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, 2017

**EAST SIDE NEIGHBORHOOD SERVICES, INC.**

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# 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, 2017 and 2016 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, 2017 and 2016, 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 20-21 is presented for the purposes of additional analysis 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,* 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 May 2, 2018 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, grants 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* in considering East Side Neighborhood Services, Inc.'s internal control over financial reporting and compliance.

Olsen Thielen + Co., Ltd

Roseville, Minnesota
May 2, 2018

## EAST SIDE NEIGHBORHOOD SERVICES, INC.

### STATEMENT OF FINANCIAL POSITION
### DECEMBER 31, 2017 AND 2016

ASSETS

| | 2017 | 2016 |
|---|---|---|
| CURRENT ASSETS: | | |
| Cash | **$ 247,362** | $ 539,083 |
| Restricted Cash | **36,689** | 59,580 |
| Accounts and Grants Receivable, Net of Allowance for Doubtful Accounts of $25,000 | **515,773** | 516,963 |
| Prepaid Expenses | **52,468** | 16,182 |
| Investments | **978,250** | 957,306 |
| Total Current Assets | **1,830,542** | 2,089,114 |
| PROPERTY AND EQUIPMENT, NET | **5,832,059** | 5,933,074 |
| TOTAL ASSETS | **$ 7,662,601** | $ 8,022,188 |

LIABILITIES AND NET ASSETS

| | 2017 | 2016 |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Accounts Payable | **$ 96,662** | $ 85,682 |
| Accrued Compensation and Benefits | **337,774** | 287,016 |
| Other Current Liabilities | **17,300** | 18,002 |
| Deferred Revenue | **65,166** | 71,080 |
| Total Current Liabilities | **516,902** | 461,780 |
| LONG-TERM LIABILITIES: | | |
| Deferred Revenue | **–** | 65,166 |
| NET ASSETS: | | |
| Unrestricted Net Assets: | | |
| Undesignated | **1,200,300** | 1,464,176 |
| Board Designated - Property and Equipment | **5,832,059** | 5,933,074 |
| Total Unrestricted Net Assets | **7,032,359** | 7,397,250 |
| Temporarily Restricted Net Assets | **92,840** | 77,492 |
| Permanently Restricted Net Assets | **20,500** | 20,500 |
| Total Net Assets | **7,145,699** | 7,495,242 |
| TOTAL LIABILITIES AND NET ASSETS | **$ 7,662,601** | $ 8,022,188 |

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

# EAST SIDE NEIGHBORHOOD SERVICES, INC.

## STATEMENT OF ACTIVITIES
## YEAR ENDED DECEMBER 31, 2017

| | 2017 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| PUBLIC SUPPORT AND REVENUES: | | | | |
| Public Support: | | | | |
| Contributions | $ 347,726 | $ 101,200 | $ | $ 448,926 |
| In-Kind Contributions | 315,055 | | | 315,055 |
| United Way | 231,248 | | | 231,248 |
| Revenues: | | | | |
| Government Grants and Contracts: | | | | |
| Federal | 2,305,401 | | | 2,305,401 |
| State and County | 1,455,431 | | | 1,455,431 |
| Service Fees: | | | | |
| Contract Revenue | 1,429,580 | | | 1,429,580 |
| Client Fees | 875,617 | | | 875,617 |
| Special Event Fees | 55,480 | | | 55,480 |
| Other: | | | | |
| Investment Income | 20,602 | | | 20,602 |
| Room Rental Income | 60,343 | | | 60,343 |
| Lease Income | 117,416 | | | 117,416 |
| Program Reimbursements | 25,512 | | | 25,512 |
| Net Assets Released from Restrictions | 85,852 | (85,852) | | – |
| Total Support and Revenues | 7,325,263 | 15,348 | – | 7,340,611 |
| EXPENSES: | | | | |
| Program Services: | | | | |
| Senior Services | 2,233,267 | | | 2,233,267 |
| Early Childhood Education | 1,010,713 | | | 1,010,713 |
| Community Services | 773,387 | | | 773,387 |
| Employment | 538,533 | | | 538,533 |
| Alternative School | 647,257 | | | 647,257 |
| Youth Services | 1,156,550 | | | 1,156,550 |
| Total Program Services | 6,359,707 | – | – | 6,359,707 |
| Supporting Services: | | | | |
| Management and General | 1,049,126 | | | 1,049,126 |
| Fundraising | 281,321 | | | 281,321 |
| Total Expenses | 7,690,154 | – | – | 7,690,154 |
| CHANGE IN NET ASSETS | (364,891) | 15,348 | – | (349,543) |
| NET ASSETS, Beginning of Year | 7,397,250 | 77,492 | 20,500 | 7,495,242 |
| NET ASSETS, End of Year | $ 7,032,359 | $ 92,840 | $ 20,500 | $ 7,145,699 |

