

EAST SIDE NEIGHBORHOOD SERVICES, INC.

FINANCIAL STATEMENTS  
TOGETHER WITH  
INDEPENDENT AUDITORS' REPORT  
AND UNIFORM GUIDANCE SUPPLEMENTARY  
FINANCIAL REPORTS

DECEMBER 31, 2015

# 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, 2015 and 2014 and the related statements of activities, cash flows and functional expenses 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.

## 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, 2015 and 2014, 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 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 April 27, 2016 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 Thielken + Co., LTD*

St. Paul, Minnesota  
April 27, 2016

**EAST SIDE NEIGHBORHOOD SERVICES, INC.**

**STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2015 AND 2014**

ASSETS		
	2015	2014
<b>CURRENT ASSETS:</b>		
Cash	\$ 341,545	\$ 329,559
Restricted Cash	103,316	18,670
Accounts and Grants Receivable, Net of Allowance for Doubtful Accounts of \$25,000	357,650	287,780
Prepaid Expenses	30,322	31,169
Investments	1,055,234	1,049,863
Total Current Assets	1,888,067	1,717,041
PROPERTY AND EQUIPMENT, NET	6,105,113	6,171,332
TOTAL ASSETS	\$ 7,993,180	\$ 7,888,373
LIABILITIES AND NET ASSETS		
<b>CURRENT LIABILITIES:</b>		
Accounts Payable	\$ 62,076	\$ 120,840
Accrued Compensation and Benefits	293,597	252,459
Other Current Liabilities	7,420	11,979
Deferred Revenue	71,080	47,580
Total Current Liabilities	434,173	432,858
LONG-TERM LIABILITIES:		
Deferred Revenue	136,247	138,786
<b>NET ASSETS:</b>		
Unrestricted Net Assets:		
Undesignated	1,092,232	1,007,163
Board Designated - Property and Equipment	6,105,113	6,171,332
Total Unrestricted Net Assets	7,197,345	7,178,495
Temporarily Restricted Net Assets	205,415	118,234
Permanently Restricted Net Assets	20,000	20,000
Total Net Assets	7,422,760	7,316,729
TOTAL LIABILITIES AND NET ASSETS	\$ 7,993,180	\$ 7,888,373

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

## EAST SIDE NEIGHBORHOOD SERVICES, INC.

### STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2015

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>PUBLIC SUPPORT AND REVENUES:</b>				
Public Support:				
Contributions	\$ 302,928	\$ 254,289	\$	\$ 557,217
In-Kind Contributions	241,219			241,219
United Way	319,001			319,001
Revenues:				
Government Grants and Contracts:				
Federal	2,245,792			2,245,792
State and County	1,144,739			1,144,739
Service Fees:				
Contract Revenue	1,306,095			1,306,095
Client Fees	673,699			673,699
Special Event Fees	54,681			54,681
Other:				
Investment Income	5,861			5,861
Room Rental Income	76,160			76,160
Lease Income	121,147			121,147
Program Reimbursements	33,277			33,277
Net Assets Released from Restrictions	167,108	(167,108)		-
Total Support and Revenues	<u>6,691,707</u>	<u>87,181</u>	<u>-</u>	<u>6,778,888</u>
<b>EXPENSES:</b>				
Program Services:				
Senior Services	1,884,397			1,884,397
Early Childhood Education	758,066			758,066
Community Services	677,615			677,615
Employment	533,499			533,499
Alternative School	676,293			676,293
Youth Services	974,101			974,101
Total Program Services	<u>5,503,971</u>	<u>-</u>	<u>-</u>	<u>5,503,971</u>
Supporting Services:				
Management and General	833,627			833,627
Fundraising	335,259			335,259
Total Expenses	<u>6,672,857</u>	<u>-</u>	<u>-</u>	<u>6,672,857</u>
CHANGE IN NET ASSETS	18,850	87,181		106,031
NET ASSETS, Beginning of Year	<u>7,178,495</u>	<u>118,234</u>	<u>20,000</u>	<u>7,316,729</u>
NET ASSETS, End of Year	<u>\$ 7,197,345</u>	<u>\$ 205,415</u>	<u>\$ 20,000</u>	<u>\$ 7,422,760</u>

