

East Side Neighborhood Services, Inc.

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

December 31, 2016

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, 2016 and 2015 and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards shown on pages 20-21 is presented for the purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated April 26, 2017 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.

Roseville, Minnesota
April 26, 2017

Olsen Thielen + Co., Ltd.

EAST SIDE NEIGHBORHOOD SERVICES, INC.

**STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015**

ASSETS		
	2016	2015
CURRENT ASSETS:		
Cash	\$ 539,083	\$ 341,545
Restricted Cash	59,580	103,316
Accounts and Grants Receivable, Net of Allowance for Doubtful Accounts of \$25,000	516,963	357,650
Prepaid Expenses	16,182	30,322
Investments	957,306	1,055,234
Total Current Assets	2,089,114	1,888,067
PROPERTY AND EQUIPMENT, NET	5,933,074	6,105,113
TOTAL ASSETS	\$ 8,022,188	\$ 7,993,180
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts Payable	\$ 85,682	\$ 62,076
Accrued Compensation and Benefits	287,016	293,597
Other Current Liabilities	18,002	7,420
Deferred Revenue	71,080	71,080
Total Current Liabilities	461,780	434,173
LONG-TERM LIABILITIES:		
Deferred Revenue	65,166	136,247
NET ASSETS:		
Unrestricted Net Assets:		
Undesignated	1,464,176	1,092,232
Board Designated - Property and Equipment	5,933,074	6,105,113
Total Unrestricted Net Assets	7,397,250	7,197,345
Temporarily Restricted Net Assets	77,492	205,415
Permanently Restricted Net Assets	20,500	20,000
Total Net Assets	7,495,242	7,422,760
TOTAL LIABILITIES AND NET ASSETS	\$ 8,022,188	\$ 7,993,180

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

EAST SIDE NEIGHBORHOOD SERVICES, INC.

**STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016**

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
PUBLIC SUPPORT AND REVENUES:				
Public Support:				
Contributions	\$ 429,013	\$ 76,755	\$ 500	\$ 506,268
In-Kind Contributions	221,550			221,550
United Way	277,503			277,503
Revenues:				
Government Grants and Contracts:				
Federal	2,304,896			2,304,896
State and County	1,434,730			1,434,730
Service Fees:				
Contract Revenue	1,497,996			1,497,996
Client Fees	798,607			798,607
Special Event Fees	62,885			62,885
Other:				
Investment Income	26,398			26,398
Room Rental Income	35,998			35,998
Lease Income	114,629			114,629
Program Reimbursements	6,702			6,702
Net Assets Released from Restrictions	204,678	(204,678)		-
Total Support and Revenues	<u>7,415,585</u>	<u>(127,923)</u>	<u>500</u>	<u>7,288,162</u>
EXPENSES:				
Program Services:				
Senior Services	2,103,968			2,103,968
Early Childhood Education	942,842			942,842
Community Services	726,510			726,510
Employment	543,679			543,679
Alternative School	641,275			641,275
Youth Services	1,104,743			1,104,743
Total Program Services	<u>6,063,017</u>	<u>-</u>	<u>-</u>	<u>6,063,017</u>
Supporting Services:				
Management and General	862,952			862,952
Fundraising	289,711			289,711
Total Expenses	<u>7,215,680</u>	<u>-</u>	<u>-</u>	<u>7,215,680</u>
CHANGE IN NET ASSETS	199,905	(127,923)	500	72,482
NET ASSETS, Beginning of Year	<u>7,197,345</u>	<u>205,415</u>	<u>20,000</u>	<u>7,422,760</u>
NET ASSETS, End of Year	<u>\$ 7,397,250</u>	<u>\$ 77,492</u>	<u>\$ 20,500</u>	<u>\$ 7,495,242</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, 2015**

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
PUBLIC SUPPORT AND REVENUES:				
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	<u>167,108</u>	<u>(167,108)</u>		<u>—</u>
Total Support and Revenues	<u>6,691,707</u>	<u>87,181</u>	<u>—</u>	<u>6,778,888</u>
EXPENSES:				
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 FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2016**