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

# EAST SIDE NEIGHBORHOOD SERVICES, INC.

## STATEMENT OF ACTIVITIES (Continued)
## YEAR ENDED DECEMBER 31, 2016

| | 2016 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| PUBLIC SUPPORT AND REVENUES: | | | | |
| Public Support: | | | | |
| Contributions | $ 429,013 | $ 76,755 | $ 500 | $ 506,268 |
| In-Kind Contributions | 221,550 | | | 221,550 |
| United Way | 277,503 | | | 277,503 |
| Revenues: | | | | |
| Government Grants and Contracts: | | | | |
| Federal | 2,304,896 | | | 2,304,896 |
| State and County | 1,434,730 | | | 1,434,730 |
| Service Fees: | | | | |
| Contract Revenue | 1,497,996 | | | 1,497,996 |
| Client Fees | 798,607 | | | 798,607 |
| Special Event Fees | 62,885 | | | 62,885 |
| Other: | | | | |
| Investment Income | 26,398 | | | 26,398 |
| Room Rental Income | 35,998 | | | 35,998 |
| Lease Income | 114,629 | | | 114,629 |
| Program Reimbursements | 6,702 | | | 6,702 |
| Net Assets Released from Restrictions | 204,678 | (204,678) | | – |
| Total Support and Revenues | 7,415,585 | (127,923) | 500 | 7,288,162 |
| EXPENSES: | | | | |
| Program Services: | | | | |
| Senior Services | 2,103,968 | | | 2,103,968 |
| Early Childhood Education | 942,842 | | | 942,842 |
| Community Services | 726,510 | | | 726,510 |
| Employment | 543,679 | | | 543,679 |
| Alternative School | 641,275 | | | 641,275 |
| Youth Services | 1,104,743 | | | 1,104,743 |
| Total Program Services | 6,063,017 | – | – | 6,063,017 |
| Supporting Services: | | | | |
| Management and General | 862,952 | | | 862,952 |
| Fundraising | 289,711 | | | 289,711 |
| Total Expenses | 7,215,680 | – | – | 7,215,680 |
| CHANGE IN NET ASSETS | 199,905 | (127,923) | 500 | 72,482 |
| NET ASSETS, Beginning of Year | 7,197,345 | 205,415 | 20,000 | 7,422,760 |
| NET ASSETS, End of Year | $ 7,397,250 | $ 77,492 | $ 20,500 | $ 7,495,242 |

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

# EAST SIDE NEIGHBORHOOD SERVICES, INC.

## STATEMENT OF FUNCTIONAL EXPENSES
## YEAR ENDED DECEMBER 31, 2017

| | 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 | $ 1,647,883 | $ 653,697 | $ 300,558 | $ 281,698 | $ 407,512 | $ 762,700 | $ 4,054,048 | $ 624,067 | $ 165,480 | $ 4,843,595 |
| Payroll Taxes | 151,458 | 56,076 | 26,542 | 24,751 | 35,627 | 65,846 | 360,300 | 53,220 | 13,975 | 427,495 |
| Employee Benefits Costs | 56,632 | 83,427 | 26,193 | 32,040 | 51,788 | 98,321 | 348,401 | 65,969 | 29,342 | 443,712 |
| Total Personnel Costs | 1,855,973 | 793,200 | 353,293 | 338,489 | 494,927 | 926,867 | 4,762,749 | 743,256 | 208,797 | 5,714,802 |
| Occupancy | 64,730 | 58,772 | 38,926 | 32,964 | 48,214 | 49,972 | 293,578 | 5,423 | 6,077 | 305,078 |
| Client Services | – | – | – | 47,274 | – | 14,742 | 62,016 | – | – | 62,016 |
| Supplies and Equipment | 96,827 | 33,741 | 300,598 | 5,283 | 15,540 | 61,151 | 513,140 | 5,885 | 27,219 | 546,244 |
| Travel and Transportation | 29,800 | 3,680 | 24,508 | 1,289 | 1,355 | 17,700 | 78,332 | 1,350 | 665 | 80,347 |
| Office Expense | 114,952 | 63,661 | 17,323 | 80,765 | 38,172 | 55,245 | 370,118 | 290,456 | 37,206 | 697,780 |
| Depreciation | 70,985 | 57,659 | 38,739 | 32,469 | 49,049 | 30,873 | 279,774 | 2,756 | 1,357 | 283,887 |
| TOTAL EXPENSES | $ 2,233,267 | $ 1,010,713 | $ 773,387 | $ 538,533 | $ 647,257 | $ 1,156,550 | $ 6,359,707 | $ 1,049,126 | $ 281,321 | $ 7,690,154 |

