

East Side House, Inc.

Financial Statements and
Uniform Guidance Schedules
Together With Independent Auditors' Reports

August 31, 2017

East Side House, Inc.

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Independent Auditors' Report

Board of Managers
East Side House, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of East Side House, Inc. (the "Organization"), which comprise the statement of financial position as of August 31, 2017, and the related statements of activities, functional expenses and cash flows 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 auditors' 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 House, Inc. as of August 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited East Side House, Inc.'s August 31, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 18, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* on page 17, is presented for purposes of additional analysis 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 our report dated May 15, 2018 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Organization 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 the Organization's internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP

New York, New York
May 15, 2018

East Side House, Inc.

Statement of Financial Position

August 31, 2017

(with comparative amounts at August 31, 2016)

ASSETS	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 8,210,461	\$ 7,972,624
Due from government agencies	5,259,137	3,078,138
Contributions receivable	220,000	250,000
Prepaid expenses and other assets	1,814,601	1,635,542
Investments	14,751,147	13,817,424
Restricted investments	5,767,978	5,767,978
Property, plant and equipment, net	<u>132,655</u>	<u>158,422</u>
	<u>\$ 36,155,979</u>	<u>\$ 32,680,128</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 778,985	\$ 694,691
Due to government agencies	1,572,592	825,451
Deferred revenue	<u>1,180,284</u>	<u>941,822</u>
Total Liabilities	<u>3,531,861</u>	<u>2,461,964</u>
Net Assets		
Unrestricted	23,649,935	21,780,192
Temporarily restricted	3,206,205	2,669,994
Permanently restricted	<u>5,767,978</u>	<u>5,767,978</u>
Total Net Assets	<u>32,624,118</u>	<u>30,218,164</u>
	<u>\$ 36,155,979</u>	<u>\$ 32,680,128</u>

See notes to financial statements

East Side House, Inc.

Statement of Activities
Year Ended August 31, 2017

(with summarized totals for the year ended August 31, 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total	2016 Total
OPERATING INCOME					
Contributions foundations and charities	\$ 422,550	\$ 1,000,000	\$ -	\$ 1,422,550	\$ 1,542,205
Contributions corporations and individuals	281,047	124,006	-	405,053	1,300,866
Government support	17,224,282	-	-	17,224,282	15,767,022
Donated services	292,832	-	-	292,832	289,081
United Way of New York City	783,001	-	-	783,001	1,108,492
Special events, net of direct benefits to participants of \$3,269,712 and \$3,184,571	1,137,229	-	-	1,137,229	1,377,676
Program fees	1,346,947	-	-	1,346,947	1,116,352
Interest and dividends, net of investment fees of \$142,784 and \$131,156	106,964	197,098	-	304,062	357,510
Miscellaneous	57,336	-	-	57,336	31,356
Net assets released from restrictions	1,125,497	(1,125,497)	-	-	-
Total Operating Income	22,777,685	195,607	-	22,973,292	22,890,560
OPERATING EXPENSES					
Program Services					
Early childhood	3,606,690	-	-	3,606,690	3,429,437
Community centers	2,269,684	-	-	2,269,684	1,285,090
Education	13,520,855	-	-	13,520,855	13,736,015
Senior citizens	829,780	-	-	829,780	799,799
Total Program Services	20,227,009	-	-	20,227,009	19,250,341
Supporting Services					
Management and general	1,462,380	-	-	1,462,380	1,498,564
Fundraising	461,622	-	-	461,622	500,611
Total Supporting Services	1,924,002	-	-	1,924,002	1,999,175
Total Operating Expenses	22,151,011	-	-	22,151,011	21,249,516
Excess of Operating Income Over Operating Expenses	626,674	195,607	-	822,281	1,641,044
NON-OPERATING ACTIVITY					
Pension liability adjustment	173,602	-	-	173,602	(152,912)
Net realized and unrealized gain on investments	1,069,467	340,604	-	1,410,071	520,816
Change in Net Assets	1,869,743	536,211	-	2,405,954	2,008,948
NET ASSETS					
Beginning of year	21,780,192	2,669,994	5,767,978	30,218,164	28,209,216
End of year	\$ 23,649,935	\$ 3,206,205	\$ 5,767,978	\$ 32,624,118	\$ 30,218,164

East Side House, Inc.

