDED DECEMBER 31, 2019

| | 2019 | | |
|---|---|---|---|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| PUBLIC SUPPORT AND REVENUES: | | | |
| Public Support: | | | |
| Contributions | $ 777,204 | $224,118 | $ 1,001,322 |
| In-Kind Contributions | 559,359 | | 559,359 |
| United Way | 166,271 | | 166,271 |
| Revenues: | | | |
| Government Grants and Contracts: | | | |
| Federal | 2,596,697 | | 2,596,697 |
| State and County | 1,573,644 | | 1,573,644 |
| Service Fees: | | | |
| Contract Revenue | 1,173,376 | | 1,173,376 |
| Client Fees | 1,100,548 | | 1,100,548 |
| Special Event Fees | 23,637 | | 23,637 |
| Other: | | | |
| Net Investment Income | 44,848 | | 44,848 |
| Room Rental Income | 76,357 | | 76,357 |
| Lease Income | 99,486 | | 99,486 |
| Gain on Sale of Property | 389,414 | | 389,414 |
| Program Reimbursements | 13,356 | | 13,356 |
| Net Assets Released from Restrictions | 98,528 | (98,528) | |
| Total Support and Revenues | 8,692,725 | 125,590 | 8,818,315 |
| EXPENSES: | | | |
| Program Services: | | | |
| Senior Services | 2,486,495 | | 2,486,495 |
| Early Childhood Education | 1,051,868 | | 1,051,868 |
| Community Services | 930,214 | | 930,214 |
| Employment | 486,796 | | 486,796 |
| Alternative School | 679,103 | | 679,103 |
| Youth Services | 1,375,555 | | 1,375,555 |
| Total Program Services | 7,010,031 | – | 7,010,031 |
| Supporting Services: | | | |
| Management and General | 1,497,701 | | 1,497,701 |
| Fundraising | 445,618 | | 445,618 |
| Total Expenses | 8,953,350 | – | 8,953,350 |
| CHANGE IN NET ASSETS | (260,625) | 125,590 | (135,035) |
| NET ASSETS, Beginning of Year | 6,533,683 | 157,528 | 6,691,211 |
| NET ASSETS, End of Year | $ 6,273,058 | $ 283,118 | $ 6,556,176 |

*The accompanying notes are an integral part of the financial statements.*

## EAST SIDE NEIGHBORHOOD SERVICES, INC.

### STATEMENT OF ACTIVITIES (Continued)
### YEAR ENDED DECEMBER 31, 2018

| | 2018 | | |
|---|---|---|---|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| PUBLIC SUPPORT AND REVENUES: | | | |
| Public Support: | | | |
| Contributions | $ 514,295 | $137,028 | $ 651,323 |
| In-Kind Contributions | 273,080 | | 273,080 |
| United Way | 160,000 | | 160,000 |
| Revenues: | | | |
| Government Grants and Contracts: | | | |
| Federal | 2,659,043 | | 2,659,043 |
| State and County | 1,443,234 | | 1,443,234 |
| Service Fees: | | | |
| Contract Revenue | 1,339,798 | | 1,339,798 |
| Client Fees | 911,563 | | 911,563 |
| Special Event Fees | 61,395 | | 61,395 |
| Other: | | | |
| Net Investment Loss | (16,584) | | (16,584) |
| Room Rental Income | 55,993 | | 55,993 |
| Lease Income | 113,615 | | 113,615 |
| Gain on Sale of Property | 81,895 | | 81,895 |
| Program Reimbursements | 20,298 | | 20,298 |
| Net Assets Released from Restrictions | 92,840 | (92,840) | |
| Total Support and Revenues | 7,710,465 | 44,188 | 7,754,653 |
| EXPENSES: | | | |
| Program Services: | | | |
| Senior Services | 2,405,852 | | 2,405,852 |
| Early Childhood Education | 1,012,280 | | 1,012,280 |
| Community Services | 761,267 | | 761,267 |
| Employment | 550,281 | | 550,281 |
| Alternative School | 699,601 | | 699,601 |
| Youth Services | 1,282,033 | | 1,282,033 |
| Total Program Services | 6,711,314 | – | 6,711,314 |
| Supporting Services: | | | |
| Management and General | 1,134,216 | | 1,134,216 |
| Fundraising | 363,611 | | 363,611 |
| Total Expenses | 8,209,141 | – | 8,209,141 |
| CHANGE IN NET ASSETS | (498,676) | 44,188 | (454,488) |
| NET ASSETS, Beginning of Year | 7,032,359 | 113,340 | 7,145,699 |
| NET ASSETS, End of Year | $ 6,533,683 | $ 157,528 | $ 6,691,211 |

