

**EAST SIDE NEIGHBORHOOD SERVICES, INC.**

**FINANCIAL STATEMENTS  
TOGETHER WITH  
INDEPENDENT AUDITORS' REPORT  
AND OMB CIRCULAR A-133 SUPPLEMENTARY  
FINANCIAL REPORTS**

**DECEMBER 31, 2013**

**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 of December 31, 2013 and the related statement of activities, cash flows and functional expenses for the year 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 audit. 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 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, 2013, 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.

### **Prior Period Financial Statements**

The financial statements of East Side Neighborhood Services, Inc. as of December 31, 2012, were audited by other auditors whose report dated April 24, 2013, expressed an unmodified opinion on those statements.

### **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 18-19 is presented for the purposes of additional analysis as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non Profit 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 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 23, 2014 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.

St. Paul, Minnesota  
April 23, 2014

*Olsen Thielken + Co., LTD*

**EAST SIDE NEIGHBORHOOD SERVICES, INC.**

**STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2013 AND 2012**

ASSETS		
	<u>2013</u>	<u>2012</u>
<b>CURRENT ASSETS:</b>		
Cash and Cash Equivalents	\$ 364,769	\$ 116,322
Restricted Cash	38,056	57,694
Accounts and Grants Receivable, Net of Allowance for Doubtful Accounts of \$25,000	411,875	545,617
Prepaid Expenses	39,760	36,777
Investments	808,238	612,660
Total Current Assets	<u>1,662,698</u>	<u>1,369,070</u>
PROPERTY AND EQUIPMENT, NET	<u>6,038,236</u>	<u>6,261,843</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 7,700,934</u></b>	<b><u>\$ 7,630,913</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts Payable	\$ 56,442	\$ 57,823
Accrued Expenses	215,265	212,758
Other Current Liabilities	19,456	11,416
Deferred Revenue	23,212	-
Total Current Liabilities	<u>314,375</u>	<u>281,997</u>
<b>NET ASSETS:</b>		
Unrestricted Net Assets:		
Undesignated	1,215,576	968,454
Board Designated - Property and Equipment	6,038,236	6,261,843
Total Unrestricted Net Assets	7,253,812	7,230,297
Temporarily Restricted Net Assets	113,247	100,619
Permanently Restricted Net Assets	19,500	18,000
Total Net Assets	<u>7,386,559</u>	<u>7,348,916</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 7,700,934</u></b>	<b><u>\$ 7,630,913</u></b>

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



**EAST SIDE NEIGHBORHOOD SERVICES, INC.**

**STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2013**

	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>PUBLIC SUPPORT AND REVENUES:</b>				
Public Support:				
Contributions	\$ 242,496	\$ 153,600	\$ 1,500	\$ 397,596
In-Kind Contributions	226,380			226,380
United Way	435,500			435,500
Revenues:				
Government Grants and Contracts:				
Federal	2,364,247			2,364,247
State and County	806,430			806,430
Service Fees:				
Contract Revenue	1,044,130			1,044,130
Client Fees	509,747			509,747
Special Event Fees	55,041			55,041
Other:				
Merchandise Sales	30,450			30,450
Investment Income (Loss)	(4,039)			(4,039)
Rental Income	67,879			67,879
Lease Income	66,240			66,240
Program Reimbursements	81,256			81,256
Net Assets Released from Restrictions	140,972	(140,972)		-
<b>Total Support and Revenues</b>	<b>6,066,729</b>	<b>12,628</b>	<b>1,500</b>	<b>6,080,857</b>
<b>EXPENSES:</b>				
Program Services:				
Senior Services	1,885,594			1,885,594
Early Childhood Education	669,125			669,125
Community Services	659,044			659,044
Employment	385,846			385,846
Alternative School	546,058			546,058
Youth Services	903,296			903,296
<b>Total Program Services</b>	<b>5,048,963</b>	<b>-</b>	<b>-</b>	<b>5,048,963</b>
Supporting Services:				
Management and General	747,922			747,922
Fundraising	246,329			246,329
<b>Total Expenses</b>	<b>6,043,214</b>	<b>-</b>	<b>-</b>	<b>6,043,214</b>
<b>CHANGE IN NET ASSETS</b>	<b>23,515</b>	<b>12,628</b>	<b>1,500</b>	<b>37,643</b>
<b>NET ASSETS, Beginning of Year</b>	<b>7,230,297</b>	<b>100,619</b>	<b>18,000</b>	<b>7,348,916</b>
<b>NET ASSETS, End of Year</b>	<b>\$ 7,253,812</b>	<b>\$ 113,247</b>	<b>\$ 19,500</b>	<b>\$ 7,386,559</b>