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

**EAST SIDE NEIGHBORHOOD SERVICES, INC.**

**STATEMENT OF ACTIVITIES (Continued)**  
**YEAR ENDED DECEMBER 31, 2014**

	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>PUBLIC SUPPORT AND REVENUES:</b>				
Public Support:				
Contributions	\$ 253,591	\$ 198,701	\$ 500	\$ 452,792
In-Kind Contributions	266,780			266,780
United Way	385,500			385,500
Revenues:				
Government Grants and Contracts:				
Federal	2,120,018			2,120,018
State and County	980,261			980,261
Service Fees:				
Contract Revenue	1,159,840			1,159,840
Client Fees	512,477			512,477
Special Event Fees	51,846			51,846
Other:				
Investment Income	40,727			40,727
Room Rental Income	80,736			80,736
Lease Income	73,626			73,626
Program Reimbursements	82,171			82,171
Net Assets Released from Restrictions	193,714	(193,714)		-
Total Support and Revenues	<u>6,201,287</u>	<u>4,987</u>	<u>500</u>	<u>6,206,774</u>
<b>EXPENSES:</b>				
Program Services:				
Senior Services	1,849,598			1,849,598
Early Childhood Education	690,841			690,841
Community Services	683,419			683,419
Employment	472,706			472,706
Alternative School	596,319			596,319
Youth Services	859,931			859,931
Total Program Services	<u>5,152,814</u>	<u>-</u>	<u>-</u>	<u>5,152,814</u>
Supporting Services:				
Management and General	872,017			872,017
Fundraising	251,773			251,773
Total Expenses	<u>6,276,604</u>	<u>-</u>	<u>-</u>	<u>6,276,604</u>
CHANGE IN NET ASSETS	(75,317)	4,987	500	(69,830)
NET ASSETS, Beginning of Year	<u>7,253,812</u>	<u>113,247</u>	<u>19,500</u>	<u>7,386,559</u>
NET ASSETS, End of Year	<u>\$ 7,178,495</u>	<u>\$ 118,234</u>	<u>\$ 20,000</u>	<u>\$ 7,316,729</u>

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

## EAST SIDE NEIGHBORHOOD SERVICES, INC.

### STATEMENT OF CASH FLOWS YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 106,031	\$ (69,830)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By Operating Activities:		
Depreciation	258,449	230,812
Reinvested Investment Income	(18,430)	(30,398)
Unrealized (Gain) Loss on Investments	15,163	(4,603)
Changes in Assets and Liabilities:		
Accounts and Grants Receivable	(69,870)	124,095
Prepaid Expenses	847	8,591
Accounts Payable	(58,764)	64,398
Accrued Compensation and Benefits	41,138	37,194
Other Current Liabilities	(4,559)	(7,477)
Deferred Revenue	(71,080)	(70,792)
Net Cash Provided By Operating Activities	198,925	281,990
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Property and Equipment	(192,230)	(363,908)
Sale of Investments	484,764	278,140
Purchase of Investments	(486,868)	(484,764)
Deferred Revenue	92,041	233,946
Net Cash Used In Investing Activities	(102,293)	(336,586)
NET CHANGE IN CASH	96,632	(54,596)
CASH at Beginning of Year	348,229	402,825
CASH at End of Year	\$ 444,861	\$ 348,229
STATEMENT OF FINANCIAL POSITION PRESENTATION:		
Cash	\$ 341,545	\$ 329,559
Restricted Cash	103,316	18,670
Total	\$ 444,861	\$ 348,229

