

EAST SIDE HOUSE, INC.

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

AUGUST 31, 2008

EAST SIDE HOUSE, INC.

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Independent Auditor's Report

Board of Managers East Side House, Inc.

We have audited the accompanying balance sheet of East Side House, Inc. as of August 31, 2008, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of East Side House, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the early childhood and senior citizens programs, which statements reflect revenues and assets constituting 23 percent and 1 percent, respectively, of the related totals. These statements were audited by other auditors, whose reports have been furnished to us and, our opinion, insofar as it relates to the amounts included for these programs, is based solely upon the reports of the other auditors. The prior year summarized comparative information has been derived from East Side House, Inc.'s August 31, 2007 financial statements and, in our report dated March 3, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of East Side House, Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based upon our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of East Side House, Inc. as of August 31, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Loeb & Troper LLP

February 11, 2009

EAST SIDE HOUSE, INC.

EXHIBIT A

STATEMENT OF ACTIVITIES

YEAR ENDED AUGUST 31, 2008
(With Summarized Financial Information
for the Year Ended August 31, 2007)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	2008	2007	2008	2007
Operating revenues and other support				
Contributions - foundations and charities	\$ 174,674	\$ 783,000	\$	\$ 957,674
Contributions - corporations and individuals	351,364			351,364
Contributions - bequests	167,868	5,984,811		167,868
Government support	662,033			5,984,811
Donated facilities and services	2,816			662,033
United Way of New York City				2,816
Special events				4,583,486
Less direct cost of special events				(2,276,232)
Program fees	2,307,254			2,307,254
Interest and dividends (net of expenses of \$69,164 in 2008)	61,690			61,690
Miscellaneous	844,406	346,998		1,191,404
Net assets released from restrictions (Note 7)	85,741			85,741
	<u>6,637,254</u>	<u>(6,637,254)</u>		
Total operating revenues and other support	11,295,100	477,555		11,772,655
Expenses (Exhibit C)				
Program services				
Early childhood	3,175,172			3,175,172
Community centers	500,718			500,718
Education	4,662,323			4,662,323
Senior citizens	598,058			598,058
Total program services	<u>8,936,271</u>			<u>8,936,271</u>
				<u>9,845,298</u>

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STATEMENT OF ACTIVITIES

YEAR ENDED AUGUST 31, 2008
 (With Summarized Financial Information
 for the Year Ended August 31, 2007)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	2008	2008	2008	2007
Expenses (Exhibit C) (continued)				
Supporting services				
Management and general	\$ 1,108,096		\$ 1,108,096	\$ 536,546
Fund raising (includes \$720,348 for special events in 2008 and \$798,397 in 2007)	879,384		879,384	967,625
Total supporting services	1,987,480		1,987,480	1,504,171
Total expenses	10,923,751		10,923,751	9,923,003
Change in net assets from operations before effect of adoption of FASB No. 158 and other changes	371,349	\$ 477,555	848,904	(77,705)
Effect of adoption of provisions of FASB Statement No. 158				233,162
Actuarial change of prepaid pension cost	(45,551)		(45,551)	78,433
Gain (loss) on investments	(2,850,983)		(2,850,983)	885,585
Change in net assets (Exhibit D)	(2,525,185)	477,555	(2,047,630)	1,119,475
Net assets - beginning of year	15,366,470	1,400,727	5,567,978	21,215,700
Net assets - end of year (Exhibit B)	\$ 12,841,285	\$ 1,878,282	\$ 5,567,978	\$ 22,335,175

See independent auditor's report.

The accompanying notes are an integral part of these statements.

EAST SIDE HOUSE, INC.

BALANCE SHEET

AUGUST 31, 2008

(With Summarized Financial Information
for August 31, 2007)