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

**EAST SIDE NEIGHBORHOOD SERVICES, INC.**

**STATEMENT OF ACTIVITIES (Continued)  
YEAR ENDED DECEMBER 31, 2012**

	2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>PUBLIC SUPPORT AND REVENUES:</b>				
Public Support:				
Contributions	\$ 287,116	\$ 135,000	\$	\$ 422,116
In-Kind Contributions	483,030			483,030
United Way	383,314			383,314
Revenues:				
Government Grants and Contracts:				
Federal	1,340,688			1,340,688
State and County	545,344			545,344
Service Fees:				
Contract Revenue	1,119,255			1,119,255
Client Fees	472,627			472,627
Special Event Fees	45,662			45,662
Other:				
Merchandise Sales	96,560			96,560
Investment Income (Loss)	21,000			21,000
Rental Income	57,978			57,978
Lease Income	60,609			60,609
Program Reimbursements	6,386			6,386
Net Assets Released from Restrictions	129,717	(129,717)		-
<b>Total Support and Revenues</b>	<u>5,049,286</u>	<u>5,283</u>	<u>-</u>	<u>5,054,569</u>
<b>EXPENSES:</b>				
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	<u>3,981,992</u>	<u>-</u>	<u>-</u>	<u>3,981,992</u>
Supporting Services:				
Management and General	722,013			722,013
Fundraising	244,728			244,728
Total Expenses	<u>4,948,733</u>	<u>-</u>	<u>-</u>	<u>4,948,733</u>
<b>CHANGE IN NET ASSETS</b>	100,553	5,283	-	105,836
<b>NET ASSETS, Beginning of Year</b>	<u>7,129,744</u>	<u>95,336</u>	<u>18,000</u>	<u>7,243,080</u>
<b>NET ASSETS, End of Year</b>	<u>\$ 7,230,297</u>	<u>\$ 100,619</u>	<u>\$ 18,000</u>	<u>\$ 7,348,916</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, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in Net Assets	\$ 37,643	\$ 105,836
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By (Used In) Operating Activities:		
Depreciation	225,723	218,834
Reinvested Investment Income	(29,154)	(2,557)
Unrealized (Gain) Loss on Investments	36,160	(10,353)
Donated Property and Equipment	-	(339,567)
Changes in Assets and Liabilities:		
Grants and Contributions Receivable	133,742	(309,809)
Prepaid Expenses	(2,983)	(21,089)
Accounts Payable	(1,381)	27,850
Accrued Expenses	2,507	44,882
Other Current Liabilities	8,040	(5,170)
Deferred Revenue	23,212	(10,705)
Net Cash Provided By (Used In) Operating Activities	<u>433,509</u>	<u>(301,848)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of Property and Equipment	(2,116)	(42,848)
Sale (Purchase) of Investments	(202,584)	100,000
Net Cash Provided By (Used In) Investing Activities	<u>(204,700)</u>	<u>57,152</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>228,809</b>	<b>(244,696)</b>
<b>CASH AND CASH EQUIVALENTS at Beginning of Year</b>	<b><u>174,016</u></b>	<b><u>418,712</u></b>
<b>CASH AND CASH EQUIVALENTS at End of Year</b>	<b><u>\$ 402,825</u></b>	<b><u>\$ 174,016</u></b>
<b>STATEMENT OF FINANCIAL POSITION PRESENTATION:</b>		
Cash and Cash Equivalents	\$ 364,769	\$ 116,322
Restricted Cash	<u>38,056</u>	<u>57,694</u>
Total	<u>\$ 402,825</u>	<u>\$ 174,016</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Cash Paid During the Year for Interest	<u>\$ -</u>	<u>\$ -</u>
Cash Paid During the Year for Income Taxes	<u>\$ -</u>	<u>\$ -</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, 2013**

