

EAST SIDE NEIGHBORHOOD SERVICES, INC.
AUDITED FINANCIAL STATEMENTS
Years Ended December 31, 2012 and 2011

EAST SIDE NEIGHBORHOOD SERVICES, INC.

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INDEPENDENT AUDITOR'S 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., which comprise the Statements of Financial Position as of December 31, 2012 and 2011, and the related Statements of Activities, Functional Expenses and Cash Flows for the years then ended and related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit 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 of 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.



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, 2012 and 2011, 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

In accordance with *Government Auditing Standards*, we have also issued a report dated April 24, 2013, on our consideration of the entity'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 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.

Our audits were 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 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.

Kern, DeWenter, Viere, Ltd.

KERN, DEWENTER, VIERE, LTD.
Bloomington, Minnesota
April 24, 2013

AUDITED FINANCIAL STATEMENTS

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EAST SIDE NEIGHBORHOOD SERVICES, INC.

STATEMENTS OF FINANCIAL POSITION

	December 31,	
	<u>2012</u>	<u>2011</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 116,322	\$ 415,391
Restricted Cash	57,694	3,321
Investments	594,660	674,361
Accounts and Grants Receivable, Net of Allowance for Doubtful Accounts of \$ 25,000 for both years	545,617	235,808
Prepaid Expenses	36,777	15,688
Total Current Assets	<u>1,351,070</u>	<u>1,344,569</u>
Property and Equipment, Net	6,261,843	6,105,651
Investments	<u>18,000</u>	<u>18,000</u>
Total Assets	<u><u>\$ 7,630,913</u></u>	<u><u>\$ 7,468,220</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	\$ 57,823	\$ 29,973
Accrued Wages and Related Taxes	212,758	167,876
Other Current Liabilities	11,416	16,586
Deferred Revenue	-	10,705
Total Current Liabilities	<u>281,997</u>	<u>225,140</u>
Net Assets		
Unrestricted:		
Undesignated	968,454	1,024,093
Investment in Property and Equipment	6,261,843	6,105,651
Temporarily Restricted	100,619	95,336
Permanently Restricted	18,000	18,000
Total Net Assets	<u>7,348,916</u>	<u>7,243,080</u>
Total Liabilities and Net Assets	<u><u>\$ 7,630,913</u></u>	<u><u>\$ 7,468,220</u></u>

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

EAST SIDE NEIGHBORHOOD SERVICES, INC.

STATEMENTS OF ACTIVITIES
Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES				
Public Support				
Contributions	\$ 287,116	\$ 135,000	\$ -	\$ 422,116
In-Kind Contributions	483,030	-	-	483,030
United Way	383,314	-	-	383,314
Grants				
Federal	1,340,688	-	-	1,340,688
State	500	-	-	500
County	544,844	-	-	544,844
Service Fees				
Contract Revenue	1,119,255	-	-	1,119,255
Special Event Fees	45,662	-	-	45,662
Client Fees	472,627	-	-	472,627
Merchandise Sales	96,560	-	-	96,560
Other				
Investment Income	21,000	-	-	21,000
Rental Income	57,978	-	-	57,978
Lease Income	60,609	-	-	60,609
Program Reimbursements	6,386	-	-	6,386
Total Support and Revenues before Net Assets Released from Restrictions	4,919,569	135,000	-	5,054,569
Net Assets Released from Restrictions	129,717	(129,717)	-	-
Total Support and Revenues	5,049,286	5,283	-	5,054,569
EXPENSES				
Program Services				
Senior Services	1,246,139	-	-	1,246,139
Early Childhood Education	684,053	-	-	684,053
Community Services	475,833	-	-	475,833
Employment	425,879	-	-	425,879
Alternative School	513,938	-	-	513,938
Youth Services	636,150	-	-	636,150
Total Program Services	3,981,992	-	-	3,981,992
Supporting Services				
Management and General	722,013	-	-	722,013
Fundraising	244,728	-	-	244,728
Total Supporting Services	966,741	-	-	966,741
Total Expenses	4,948,733	-	-	4,948,733
Change in Net Assets	100,553	5,283	-	105,836
NET ASSETS				
Beginning of Year	7,129,744	95,336	18,000	7,243,080
End of Year	\$ 7,230,297	\$ 100,619	\$ 18,000	\$ 7,348,916