Statement of Functional Expenses
Year Ended August 31, 2017
(with summarized totals for the year ended August 31, 2016)

	Program Services				Total Program Services	Supporting Services		Direct Costs of Special Events	2017 Total	2016 Total
	Early Childhood	Community Centers	Education	Senior Citizens		Management and General	Fundraising			
Salaries	\$ 2,396,728	\$ 1,251,566	\$ 8,231,420	\$ 409,172	\$ 12,288,886	\$ 749,745	\$ 95,258	\$ -	\$ 13,133,889	\$ 11,022,592
Pension plan expense	54,132	5,873	37,688	2,132	99,825	12,034	22	-	111,881	147,328
Employee benefits	253,292	69,461	635,263	21,928	979,944	51,038	8,370	-	1,039,352	948,414
Payroll taxes	222,259	133,553	879,161	43,939	1,278,912	91,175	11,292	-	1,381,379	1,192,966
Professional fees and contract service payments	139,475	24,720	744,201	38,107	946,503	136,806	94,466	112,917	1,290,692	1,186,603
Advertising	-	-	-	-	-	17,500	116,961	117,741	252,202	221,322
Supplies	192,888	87,670	300,571	37,862	618,991	39,968	-	-	658,959	587,945
Telephone	20,721	5,672	49,194	16,046	91,633	70,338	-	404	162,375	155,063
Postage and shipping	928	509	4,370	7,591	13,398	6,071	-	239	19,708	23,687
Occupancy	66,990	508	3,326	-	70,824	35,829	-	2,132,647	2,239,300	2,119,178
Equipment rental and maintenance	173,207	44,963	131,754	19,085	369,009	95,142	-	49,344	513,495	607,907
Printing and publications	275	503	20,991	-	21,769	7,402	-	211,764	240,935	225,694
Program activity	59,185	195,014	842,118	14,860	1,111,177	931	-	-	1,112,108	-
Public relations	-	-	-	-	-	-	135,253	83,234	218,487	230,135
Events, conferences and travel	11,456	4,653	17,414	22	33,545	40,711	-	435,550	509,806	734,897
Investment fees	-	-	-	-	-	142,784	-	-	142,784	131,156
Depreciation	-	-	-	-	-	54,269	-	22,919	77,188	77,188
Insurance	14,362	24,950	102,374	18,062	159,748	14,755	-	7,380	181,883	175,512
Dues and subscriptions	-	-	-	-	-	-	-	-	-	46,930
Food	442	323,955	253,227	200,171	777,795	8,997	-	82,564	869,356	831,666
Provider stipends	-	5,796	152,737	-	158,533	3,132	-	-	161,665	1,882,930
Scholarships	-	-	83,925	-	83,925	-	-	-	83,925	82,000
Program indirect costs	-	90,318	1,031,121	-	1,121,439	-	-	-	1,121,439	-
Miscellaneous	350	-	-	803	1,153	26,537	-	13,009	40,699	1,934,130
Total expenses	3,606,690	2,269,684	13,520,855	829,780	20,227,009	1,605,164	461,622	3,269,712	25,563,507	24,565,243
Expenses deducted directly from revenues on the statement of activities										
Investment fees	-	-	-	-	-	(142,784)	-	-	(142,784)	(131,156)
Direct cost of special events	-	-	-	-	-	-	-	(3,269,712)	(3,269,712)	(3,184,571)
Total Expenses Reported by Function	\$ 3,606,690	\$ 2,269,684	\$ 13,520,855	\$ 829,780	\$ 20,227,009	\$ 1,462,380	\$ 461,622	\$ -	\$ 22,151,011	\$ 21,249,516

East Side House, Inc.

Statement of Cash Flows
Year Ended August 31, 2017
(with comparative amounts for the year ended August 31, 2016)

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2017</u>	<u>2016</u>
Change in net assets	\$ 2,405,954	\$ 2,008,948
Adjustments to reconcile change in net assets to net cash from operating activities		
Net realized and unrealized gain on investments	(1,410,071)	(520,816)
Depreciation	77,188	77,188
Changes in operating assets and liabilities		
Due from government agencies	(2,180,999)	(549,178)
Contributions receivable	30,000	(109,000)
Prepaid expenses and other assets	(179,059)	(559,133)
Accounts payable and accrued expenses	84,294	486,990
Due to government agencies	747,141	406,695
Deferred revenue	<u>238,462</u>	<u>19,369</u>
Net Cash from Operating Activities	<u>(187,090)</u>	<u>1,261,063</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(51,421)	(4,009)
Purchase of investments	(5,299,615)	(8,581,940)
Proceeds from sale of investments	<u>5,775,963</u>	<u>7,983,821</u>
Net Cash from Investing Activities	<u>424,927</u>	<u>(602,128)</u>
 Net Change in Cash and Cash Equivalents	237,837	658,935
 CASH AND CASH EQUIVALENTS		
Beginning of year	<u>7,972,624</u>	<u>7,313,689</u>
 End of year	<u>\$ 8,210,461</u>	<u>\$ 7,972,624</u>

East Side House, Inc.