*The accompanying notes are an integral part of the financial statements.*

# EAST SIDE NEIGHBORHOOD SERVICES, INC.

## STATEMENT OF FUNCTIONAL EXPENSES
## YEAR ENDED DECEMBER 31, 2019

| | Program Services | | | | | | | Supporting Services | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Senior Services | Early Childhood Education | Community Services | Employ-ment | Alternative School | Youth Services | Total | Management and General | Fundraising | Total |
| Personnel Costs: | | | | | | | | | | |
| Salaries and Wages | $ 1,709,948 | $ 715,413 | $ 348,814 | $ 284,190 | $ 470,995 | $ 945,705 | $ 4,475,065 | $ 805,360 | $ 291,511 | $ 5,571,936 |
| Payroll Taxes | 141,400 | 61,040 | 31,947 | 27,556 | 40,664 | 94,239 | 396,846 | 68,424 | 22,086 | 487,356 |
| Employee Benefits Costs | 47,216 | 83,839 | 33,775 | 32,435 | 55,504 | 113,116 | 365,885 | 66,123 | 37,596 | 469,604 |
| Total Personnel Costs | 1,898,564 | 860,292 | 414,536 | 344,181 | 567,163 | 1,153,060 | 5,237,796 | 939,907 | 351,193 | 6,528,896 |
| Occupancy | 20,714 | 31,129 | 32,337 | 9,146 | 20,939 | 52,144 | 166,409 | 159,470 | 8,893 | 334,772 |
| Client Services | 120 | 440 | – | 27,625 | 145 | 2,062 | 30,392 | – | – | 30,392 |
| Supplies and Equipment | 253,760 | 83,146 | 422,250 | 2,132 | 11,143 | 56,111 | 828,542 | 68,115 | 23,891 | 920,548 |
| Travel and Transportation | 30,558 | 88 | 20,083 | 1,412 | 1,075 | 25,269 | 78,485 | 1,885 | 508 | 80,878 |
| Office Expense | 138,823 | 76,483 | 20,083 | 102,300 | 76,769 | 79,138 | 493,596 | 198,883 | 61,133 | 753,612 |
| Depreciation | 143,956 | 290 | 20,925 | – | 1,869 | 7,771 | 174,811 | 129,441 | – | 304,252 |
| TOTAL EXPENSES | $ 2,486,495 | $ 1,051,868 | $ 930,214 | $ 486,796 | $ 679,103 | $ 1,375,555 | $ 7,010,031 | $ 1,497,701 | $ 445,618 | $ 8,953,350 |