	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	\$ 1,481,638	\$ 400,028	\$ 245,195	\$ 228,911	\$ 350,934	\$ 621,182	\$ 3,327,888	\$ 509,300	\$ 158,770	\$3,995,958
Payroll Taxes	131,068	39,252	26,001	21,453	33,660	60,137	311,571	39,542	13,843	364,956
Employee Benefits Costs	30,122	43,261	8,471	33,838	23,384	54,492	193,568	32,617	20,318	246,503
Total Personnel Costs	1,642,828	482,541	279,667	284,202	407,978	735,811	3,833,027	581,459	192,931	4,607,417
Occupancy	43,017	64,435	59,573	24,702	46,246	46,134	284,107	-	7,198	291,305
Client Services	-	-	25,638	12,578	-	2,340	40,556	-	-	40,556
Supplies and Equipment	79,561	25,650	220,735	13,284	28,760	52,999	420,989	3,498	24,528	449,015
Travel and Transportation	35,517	431	26,277	501	304	7,037	70,067	486	1,583	72,136
Office Expense	43,051	35,684	21,888	26,560	19,788	30,999	177,970	160,150	18,942	357,062
Depreciation	41,620	60,384	25,266	24,019	42,982	27,976	222,247	2,329	1,147	225,723
TOTAL EXPENSES	\$ 1,885,594	\$ 669,125	\$ 659,044	\$ 385,846	\$ 546,058	\$ 903,296	\$ 5,048,963	\$ 747,922	\$ 246,329	\$6,043,214

*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 \$19,500 and \$18,000 at December 31, 2013 and 2012, respectively

#### 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 23, 2014, the date the financial statements were available to be issued.

#### Cash Equivalents

The Organization considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents. Cash equivalents are stated at cost, which approximates market value.



# 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 Employment Program. The Organization has restricted cash in the amounts of \$38,056 and \$57,694 at December 31, 2013 and 2012, respectively.

#### Accounts and Grants Receivable

Receivables are stated at the amounts the Organization expects to collect from outstanding balances. 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 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.

#### 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.



# 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 (Continued)

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.

#### 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.

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 supplies, equipment and legal services of \$226,380 and \$483,030 in 2013 and 2012.

#### 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 \$91,137 and \$98,790 in 2013 and 2012.

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.

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.

The Organization's federal and state tax returns are open to examination for tax years 2010 through 2012.



# EAST SIDE NEIGHBORHOOD SERVICES, INC.

## NOTES TO FINANCIAL STATEMENTS

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

#### 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 \$192,000 of funds in excess of the Federal Deposit Insurance (FDIC) coverage of \$250,000 in a single local 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.

#### Reclassifications

Certain amounts in the 2012 financial statements have been reclassified to conform with the 2013 presentation. These reclassifications had no effect on net assets for either period.

### NOTE 2 - INVESTMENTS

Investments consist of bond funds and certificates of deposit. The endowment fund includes permanently restricted contributions of \$19,500 and \$18,000 as of December 31, 2013 and December 31, 2012.

Investments at December 31, 2013 and 2012 consist of the following:

	<u>2013</u>	<u>2012</u>
Bond Funds	\$ 530,098	\$ 337,103
Certificates of Deposit	<u>278,140</u>	<u>275,557</u>
Total	<u>\$ 808,238</u>	<u>\$ 612,660</u>



# EAST SIDE NEIGHBORHOOD SERVICES, INC.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 2 - INVESTMENTS (Continued)

Investment income (loss) consists of the following:

	<u>2013</u>	<u>2012</u>
Interest and Dividend Income	\$ 32,121	\$ 10,647
Net Unrealized Investment Gains (Losses)	<u>(36,160)</u>	<u>10,353</u>
Total	<u>\$ (4,039)</u>	<u>\$ 21,000</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>2013</u>	<u>2012</u>
Land	\$ 841,645	\$ 841,645
Buildings	7,640,942	7,640,942
Furniture and Equipment	274,469	272,354
Vehicles	<u>312,292</u>	<u>312,292</u>
Total Property and Equipment	<u>9,069,348</u>	<u>9,067,233</u>
Less Accumulated Depreciation	<u>(3,031,112)</u>	<u>(2,805,390)</u>
Total	<u>\$ 6,038,236</u>	<u>\$ 6,261,843</u>

### NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2013 and 2012 consist of the following:

	<u>2013</u>	<u>2012</u>
Restrictions for Specific Program Expenses	\$ 38,267	\$ 45,618
Restrictions for Time and Program	<u>74,980</u>	<u>55,001</u>
Total	<u>\$ 113,247</u>	<u>\$ 100,619</u>

Temporarily restricted net assets released from restriction were \$140,972 and \$129,717 in 2013 and 2012. Temporarily restricted net assets were released from restriction due to satisfaction of time and program restrictions.

# EAST SIDE NEIGHBORHOOD SERVICES, INC.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 5 - LEASE COMMITMENTS

The Organization rents its office space and office equipment under operating lease agreements which expire between 2015 and 2017. The Organization pays operating costs associated with each location based on its share of space.

The Organization also rents certain equipment under terms that expire in 2015.