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



**EAST SIDE NEIGHBORHOOD SERVICES, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2015**

	<u>Program Services</u>						<u>Supporting Services</u>			
	<u>Senior Services</u>	<u>Early Childhood Education</u>	<u>Community Services</u>	<u>Employment</u>	<u>Alternative School</u>	<u>Youth Services</u>	<u>Total</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Personnel Costs:										
Salaries and Wages	\$ 1,459,582	\$ 489,225	\$ 276,549	\$ 293,129	\$ 434,846	\$ 639,021	\$ 3,592,352	\$ 550,167	\$ 184,575	\$ 4,327,094
Payroll Taxes	130,250	47,394	28,446	28,760	42,520	64,792	342,162	44,434	14,654	401,250
Employee Benefits Costs	33,288	48,148	26,198	30,435	45,225	61,824	245,118	48,790	23,292	317,200
Total Personnel Costs	<u>1,623,120</u>	<u>584,767</u>	<u>331,193</u>	<u>352,324</u>	<u>522,591</u>	<u>765,637</u>	<u>4,179,632</u>	<u>643,391</u>	<u>222,521</u>	<u>5,045,544</u>
Occupancy	44,828	53,067	35,011	32,709	46,477	42,007	254,099	404	5,966	260,469
Client Services	-	-	13,835	43,520	-	2,910	60,265	-	-	60,265
Supplies and Equipment	95,322	36,569	230,167	10,898	22,166	70,709	465,831	4,494	55,262	525,587
Travel and Transportation	33,693	443	13,524	943	2,030	13,171	63,804	849	2,813	67,466
Office Expense	53,843	23,089	14,109	55,412	29,567	49,956	225,976	181,752	47,349	455,077
Depreciation	<u>33,591</u>	<u>60,131</u>	<u>39,776</u>	<u>37,693</u>	<u>53,462</u>	<u>29,711</u>	<u>254,364</u>	<u>2,737</u>	<u>1,348</u>	<u>258,449</u>
<b>TOTAL EXPENSES</b>	<b><u>\$ 1,884,397</u></b>	<b><u>\$ 758,066</u></b>	<b><u>\$ 677,615</u></b>	<b><u>\$ 533,499</u></b>	<b><u>\$ 676,293</u></b>	<b><u>\$ 974,101</u></b>	<b><u>\$ 5,503,971</u></b>	<b><u>\$ 833,627</u></b>	<b><u>\$ 335,259</u></b>	<b><u>\$ 6,672,857</u></b>

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

**EAST SIDE NEIGHBORHOOD SERVICES, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2014**

	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	\$ 1,417,690	\$ 418,779	\$ 250,329	\$ 260,843	\$ 373,991	\$ 542,681	\$ 3,264,313	\$ 589,855	\$ 156,348	\$ 4,010,516
Payroll Taxes	131,810	47,115	29,240	30,449	41,053	61,873	341,540	51,377	13,750	406,667
Employee Benefits Costs	31,578	42,404	17,469	24,970	32,545	46,690	195,656	52,203	17,605	265,464
Total Personnel Costs	<u>1,581,078</u>	<u>508,298</u>	<u>297,038</u>	<u>316,262</u>	<u>447,589</u>	<u>651,244</u>	<u>3,801,509</u>	<u>693,435</u>	<u>187,703</u>	<u>4,682,647</u>
Occupancy	44,555	64,295	42,238	27,416	50,970	43,370	272,844	-	1,170	274,014
Client Services	-	-	15,214	23,452	-	2,813	41,479	-	-	41,479
Supplies and Equipment	76,148	24,861	264,314	28,455	29,208	76,300	499,286	13,451	38,762	551,499
Travel and Transportation	45,703	296	22,545	764	664	11,893	81,865	790	2,582	85,237
Office Expense	56,982	36,400	18,903	49,947	20,265	46,091	228,588	161,950	20,378	410,916
Depreciation	45,132	56,691	23,167	26,410	47,623	28,220	227,243	2,391	1,178	230,812
 TOTAL EXPENSES	 <u>\$ 1,849,598</u>	 <u>\$ 690,841</u>	 <u>\$ 683,419</u>	 <u>\$ 472,706</u>	 <u>\$ 596,319</u>	 <u>\$ 859,931</u>	 <u>\$ 5,152,814</u>	 <u>\$ 872,017</u>	 <u>\$ 251,773</u>	 <u>\$ 6,276,604</u>

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

# EAST SIDE NEIGHBORHOOD SERVICES, INC.

## NOTES TO FINANCIAL STATEMENTS

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### 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 \$20,000 at December 31, 2015 and 2014.