*The accompanying notes are an integral part of the financial statements.*

## EAST SIDE NEIGHBORHOOD SERVICES, INC.

### STATEMENT OF FUNCTIONAL EXPENSES
### YEAR ENDED DECEMBER 31, 2018

| | Program Services | | | | | | | Supporting Services | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Senior Services | Early Childhood Education | Community Services | Employ-ment | Alternative School | Youth Services | Total | Management and General | Fundraising | Total |
| Personnel Costs: | | | | | | | | | | |
| Salaries and Wages | $ 1,733,249 | $ 706,534 | $ 325,217 | $ 355,175 | $ 469,967 | $ 877,816 | $ 4,467,958 | $ 673,840 | $ 242,723 | $ 5,384,521 |
| Payroll Taxes | 151,900 | 57,205 | 30,199 | 31,745 | 38,007 | 79,081 | 388,137 | 49,515 | 19,017 | 456,669 |
| Employee Benefits Costs | 44,074 | 90,011 | 31,601 | 37,714 | 57,558 | 103,169 | 364,127 | 61,712 | 26,271 | 452,110 |
| Total Personnel Costs | 1,929,223 | 853,750 | 387,017 | 424,634 | 565,532 | 1,060,066 | 5,220,222 | 785,067 | 288,011 | 6,293,300 |
| Occupancy | 57,136 | 71,434 | 45,348 | 27,479 | 64,755 | 63,945 | 330,097 | – | 8,476 | 338,573 |
| Client Services | 16 | – | – | 37,714 | – | 8,948 | 46,678 | – | – | 46,678 |
| Supplies and Equipment | 114,995 | 43,492 | 253,568 | 3,219 | 17,477 | 59,112 | 491,863 | 7,807 | 25,169 | 524,839 |
| Travel and Transportation | 49,387 | 1,299 | 18,505 | 1,310 | 1,068 | 23,627 | 95,196 | 1,682 | 302 | 97,180 |
| Office Expense | 247,895 | 38,583 | 24,809 | 54,663 | 45,453 | 55,832 | 467,235 | 111,222 | 41,646 | 620,103 |
| Depreciation | 7,200 | 3,722 | 32,020 | 1,262 | 5,316 | 10,503 | 60,023 | 228,438 | 7 | 288,468 |
| TOTAL EXPENSES | $ 2,405,852 | $ 1,012,280 | $ 761,267 | $ 550,281 | $ 699,601 | $ 1,282,033 | $ 6,711,314 | $ 1,134,216 | $ 363,611 | $ 8,209,141 |

*The accompanying notes are an integral part of the financial statements.*

## EAST SIDE NEIGHBORHOOD SERVICES, INC.

### STATEMENT OF CASH FLOWS
### YEARS ENDED DECEMBER 31, 2019 AND 2018

| | 2019 | 2018 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in Net Assets | **$ (135,035)** | $ (454,488) |
| Adjustments to Reconcile Change in Net Assets to Net Cash Flows From Operating Activities: | | |
| Depreciation | **304,252** | 288,468 |
| Reinvested Investment Income | **(11,253)** | (18,962) |
| Unrealized (Gains) Losses on Investments | **(37,216)** | 31,573 |
| Gain on Sale of Property | **(389,414)** | (81,895) |
| Changes in Assets and Liabilities: | | |
| Accounts and Grants Receivable | **(469,520)** | 58,741 |
| Prepaid Expenses | **(29,446)** | 19,420 |
| Accounts Payable | **47,443** | (12,649) |
| Accrued Compensation and Benefits | **(136,583)** | 33,529 |
| Other Current Liabilities | **(12,754)** | 753 |
| Deferred Revenue | **–** | (65,166) |
| Net Cash Flows From Operating Activities | **(869,526)** | (200,676) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of Property and Equipment | **(750,346)** | (350,857) |
| Proceeds from Sale of Property | **595,000** | 98,540 |
| Grant Funds Received for Purchase of Property | **64,800** | – |
| Sale of Investments | **631,532** | 977,193 |
| Purchase of Investments | **(277,461)** | (671,978) |
| Net Cash Flows From Investing Activities | **263,525** | 52,898 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from Issuance of Long Term Debt | **420,402** | 246,677 |
| Payments on Long Term Debt | **(57,013)** | – |
| | **363,389** | 246,677 |
| NET CHANGE IN CASH AND RESTRICTED CASH | **(242,612)** | 98,899 |
| CASH AND RESTRICTED CASH at Beginning of Year | **382,950** | 284,051 |
| CASH AND RESTRICTED CASH at End of Year | **$ 140,338** | $ 382,950 |
| STATEMENT OF FINANCIAL POSITION PRESENTATION: | | |
| Cash | **$ 119,531** | $ 280,372 |
| Restricted Cash | **20,807** | 102,578 |
| Total | **$ 140,338** | $ 382,950 |

*The accompanying notes are an integral part of the financial statements.*

## NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

### Nature of Activities

East Side Neighborhood Services, Inc. (the Organization) was formed as a non-profit organization whose mission is to foster the healthy development and well-being of individuals and families while strengthening our diverse community. The Organization provides neighborhood based social services, child and youth development services, family care centers and camp facilities for residents of the Twin Cities metropolitan area.

