

East Side Neighborhood Services, Inc.
1700 Second Street NE, 55413
Phone: (612) 781-6011
Fax: (612) 787-4001
Website: www.esns.org
Administrative Offices
Northeast Child Development Center
Menlo Park Academy
Youth Development
Employment Network
Family Community Services
Senior Community Service Employment Project



Serving Our Community Since 1915

The Senior Food Shelf
1801 Central Avenue NE, 55418
Phone: (612) 788-9521

Friendship Center Adult Day Program
1717 Second Street NE, 55413
Phone: (612) 781-2052

Luxton Community Center
112 Williams Avenue SE, 55414
Phone: (612) 331-8678
Youth After School/Summer

Glendale Food Shelf
92 St. Mary's Avenue SE, 55414
Phone: (612) 342-1954

Pratt Community School
66 Malcolm Avenue SE, 55414
Youth After School

East Side Thrift Store
1928 Central Avenue NE, 55418
Phone: (612) 789-0600

Camp Bovey
Gordon, Wisconsin
Phone: (612) 781-6011

NE Neighborhood Early Learning Center
342 - 13th Avenue NE, 55413

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Executive Director

May 2012

Capital Campaign Policy And Depreciation

Our auditors have advised us to include this letter of explanation of our capital campaign policy and its affect on depreciation, with every copy of our audited financial statements.

East Side Neighborhood Services replaces its main building when needed through capital campaigns.

In 2001 a capital campaign was completed raising \$8,200,000 to build the main building. Since then, the agency has been recognizing roughly \$225,000 in depreciation and related amortization expense each year.

Those reading the financial statements need to understand there will be this noncash book loss each year resulting in decreasing net assets. This expense is not considered in budgeting for agency operations since it is a noncash expense.

It is the intent of management to hold a capital campaign to replace the current building when it has surpassed its useful life. The current building is being depreciated with the straight line depreciation method until the year 2041.

East Side Neighborhood Services Management



EAST SIDE NEIGHBORHOOD SERVICES, INC.
AUDITED FINANCIAL STATEMENTS
Years Ended December 31, 2011 and 2010

EAST SIDE NEIGHBORHOOD SERVICES, INC.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying Statements of Financial Position of East Side Neighborhood Services, Inc. as of December 31, 2011 and 2010, and the related Statements of Activities, Functional Expenses and Cash Flows for the years then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010, the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2012, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) *Circular A-133, Audits of States, Local Governments and Nonprofit Organizations*, 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 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 procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated, in all material respects in relation to the financial statements as a whole.

Kern, DeWenter, Viere, Ltd.

KERN, DEWENTER, VIERE, LTD.
Bloomington, Minnesota
April 25, 2012

AUDITED FINANCIAL STATEMENTS

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EAST SIDE NEIGHBORHOOD SERVICES, INC.

STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2011	2010
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 415,391	\$ 447,737
Restricted Cash	3,321	94,077
Investments	674,361	643,130
Accounts and Grants Receivable, Net of Allowance for Doubtful Accounts of \$ 25,000 and \$ 50,000, Respectively	235,808	301,289
Prepaid Expenses	15,688	18,929
Total Current Assets	1,344,569	1,505,162
Property and Equipment, Net	6,105,651	6,296,592
Investments	18,000	17,500
Total Assets	\$ 7,468,220	\$ 7,819,254
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	\$ 29,973	\$ 88,656
Accrued Wages and Related Taxes	167,876	173,263
Other Current Liabilities	16,586	13,810
Deferred Revenue	10,705	34,496
Total Current Liabilities	225,140	310,225
Net Assets		
Unrestricted:		
Undesignated	1,024,093	1,045,110
Investment in Property and Equipment	6,105,651	6,296,592
Temporarily Restricted	95,336	149,827
Permanently Restricted	18,000	17,500
Total Net Assets	7,243,080	7,509,029
Total Liabilities and Net Assets	\$ 7,468,220	\$ 7,819,254

EAST SIDE NEIGHBORHOOD SERVICES, INC.