Notes to Financial Statements
August 31, 2017 and 2016

1. Organization and Tax Status

East Side House, Inc. (d/b/a East Side House, Inc. Settlement) (the “Organization”) is a not-for-profit organization serving the Mott Haven section of the South Bronx and surrounding communities which 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.

The Organization was incorporated in the State of New York and is exempt from Federal income taxes under section 501(c)(3) of the Internal Revenue Code. In addition, the Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509 (a) of the Internal Revenue Code. The Organization is exempt from New York State income taxes.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”), which 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. Accordingly actual results could differ from those estimates.

Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors. Temporarily restricted net assets are those whose use is limited by donors to a specific time period or purpose. Permanently restricted net assets are limited by donors for investment in perpetuity.

Measure of Operations

The Organization includes in its measure of operations all revenues and expenses that are an integral part of its programs and supporting activities. The measure of operations includes investment interest and dividends and excludes additions to permanently restricted net assets, investment gains and losses and pension liability adjustments.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid fixed income investments with a maturity of three months or less at time of purchase.

East Side House, Inc.

Notes to Financial Statements
August 31, 2017 and 2016

2. Summary of Significant Accounting Policies *(continued)*

Allowance for Doubtful Accounts

An allowance for doubtful accounts is established for amounts where there exists doubt as to whether an amount will be fully collected. The determination of this allowance is an estimate based on the Organization's historical experience, review of account balances and expectations relative to collections. Management determined that an allowance was not necessary at August 31, 2017.

Fair Value Measurements

The Organization follows U.S. GAAP guidance on fair value measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

Investments Valuation and Income Recognition

Investments are reported at fair value. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded when earned and dividends are recorded on the ex-dividend date. Net realized and unrealized gains are included in the determination of the change in net assets.

Property, Plant and Equipment

Property, plant and equipment are stated at cost or, if donated, at fair market value on the date of the gift, and depreciated using the straight line method over the estimated useful lives of such assets. Purchases are capitalized based on the economic useful life of the assets and in accordance with guidelines issued by various governmental agencies for reimbursement purposes. When the grantor retains title or when it is probable that the title will revert to the grantor upon certain contingent events, the purchases are expensed in the year the funds are received and spent. The estimated lives by asset class are as follows:

Building and improvements	5-30 years
Furniture and equipment	5-10 years
Computers	3-5 years

Donated Services

Donated services are reported in the financial statements at fair value, if those services create or enhance non-financial assets or require specialized skills provided by individuals possessing those skills and that would typically be purchased if not provided by donation.

East Side House, Inc.

Notes to Financial Statements
August 31, 2017 and 2016

2. Summary of Significant Accounting Policies (continued)

Contributions

All contributions, including unconditional promises to give, are considered available for unrestricted use unless specifically restricted by the donor or subject to other legal restrictions. 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 are reported in the statement of activities as net assets released from restrictions.

Third-Party Reimbursement and Revenue Recognition

The Organization receives substantially all its revenue for services provided to approved clients from third-party reimbursement agencies, primarily New York City Administration for Children's Services ("ACS"). These revenues are based on predetermined rates based on cost reimbursement principles and are subject to audit and retroactive adjustment by the respective third-party fiscal intermediary. The Organization records an estimated liability to governmental agencies for excess reimbursement over allowable costs.

Contract revenue is recognized for these programs as expenses are incurred to the maximum of the contract award.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain administrative, fundraising and maintenance costs have been allocated among the programs and supporting services.

Summarized Financial Information

The statements of activities and functional expenses include prior year summarized comparative information in total which does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the financial statements for the year ended August 31, 2016 from which the summarized information was derived.

Accounting for Uncertainty in Income Taxes

The Organization recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the Organization had no uncertain tax positions that would require financial statement recognition or disclosure. The Organization is no longer subject to examinations by the applicable taxing jurisdictions for tax periods prior to August 31, 2014.

East Side House, Inc.

Notes to Financial Statements
August 31, 2017 and 2016

2. Summary of Significant Accounting Policies (continued)

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is May 15, 2018.