### Basis of Presentation

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles. Revenues, expenses, gains and losses, and net assets are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets of the Organization and related changes are classified and reported as follows:

Net Assets without Donor Restrictions - Net assets without donor restrictions are resources available to support operations which the Board of Directors has discretionary control. Designated amounts represent those net assets that the Board of Directors has set aside for a particular purpose.

Net Assets with Donor Restrictions - Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the Organization must continue to use the resources in accordance with the donor's instructions.

### Accounting Estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Subsequent Events

In preparing these financial statements, the Organization has evaluated for recognition or disclosure the events or transactions that occurred through December 17, 2020, the date the financial statements were available to be issued. Except as discussed in Note 6 and 10, there were no subsequent events that required recognition or disclosure in the financial statements.

## NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Restricted Cash

The Organization is required to maintain a separate account for disbursement of payroll for the Senior Community Service Employment Program.

### Accounts and Grants Receivable

Receivables are stated at net realizable value. The Organization provides for probable uncollectible amounts through charges to earnings and credits to the valuation allowance based on prior experience and management's assessment of the current status of individual accounts. Balances that are still outstanding after the Organization has used reasonable collection efforts are written off through charges to the valuation allowance and credits to receivable accounts. Changes in the valuation allowance have not been material to the financial statements.

### Property and Depreciation

Property and equipment are recorded at original cost. Additions, improvements or major renewals at or above $1,000 are capitalized. If items of property are sold, retired or otherwise disposed of, they are removed from the asset and accumulated depreciation accounts and any gains or losses thereon are reflected in operations. Donated property and equipment are carried at the approximate fair value at the date of donation.

Depreciation is computed using the straight-line method at rates based on the estimated service lives of the various assets as follows:

| | |
|---|---|
| Buildings | 10- 30 Years |
| Furniture and Equipment | 3-15 Years |
| Vehicles | 3-5 Years |

### Investments

Investments in mutual funds are stated at fair value, which is determined by quoted market prices in active markets. Realized and unrealized gains and losses are included in the statement of activities. Realized gains and losses are determined using the specific identification method. Interest and dividend income are reported as income when earned.

Included in investments on the statement of financial position are money market funds and certificates of deposit. These investments are readily convertible to cash and are stated at cost plus accrued interest, which approximates fair value.

Short-term certificates of deposit are those with maturities of less than one year but greater than three months when purchased. These investments are shown as current assets.

## NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Revenue Recognition

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor-imposed contributions whose restrictions are met in the same reporting period are reported as net assets without donor restrictions.

Government grants are recognized when earned. Revenue is earned when eligible expenditures, as defined in each grant are made. Expenditures under government grants are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these grants, the Organization will record such disallowance at the time the final assessment is made.

Service fees are recognized when earned. Fees are billed when the service has been provided. Deferred revenue consists of government contract revenue received not yet earned and will be recognized as revenues in future years.

### In-Kind Contributions

In-kind contributions are recognized if they create or enhance nonfinancial assets or require specialized skills, are provided by individuals and organizations possessing those skills, and would ordinarily be purchased if not provided by donation. In-kind contributions, including promises to give, that do not meet these criteria are not recognized. In-kind contributions recognized in the financial statements are valued at fair market value.

Many individuals have donated time and services to advance the Organization’s programs and objectives. The value of these services has not been recorded in the financial statements because it does not meet the definition of recognition under generally accepted accounting principles.

The expense associated with in-kind contributions consists of contributed food, supplies, equipment and legal services of $559,359 and $273,080 in 2019 and 2018.

### Retirement Plan

The Organization has a defined contribution plan covering employees who meet certain age and service requirements. The Organization contributes 5% of each participant’s eligible compensation. The Organization contributed $126,340 and $136,847 in 2019 and 2018.