STATEMENTS OF ACTIVITIES
Year Ended December 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES				
Public Support				
Contributions	\$ 276,808	\$ 157,000	\$ 500	\$ 434,308
In-Kind Contributions	99,173	-	-	99,173
United Way	562,182	-	-	562,182
Grants				
Federal	1,477,069	-	-	1,477,069
State	1,500	-	-	1,500
County	193,819	-	-	193,819
Service Fees				
Contract Revenue	1,028,115	-	-	1,028,115
Special Event Fees	54,917	-	-	54,917
Client Fees	401,718	-	-	401,718
Merchandise Sales	84,396	-	-	84,396
Other				
Investment Income	32,907	-	-	32,907
Rental Income	53,280	-	-	53,280
Lease Income	58,451	-	-	58,451
Program Reimbursements	14,163	-	-	14,163
Total Support and Revenues before Net Assets Released from Restrictions	4,338,498	157,000	500	4,495,998
Net Assets Released from Restrictions	211,491	(211,491)	-	-
Total Support and Revenues	4,549,989	(54,491)	500	4,495,998
EXPENSES				
Program Services				
Senior Services	1,234,593	-	-	1,234,593
Early Childhood Education	663,598	-	-	663,598
Community Services	317,207	-	-	317,207
Employment	467,447	-	-	467,447
Alternative School	557,900	-	-	557,900
Youth Services	569,618	-	-	569,618
Total Program Services	3,810,363	-	-	3,810,363
Supporting Services				
Management and General	717,538	-	-	717,538
Fundraising	234,046	-	-	234,046
Total Supporting Services	951,584	-	-	951,584
Total Expenses	4,761,947	-	-	4,761,947
Change in Net Assets	(211,958)	(54,491)	500	(265,949)
NET ASSETS				
Beginning of Year	7,341,702	149,827	17,500	7,509,029
End of Year	\$ 7,129,744	\$ 95,336	\$ 18,000	\$ 7,243,080

EAST SIDE NEIGHBORHOOD SERVICES, INC.

STATEMENTS OF ACTIVITIES
Year Ended December 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES				
Public Support				
Contributions	\$ 210,908	\$ 99,645	\$ 500	\$ 311,053
In-Kind Contributions	155,474	-	-	155,474
United Way	978,445	-	-	978,445
Grants				
Federal	1,973,479	-	-	1,973,479
State	56,269	-	-	56,269
County	173,655	-	-	173,655
Service Fees				
Contract Revenue	1,186,632	-	-	1,186,632
Special Event Fees	40,486	-	-	40,486
Client Fees	309,456	-	-	309,456
Merchandise Sales	81,470	-	-	81,470
Other				
Investment Loss	(2,947)	-	-	(2,947)
Rental Income	54,320	-	-	54,320
Lease Income	61,013	-	-	61,013
Program Reimbursements	31,882	-	-	31,882
Net Gain on Disposal of Equipment	(30,566)	-	-	(30,566)
	5,279,976	99,645	500	5,380,121
Total Support and Revenues before Net Assets Released from Restrictions				
	5,279,976	99,645	500	5,380,121
Net Assets Released from Restrictions	319,731	(319,731)	-	-
Total Support and Revenues	5,599,707	(220,086)	500	5,380,121
EXPENSES				
Program Services				
Senior Services	1,745,163	-	-	1,745,163
Early Childhood Education	734,604	-	-	734,604
Community Services	475,403	-	-	475,403
Employment	659,316	-	-	659,316
Alternative School	571,367	-	-	571,367
Youth Services	552,972	-	-	552,972
Total Program Services	4,738,825	-	-	4,738,825
Supporting Services				
Management and General	751,039	-	-	751,039
Fundraising	183,400	-	-	183,400
Total Supporting Services	934,439	-	-	934,439
Total Expenses	5,673,264	-	-	5,673,264
Change in Net Assets, Before Other Income	(73,557)	(220,086)	500	(293,143)
Other Income				
Forgiveness of Debt	400,000	-	-	400,000
Sale of Property Easement	136,000	-	-	136,000
Total Other Income	536,000	-	-	536,000
Change in Net Assets	462,443	(220,086)	500	242,857
NET ASSETS				
Beginning of Year	6,879,259	369,913	17,000	7,266,172
End of Year	\$ 7,341,702	\$ 149,827	\$ 17,500	\$ 7,509,029

The Notes to the Financial Statements are an integral part of these statements.

EAST SIDE NEIGHBORHOOD SERVICES, INC.

**STATEMENTS OF FUNCTIONAL EXPENSES
Year Ended December 31, 2011**

	Program Services						Total
	Senior Services	Early Childhood Education	Community Services	Employment	Alternative School	Youth Services	
Salaries and Wages	\$ 884,565	\$ 408,570	\$ 132,937	\$ 278,236	\$ 325,547	\$ 336,354	\$ 2,366,209
Payroll Taxes	89,968	52,702	18,273	36,263	40,007	42,201	279,414
Employee Benefits	39,297	47,485	6,671	36,339	37,911	32,310	200,013
Total Salaries and Related Expenses	1,013,830	508,757	157,881	350,838	403,465	410,865	2,845,636
Office Expenses	31,151	9,474	14,190	25,540	45,720	28,043	154,118
Client Services	-	-	15,828	21,740	-	8,882	46,450
Supplies and Equipment	75,996	16,977	50,876	2,131	16,973	47,302	210,255
Occupancy	36,133	66,247	61,658	34,189	47,503	40,238	285,968
Travel and Transportation	42,765	857	220	655	614	8,850	53,961
Total Expenses before Depreciation	1,199,875	602,312	300,653	435,093	514,275	544,180	3,596,388
Depreciation	34,718	61,286	16,554	32,354	43,625	25,438	213,975
Total Expenses	<u>\$1,234,593</u>	<u>\$ 663,598</u>	<u>\$ 317,207</u>	<u>\$ 467,447</u>	<u>\$ 557,900</u>	<u>\$ 569,618</u>	<u>\$ 3,810,363</u>