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

## EAST SIDE NEIGHBORHOOD SERVICES, INC.

### STATEMENT OF FUNCTIONAL EXPENSES
### YEAR ENDED DECEMBER 31, 2016

| | 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 | $ 1,620,807 | $ 629,023 | $ 292,544 | $ 257,093 | $ 418,085 | $ 693,864 | $ 3,911,416 | $ 581,204 | $ 187,990 | $ 4,680,610 |
| Payroll Taxes | 143,535 | 58,620 | 28,963 | 26,026 | 42,640 | 67,998 | 367,782 | 45,290 | 13,830 | 426,902 |
| Employee Benefits Costs | 49,249 | 67,504 | 25,909 | 19,449 | 40,583 | 85,943 | 288,637 | 39,589 | 24,970 | 353,196 |
| Total Personnel Costs | 1,813,591 | 755,147 | 347,416 | 302,568 | 501,308 | 847,805 | 4,567,835 | 666,083 | 226,790 | 5,460,708 |
| Occupancy | 46,389 | 53,572 | 37,696 | 34,615 | 46,729 | 50,784 | 269,785 | 249 | 6,776 | 276,810 |
| Client Services | – | – | 7,059 | 40,247 | – | 14,891 | 62,197 | – | – | 62,197 |
| Supplies and Equipment | 85,439 | 33,726 | 237,707 | 9,475 | 15,170 | 72,887 | 454,404 | 5,654 | 33,070 | 493,128 |
| Travel and Transportation | 35,854 | 2,392 | 33,357 | 1,055 | 1,543 | 20,312 | 94,513 | 1,050 | 2,187 | 97,750 |
| Office Expense | 68,679 | 39,138 | 19,933 | 119,203 | 24,431 | 66,061 | 337,445 | 187,166 | 19,533 | 544,144 |
| Depreciation | 54,016 | 58,867 | 43,342 | 36,516 | 52,094 | 32,003 | 276,838 | 2,750 | 1,355 | 280,943 |
| TOTAL EXPENSES | $ 2,103,968 | $ 942,842 | $ 726,510 | $ 543,679 | $ 641,275 | $ 1,104,743 | $ 6,063,017 | $ 862,952 | $ 289,711 | $ 7,215,680 |

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

## EAST SIDE NEIGHBORHOOD SERVICES, INC.

### STATEMENT OF CASH FLOWS
### YEARS ENDED DECEMBER 31, 2017 AND 2016

| | 2017 | 2016 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in Net Assets | **$ (349,543)** | $ 72,482 |
| Adjustments to Reconcile Change in Net Assets to Net Cash Flows From Operating Activities: | | |
| Depreciation | **283,887** | 280,943 |
| Reinvested Investment Income | **(16,889)** | (18,377) |
| Unrealized Gain on Investments | **(2,426)** | (5,767) |
| Changes in Assets and Liabilities: | | |
| Accounts and Grants Receivable | **1,190** | (159,313) |
| Prepaid Expenses | **(36,286)** | 14,140 |
| Accounts Payable | **10,980** | 23,606 |
| Accrued Compensation and Benefits | **50,758** | (6,581) |
| Other Current Liabilities | **(702)** | 10,582 |
| Deferred Revenue | **(71,080)** | (71,081) |
| Net Cash Flows From Operating Activities | **(130,111)** | 140,634 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of Property and Equipment | **(182,872)** | (108,904) |
| Sale of Investments | **119,808** | 486,868 |
| Purchase of Investments | **(121,437)** | (364,796) |
| Net Cash Flows From Investing Activities | **(184,501)** | 13,168 |
| NET CHANGE IN CASH AND RESTRICTED CASH | **(314,612)** | 153,802 |
| CASH AND RESTRICTED CASH at Beginning of Year | **598,663** | 444,861 |
| CASH AND RESTRICTED CASH at End of Year | **$ 284,051** | $ 598,663 |
| STATEMENT OF FINANCIAL POSITION PRESENTATION: | | |
| Cash | **$ 247,362** | $ 539,083 |
| Restricted Cash | **36,689** | 59,580 |
| Total | **$ 284,051** | $ 598,663 |