The Organization sponsors a voluntary 403(b) retirement plan that covers all employees. The plan is funded solely by employee contributions.

### Income Taxes

The Organization is exempt from Federal and State income taxes under Section 501(c)(3) of the Internal Revenue Code, therefore, the statements do not include a provision for income taxes.

## NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Income Taxes (Continued)

The Organization reviews income tax positions taken or expected to be taken in income tax returns to determine if there are any income tax uncertainties. This includes positions that the entity is exempt from income taxes or not subject to income taxes on unrelated business income. The Organization recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by taxing authorities, based on the technical merits of the positions. The Organization has identified no significant income tax uncertainties. The Organization files information returns as a tax-exempt organization. Should that status be challenged in the future, all years since inception could be subject to review by the IRS.

### Functional Allocation of Expenses

The cost of providing the Organization's programs and other activities is summarized on a functional basis in the statement of activities and statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited using a reasonable allocation method that is consistently applied, as follows:

1) Salaries and wages, benefits, and payroll taxes are allocated based on the amounts of time spent by employees performing those functions.
2) Occupancy, depreciation, and amortization, and interest are allocated on a square foot basis based on the programs and supporting activities occupying the space.
3) Office expenses and supplies and miscellaneous expenses that cannot be directly identified are allocated on the basis of salaries and wages.

General and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the Organization. Fundraising costs are expensed as incurred, even though they may result in support received in future years.

### Credit Risk

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash. The Organization places its cash with high credit quality financial institutions and has not experienced any losses in such accounts. The Organization had a credit risk concentration as a result of depositing $130,000 of funds in excess of insurance limits in a single bank.

### Fair Value Measurements

Under generally accepted accounting principles, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The accounting standards establish a three-level fair value hierarchy that prioritizes information used in developing assumptions when pricing an asset or liability as follows:

Level 1 - Observable inputs such as quoted prices in active markets;

Level 2 - Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and,

Level 3 - Unobservable inputs where there is little or no market data, which requires the reporting entity to develop its own assumptions.

## NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Fair Value Measurements (Continued)

The Organization uses observable market data, when available, in making fair value measurements. Fair value measurements are classified according to the lowest level input that is significant to the valuation.

The Organization holds certain assets that are required to be measured at fair value on a recurring basis. The fair values of the Organization's bond funds and mutual funds were determined by reference to quoted prices in active markets, which are Level 1 inputs.

### Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which provides guidance for accounting for revenue from contracts with customers. The new guidance outlines a single comprehensive model for organizations to use in accounting for revenue from contracts with customers. On May 20, 2020, the FASB voted to allow certain companies to defer the adoption date of the ASC 606 revenue recognition standard for annual and interim periods beginning after December 15, 2019 with early adoption permitted. Impacted companies are nonpublic entities that have not yet issued their financial statements. It can be adopted using either a retrospective approach or a modified retrospective approach. The Organization decided to defer the adoption date of ASC 606 and is currently evaluating this guidance to determine the impact it may have on its financial statements.

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842),* which provides guidance for accounting for leases. The new guidance requires companies to recognize the assets and liabilities for the rights and obligations created by leased assets, initially measured at the present value of the lease payments. The accounting guidance for lessors is largely unchanged. This ASU is effective for fiscal years beginning after December 15, 2021 and interim periods within fiscal years beginning after December 15, 2022, with early adoption permitted. It is to be adopted using the modified retrospective approach. The Organization is currently evaluating this guidance to determine the impact it may have on its financial statements.

## NOTE 2 - INVESTMENTS

Investments consist of mutual funds, money market funds, and certificates of deposit.