	Supporting Services			
	Management and General	Fundraising	Total	Total
Salaries and Wages	\$ 509,052	\$ 143,666	\$ 652,718	\$3,018,927
Payroll Taxes	49,948	14,279	64,227	343,641
Employee Benefits	49,191	18,982	68,173	268,186
Total Salaries and Related Expenses	608,191	176,927	785,118	3,630,754
Office Expenses	103,022	20,861	123,883	278,001
Client Services	-	-	-	46,450
Supplies and Equipment	3,492	26,734	30,226	240,481
Occupancy	-	8,055	8,055	294,023
Travel and Transportation	456	298	754	54,715
Total Expenses before Depreciation	715,161	232,875	948,036	4,544,424
Depreciation	2,377	1,171	3,548	217,523
Total Expenses	<u>\$ 717,538</u>	<u>\$ 234,046</u>	<u>\$ 951,584</u>	<u>\$4,761,947</u>

EAST SIDE NEIGHBORHOOD SERVICES, INC.

STATEMENTS OF FUNCTIONAL EXPENSES
Year Ended December 31, 2010

	Program Services						Total
	Senior Services	Early Childhood Education	Community Services	Employment	Alternative School	Youth Services	
Salaries and Wages	\$ 1,300,898	\$ 434,243	\$ 246,226	\$ 388,521	\$ 334,973	\$ 314,258	\$ 3,019,119
Payroll Taxes	120,470	45,988	27,665	42,113	33,776	35,187	305,199
Employee Benefits	52,569	56,823	16,018	49,829	39,686	32,420	247,345
Total Salaries and Related Expenses	1,473,937	537,054	289,909	480,463	408,435	381,865	3,571,663
Office Expenses	43,861	50,366	22,753	54,303	47,837	27,891	247,011
Client Services	-	-	24,806	33,223	-	373	58,402
Supplies and Equipment	101,134	22,614	55,751	19,685	24,530	51,073	274,787
Occupancy	65,419	60,345	63,310	31,264	43,449	39,241	303,028
Travel and Transportation	21,895	859	1,867	6,001	681	26,371	57,674
Total Expenses before Depreciation	1,706,246	671,238	458,396	624,939	524,932	526,814	4,512,565
Depreciation	38,917	63,366	17,007	34,377	46,435	26,158	226,260
Total Expenses	<u>\$ 1,745,163</u>	<u>\$ 734,604</u>	<u>\$ 475,403</u>	<u>\$ 659,316</u>	<u>\$ 571,367</u>	<u>\$ 552,972</u>	<u>\$ 4,738,825</u>
	Supporting Services						
	Management and General	Fundraising	Total	Total			
Salaries and Wages	\$ 522,261	\$ 117,076	\$ 639,337	\$ 3,658,456			
Payroll Taxes	43,643	9,742	53,385	358,584			
Employee Benefits	47,494	13,420	60,914	308,259			
Total Salaries and Related Expenses	613,398	140,238	753,636	4,325,299			
Office Expenses	128,800	15,452	144,252	391,263			
Client Services	-	-	-	58,402			
Supplies and Equipment	4,726	18,323	23,049	297,836			
Occupancy	-	7,791	7,791	310,819			
Travel and Transportation	1,579	347	1,926	59,600			
Total Expenses before Depreciation	748,503	182,151	930,654	5,443,219			
Depreciation	2,536	1,249	3,785	230,045			
Total Expenses	<u>\$ 751,039</u>	<u>\$ 183,400</u>	<u>\$ 934,439</u>	<u>\$ 5,673,264</u>			

EAST SIDE NEIGHBORHOOD SERVICES, INC.

STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2011	2010
CASH FLOWS - OPERATING ACTIVITIES		
Change in Net Assets	\$ (265,949)	\$ 242,857
Adjustments to Reconcile Change in Net Asset to Net Cash Flows - Operating Activities:		
Depreciation	217,523	230,045
Allowance for Doubtful Accounts	(25,000)	-
Amortization of Present Value		
Discount on Long-Term Debt	-	36,363
Net Loss on Sale of Equipment	-	30,566
Unrealized (Gain) Loss on Investment	(26,231)	6,870
Donated Land	-	(16,645)
Forgiveness of Long-Term Debt	-	(400,000)
Sale of Property Easement	-	(136,000)
Change in Assets and Liabilities:		
Accounts and Grants Receivable	90,481	(114,835)
Pledges Receivables	-	169,500
Prepaid Expenses	3,241	14,472
Accounts Payable	(58,683)	8,729
Accrued Wages and Related Taxes	(5,387)	(2,751)
Other Current Liabilities	2,776	(2,238)
Deferred Revenue	(23,791)	33,996
Total Adjustments	174,929	(141,928)
Net Cash Flows - Operating Activities	(91,020)	100,929
CASH FLOW - INVESTING ACTIVITIES		
Purchase of Property and Equipment	(26,582)	(54,484)
Purchase of Investments	(5,500)	(397,971)
Proceeds from Sale of Equipment	-	4,514
Proceeds from Sale of Property Easement	-	136,000
Net Cash Flow - Investing Activities	(32,082)	(311,941)
CASH FLOWS - FINANCING ACTIVITIES		
Principal Payments on Capital Lease Obligation	-	(6,852)
Net Change in Cash and Cash Equivalents	(123,102)	(217,864)
CASH AND CASH EQUIVALENTS		
Beginning of Year	541,814	759,678
End of Year	\$ 418,712	\$ 541,814
STATEMENTS OF FINANCIAL POSITION PRESENTATION		
Cash and Cash Equivalents	\$ 415,391	\$ 447,737
Restricted Cash	3,321	94,077
Total	\$ 418,712	\$ 541,814

The Notes to the Financial Statements are an integral part of these statements.

EAST SIDE NEIGHBORHOOD SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011 and 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

East Side Neighborhood Services, Inc. (the “Agency”) was formed as a not-for-profit organization whose mission is to foster the healthy development and well being of individuals and families while strengthening our diverse community. The Agency provides neighborhood based social services, child and youth development services, family care centers and camp facilities for residents of the Twin Cities metropolitan area.

The Agency operates a center for early childhood education for children and a resident camp for young people, provides services for senior citizens (including an adult care center, transportation and information and referral resources), employment services and a food shelf program. Community service programs include in school and after school youth education, other social services and community space.

Basis of Accounting

The financial statements of the Agency have been prepared on the accrual basis. The accounting policies of the Agency conform to U.S. generally accepted accounting principles applicable to nonprofit organizations.

Financial Statement Presentation

The assets, liabilities, net assets, revenues and expenses of the Agency are reported based upon net asset restrictions and the purposes for which resources are to be spent and the means by which spending activities are controlled. Net asset restrictions are categorized as follows:

Unrestricted

Accounts for all financial resources which are neither permanently restricted nor temporarily restricted by donor-imposed stipulations; resources may be used at the discretion of the Board of Directors.

Temporarily Restricted

Accounts for (a) contributions and other inflows of assets whose use by the Agency is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Agency pursuant to those stipulations, (b) other asset enhancements and diminishments subject to the same kinds of stipulations and (c) reclassifications to (or from) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time or their fulfillment and removal by actions of the Agency pursuant to those stipulations.

Permanently Restricted

Accounts for all financial resources which include a donor-imposed restriction that stipulates the resources be maintained permanently, but permits the Agency to use or expend part or all of the income derived from the donated assets.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 support, revenues and expenses during the reporting period. Actual results could differ from those estimates.

EAST SIDE NEIGHBORHOOD SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS December 31, 2011 and 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

For purpose of the Statements of Cash Flows, the Agency considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Restricted Cash

The Agency is required to maintain a separate checking account for disbursement of payroll within the Senior Community Service Employment Program through the U.S. Department of Labor. The Agency had restricted cash in the amounts of \$ 3,321 and \$ 94,077 at December 31, 2011 and 2010, respectively, for this program.

Investments

Investments consist of a bond fund carried at fair value and certificates of deposit carried at cost.

Accounts and Grants Receivable

Accounts and grants receivable are a result of the Agency extending unsecured credit to its customers and government agencies. Allowances for losses arising from uncollectible customer accounts and grants receivable are based on historical bad debt experience and periodic evaluations of aging of the accounts. Allowance for uncollectible accounts was \$ 25,000 and \$ 50,000 for the years ended December 31, 2011 and 2010, respectively. The Agency considers accounts over 90 days past due and does not accrue interest on outstanding accounts and grants receivable.