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

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**

	Program Services							Supporting Services		
	Senior Services	Early Childhood Education	Community Services	Employment	Alternative School	Youth Services	Total	Management and General	Fundraising	Total
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>
 TOTAL EXPENSES	 <u>\$ 1,884,397</u>	 <u>\$ 758,066</u>	 <u>\$ 677,615</u>	 <u>\$ 533,499</u>	 <u>\$ 676,293</u>	 <u>\$ 974,101</u>	 <u>\$ 5,503,971</u>	 <u>\$ 833,627</u>	 <u>\$ 335,259</u>	 <u>\$ 6,672,857</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, 2016 AND 2015**

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 72,482	\$ 106,031
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By Operating Activities:		
Depreciation	280,943	258,449
Reinvested Investment Income	(18,377)	(18,430)
Unrealized (Gain) Loss on Investments	(5,767)	15,163
Changes in Assets and Liabilities:		
Accounts and Grants Receivable	(159,313)	(69,870)
Prepaid Expenses	14,140	847
Accounts Payable	23,606	(58,764)
Accrued Compensation and Benefits	(6,581)	41,138
Other Current Liabilities	10,582	(4,559)
Deferred Revenue	(71,081)	(71,080)
Net Cash Provided By Operating Activities	140,634	198,925
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Property and Equipment	(108,904)	(192,230)
Sale of Investments	486,868	484,764
Purchase of Investments	(364,796)	(486,868)
Deferred Revenue	—	92,041
Net Cash Provided By (Used In) Investing Activities	13,168	(102,293)
NET CHANGE IN CASH AND RESTRICTED CASH	153,802	96,632
CASH AND RESTRICTED CASH at Beginning of Year	444,861	348,229
CASH AND RESTRICTED CASH at End of Year	\$ 598,663	\$ 444,861
STATEMENT OF FINANCIAL POSITION PRESENTATION:		
Cash	\$ 539,083	\$ 341,545
Restricted Cash	59,580	103,316
Total	\$ 598,663	\$ 444,861

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

EAST SIDE NEIGHBORHOOD SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

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

Basis of Presentation

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

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

Temporarily Restricted - Resources received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted - Those resources subject to donor imposed restrictions which will be maintained permanently by the Organization. Permanently restricted endowments were \$20,500 and \$20,000 at December 31, 2016 and 2015.

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 26, 2017, the date the financial statements were available to be issued.

EAST SIDE NEIGHBORHOOD SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

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

Restricted Cash

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

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

Accounts and Grants Receivable

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

Property and Depreciation

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

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

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

Investments

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

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

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

EAST SIDE NEIGHBORHOOD SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

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 \$221,500 and \$241,219 in 2016 and 2015.

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 \$115,218 and \$115,605 in 2016 and 2015.

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

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 \$346,588 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 \$20,500 and \$20,000 as of December 31, 2016 and 2015.

Investments at December 31, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Bond Funds	\$ 592,510	\$ 568,366
Certificates of Deposit	<u>364,796</u>	<u>486,868</u>
Total	<u>\$ 957,306</u>	<u>\$ 1,055,234</u>

Investment income consists of the following:

	<u>2016</u>	<u>2015</u>
Interest and Dividend Income	\$ 20,631	\$ 21,024
Net Unrealized Investment Gains (Losses)	<u>5,767</u>	<u>(15,163)</u>
Total	<u>\$ 26,398</u>	<u>\$ 5,861</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>2016</u>	<u>2015</u>
Land	\$ 841,645	\$ 841,645
Buildings	<u>8,111,908</u>	<u>8,111,908</u>
Furniture and Equipment	<u>339,257</u>	<u>302,895</u>
Vehicles	<u>428,826</u>	<u>356,283</u>
Total Property and Equipment	<u>9,721,636</u>	<u>9,612,731</u>
Less Accumulated Depreciation	<u>(3,788,562)</u>	<u>(3,507,618)</u>
Total	<u>\$ 5,933,074</u>	<u>\$ 6,105,113</u>