Investments at December 31, 2019 and 2018 consist of the following:

| | 2019 | 2018 |
|---|---|---|
| Money Market Funds | **$ 1,537** | $ 8,286 |
| Mutual Funds: | | |
| Equity | **38,273** | 140,515 |
| Fixed Income | **43,213** | 240,091 |
| Certificates of Deposit | **271,799** | 271,532 |
| Total | **$ 354,822** | $ 660,424 |

Net Investment income (loss) consists of the following:

| | 2019 | 2018 |
|---|---|---|
| Interest and Dividend Income | **$ 11,253** | $ 18,962 |
| Net Unrealized Investment Gains (Losses) | **37,216** | (31,573) |
| Investment Fees | **(3,621)** | (3,973) |
| Total | **$ 44,848** | $ (16,584) |

The Organization holds investments in a variety of investment funds. In general, its investments are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and such changes could be material to the amounts reported in the statement of financial position.

## NOTE 3 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Organization receives significant revenues from government contracts, program fees and contributions. Revenues include contributions with donor restrictions that may not be available for expenditure in the near-term but may be expended by the end of the next fiscal year. The Organization manages its liquidity and reserves operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs and maintain sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The Organization is currently working on a liquidity policy to maintain current financial assets, less current liabilities at a minimum amount of days to be determined by the board of directors.

## NOTE 3 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (Continued)

The reserve consists of cash and cash equivalents and assets with donor restrictions that will likely be released within 90 days.

The following table reflects the Organization's financial assets as of December 31, 2019 and 2018 that are available to meet general expenditures within the next year.

| | 2019 | 2018 |
|---|---|---|
| Financial Assets: | | |
| Cash | $ 140,338 | $ 382,950 |
| Accounts Receivable, Net | 926,552 | 457,032 |
| Investments | 354,822 | 660,424 |
| Total Financial Assets | 1,421,712 | 1,500,406 |
| Less Donor Imposed Purpose Restricted Net Assets | 283,118 | 157,528 |
| Amounts Available for General Expenditure within One Year | $ 1,138,594 | $ 1,342,878 |

The above table reflects donor-restricted funds as unavailable because it is the Organization's intention to invest those resources for the long-term support of the Organization

## NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

| | 2019 | 2018 |
|---|---|---|
| Land | $ 725,000 | $ 725,000 |
| Buildings | 8,803,248 | 8,382,036 |
| Furniture and Equipment | 446,345 | 423,408 |
| Vehicles | 444,778 | 442,430 |
| Total Property and Equipment | 10,419,371 | 9,972,874 |
| Less Accumulated Depreciation | (4,365,860) | (4,360,917) |
| Total In-Service | 6,053,511 | 5,611,957 |
| Work-in-Process | – | 265,846 |
| Total Property and Equipment | $ 6,053,511 | $ 5,877,803 |

## NOTE 5 - NET ASSETS

Net Assets with Donor Restrictions consist of the following at December 31, 2019 and 2018:

| | 2019 | 2018 |
|---|---|---|
| Purpose Restrictions | $ 177,118 | $ 136,528 |
| Time Restrictions | 85,000 | – |
| Donor Restricted Endowment Funds | 21,000 | 21,000 |
| Total Net Assets with Donor Restrictions | $ 283,118 | $ 157,528 |

Net assets with donor restrictions released from restriction were $98,528 and $92,840 in 2019 and 2018. Net assets with donor restrictions were released from restriction due to satisfaction of time and program restrictions.

## NOTE 6 - LONG-TERM DEBT AND SUBSEQUENT EVENT

Long-term debt is as follows:

| | 2019 | 2018 |
|---|---|---|
| Note payable to Northeast Bank due in monthly installments of $7,139 including fixed interest at 3.95%. The note matures January 9, 2028 and is secured by the assets of the Organization. | $ 610,066 | $ 246,677 |
| Less Amount Due Within One Year | (62,666) | (78,529) |
| Long-Term Debt | $ 547,400 | $ 168,148 |

Cash payments for interest were $22,271 and $905 in 2019 and 2018. Total unadvanced funds of $37,921 were available to the Organization at December 31, 2019.

The note payable contains certain covenants including a debt service coverage (DSC) ratio. At December 31, 2019, the Organization was not in compliance with the DSC ratio and is seeking a waiver with the bank.

Principal payments required during the next five years are: 2020 - $62,666; 2021 - $65,186; 2022 - $67,808, 2023 - $70,536 and 2024 - $73,373.