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

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

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, 2012

	Program Services						Total
	Senior Services	Early Childhood Education	Community Services	Employment	Alternative School	Youth Services	
Salaries and Wages	\$ 916,725	\$ 406,444	\$ 177,050	\$ 254,135	\$ 320,679	\$ 406,874	\$ 2,481,907
Payroll Taxes	90,747	48,951	24,173	29,201	37,388	50,144	280,604
Employee Benefits	30,857	47,958	17,059	38,196	31,350	36,141	201,561
Total Salaries and Related Expenses	1,038,329	503,353	218,282	321,532	389,417	493,159	2,964,072
Office Expenses	41,211	33,784	21,875	25,299	21,597	28,509	172,275
Client Services	-	-	24,382	10,954	-	2,976	38,312
Supplies and Equipment	67,368	33,356	113,435	9,103	21,804	44,070	289,136
Occupancy	31,289	52,553	72,095	27,124	37,691	34,694	255,446
Travel and Transportation	34,490	514	3,974	503	369	7,550	47,400
Total Expenses before Depreciation	1,212,687	623,560	454,043	394,515	470,878	610,958	3,766,641
Depreciation	33,452	60,493	21,790	31,364	43,060	25,192	215,351
Total Expenses	<u>\$ 1,246,139</u>	<u>\$ 684,053</u>	<u>\$ 475,833</u>	<u>\$ 425,879</u>	<u>\$ 513,938</u>	<u>\$ 636,150</u>	<u>\$ 3,981,992</u>
	Supporting Services						
	Management and General	Fundraising	Total	Total			
Salaries and Wages	\$ 497,091	\$ 158,766	\$ 655,857	\$ 3,137,764			
Payroll Taxes	46,682	14,932	61,614	342,218			
Employee Benefits	42,609	22,446	65,055	266,616			
Total Salaries and Related Expenses	586,382	196,144	782,526	3,746,598			
Office Expenses	130,263	16,117	146,380	318,655			
Client Services	-	-	-	38,312			
Supplies and Equipment	1,750	22,510	24,260	313,396			
Occupancy	-	7,723	7,723	263,169			
Travel and Transportation	1,284	1,085	2,369	49,769			
Total Expenses before Depreciation	719,679	243,579	963,258	4,729,899			
Depreciation	2,334	1,149	3,483	218,834			
Total Expenses	<u>\$ 722,013</u>	<u>\$ 244,728</u>	<u>\$ 966,741</u>	<u>\$ 4,948,733</u>			

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	\$ 1,234,593	\$ 663,598	\$ 317,207	\$ 467,447	\$ 557,900	\$ 569,618	\$ 3,810,363
	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	\$ 717,538	\$ 234,046	\$ 951,584	\$ 4,761,947			

EAST SIDE NEIGHBORHOOD SERVICES, INC.

STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2012	2011
CASH FLOWS - OPERATING ACTIVITIES		
Change in Net Assets	\$ 105,836	\$ (265,949)
Adjustments to Reconcile Change in Net Asset to Net Cash Flows - Operating Activities:		
Depreciation	218,834	217,523
Allowance for Doubtful Accounts	-	(25,000)
Reinvested Interest Income	(2,557)	-
Unrealized Gain on Investment	(17,742)	(26,231)
Donated Property and Equipment	(339,567)	-
Change in Assets and Liabilities:		
Accounts and Grants Receivable	(309,809)	90,481
Prepaid Expenses	(21,089)	3,241
Accounts Payable	27,850	(58,683)
Accrued Wages and Related Taxes	44,882	(5,387)
Other Current Liabilities	(5,170)	2,776
Deferred Revenue	(10,705)	(23,791)
Total Adjustments	(415,073)	174,929
Net Cash Flows - Operating Activities	(309,237)	(91,020)
 CASH FLOW - INVESTING ACTIVITIES		
Purchase of Property and Equipment	(35,459)	(26,582)
Sale (Purchase) of Investments	100,000	(5,500)
Net Cash Flow - Investing Activities	64,541	(32,082)
 Net Change in Cash and Cash Equivalents	(244,696)	(123,102)
 CASH AND CASH EQUIVALENTS		
Beginning of Year	418,712	541,814
 End of Year	\$ 174,016	\$ 418,712
 STATEMENTS OF FINANCIAL POSITION PRESENTATION		
Cash and Cash Equivalents	\$ 116,322	\$ 415,391
Restricted Cash	57,694	3,321
Total	\$ 174,016	\$ 418,712

EAST SIDE NEIGHBORHOOD SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012 and 2011

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 accounting principles generally accepted in the United States of America 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 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 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, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

The Agency considers cash in all financial institutions and 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 \$ 57,694 and \$ 3,321 at December 31, 2012 and 2011, respectively, for this program.

Investments

Investments consist of a bond fund carried at fair value and brokered 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 for both years ended December 31, 2012 and 2011. 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. Property and equipment is 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 \$ 218,834 and \$ 217,523 for the years ended December 31, 2012 and 2011, 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, 2012 and 2011.

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 \$ 118,118 and \$ 109,774 at December 31, 2012 and 2011, respectively.

EAST SIDE NEIGHBORHOOD SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS December 31, 2012 and 2011

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. Restricted contributions whose restrictions are met in the same reporting period are recorded as unrestricted contributions.

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, 2012 and 2011

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 \$ 4,632 and \$ 6,803 at December 31, 2012 and 2011, respectively.

Tax Status

The Agency is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). The Agency is also exempt from Minnesota Franchise or income tax.

The Agency is required to assess whether an uncertain tax position exists and if there should be recognition of a related benefit or liability in the financial statements. The Agency has determined there are not amounts to record as assets or liabilities related to uncertain tax positions. Generally, the Agency is no longer subject to examination by tax authorities for years before 2009.

Subsequent Events

The Agency has evaluated subsequent events through April 24, 2013, the date which the financial statements were available to be issued.

NOTE 2 – CASH AND CASH EQUIVALENTS

	December 31,	
	2012	2011
Checking and Savings Accounts	\$ 105,621	\$ 155,231
Petty Cash	884	884
Money Market	2,684	2,614
Certificate of Deposit	7,133	256,662
	<u> </u>	<u> </u>
Total Cash and Cash Equivalents	<u>\$ 116,322</u>	<u>\$ 415,391</u>

NOTE 3 – INVESTMENTS

	December 31,	
	2012	2011
Bond Fund	\$ 337,103	\$ 419,361
Brokered Certificates of Deposit	275,557	273,000
	<u> </u>	<u> </u>
Total Investments	<u>\$ 612,660</u>	<u>\$ 692,361</u>

EAST SIDE NEIGHBORHOOD SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 3 – INVESTMENTS

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

	December 31,	
	2012	2011
Current	\$ 594,660	\$ 674,361
Long-Term	18,000	18,000
Total Investments	<u>\$ 612,660</u>	<u>\$ 692,361</u>

Investment income is summarized as follows:

	Years Ended December 31,	
	2012	2011
Interest Income	\$ 3,258	\$ 6,676
Net Unrealized Gain	17,742	26,231
Investment Income	<u>\$ 21,000</u>	<u>\$ 32,907</u>

NOTE 4 – 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 were no changes in the methodologies used in 2012 and 2011.

Fair value for the bond fund is determined by reference to quoted market prices.

Fair value for the donated land and building is determined by the value of the price for similar properties in similar locations obtained from independent appraisal.

Fair value for the donated vehicles is determined by reference to market prices for similar vehicles.