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash	\$ 2,470,397	\$ 2,425,416
Money market funds	1,151,037	1,120,050
Investments (Note 3)	16,797,705	18,839,421
Due from government agencies	944,232	423,483
Contributions receivable (Note 4)	260,000	79,582
Prepaid expenses and other assets	120,713	170,954
Fixed assets - net (Note 5)	<u>442,786</u>	<u>333,137</u>
Total assets	<u>\$ 22,186,870</u>	<u>\$ 23,392,043</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts and accrued expenses payable	\$ 610,794	\$ 56,815
Deferred revenue	<u>1,288,531</u>	<u>1,000,053</u>
Total liabilities	<u>1,899,325</u>	<u>1,056,868</u>
Net assets (Exhibit A)		
Unrestricted	12,841,285	15,366,470
Temporarily restricted (Note 7)	1,878,282	1,400,727
Permanently restricted (Note 7)	<u>5,567,978</u>	<u>5,567,978</u>
Total net assets	<u>20,287,545</u>	<u>22,335,175</u>
Total liabilities and net assets	<u>\$ 22,186,870</u>	<u>\$ 23,392,043</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED AUGUST 31, 2008

	Program Services					Supporting Services			Total	Total
	Early Childhood	Community Centers	Education	Senior Citizens	Total	Management and General	Fund Raising	Direct Costs of Special Events		
Salaries	\$ 1,913,970	\$ 380,044	\$ 2,782,283	\$ 299,867	\$ 5,376,164	\$ 232,956	\$ 59,021	\$ 500	\$ 292,477	\$ 5,668,641
Pension plan expense		12,054	88,239		100,293	7,388	1,886		9,274	109,567
Employee benefits	48,172	10,502	76,879		135,553	6,436	1,644		8,080	143,633
Payroll taxes	160,342	44,600	326,508	30,064	561,514	27,338	6,984		34,322	595,836
Professional fees and contract service payments	580,070		145,097	1,080	726,247	486,672	159,766		646,438	1,372,685
Advertising	230		870		1,100	9,382	275,047		284,429	285,529
Supplies	257,105	13,355	218,831		489,291	64,386	52		64,438	553,729
Telephone	13,320	3,863	16,456		33,639	42,690			42,690	76,329
Postage and shipping	547		182		729	15,726	5,057		20,783	21,512
Occupancy	68,507	35	5,117	4,200	77,859	42,105		1,347,946	1,390,051	1,467,910
Equipment rental and maintenance	50,410	15,379	56,309	322	122,420	61,859		90,053	151,912	274,332
Printing and publications	325		12,148	24,973	37,446	14,084	48,266	309,458	371,808	409,254
Relief and trips	6,900		3,201		10,101	9,750			9,750	19,851
Public relations							77,338		77,338	77,338
Events, conferences and travel	4,727	8,094	55,488	19,013	87,322	17,286	14	424,685	441,985	529,307
Investment fees						69,164			69,164	69,164
Depreciation			124,128		124,128	6,746	4,047		10,793	134,921
Insurance	17,458	5,157	48,716	6,111	77,442	10,312	8,889		19,201	96,643
Dues and subscriptions			249		249	14,389			14,389	14,638
Food	43,193	1,681	354,359	184,086	583,319	21,324		103,590	124,914	708,233
Provider stipends		125	42,180		42,305	631			631	42,936
Scholarships			51,090		51,090	500			500	51,590
Miscellaneous	9,896	5,829	253,993	28,342	298,060	16,136	231,373		247,509	545,569
Total expenses	3,175,172	500,718	4,662,323	598,058	8,936,271	1,177,260	879,384	2,276,232	4,332,876	13,269,147
Less expenses deducted directly from revenues on the statement of activities										
Investment fees						(69,164)			(69,164)	(69,164)
Direct cost of special events								(2,276,232)	(2,276,232)	(2,276,232)
Total expenses reported by function on the statement of activities (Exhibit A)	\$ 3,175,172	\$ 500,718	\$ 4,662,323	\$ 598,058	\$ 8,936,271	\$ 1,108,096	\$ 879,384	\$ -	\$ 1,987,480	\$ 10,923,751

See independent auditor's report.

The accompanying notes are an integral part of these statements.