#### 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 April 27, 2016, the date the financial statements were available to be issued.

# EAST SIDE NEIGHBORHOOD SERVICES, INC.

## NOTES TO FINANCIAL STATEMENTS

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### 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 restricted cash in the amounts of \$103,316 and \$18,670 at December 31, 2015 and 2014, respectively.

#### 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.

# EAST SIDE NEIGHBORHOOD SERVICES, INC.

## NOTES TO FINANCIAL STATEMENTS

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### 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 \$241,219 and \$266,780 in 2015 and 2014.

#### 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 \$115,605 and \$119,482 in 2015 and 2014.

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.

# EAST SIDE NEIGHBORHOOD SERVICES, INC.

## NOTES TO FINANCIAL STATEMENTS

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### 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 and cash equivalents. The Organization places its cash and cash equivalents with high credit quality financial institutions and has not experienced any losses in such accounts. The Organization has a credit risk concentration as a result of depositing \$458,838 of funds in excess of insurance limits in a single bank.

#### Fair Value Measurements

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

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

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

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

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.

# EAST SIDE NEIGHBORHOOD SERVICES, INC.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 2 - INVESTMENTS

Investments consist of bond funds and certificates of deposit. The endowment fund includes permanently restricted contributions of \$20,000 as of December 31, 2015 and 2014.

Investments at December 31, 2015 and 2014 consist of the following:

	<u>2015</u>	<u>2014</u>
Bond Funds	\$ 568,366	\$ 565,098
Certificates of Deposit	<u>486,868</u>	<u>484,765</u>
Total	<u>\$ 1,055,234</u>	<u>\$ 1,049,863</u>

Investment income consists of the following:

	<u>2015</u>	<u>2014</u>
Interest and Dividend Income	\$ 21,024	\$ 36,124
Net Unrealized Investment Gains (Losses)	<u>(15,163)</u>	<u>4,603</u>
Total	<u>\$ 5,861</u>	<u>\$ 40,727</u>

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:

	<u>2015</u>	<u>2014</u>
Land	\$ 841,645	\$ 841,645
Construction Work in Progress	-	241,946
Buildings	8,111,908	7,738,777
Furniture and Equipment	302,895	298,596
Vehicles	<u>356,283</u>	<u>312,292</u>
Total Property and Equipment	9,612,731	9,433,256
Less Accumulated Depreciation	<u>(3,507,618)</u>	<u>(3,261,924)</u>
Total	<u>\$ 6,105,113</u>	<u>\$ 6,171,332</u>

# EAST SIDE NEIGHBORHOOD SERVICES, INC.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2015 and 2014 consist of the following:

	<u>2015</u>	<u>2014</u>
Restrictions for Specific Program Expenses	\$ 73,333	\$ 49,596
Restrictions for Time and Program	<u>132,082</u>	<u>68,638</u>
Total	<u>\$ 205,415</u>	<u>\$ 118,234</u>

Temporarily restricted net assets released from restriction were \$167,108 and \$193,714 in 2015 and 2014. 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 between 2017 and 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:		
2015		\$ 31,211
2014		30,144
Commitments:		
2016		\$ 16,600
2017		16,600
2018		5,700
2019		5,700
2020		<u>2,000</u>
Total Commitments		<u>\$ 46,600</u>

The Organization subleases some of its facility space and services to another nonprofit under a contract which expires in 2018. Rental income was \$121,147 and \$73,626 for the years ended December 31, 2015 and 2014, respectively. The total minimum future lease payments to be received under this sublease agreement is as follows:

Commitments:		
2016		\$ 103,800
2017		106,400
2018		<u>99,800</u>
Total Commitments		<u>\$ 310,000</u>



## **EAST SIDE NEIGHBORHOOD SERVICES, INC.**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **NOTE 6 - CONTINGENCIES - UNEMPLOYMENT INSURANCE**

The Organization has elected out of 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 \$122,900 and \$108,900 at December 31, 2015 and 2014, 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 21% of all revenues in 2015 and 2014.