EAST SIDE NEIGHBORHOOD SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 4 – FAIR VALUE MEASUREMENTS

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

Description	Level 1	Level 2	Level 3	Total
December 31, 2012:				
Donated Land & Building	\$ -	\$ 297,465	\$ -	\$ 297,465
Donated Vehicles	-	77,500	-	77,500
Bond Fund	337,103	-	-	337,103
	<u>\$ 337,103</u>	<u>\$ 374,965</u>	<u>\$ -</u>	<u>\$ 712,068</u>
December 31, 2011:				
Bond Fund	<u>\$ 419,361</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 419,361</u>

Gains and losses (realized and unrealized) are reported in investment income. See Note 3 for details.

NOTE 5 – PROPERTY AND EQUIPMENT

	December 31,	
	2012	2011
Land	\$ 841,645	\$ 741,645
Buildings	7,631,894	7,434,429
Leasehold Improvements	9,048	9,048
Furniture	75,575	75,575
Equipment	196,779	196,779
Vehicles	312,292	234,731
Total Property and Equipment	<u>9,067,233</u>	<u>8,692,207</u>
Less Accumulated Depreciation	<u>(2,805,390)</u>	<u>(2,586,556)</u>
Property and Equipment, Net	<u>\$ 6,261,843</u>	<u>\$ 6,105,651</u>

NOTE 6 – 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 \$ 60,609 and \$ 58,451 for the years ended December 31, 2012 and 2011, respectively. The total minimum future lease payments to be received under these sublease agreements are as follows:

2013	<u>\$ 56,452</u>
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EAST SIDE NEIGHBORHOOD SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012 and 2011

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 \$ 54,712 and \$ 44,575 for the years ended December 31, 2012 and 2011, respectively. In addition, in-kind rent recorded for donated space was \$ 18,804 and \$ 18,800 for the years ended December 31, 2012 and 2011, respectively. Total minimum future lease payments are as follows:

2013	\$ 19,000
2014	9,000
2015	<u>7,500</u>
Total Minimum Future Rental Payments	<u>\$ 35,500</u>

NOTE 8 – 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 \$ 98,790 and \$ 89,823 for the years ended December 31, 2012 and 2011, respectively.

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

NOTE 9 – SUPPLEMENTAL CASH FLOW INFORMATION

During the year ended December 31, 2012, the Agency received donated land, building and vehicles totaling \$ 339,567.

There were no amounts paid for interest or income taxes during the years ended December 31, 2012 and 2011.

NOTE 10 – 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 \$ 159,260 and \$ 95,460 at December 31, 2012 and 2011, respectively, for eligible unemployment insurance claims in Minnesota. No asset has been recorded on the Statements of Financial Position.

EAST SIDE NEIGHBORHOOD SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 10 – CONTINGENCIES

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 11 – CONCENTRATIONS

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.

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

In addition, the Agency had four sources with accounts and grants receivable balances in excess of 10% of total accounts and grants receivable at December 31, 2012 totaling \$ 370,547.

NOTE 12 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	December 31,	
	2012	2011
Restricted for Specific Program Expenses	\$ 45,618	\$ 48,668
Restricted for Time and Program	55,001	46,668
Total Temporarily Restricted Net Assets	<u>\$ 100,619</u>	<u>\$ 95,336</u>

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

	Years Ended December 31,	
	2012	2011
Released for Program Expenses	\$ 48,050	\$ 141,492
Released for Time and Program Expenses	81,667	69,999
Total Temporarily Restricted Net Assets	<u>\$ 129,717</u>	<u>\$ 211,491</u>

EAST SIDE NEIGHBORHOOD SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS December 31, 2012 and 2011

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 in the United States of America, 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, 2012 and 2011

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,	
	2012	2011
Endowment Net Asset Composition:		
Donor Restricted Endowment Funds for Camp Bovey	<u>\$ 18,000</u>	<u>\$ 18,000</u>