Subsequent to year end in March 2020, the Coronavirus Aid, Relief and Economic Security (CARES) Act was signed into law. Part of CARES was the Paycheck Protection Program (PPP) which allowed for organizations to apply for a potentially forgivable loan if the proceeds were used for the specified purposes. In April 2020, the Organization received a $932,600 loan from the PPP program and expects to use it for the designated purposes.

In June 2020, the Payroll Protection Program Flexibility Act of 2020 was signed which amended certain terms of the loan program. If all or a portion of the loan is not forgiven, the Organization will be liable to repay the loan in either 24 or 60 monthly installments after an initial deferment period at an interest rate of 1.00%. The covered period will expire October 2020 and repayment could be deferred until July 2021.

## NOTE 7 - LEASE COMMITMENTS

The Organization leases a portion of its office space and office equipment under operating lease agreements which expire in 2020. The Organization pays operating costs associated with each location based on its share of space. Remaining lease commitments are immaterial

The Organization's lease expense under these operating leases are as follows:

| | |
|---|---|
| Expense: | |
| **2019** | **$ 37,149** |
| 2018 | 38,254 |

The Organization subleases some of its facility space and services to another organization under a contract which expired in 2018. In 2018 the agreement was amended to include a five-year extension until November 30, 2023. Either party may cancel the agreement upon giving thirty day notice. Lease income was $99,486 and $113,615 for the years ended December 31, 2019 and 2018, respectively.

## NOTE 8 - CONTINGENCIES - UNEMPLOYMENT INSURANCE

The Organization has elected out of the Minnesota state unemployment insurance program and participates in a grantor trust to cover unemployment insurance claims. If claims exceed payments into the trust the Organization could be liable for those claims.

The Organization has estimated cash balances of $44,130 and $96,330 at December 31, 2019 and 2018, respectively, for eligible unemployment claims in Minnesota. No asset has been recorded on the Statement of Financial Position.

## NOTE 9 - MAJOR SOURCES OF REVENUE AND SUPPORT

The Organization receives a substantial amount of its support from various forms of government funding. A significant reduction in the level of funding from these sources would have a material effect on the Organization's programs and activities.

The Organization has a federal contract which accounts for 16% and 20% of all revenues in 2019 and 2018.

## NOTE 10 - SUBSEQUENT EVENT

In March 2020, the World Health Organization Declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The Organization cannot reasonably estimate the length and severity of this pandemic, or the extent to which the disruption from this pandemic may impact the Organization's operations and financial statements. In response to the pandemic the Organization received a PPP (Payroll Protection Program) loan of $932,600 in 2020, authorized by the CARES Act.

# Reports on Audit of Federal Financial Assistance

## For The Year Ended December 31, 2019

## INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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Board of Directors and Management
East Side Neighborhood Services, Inc.
Minneapolis, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of East Side Neighborhood Services, Inc., which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 17, 2020.

### Internal Control Over Financial Reporting

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

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

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

**Compliance and Other Matters**

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

**Purpose of this Report**

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

Olsen Thielen & Co., Ltd.

Roseville, Minnesota
December 17, 2020

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors and Management
East Side Neighborhood Services, Inc.
Minneapolis, Minnesota

**Report on Compliance for Each Major Federal Program**

We have audited East Side Neighborhood Services, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended December 31, 2019. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for the Organization's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended December 31, 2019.

**Report on Internal Control Over Compliance**

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Purpose of this Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Olsen Thielen & Co., Ltd.