EAST SIDE HOUSE, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED AUGUST 31, 2008

Cash flows from operating activities	
Change in net assets (Exhibit A)	\$ (2,047,630)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Actuarial change of prepaid pension cost	(45,551)
Loss on investments	2,850,983
Depreciation	134,922
Decrease (increase) in assets	
Due from government agencies	(520,749)
Contributions receivable	(180,418)
Prepaid expenses and other assets	95,792
Increase in liabilities	
Accounts and accrued expenses payable	553,979
Deferred revenue	288,478
	<u>1,129,806</u>
Net cash provided by operating activities	
Cash flows from investing activities	
Purchase of fixed assets	(244,571)
Proceeds from sale of investments	3,751,498
Purchase of investments	(4,591,752)
	<u>(1,084,825)</u>
Net cash used by investing activities	
Net increase in cash	44,981
Cash - beginning of year	<u>2,425,416</u>
Cash - end of year	\$ <u><u>2,470,397</u></u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

EAST SIDE HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2008

NOTE 1 - NATURE OF ORGANIZATION

East Side House, Inc. (d/b/a East Side House, Inc. Settlement) is a not-for-profit social services organization serving the Matt Haven section of the South Bronx. It focuses on providing residents with the education and technology skills they need to create economic and civic opportunities for themselves, their families and the community.

East Side House, Inc. is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and has been granted nonprivate foundation status under Section 509(a)(1). East Side House, Inc.'s primary sources of funding are government agencies, special events, contributions and investment income.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The financial statements are prepared on the accrual basis.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Early childhood and senior citizens - The Early Childhood and Senior Citizens programs are included in these financial statements as of and for the program year ended January 31, 2008. Total revenues are \$2,588,730 and total assets are \$204,041.

Unrestricted net assets - Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors.

Restricted net assets - Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. Permanently restricted net assets are limited by donors for investment.

Contributions - Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. All contributions are considered to be available for unrestricted use unless specifically restricted by the donors. The gifts are reported as temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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EAST SIDE HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions receivable - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Revenues from government agencies - Government grants are recorded as revenues to the extent that expenses have been incurred for the purposes specified by the grantors. To the extent amount received exceed amount spent, East Side House, Inc. establishes advances from government funders. Revenues from government agencies are subject to audit by the agencies. No provision for any disallowances is reflected in the financial statements, since management does not anticipate any material adjustments.

Donated facilities and services - East Side House, Inc. operates programs at facilities the use of which is donated by The City of New York. The estimated rental value is based upon rent paid for similar facilities in the South Bronx. Donated services are recorded at fair value.

Functional expenses - The costs of providing East Side House, Inc.'s services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Allowance for doubtful accounts - East Side House, Inc. has determined that no allowance for uncollectible accounts for pledges and government grants receivable is necessary as of August 31, 2008 and 2007. Such estimate is based on management's assessments of the creditworthiness of its donors, the aged basis of its receivables, as well as current economic conditions and historical information.

Investments - Investments in securities are carried at fair value based upon quoted market prices.

Advertising - Advertising costs are expensed as incurred.

Cash flows - Money market funds are considered investments for purposes of cash-flow reporting.

Deferred revenue - Fees received in advance for program activities are deferred to future periods.

Fixed assets - Fixed assets costing in excess of \$1,000 are capitalized. Depreciation is provided on the straight-line method over the estimated useful lives of the assets.

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EAST SIDE HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Summarized financial information for 2007 - The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended August 31, 2007, from which the summarized information was derived.

Financial Accounting Standards Board (FASB) Interpretation No. 48 - Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109 (FIN 48)

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 was to be effective for fiscal years beginning after December 15, 2006. On November 7, 2007, the FASB voted to defer FIN 48 for one year until fiscal years beginning after December 15, 2007. On October 15, 2008, the FASB voted to continue the deferral of FIN 48, for non-public companies and not-for-profits, for an additional year until fiscal years beginning after December 15, 2008.

As FIN 48 has not yet been adopted, East Side House, Inc. is continuing to use FASB Statement No. 5, *Accounting for Contingencies* ("FAS 5") to evaluate uncertain tax positions. East Side House, Inc. is currently evaluating the impact of adopting FIN 48 on the financial statements.

NOTE 3 - INVESTMENTS

	<u>Market Value</u>
Unrestricted	
Cash and cash equivalents	\$ 46,381
Stocks	3,379,777
Mutual funds	
Equity based	1,930,053
Fixed income based	<u>4,150,172</u>
	<u>9,506,383</u>

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EAST SIDE HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2008

NOTE 3 - INVESTMENTS (continued)

	<u>Market Value</u>
Endowment	
Cash and cash equivalents	\$ 26,388
Stocks	2,624,295
Mutual funds	
Equity based	1,539,783
Fixed income based	<u>3,100,856</u>
	<u>7,291,322</u>
Total	<u>\$ 16,797,705</u>

East Side House, Inc. invests in various investment securities. Investment securities are exposed to various risk such as interest rate, market and credit risks. Due to the level of risk associated with investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term based upon the markets' declines and that such changes could materially affect East Side House, Inc.'s balance sheet. As of January 31, 2009, the investments have decreased in value to \$12,472,497.