3. Investments and Investment Return

Investments and restricted investments consist of the following at August 31:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 120,491	\$ 417,000
Fixed income securities		
Corporate Bonds	27,004	18,070
Common stocks		
Health Care	979,640	961,524
Consumer Staples	774,240	676,864
Information Technology	1,404,943	1,272,472
Consumer Discretionary	1,245,993	1,170,251
Industrials	752,018	719,726
Materials	155,555	158,531
Financials	1,219,702	1,514,496
Telecommunication Services	126,229	139,834
Utilities	142,731	137,804
Energy	204,538	234,106
Miscellaneous	1,098,456	884,123
Mutual funds		
Fixed income	6,836,183	6,165,501
Public equity	3,761,760	3,635,402
Other	1,669,642	1,479,698
	<u>\$ 20,519,125</u>	<u>\$ 19,585,402</u>

Total investment return consists of the following for the year ended August 31:

	<u>2017</u>	<u>2016</u>
Interest and dividends from investments, net		
of investment fees \$142,784 and \$131,156	\$ 304,062	\$ 357,510
Realized and unrealized gain on investments	<u>1,410,071</u>	<u>520,816</u>
	<u>\$ 1,714,133</u>	<u>\$ 878,326</u>

East Side House, Inc.

Notes to Financial Statements August 31, 2017 and 2016

3. Investments and Investment Return *(continued)*

The following are major categories of investments measured at fair value on a recurring basis at August 31, grouped by the fair value hierarchy, for those investments subject to categorization with such hierarchy:

Description	2017		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Mutual funds	\$ 12,267,585	\$ -	\$ 12,267,585
Common stocks	8,104,045	-	8,104,045
Fixed income securities	-	27,004	27,004
Total Investments at Fair Value	\$ 20,371,630	\$ 27,004	20,398,634
Cash and cash equivalents			120,491
			\$ 20,519,125

Description	2016		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Mutual funds	\$ 11,280,601	\$ -	\$ 11,280,601
Common stocks	7,869,731	-	7,869,731
Fixed income securities	-	18,070	18,070
Total Investments at Fair Value	\$ 19,150,332	\$ 18,070	19,168,402
Cash and cash equivalents			417,000
			\$ 19,585,402

There were no transfers between level 1 and 2 of the fair value hierarchy during 2017 and 2016.

4. Property, Plant and Equipment

Property, plant and equipment consist of the following as of August 31:

	2017	2016
Buildings and improvements	\$ 1,176,115	\$ 1,143,615
Furniture and equipment	1,150,293	1,131,372
Computers	37,499	37,499
	2,363,907	2,312,486
Accumulated depreciation	(2,231,252)	(2,154,064)
	\$ 132,655	\$ 158,422

The cost of furniture and equipment purchased for the Early Learn/Head Start program as of August 31, 2017 and 2016 amounted to \$241,616 and \$159,309. These purchases are not depreciated as the grantor retains a residual interest in the property.

East Side House, Inc.

Notes to Financial Statements
August 31, 2017 and 2016

5. Temporarily Restricted Net Assets

Changes in the temporarily restricted net assets consist of the following:

Purpose / Restriction	Balance at August 31, 2016	Additions	Releases	Balance at August 31, 2017
Education programs	\$2,419,994	\$1,541,708	\$ (975,497)	\$ 2,986,205
Timing	<u>250,000</u>	<u>120,000</u>	<u>(150,000)</u>	<u>220,000</u>
	<u>\$2,669,994</u>	<u>\$1,661,708</u>	<u>\$ (1,125,497)</u>	<u>\$ 3,206,205</u>
	Balance at August 31, 2015	Additions	Releases	Balance at August 31, 2016
Education programs	\$2,525,534	\$1,094,128	\$ (1,199,668)	\$ 2,419,994
Timing	<u>120,000</u>	<u>250,000</u>	<u>(120,000)</u>	<u>250,000</u>
	<u>\$2,645,534</u>	<u>\$1,344,128</u>	<u>\$ (1,319,668)</u>	<u>\$ 2,669,994</u>

6. Permanently Restricted Net Assets

Permanently restricted net assets represent donor restricted contributions to be held in perpetuity, the income from which is expended to support the programs and operations of the Organization.

7. Endowment Funds

Application of Law

New York Prudent Management of Institutional Funds Act (“NYPMIFA”) requires the preservation of the value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary, and except in those cases where the law allows appropriation for spending of the original gift amounts. As a result, the Board classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations of investment returns to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Board in a manner consistent with the standard of prudence prescribed by NYPMIFA.