Roseville, Minnesota
December 17, 2020

## EAST SIDE NEIGHBORHOOD SERVICES, INC.

### SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
### YEAR ENDED DECEMBER 31, 2019

| Federal Grantor/Pass-Through Grantor Program Title | CFDA Number | Pass-Through Grantors Number | Federal Expenditures |
|---|---|---|---|
| **U.S. DEPARTMENT OF AGRICULTURE:** | | | |
| Passed Through: | | | |
| Minnesota Department of Agriculture: | | | |
| School Nutrition Program | 10.558 | * | $ 9,763 |
| Wisconsin Department of Public Instruction: | | | |
| School Nutrition Program | 10.558 | * | 5,213 |
| Total U.S Department of Agriculture | | | 14,976 |
| **U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:** | | | |
| Passed Through: | | | |
| City of Minneapolis: | | | |
| Community Development Block Grant (CDBG) Cluster: | | | |
| CDBG - Entitlement Grants | 14.218 | * | 130,015 |
| CDBG - Minneapolis Public Housing - Glendale Food Shelf | 14.218 | * | 40,000 |
| Total U.S. Department of Housing and Urban Development | | | 170,015 |
| **U.S. DEPARTMENT OF LABOR:** | | | |
| Passed Through: | | | |
| Senior Service America, Inc. | | | |
| Senior Community Service Employment | 17.235 | * | 1,454,774 |
| City of Minneapolis: | | | |
| Workforce Investment Act - Youth Activities | 17.259 | * | 89,305 |
| Total U.S. Department of Labor | | | 1,544,079 |
| **U.S. DEPARTMENT OF EDUCATION:** | | | |
| Passed Through: | | | |
| Minnesota Department of Education: | | | |
| Title I | 84.010 | * | 21,775 |
| Twenty-First Century Community Learning Centers | 84.287 | * | 710,399 |
| Total U.S Department of Education | | | 732,174 |
| **U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:** | | | |
| Passed Through: | | | |
| Metropolitan Council - Minnesota Board of Aging: | | | |
| Transportation Services - Title IIIb | 93.044 | * | 111,994 |
| **U.S. DEPARTMENT OF HOMELAND SECURITY:** | | | |
| Passed Through: | | | |
| Greater Twin Cities United Way: | | | |
| ARRA - Emergency Food and Shelter Program | 97.114 | * | 13,639 |
| **U.S. DEPARTMENT OF STATE:** | | | |
| Passed Through: | | | |
| Public Affairs Section at US Embassy Montevideo: | | | |
| Uruguay - Juvenile Services Training Center | 19.040 | * | 9,820 |
| Total Federal Awards | | | $ 2,596,697 |

* Pass-through grantors number was not available.

## NOTES TO SCHEDULE:

### Description of Major Program:

Senior Community Service Employment Program

The Senior Community Service Employment program offers low-income elderly persons paid community service and training as an entry into productive work.

Basis of Presentation

East Side Neighborhood Services, Inc. presents its schedule of federal expenditures of federal awards (the Schedule) in accordance with requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, change in assets or cash flows of East Side Neighborhood Services, Inc.

Summary of Significant Accounting Policies

Expenditures reported on the schedule of expenditures of federal awards are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Organization has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

## EAST SIDE NEIGHBORHOOD SERVICES, INC.

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS
### YEAR ENDED DECEMBER 31, 2019

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**SECTION I - SUMMARY OF AUDIT RESULTS**

**Financial Statements**

Type of auditors' report issued: *Unmodified*

Internal control over financial reporting:

| | | |
|---|---|---|
| • Material weakness(es) identified? | ____yes | X no |
| • Significant deficiency(ies) identified? | ____yes | X no |
| Noncompliance material to financial statements noted? | ____yes | X no |

**Federal Awards**

Internal control over major programs:

| | | |
|---|---|---|
| • Material weakness(es) identified? | ____yes | X no |
| • Significant deficiency(ies) identified? | ____yes | X no |

Type of auditor's report issued on compliance for major programs: *Unmodified*

| | | |
|---|---|---|
| Any audit findings disclosed that are required to be reported In accordance with 2 CFR Section 200 516(a) | ____yes | X no |

Identification of major Programs:

| CFDA Number(s) | Name of Federal Program or Cluster |
|---|---|
| 17.235 | Senior Community Service Employment Program |

Dollar threshold used to distinguish between type A and type B programs: $750,000

| | | |
|---|---|---|
| Auditee qualified as low-risk auditee? | X yes | ____no |

**SECTION II - FINANCIAL STATEMENT FINDINGS**

No matters were reportable conditions.

**SECTION III - FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL PROGRAMS**

No matters were reportable conditions.