NOTE 4 - CONTRIBUTIONS RECEIVABLE

All unconditional pledges receivable have been recorded at realizable value and are due within one year.

NOTE 5 - FIXED ASSETS

		<u>Estimated Useful Lives</u>
Land	\$ 6,190	
Building and improvements	911,336	5-30 years
Furniture and equipment	<u>822,064</u>	5-10 years
	1,739,590	
Accumulated depreciation	<u>(1,296,804)</u>	
Net	<u>\$ 442,786</u>	

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EAST SIDE HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2008

NOTE 6 - PENSION PLAN

East Side House, Inc. has a noncontributory defined benefit pension plan for its employees. The plan was frozen November 15, 2005. The following table sets forth the plan's funded status and amounts recognized in the balance sheet as of August 31, 2008, the date of the latest actuarial valuation:

Benefit obligation	\$ 862,473
Fair value of plan assets, primarily stocks and bonds	<u>947,210</u>
Funded status	\$ <u>84,737</u>
Employer contribution	\$ 35,000
Benefit paid	43,712
Net periodic pension plan cost	(41,878)
Discount rate	6%
Expected return on plan assets	8%
Rate of compensation increase	N/A

The investment policy is a conservative policy with respect to investments of assets, with the primary objective being preservation of capital and the achievement of the maximum possible investment return. The funds should be invested to equal 60% equity and 40% fixed income. When the percentage varies by more than 5%, a reallocation is done.

<u>Asset Category</u>	<u>Plan Assets at August 31, 2007</u>
Stocks	35%
Mutual funds	
Equity based	22
Fixed income based	42
Short-term investments	<u>1</u>
Total	<u>100%</u>

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EAST SIDE HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2008

NOTE 6 - PENSION PLAN (continued)

The expected rate of return on plan assets assumption of 8% was selected by the plan's sponsor several years ago as the best estimate for long-term asset performance. As for all plans, this rate is subject to review and may be revised in either direction in future disclosures.

Cash Flows

East Side House, Inc. expects to contribute \$35,000 to its pension plan in 2009.

The following benefit payments, which reflect expected future service, are expected to be paid as follows:

2009	\$ 46,893
2010	46,090
2011	48,272
2012	80,233
2013	81,388
2014-2017	406,330

East Side House, Inc. maintains a 401(k) plan for its employees. All employees working over 1,000 hours per year are qualified to participate after completing one year of service. Employees may contribute to the plan based on the plan document. East Side House, Inc., at the discretion of the Board of Managers, may make a matching contribution based on the plan document. The participant is fully and immediately vested when the contributions are made. Pension expense was \$74,567.

NOTE 7 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

Community centers	\$ 358,376
Education programs	<u>1,519,906</u>
	<u>\$ 1,878,282</u>

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EAST SIDE HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2008

NOTE 7 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (continued)

Net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes:

Preschool	\$ 2,504,756
Recreation	107,359
Education programs	3,442,039
Senior citizens	<u>583,100</u>
	<u>\$ 6,637,254</u>

Permanently restricted net assets are restricted to investment in perpetuity. Included in permanently restricted net assets is the Louis W. Bowen special endowment fund. The income from this fund is restricted to support East Side House, Inc.'s education and scholarship programs. Also included is the William and Ann Zell endowment fund. The income from this fund is restricted to support East Side House, Inc.'s education program. The income from the balance of the permanently restricted net assets is expendable to support any activity of the organization.

Permanently restricted net assets are identified as follows:

Education and scholarship	\$ 4,492,699
General operating activities	<u>1,075,279</u>
	<u>\$ 5,567,978</u>

NOTE 8 - CONCENTRATIONS

Financial instruments which potentially subject East Side House, Inc. to a concentration of credit risk are cash accounts with a major New York financial institution in excess of FDIC insurance limits. Management believes that the credit risk related to these accounts is minimal.