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

Expense:	
2013	\$ 49,981
2012	54,712
Commitments:	
2014	\$ 19,850
2015	18,350
2016	10,850
2017	<u>10,850</u>
Total Commitments	<u>\$ 59,900</u>

The Organization subleases some of its facility space and services to other nonprofits under contracts which expire between 2014 and 2018. Rental income was \$66,240 and \$60,609 for the years ended December 31, 2013 and 2012, respectively. The total minimum future lease payments to be received under these sublease agreements are as follows:

Commitments:	
2014	\$ 62,500
2015	48,000
2016	49,200
2017	50,400
2018	<u>47,300</u>
Total Commitments	<u>\$ 257,400</u>

### 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 \$160,300 and \$159,260 at December 31, 2013 and 2012, 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 24% and 16% of all revenues in 2013 and 2012.



**REPORTS ON AUDIT OF FEDERAL FINANCIAL  
ASSISTANCE**

**FOR THE YEAR ENDED DECEMBER 31, 2013**

**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, 2013, 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 23, 2014.

**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 23, 2014

*Olson Thielens & Co., LTD*

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

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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 the Organization's major federal program for the year ended December 31, 2013. 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 laws, regulations, contracts and grants 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 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 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, 2013.



### **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 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 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 is solely to describe the scope of our testing of internal control over compliance and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control over compliance or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

St. Paul, Minnesota  
April 23, 2014

*Olsen Thielert & Co., LTD*

**EAST SIDE NEIGHBORHOOD SERVICES, INC.**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED DECEMBER 31, 2013**

<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 Nurtition Program	10.558	*	\$ 17,522
Wisconsin Department of Public Instruction:			
School Nurtition Program	10.558	*	<u>4,504</u>
Total U.S Department of Agriculture			<u>22,026</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	*	161,034
CDBG -Minneapolis Public Housing-Glendale Food Shelf	14.218	*	<u>40,000</u>
Total CDBG Cluster			201,034
Public and Indian Housing - Luxton	14.850	*	<u>10,000</u>
Total U.S. Department of Housing and Urban Development			<u>211,034</u>
<b>U.S DEPARTMENT OF LABOR:</b>			
Passed Through:			
Senior Service America, Inc.			
Senior Community Service Employment	17.235	*	1,470,493
City of Minneapolis:			
Workforce Investment Act - Youth Activities	17.259	*	<u>67,293</u>
Total U.S. Department of Labor			<u>1,537,786</u>
<b>U.S DEPARTMENT OF EDUCATION:</b>			
Passed Through:			
Minnesota Department of Education:			
Title I	84.010	*	25,833
Twenty-First Century Community Learning Centers	84.287	*	<u>485,446</u>
Total U.S Department of Labor			<u>511,279</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>69,578</u>
<b>U.S DEPARTMENT OF HOMELAND SECURITY:</b>			
Passed Through Greater Twin Cities United Way:			
Emergency Food and Shelter Program	97.114	*	<u>12,544</u>
Total Federal Awards			<u>\$ 2,364,247</u>

\* Pass-through grantors number was not available.



**EAST SIDE NEIGHBORHOOD SERVICES, INC.**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)  
YEAR ENDED DECEMBER 31, 2013**

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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 OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. 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 OMB Circular A-122, Cost Principles for Non-Profit Organizations, wherein certain types of expenditures are not allowable or are limited as to reimbursement.





**EAST SIDE NEIGHBORHOOD SERVICES, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
YEAR ENDED DECEMBER 31, 2013**

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**PRIOR YEAR FINDING:**

**12-01 PREPARATION OF GAAP BASED FINANCIAL STATEMENTS**

**Condition**

Organization personnel prepare periodic financial statements and other financial information for internal use that meet the needs of management and the Board of Directors. However, the Organization has limited internal resources to prepare the full-disclosure financial statements required by GAAP for external reporting. This deficiency is mitigated by those charged with governance by performing effective oversight of the Organization's financial reporting.

**Criteria and Effect**

Internal controls over financial reporting include those related to the actual preparation and review of the audited financial statements. In order to prepare a complete set of financial statements in conformity with generally accepted accounting principles (GAAP), the preparer must have certain knowledge and expertise.

**Recommendation**

Management should constantly strive to stay updated on changes in current GAAP and consult with external resources when necessary. For entities of the Organization's size, it generally is not practical to obtain the internal expertise needed to handle all aspects of the external financial reporting.

**Current Year Status**

The Organization's accounting staff has the ability to prepare full-disclosure financial statements required by GAAP and has the resources available to obtain technical assistance and updates on accounting pronouncements. Management reviews and approves the completed statements and distributes them to the users.

**SECTION III - FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL PROGRAMS**

No matters were reportable conditions.