Reconciliation of the Endowment

	Years Ended December 31,	
	2012	2011
Permanently Restricted:		
Endowment Net Assets, Beginning of Year	\$ 18,000	\$ 17,500
Contributions	<u>-</u>	<u>500</u>
Endowment Net Assets, End of Year	<u>\$ 18,000</u>	<u>\$ 18,000</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
For the Year Ended December 31, 2012**

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	\$ 22,519
Wisconsin Department of Public Instruction:		
School Nutrition Program	10.558	5,078
Total U.S. Department of Agriculture		<u>27,597</u>
U.S. Department of Housing and Urban Development		
Pass-Through:		
City of Minneapolis:		
Community Development Block Grant (CDBG) Cluster:		
CDBG - Entitlement Grants	14.218	116,996
CDBG - Minneapolis Public Housing - Glendale Food Shelf	14.218	40,000
Total CDBG Cluster		<u>156,996</u>
Public and Indian Housing - Luxton	14.850	10,000
Total U.S. Department of Housing and Urban Development		<u>166,996</u>
U.S. Department of Labor		
Pass-Through:		
Senior Service America, Inc.:		
Senior Community Service Employment	17.235	817,923
City of Minneapolis:		
Workforce Investment Act Cluster:		
Workforce Investment Act - Adult Program	17.258	4,600
Workforce Investment Act - Youth Activities	17.259	62,667
Total Workforce Investment Act Cluster		<u>67,267</u>
Total U.S. Department of Labor		<u>885,190</u>
U.S. Department of Education		
Pass-Through:		
Minnesota Department of Education:		
Title I	84.010	15,375
Twenty-First Century Community Learning Centers	84.287	170,156
Total U.S. Department of Education		<u>185,531</u>
U.S. Department of Health and Human Services		
Pass-Through:		
Metropolitan Council - Minnesota Board of Aging:		
Transportation Services - Title IIIb	93.044	75,374
Total Federal Awards		<u>\$ 1,340,688</u>

EAST SIDE NEIGHBORHOOD SERVICES, INC.

NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
December 31, 2012

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 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., as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Agency's financial statements, and have issued our report thereon dated April 24, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Agency'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 and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs in Accordance with OMB *Circular A-133* (Audit Finding 10-01) that we consider to be a significant deficiency.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from 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*.

The Agency's Response to Findings

The Agency's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs in Accordance with OMB *Circular A-133*. The Agency's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 result of that testing, and not to provide an opinion on the effectiveness of the Agency'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 Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kern, DeWenter, Viere, Ltd.
KERN, DEWENTER, VIERE, LTD.
Bloomington, Minnesota
April 24, 2013



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**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND
REPORT ON THE SCHEDULE OF EXPENDITURES FOR FEDERAL
AWARDS REQUIRED BY OMB *CIRCULAR A-133***

INDEPENDENT AUDITOR'S REPORT

Board of Directors
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 *Circular A-133* Compliance Supplement that could have a direct and material effect on each of the Agency's major federal programs for the year ended December 31, 2012. The Agency's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned cost.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Agency's major federal programs 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 OMB *Circular A-133*, Audits of States, Local Governments, and Non-Profit 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 on compliance for each major federal program. However, our audit does not provide legal determination of the Agency's compliance.



Opinion on Each Major Federal Program

In our opinion, East Side Neighborhood Services, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of the Agency 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 Agency's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. 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.

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 OMB *Circular A-133*. Accordingly, this report is not suitable for any other purpose.

Kern, DeWenter, Viere, Ltd.

KERN, DEWENTER, VIERE, LTD.
Bloomington, Minnesota
April 24, 2013

EAST SIDE NEIGHBORHOOD SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB *CIRCULAR A-133*
December 31, 2012

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.	17.235
Name of Federal Program or Cluster:	Senior Community Service Employment
CFDA No.	84.287
Name of Federal Program or Cluster:	Twenty-First Century Community Learning Centers
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, 2012

SECTION II – FINANCIAL STATEMENT FINDING

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 accounting principles generally accepted in the United States of America.

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 accounting principles generally accepted in the United States of America. 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.