*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. 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 Organization's financial statements have been prepared on 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:

Unrestricted Net Assets - Resources over which the Board of Directors has discretionary control. Designated amounts represent those net assets which the Board has set aside for a particular purpose.

Temporarily Restricted - Resources 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 statement of activities as net assets released from restrictions.

Permanently Restricted - Those resources subject to donor imposed restrictions which will be maintained permanently by the Organization. Permanently restricted endowments were $20,500 at December 31, 2017 and 2016.

#### 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 May 2, 2018, the date the financial statements were available to be issued.

## 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.

The Organization has adopted the accounting guidance in FASB Accounting Standards Update (ASU) No. 2016-18, *Restricted Cash (Topic 230): Statement of Cash Flows.* ASU 2016-18 requires organizations to explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash should be included with cash when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The ASU is effective for fiscal years beginning after December 15, 2017. The Organization early adopted this standard in 2016, as permitted.

### 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 bond 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 certificates of deposit. The certificates of deposit 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, temporarily restricted net assets are reclassified to unrestricted net assets 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 unrestricted support.

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 $315,055 and $221,550 in 2017 and 2016.

### 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 $122,105 and $115,218 in 2017 and 2016.

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 Organization allocates its expenses on a functional basis among the various elements of its programs and supporting services. Expenses that can be identified with a specific program element are allocated directly according to their natural expenditure classification.

**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.

**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.

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 were determined by reference to quoted prices in active markets, which are Level 1 inputs.

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

### 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. This ASU is effective for annual and interim periods beginning after December 15, 2018 with early adoption permitted. It can be adopted using either a retrospective approach or a modified retrospective approach. The Organization 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 annual and interim periods beginning after December 15, 2019 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.

In August 2016, FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, which provides guidance for presentation of financial statements of not-for-profit entities. The new guidance requires a number of changes in the financial statement presentation including presenting two classes of net assets, underwater endowments, investment return, enhanced disclosures on board designations and management of liquid resources for cash flows, and present expenses by their natural and functional classification. The ASU will be effective for financial statements for fiscal years beginning after December 15, 2017 with early adoption permitted. The amendments in this update should be applied on a retrospective basis. However, if presenting comparative financial statements, the Organization has the option to omit the following information for any periods presented before the period of adoption: analysis of expenses by both natural classification and functional classification and disclosures about liquidity and availability of resources. The Organization is currently evaluating the impact that the adoption of this guidance will have on the Organization's financial statements.

## NOTE 2 - INVESTMENTS

Investments consist of bond funds and certificates of deposit. The endowment fund includes permanently restricted contributions of $20,500 as of December 31, 2017 and 2016.

Investments at December 31, 2017 and 2016 consist of the following:

| | **2017** | 2016 |
|---|---|---|
| Bond Funds | **$ 611,825** | $ 592,510 |
| Certificates of Deposit | **366,425** | 364,796 |
| Total | **$ 978,250** | $ 957,306 |

## NOTE 2 - INVESTMENTS (Continued)

Investment income consists of the following:

| | **2017** | 2016 |
|---|---|---|
| Interest and Dividend Income | **$ 18,176** | $ 20,631 |
| Net Unrealized Investment Gains | **2,426** | 5,767 |
| Total | **$ 20,602** | $ 26,398 |

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 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

| | **2017** | 2016 |
|---|---|---|
| Land | **$ 841,645** | $ 841,645 |
| Buildings | **8,258,236** | 8,111,908 |
| Furniture and Equipment | **375,801** | 339,257 |
| Vehicles | **428,826** | 428,826 |
| Total Property and Equipment | **9,904,508** | 9,721,636 |
| Less Accumulated Depreciation | **(4,072,449)** | (3,788,562) |
| Total | **$ 5,832,059** | $ 5,933,074 |

## NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2017 and 2016 consist of the following:

| | **2017** | 2016 |
|---|---|---|
| Restrictions for Specific Program Expenses | **$ 4,700** | $ 5,000 |
| Restrictions for Time and Program | **88,140** | 72,492 |
| Total | **$ 92,840** | $ 77,492 |

Temporarily restricted net assets released from restriction were $85,852 and $204,678 in 2017 and 2016. Temporarily restricted net assets were released from restriction due to satisfaction of time and program restrictions.