East Side House, Inc.

Notes to Financial Statements
August 31, 2017 and 2016

7. Endowment Funds *(continued)*

Investment Strategy

The Organization employs a strategic asset allocation strategy with its asset allocations diversified over multiple classes and sub classes. The Organization's investment objective is for the asset value, exclusive of contributions or withdrawals, to grow over the long run and earn, through a combination of investment income and capital appreciation, a time weighted total rate of return in excess of the established medium and long term benchmarks. The Organization expects the portfolio's asset allocation to reflect the investment objectives, goals, time horizon, risk tolerances and any investment restrictions that may exist within the policy.

Spending Policy

The Organization, on an annual basis, appropriates for expenditure dividends and interest earned on endowed funds. Gains and losses increase or decrease the value of the endowed funds as per donor stipulation. The Board of Managers utilize a spend rate of 4% of the trailing three year average of the fair value of the endowment funds to determine its annual drawdown from the endowment funds. Such policy is reviewed periodically by the Board of Managers and is subject to change.

The following is a reconciliation of the donor restricted endowment fund as of and for the year ended August 31, 2017:

	Temporarily Restricted	Permanently Restricted	Total
Balance, beginning of year	\$ 1,956,178	\$ 5,767,978	\$ 7,724,156
Contributions	124,006	-	124,006
Investment income, net	197,098	-	197,098
Capital appreciation	340,604	-	340,604
Appropriated for expenditure	(17,168)	-	(17,168)
Balance, end of year	\$ 2,600,718	\$ 5,767,978	\$ 8,368,696
	Temporarily Restricted	Permanently Restricted	Total
Comprised of the following:			
Centennial endowment	\$ 1,758,640	\$ 975,280	\$ 2,733,920
Jean and Robert Stern endowment	-	200,000	200,000
William and Ann Zell endowment	-	543,934	543,934
Louis W. Bowen endowment	842,078	4,048,764	4,890,842
	\$ 2,600,718	\$ 5,767,978	\$ 8,368,696

8. Pension Plans

Defined Benefit Plan

The Organization has a non-contributory defined benefit pension plan (the "Plan") for its employees. The plan was frozen on November 15, 2005. The Organization's funding policy is to make contributions to the Plan equivalent to the amount necessary to meet the minimum funding requirement of the Employee's Retirement Income Security Act ("ERISA").

East Side House, Inc.

Notes to Financial Statements
August 31, 2017 and 2016

8. Pension Plans (continued)

Defined Benefit Plan (continued)

The following table sets forth the Plan's funded status and amounts recognized in the balance sheet as of August 31, the date of the latest actuarial valuation:

	<u>2017</u>	<u>2016</u>
Fair value of plan assets	\$1,354,924	\$1,296,568
Projected and accumulated benefit obligation	<u>(861,970)</u>	<u>(1,011,099)</u>
Funded Status	<u>\$ 492,954</u>	<u>\$ 285,469</u>
Net pension benefit recognized in the statement of activities	\$ 33,902	\$ 52,621
Prepaid pension cost recognized in the statement of financial position, included in prepaid expenses and other assets	492,954	285,469
Benefits paid	45,047	26,327

The Organization does not expect to make contributions to the Plan in 2017.

Unrecognized actuarial loss recognized as changes in unrestricted net assets arising from the Plan at August 31, 2016 that have not yet been recognized in periodic pension cost were \$29,977. Unrecognized actuarial losses recognized as changes in unrestricted net assets arising from the Plan at August 31, 2017 that have not yet been recognized in periodic pension gain were \$143,625.

The Organization's expected long-term return on plan assets assumptions is based on a periodic review and modeling of the Plans' asset allocation and liability structure over a long-term horizon. Expectations of returns for each asset class are the most important of the assumptions used in the review and modeling and are based on comprehensive reviews of historical data are economical/financial market theory. The expected long-term rate of return on assets was selected from within the reasonable range of rates determined by (a) historical rates of returns, net of inflation, for the asset classes covered by the investment policy, and (b) projections of inflation over the long-term period during which benefits are payable to plan participants.

The following are weighted-average assumptions used to determine benefit obligations and net periodic benefit cost as of and for the years ended August 31:

	<u>Benefit Obligations</u>		<u>Periodic Benefit Cost</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Discount rate	4%	4%	4%	4%
Expected long-term return on plan assets			6%	6%

East Side House, Inc.