EAST SIDE NEIGHBORHOOD SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Restrictions for Specific Program Expenses	\$ 5,000	\$ 73,333
Restrictions for Time and Program	<u>72,492</u>	<u>132,082</u>
Total	<u>\$ 77,492</u>	<u>\$ 205,415</u>

Temporarily restricted net assets released from restriction were \$204,678 and \$167,108 in 2016 and 2015. 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:		
2016		\$ 38,148
2015		31,211
Commitments:		
2017		\$ 16,600
2018		5,700
2019		5,700
2020		<u>2,000</u>
Total Commitments		<u>\$ 30,000</u>

The Organization subleases some of its facility space and services to another organization under a contract which expires in 2018. Rental income was \$112,129 and \$121,147 for the years ended December 31, 2016 and 2015, respectively. The total minimum future lease payments to be received under this sublease agreement is as follows:

Commitments:		
2017		\$ 106,400
2018		<u>99,800</u>
Total Commitments		<u>\$ 206,200</u>

EAST SIDE NEIGHBORHOOD SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

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 \$125,700 and \$122,900 at December 31, 2016 and 2015, 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 20% and 21% of all revenues in 2016 and 2015.

Reports on Audit of Federal Financial Assistance

For The Year Ended December 31, 2016

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of East Side Neighborhood Services, Inc., which comprise the statement of financial position as of December 31, 2016, 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 26, 2017.

Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining effective 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.

Roseville, Minnesota
April 26, 2017

Olsen Thielen + Co., Ltd.

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

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

Report on Compliance for Each Major Federal Program

We have audited East Side Neighborhood Services, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended December 31, 2016. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended December 31, 2016.

Report on Internal Control Over Compliance

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

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

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

Purpose of this Report

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

Roseville, Minnesota
April 26, 2017

Olsen Thielen & Co., Ltd.

EAST SIDE NEIGHBORHOOD SERVICES, INC.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2016**

Federal Grantor/Pass-Through Grantor Program Title	CFDA Number	Pass-Through Grantors Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE:			
Passed Through:			
Minnesota Department of Agriculture:			
School Nutrition Program	10.558	*	\$ 21,461
Wisconsin Department of Public Instruction:			
School Nutrition Program	10.558	*	9,659
Total U.S Department of Agriculture			<u>31,120</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Passed Through:			
City of Minneapolis:			
Community Development Block Grant (CDBG) Cluster:			
CDBG - Entitlement Grants	14.218	*	108,943
CDBG - Minneapolis Public Housing - Glendale Food Shelf	14.218	*	40,000
Total CDBG Cluster			<u>148,943</u>
Public and Indian Housing - Luxton	14.850	*	10,000
Total U.S. Department of Housing and Urban Development			<u>158,943</u>
U.S. DEPARTMENT OF LABOR:			
Passed Through:			
Senior Service America, Inc.			
Senior Community Service Employment	17.235	*	1,434,883
City of Minneapolis:			
Workforce Investment Act - Youth Activities	17.259	*	80,920
Total U.S. Department of Labor			<u>1,515,803</u>
U.S. DEPARTMENT OF EDUCATION:			
Passed Through:			
Minnesota Department of Education:			
Title I	84.010	*	21,110
Twenty-First Century Community Learning Centers	84.287	*	467,249
Total U.S Department of Education			<u>488,359</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Passed Through:			
Metropolitan Council - Minnesota Board of Aging:			
Transportation Services - Title IIIb	93.044	*	97,641
U.S. DEPARTMENT OF HOMELAND SECURITY:			
Passed Through:			
Greater Twin Cities United Way:			
ARRA - Emergency Food and Shelter Program	97.114	*	13,030
Total Federal Awards			<u>\$ 2,304,896</u>

* Pass-through grantors number was not available.

EAST SIDE NEIGHBORHOOD SERVICES, INC.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
YEAR ENDED DECEMBER 31, 2016**

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, 2016**

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.