## NOTE 5 - LEASE COMMITMENTS

The Organization rents 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.

The Organization's rent expense and its share of the future minimum rental commitments under these operating leases are as follows:

| | |
|---|---|
| Expense: | |
| **2017** | **$ 35,615** |
| 2016 | 38,148 |
| | |
| Commitments: | |
| 2018 | $ 5,700 |
| 2019 | 5,700 |
| 2020 | 2,000 |
| Total Commitments | $ 13,400 |

The Organization subleases some of its facility space and services to another organization under a contract which expires in 2018. Rental income was $117,416 and $112,129 for the years ended December 31, 2017 and 2016, respectively. The total minimum future lease payments to be received under this sublease agreement is as follows:

| | |
|---|---|
| Commitments: | |
| 2018 | $ 99,800 |

## NOTE 6 - 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 $125,090 and $125,700 at December 31, 2017 and 2016, respectively, for eligible unemployment claims in Minnesota. No asset has been recorded on the Statement of Financial Position.

## NOTE 7 - 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 19% and 20% of all revenues in 2017 and 2016.

# Reports on Audit of Federal Financial Assistance

For The Year Ended December 31, 2017

## 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*

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, 2017, 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 May 2, 2018.

**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
May 2, 2018

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

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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, 2017. 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, 2017.

**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
May 2, 2018

## EAST SIDE NEIGHBORHOOD SERVICES, INC.

### SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
### YEAR ENDED DECEMBER 31, 2017

| 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 | * | $ 20,899 |
| Wisconsin Department of Public Instruction: | | | |
| School Nutrition Program | 10.558 | * | 7,209 |
| Total U.S Department of Agriculture | | | 28,108 |
| **U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:** | | | |
| Passed Through: | | | |
| City of Minneapolis: | | | |
| Community Development Block Grant (CDBG) Cluster: | | | |
| CDBG - Entitlement Grants | 14.218 | * | 97,281 |
| CDBG - Minneapolis Public Housing - Glendale Food Shelf | 14.218 | * | 40,000 |
| Total CDBG Cluster | | | 137,281 |
| Public and Indian Housing - Luxton | 14.850 | * | 10,000 |
| Total U.S. Department of Housing and Urban Development | | | 147,281 |
| **U.S. DEPARTMENT OF LABOR:** | | | |
| Passed Through: | | | |
| Senior Service America, Inc. | | | |
| Senior Community Service Employment | 17.235 | * | 1,381,675 |
| City of Minneapolis: | | | |
| Workforce Investment Act - Youth Activities | 17.259 | * | 93,307 |
| Total U.S. Department of Labor | | | 1,474,982 |
| **U.S. DEPARTMENT OF EDUCATION:** | | | |
| Passed Through: | | | |
| Minnesota Department of Education: | | | |
| Title I | 84.010 | * | 19,495 |
| Twenty-First Century Community Learning Centers | 84.287 | * | 503,108 |
| Total U.S Department of Education | | | 522,603 |
| **U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:** | | | |
| Passed Through: | | | |
| Metropolitan Council - Minnesota Board of Aging: | | | |
| Transportation Services - Title IIIb | 93.044 | * | 118,469 |
| **U.S. DEPARTMENT OF HOMELAND SECURITY:** | | | |
| Passed Through: | | | |
| Greater Twin Cities United Way: | | | |
| ARRA - Emergency Food and Shelter Program | 97.114 | * | 13,958 |
| Total Federal Awards | | | $ 2,305,401 |

* Pass-through grantors number was not available.

## NOTES TO SCHEDULE:

### Description of Major Program:

Twenty-First Century Community Learning Centers

This program provides students with academic enrichment opportunities during non-school hours to complement the student's regular academic program.

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, 2017

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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 |
|---|---|
| 84.287 | Twenty-First Century Community Learning Centers |

| | |
|---|---|
| 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.