Property and Equipment

The Agency's policy is to capitalize all costs for land, buildings and equipment in excess of \$ 1,000. The fair value of donated fixed assets is similarly capitalized. Properties are stated on the accompanying financial statements at cost or, if acquired by gift, at the fair market value at the date of the gift. Depreciation is calculated on a straight-line basis over the estimated useful lives of 3 to 46 years. Depreciation expense was \$ 217,523 and \$ 230,045 for the years ended December 31, 2011 and 2010, respectively.

Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of an impairment loss for long-lived assets is based on the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount of fair value less costs to sell. The Agency has determined that no impairment existed at December 31, 2011 and 2010.

Compensated Absences

Agency employees earn paid time off (PTO) leave based on length of service, accrued up to a maximum of 160 hours at year-end. Employees are compensated for any unused PTO upon termination and, therefore, the Agency expenses PTO when earned. A liability for accrued compensated absences is shown in the Statements of Financial Position under accrued wages and related taxes totaling \$ 109,774 and \$ 104,535 at December 31, 2011 and 2010, respectively.

EAST SIDE NEIGHBORHOOD SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS December 31, 2011 and 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Contributions

The Agency reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

The Agency reports gifts of land, buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Agency reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

In-Kind Contributions

In-kind contributions are reflected as contributions valued at fair value on date of donation. A similar amount is included in expenses on the Statements of Activities. The Agency recognizes the fair value of contributed services received if such services a) create or enhance nonfinancial assets or b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

A substantial number of volunteers have donated significant amounts of their time in the Agency's program services and in its fundraising campaigns. However, no amounts have been reflected in the statements for donated services, since no objective basis is available to measure the value of such services.

Grants

Grant revenues and expenses are accounted for on the accrual basis. Revenues from grant awards are recognized as spent. Expenses are recognized when the related liability is incurred. Grant monies drawn in excess of the related grant expenses are treated as deferred revenue. Grant expenses in excess of the related grant monies drawn are treated as grants receivable.

Service Fee Revenue

Service fees are billed as services are provided.

Functional Allocation of Expenses

The costs of providing the program and supporting services have been summarized on a functional basis in the Statements of Activities and Statements of Functional Expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Cost Allocation

The Agency follows a cost allocation plan to allocate costs not directly attributable to specific programs.

EAST SIDE NEIGHBORHOOD SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011 and 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Advertising Costs

The Agency's policy is to expense advertising costs as they are incurred. Advertising expenses totaled \$ 6,803 and \$ 7,389 at December 31, 2011 and 2010, respectively.

Income Taxes

The Agency is a not-for-profit corporation that has been granted tax exempt status by the Internal Revenue Service under Section 501(c)(3) of the Internal Revenue Code. Therefore, no income taxes are paid and contributions to the Agency may be tax deductible by the donor. The Agency is also exempt from Minnesota franchise or income tax, certain property taxes and sales tax. The Agency will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense. Generally, the Agency is no longer subject to examination by tax authorities for years before 2008.

Concentration

At various times during the period, the Agency had cash on deposit with its financial institutions that exceeded Federal Deposit Insurance Corporation (FDIC) insured limits. The Agency has not experienced any losses from such deposits.

Subsequent Events

The Agency has evaluated subsequent events through April 25, 2012, the date which the financial statements were available to be issued.

NOTE 2 – INVESTMENTS

	December 31,	
	2011	2010
Bond Fund	\$ 419,361	\$ 393,130
Certificates of Deposit	273,000	267,500
Total Investments	<u>\$ 692,361</u>	<u>\$ 660,630</u>

Investments are classified on the Statements of Financial Position as follows:

	December 31,	
	2011	2010
Current	\$ 674,361	\$ 643,130
Long-Term	18,000	17,500
Total Investments	<u>\$ 692,361</u>	<u>\$ 660,630</u>

EAST SIDE NEIGHBORHOOD SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011 and 2010

NOTE 2 – INVESTMENTS

Investment income (loss) is summarized as follows:

	Years Ended December 31,	
	2011	2010
Interest Income	\$ 6,676	\$ 3,923
Net Unrealized Gain (Loss)	<u>26,231</u>	<u>(6,870)</u>
Net Investment Income (Loss)	<u>\$ 32,907</u>	<u>\$ (2,947)</u>

NOTE 3 – FAIR VALUE MEASUREMENTS

The fair value measurements and disclosures topic of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2011 and 2010.

Fair values for bonds are determined by reference to quoted market prices.

Fair values of assets measured on a recurring basis are as follows:

Description	Level 1	Level 2	Level 3	Total
December 31, 2011:				
Bond Fund	<u>\$ 419,361</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 419,361</u>
December 31, 2010:				
Bond Fund	<u>\$ 393,130</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 393,130</u>

Gains and losses (realized and unrealized) are reported in investment income (loss). See Note 2 for details.