REPORTS ON AUDIT OF FEDERAL FINANCIAL  
ASSISTANCE

FOR THE YEAR ENDED DECEMBER 31, 2015

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of East Side Neighborhood Services, Inc., which comprise the statement of financial position as of December 31, 2015, 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 April 27, 2016.

**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.

St. Paul, Minnesota  
April 27, 2016

*Olsen Thielson + Co., LTD*

# 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, 2015. 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 the requirements of 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 each of the Organization'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 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 each 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 each of its major federal programs for the year ended December 31, 2015.

## 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 our opinion on compliance 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 communication is not suitable for any other purpose.

St. Paul, Minnesota  
April 27, 2016

*Olson Thielens + Co., LTD*

**EAST SIDE NEIGHBORHOOD SERVICES, INC.**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED DECEMBER 31, 2015**

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Federal Expenditures</u>
<b>U.S. DEPARTMENT OF AGRICULTURE:</b>			
Passed Through:			
Minnesota Department of Agriculture:			
School Nutrition Program	10.558	*	\$ 17,915
Wisconsin Department of Public Instruction:			
School Nutrition Program	10.558	*	<u>7,614</u>
Total U.S Department of Agriculture			<u>25,529</u>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</b>			
Passed Through:			
City of Minneapolis:			
Community Development Block Grant (CDBG) Cluster:			
CDBG - Entitlement Grants	14.218	*	115,115
CDBG - Minneapolis Public Housing - Glendale Food Shelf	14.218	*	<u>40,000</u>
Total CDBG Cluster			155,115
Public and Indian Housing - Luxton	14.850	*	<u>10,000</u>
Total U.S. Department of Housing and Urban Development			<u>165,115</u>
<b>U.S. DEPARTMENT OF LABOR:</b>			
Passed Through:			
Senior Service America, Inc.			
Senior Community Service Employment	17.235	*	1,406,016
City of Minneapolis:			
Workforce Investment Act - Youth Activities	17.259	*	<u>79,997</u>
Total U.S. Department of Labor			<u>1,486,013</u>
<b>U.S. DEPARTMENT OF EDUCATION:</b>			
Passed Through:			
Minnesota Department of Education:			
Title I	84.010	*	33,133
Twenty-First Century Community Learning Centers	84.287	*	<u>429,996</u>
Total U.S Department of Labor			<u>463,129</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</b>			
Passed Through:			
Metropolitan Council - Minnesota Board of Aging:			
Transportation Services - Title IIIb	93.044	*	<u>91,970</u>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY:</b>			
Passed Through:			
Greater Twin Cities United Way:			
ARRA - Emergency Food and Shelter Program	97.114	*	<u>14,036</u>
Total Federal Awards			<u>\$ 2,245,792</u>

\* Pass-through grantors number was not available.

## EAST SIDE NEIGHBORHOOD SERVICES, INC.

### SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued) YEAR ENDED DECEMBER 31, 2015

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#### NOTES TO SCHEDULE:

##### Description of Major Program:

###### Senior Community Service Employment Program

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

###### Basis of Presentation

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

###### Summary of Significant Accounting Policies

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



**EAST SIDE NEIGHBORHOOD SERVICES, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 2015**

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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  no
- Significant deficiency(ies) identified?  yes  no

Noncompliance material to financial statements noted?  yes  no

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified?  yes  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  no

Identification of major Programs:

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

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

Auditee qualified as low-risk auditee?  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.