EAST SIDE NEIGHBORHOOD SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011 and 2010

NOTE 4 – PROPERTY AND EQUIPMENT

	December 31,	
	2011	2010
Land	\$ 741,645	\$ 741,645
Buildings	7,434,429	7,430,038
Leasehold Improvements	9,048	9,048
Furniture	75,575	75,575
Equipment	196,779	174,588
Vehicles	234,731	234,731
Total Property and Equipment	8,692,207	8,665,625
Less Accumulated Depreciation	(2,586,556)	(2,369,033)
Property and Equipment, Net	<u>\$ 6,105,651</u>	<u>\$ 6,296,592</u>

NOTE 5 – LINE OF CREDIT

The Agency had a revolving line of credit agreement for up to \$ 100,000, through October 2010. The Agency did not renew the line after October 2010.

NOTE 6 – LONG-TERM DEBT

In 2001, the Agency received a \$ 400,000, noninterest bearing loan which was forgiven December 2010. Interest had been imputed at 10% to reflect the market rate for a similar plan. The difference between the cash received and the present value of the loan, \$ 230,361, was recorded as a temporarily restricted contribution and was being released over the term of the loan. The loan was recorded at the present value with an outstanding balance of \$ 0 at December 31, 2010.

	Years Ended December 31,	
	2011	2010
Interest Expense Paid	\$ -	\$ 48
Imputed Interest on Below Market Loans	-	36,363
Total Interest Expense	<u>\$ -</u>	<u>\$ 36,411</u>

EAST SIDE NEIGHBORHOOD SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011 and 2010

NOTE 7 – OPERATING LEASES – LESSEE

The Agency leases program space and office equipment under various operating leases, the last of which expires October 2015. The Agency pays operating costs associated with each location based on its share of space. Lease expense totaled \$ 44,575 and \$ 50,797 for the years ended December 31, 2011 and 2010, respectively. In addition, in-kind rent recorded for donated space was \$ 18,800 and \$ 40,300 for the years ended December 31, 2011 and 2010, respectively. Total minimum future lease payments are as follows:

2012	\$ 19,000
2013	19,000
2014	9,000
2015	<u>7,500</u>
Total Minimum Future Rental Payments	<u>\$ 54,500</u>

NOTE 8 – OPERATING LEASES – LESSOR

The Agency also subleases some of its current facility space and services to other nonprofits, the last of which expires November 2013. Rental income totaled \$ 53,280 and \$ 54,320 for the years ended December 31, 2011 and 2010, respectively. The total minimum future lease payments to be received under these sublease agreements are as follows:

2012	\$ 44,115
2013	<u>44,864</u>
Total Minimum Future Sublease Revenues	<u>\$ 88,979</u>

NOTE 9 – RETIREMENT PLANS

The Agency sponsors a defined contribution retirement plan. Full-time and part-time employees, 21 years of age and older, with an entire year of service and 1,000 hours are eligible to participate in the plan. The Agency contributes to the plan, 5% of each participant's eligible compensation as defined by the plan. The Agency contributed \$ 89,823 and \$ 107,811 for the years ended December 31, 2011 and 2010, respectively.

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

NOTE 10 – SUPPLEMENTAL CASH FLOW INFORMATION

During the years ended December 31, 2011 and 2010, \$ 0 and \$ 48 were paid for interest, respectively, and no amounts were paid for income taxes.

During 2010, the Agency received \$ 16,645 in donated land. The Agency also had \$ 400,000 in long-term debt forgiven. See Note 6 for details.

EAST SIDE NEIGHBORHOOD SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011 and 2010

NOTE 11 – CONTINGENCIES

Unemployment Insurance

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

The Agency has estimated cash balances of \$ 95,460 and \$ 75,749 at December 31, 2011 and 2010, respectively, for eligible unemployment insurance claims in Minnesota. No asset has been recorded on the Statements of Financial Position.

Self-Insured Short Term Disability Insurance

The Agency has a partially self-insured short term disability insurance plan. The plan covers the period of the eighth day of absence through a maximum period of three months. If the employee qualifies for short term disability benefits, they are paid 60% of their base rate. To qualify, employees must have completed one year of service in which they have worked a minimum of 1,560 hours of paid employment.

NOTE 12 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	December 31,	
	2011	2010
Restricted for Specific Program Expenses	\$ 48,668	\$ 103,160
Restricted for Time and Program	46,668	46,667
	<u>\$ 95,336</u>	<u>\$ 149,827</u>

Temporarily restricted net assets released from restrictions consist of the following:

	Years Ended December 31,	
	2011	2010
Released for Capital Expenses	\$ -	\$ 48,863
Released for Program Expenses	141,492	270,868
Released for Time and Program Expenses	69,999	-
	<u>\$ 211,491</u>	<u>\$ 319,731</u>

EAST SIDE NEIGHBORHOOD SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS December 31, 2011 and 2010

NOTE 13 – ENDOWMENT INVESTMENT AND SPENDING POLICIES

In August 2008, the Financial Accounting Standards Board Issued Staff Position No. FSP 117-1 (ASC 958-205), *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. ASC 958-205 provides guidance on the classification of endowment fund net assets for states that have enacted versions of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and enhances disclosures for endowment funds. Under UPMIFA all unappropriated endowment funds assets are considered restricted.

The Agency's permanently restricted fund includes donor-restricted endowment funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors has interpreted the Minnesota UPMIFA as requiring the preservation of the fair value of the donor restricted endowment fund as permanently restricted, absent donor stipulations to the contrary.

Spending Policy for the Appropriation of Endowment Assets for Expenditure

In accordance with UPMIFA, the Agency considers the following factors in making a prudent determination to appropriate or accumulate donor restricted endowment funds:

1. The duration and preservation of the endowment fund,
2. Purposes of the Agency and the endowment fund,
3. General economic conditions,
4. Possible effect of inflation or deflation,
5. Expected total return from income and the appreciation of investments,
6. Other resources of the institution, and,
7. Investment policy of the institution.

The Agency's spending policy is to distribute, for current Camp Bovey operating expenses, actual earnings on the endowment funds.

Investment Policy for the Endowment

In accordance with UPMIFA, the Agency's policy considers and defines the following factors in managing and investing their investments, including their endowment (institutional) fund:

1. General economic conditions,
2. Possible effect of inflation or deflation,
3. Expected tax consequences, if any, of investment decision or strategies,
4. Role that each investment within the investment portfolio,
5. Expected total return from income and the appreciation of investments,
6. Other resources of the institution, and,
7. Asset's relationship or special value, if any, to the charitable purpose of the institution.

EAST SIDE NEIGHBORHOOD SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011 and 2010

NOTE 13 – ENDOWMENT INVESTMENT AND SPENDING POLICIES

Investment Policy for the Endowment (Continued)

The Agency has an investment policy for its entire investment portfolio, which includes the endowment. The investment policy is intended to establish a plan which will correlate with the Agency's cash flow needs, its need for operating income and its desire for long-term investment growth. It is the Agency's intention to invest all funds in a safe and secure manner, avoiding unnecessary or excessive risk. The general objective is to obtain a reasonable rate of return, defined as income plus realized and unrealized gains for a given period of time. All funds shall be managed on a conservative, risk-adverse basis. The principle objectives of the funds are to preserve capital and maximize current income.

In managing the endowment policy, the Board of Directors reviews the investment policy on an ongoing basis.

Composition of the Endowment

	December 31,	
	<u>2011</u>	<u>2010</u>
Endowment Net Asset Composition:		
Donor Restricted Endowment Funds for Camp Bovey	<u>\$ 18,000</u>	<u>\$ 17,500</u>

Reconciliation of the Endowment

	Years Ended December 31,	
	<u>2011</u>	<u>2010</u>
Permanently Restricted:		
Endowment Net Assets, Beginning of Year	\$ 17,500	\$ 17,000
Contributions	<u>500</u>	<u>500</u>
 Endowment Net Assets, End of Year	 <u>\$ 18,000</u>	 <u>\$ 17,500</u>

Permanently restricted net assets represent the fair value of the original gifts of \$ 18,000 as of the gift dates.

SUPPLEMENTARY INFORMATION

EAST SIDE NEIGHBORHOOD SERVICES, INC.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
December 31, 2011**

Federal Grantors/Pass-Through Grantor/Program Title	CFDA Number	Federal Expenditures
U.S. Department of Agriculture		
Pass-Through:		
Minnesota Department of Agriculture:		
School Nutrition Program	10.558	\$ 37,574
Wisconsin Department of Public Instruction:		
School Nutrition Program	10.558	<u>7,736</u>
Total U.S. Department of Agriculture		<u>45,310</u>
U.S. Department of Housing and Urban Development		
Pass-Through:		
City of Minneapolis:		
Community Development Block Grant (CDBG) - Entitlement Grants	14.218	96,723
CDBG - Minneapolis Public Housing - Glendale Food Shelf	14.218	<u>40,000</u>
Total U.S. Department of Housing and Urban Development		<u>136,723</u>
U.S. Department of Labor		
Pass-Through:		
Senior Service America, Inc.:		
Senior Community Service Employment	17.235	756,554
City of Minneapolis:		
Workforce Investment Act Cluster:		
Workforce Investment Act - Adult Program	17.258	17,300
Workforce Investment Act - Youth Activities	17.259	<u>96,179</u>
Total Workforce Investment Act Cluster		<u>113,479</u>
Total U.S. Department of Labor		<u>870,033</u>
U.S. Department of Education		
Pass-Through:		
Minnesota Department of Education:		
Title I	84.010	40,782
U.S. Department of Health and Human Services		
Pass-Through:		
Metropolitan Council - Minnesota Board of Aging:		
Transportation Services - Title IIIb	93.044	80,950
Hennepin County Human Services and Public Health Department:		
Temporary Assistance for Needy Families	93.558	<u>296,462</u>
Total U.S. Department of Health and Human Services		<u>377,412</u>
U.S. Department of Homeland Security		
Pass-Through:		
United Way:		
Emergency Food and Shelter Program	97.114	<u>6,809</u>
Total Federal Awards		<u>\$ 1,477,069</u>

The Note to the Schedule of Expenditures of Federal Awards is an integral part of this statement.

EAST SIDE NEIGHBORHOOD SERVICES, INC.

NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
December 31, 2011

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Agency and is presented on the modified accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB *Circular A-133, Audits of States, Local Governments and Nonprofit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of the financial statements.

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

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

We have audited the financial statements of East Side Neighborhood Services, Inc., as of and for the year ended December 31, 2011, and have issued our report thereon dated April 25, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures 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 Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

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 financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs in Accordance with OMB *Circular A-133* that we consider to be a significant deficiency in internal control over financial reporting, as Audit Finding 10-01. A significant deficiency is a deficiency, or 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.



COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Agency'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*.

We noted certain matters that we have reported to management of the Agency in a separate letter dated April 25, 2012.

The Agency's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs in Accordance with OMB *Circular A-133*. We did not audit the Agency's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management, the Board of Directors and federal and state awarding and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Kern, DeWenter, Viere, Ltd.

KERN, DEWENTER, VIERE, LTD.
Bloomington, Minnesota
April 25, 2012



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**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB *CIRCULAR A-133***

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

COMPLIANCE

We have audited the compliance of East Side Neighborhood Services, Inc., with the types of compliance requirements described in the U.S. OMB *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2011. The Agency's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs in Accordance with OMB *Circular A-133*. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB *Circular A-133, Audits of States, Local Governments and Nonprofit Organizations*. Those Standards and OMB *Circular A-133* 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 Agency'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. Our audit does not provide a legal determination on the Agency's compliance with those requirements.

In our opinion, East Side Neighborhood Services, Inc., complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2011.



INTERNAL CONTROL OVER COMPLIANCE

The management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Agency's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB *Circular A-133*, 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 Agency'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 material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board, administration, and state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Kern, DeWenter, Viere, Ltd.

KERN, DEWENTER, VIERE, LTD.
Bloomington, Minnesota
April 25, 2012

EAST SIDE NEIGHBORHOOD SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB *CIRCULAR A-133*
December 31, 2011

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	Yes, Audit Finding 10-01
Noncompliance material to the financial statements noted?	No

Federal Awards

Type of auditor’s report issued on compliance for major programs:	Unqualified
Internal control over major programs:	
• Major weakness(es) identified?	No
• Significant deficiency(ies) identified that is not considered to be material weakness?	No
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB <i>Circular A-133</i> ?	No

Identification of Major Programs

CFDA No.	93.558
Name of Federal Program or Cluster:	Temporary Assistance for Needy Families
CFDA No.	14.218
Name of Federal Program or Cluster:	Community Development Block Grant
Dollar threshold used to distinguish between type A and type B programs?	\$ 300,000
Auditee qualified as low risk auditee?	Yes

EAST SIDE NEIGHBORHOOD SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB CIRCULAR A-133
December 31, 2011

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding No. 10-01 – Preparation of Financial Statements

Criteria or Specific Requirement:

The Agency is required to have an internal control system designed to provide for the preparation of the financial statements being audited.

Condition:

The Agency does not maintain an internal control system designed to provide for the preparation of financial statements in accordance with U.S. generally accepted accounting principles.

Questioned Costs:

None

Effect:

The Agency utilizes its auditor to draft financial statements consistent with the assertions of management.

Cause:

Management does not require accounting personnel to receive financial reporting training on a continual basis.

Auditor's Recommendation:

Evaluate the risk that is presented by a lack of an internal control system designed to provide for the preparation of the financial statements in accordance with U.S. generally accepted accounting principles. Continue to maintain adequate knowledge on accounting principles and financial disclosures by obtaining information from the auditor or other trained professionals prior to approving the draft financial statements.

Management's Response:

Management does not believe it would be cost effective to remedy this condition at this time. In addition, given the complex and constantly changing nature of financial reporting requirements, management believes better results are achieved by relying on the expertise of the external auditors regarding these matters.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no federal award findings and questioned costs.