Notes to Financial Statements
August 31, 2017 and 2016

8. Pension Plans (continued)

Defined Benefit Plan (continued)

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

2018	\$ 75,156
2019	72,901
2020	70,714
2021	68,593
2022-2026	294,171
2023-2027	<u>288,288</u>
	<u>\$ 869,823</u>

The investment policy is a conservative policy with respect to investment 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.

Defined Contribution Plan

The Organization also has a defined contribution pension plan. 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. The Organization 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 contribution is made. Defined contribution plan pension expense was \$111,881 and \$147,329 for the years ended August 31, 2017 and 2016.

9. Donated Services

The Organization has certain legal functions performed pro bono as well as volunteers who provide assistance in the Organization's Early Learn/Head Start program. The estimated fair value of the donated services for the years ended August 31, 2017 and 2016 was \$292,832 and \$289,081.

East Side House, Inc.

Notes to Financial Statements
August 31, 2017 and 2016

10. Lease Commitments

The Organization leases event space under a separate operating lease. Aggregate minimum annual rental payments at August 31, 2017 for the years ending August 31, are payable as follows:

2018	\$ 769,500
2019	(A)
2020	<u>(B)</u>
	<u>\$ 769,500</u>

(A) Equals the 2018 rental payment plus the lesser of 4% or Consumer Price Index ("CPI") as of December 31, 2018.

(B) Equals the 2019 rental payment plus the lesser of 4% or CPI as of December 31, 2019.

11. Concentration of Credit Risk

Financial instruments which potentially subject the Organization to a concentration of credit risk consist primarily of cash and cash equivalents in excess of Federal Deposit Insurance Corporation insurance limits. Management believes that credit risk related to these accounts is minimal.

The investment portfolio is diversified by type of investments and industry concentrations so that no individual investment, or group of investments, represents a significant concentration of market risk.

The Organization provides program services that are covered under various third party agreements. Receivables from such arrangements totaled \$5,259,137 and \$3,078,138 as of August 31, 2017 and 2016. Receivables are expected to be collected in the normal course of business.

* * * * *

East Side House, Inc.

Uniform Guidance Reports and Schedules

August 31, 2017

East Side House, Inc.

**Schedule of Expenditures of Federal Awards
Year Ended August 31, 2017**

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>				
Pass-through New York State Department of Health Child and Adult Care Food Program	10.558	3391	\$ -	\$ 454,940
<u>U.S. Department of Education</u>				
Pass-through New York City Department of Education Title I Grants to Local Education Agencies	84.010	QR898CM	-	131,637
School Improvement Grants	84.377	QR898CM	-	190,870
Total Pass-through New York City Department of Education			-	322,507
<u>U.S. Department of Health and Human Services</u>				
Pass-through New York City Administration for Children's Services Head Start	93.600	20131406920	-	1,919,812
Child Care and Development Block Grant	93.575	20131406920	-	233,972
Total New York City Administration for Children's Services			-	2,153,784
Pass-through New York City Department for the Aging				
Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centri	93.044	20170000217	-	13,768
Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centri	93.044	20170000216	-	4,945
Special Programs for the Aging, Title III, Part C, Nutrition Services	93.045	20170000217	-	30,047
Special Programs for the Aging, Title III, Part C, Nutrition Services	93.045	20170000216	-	17,919
Nutrition Services Incentive Program	93.053	20170000217	-	24,809
Nutrition Services Incentive Program	93.053	20170000216	-	8,802
Social Services Block Grant	93.667	20170000217	-	77,496
Social Services Block Grant	93.667	20170000216	-	23,352
Total New York City Department for the Aging			-	201,138
Pass-through New York State Office of Children and Family Services HHS Programs for Disaster Relief Appropriations Act - Non Construction	93.095	C027455	-	252,414
Pass-through New York City Department of Youth and Community Development				
Community Services Block Grant	93.569	810109	-	78,747
Community Services Block Grant	93.569	810111	-	39,600
Community Services Block Grant	93.569	831210	-	84,840
Total New York City Development of Youth and Community Development			-	203,187
Total U.S. Department of Health and Human Services			-	2,810,523
Total Expenditures of Federal Awards			\$ -	\$ 3,587,970

See independent auditors' report and notes to schedule of expenditures of federal awards

East Side House, Inc.

Notes to Schedule of Expenditures of Federal Awards Year Ended August 31, 2017

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of East Side House, Inc. (the "Organization") under programs of the federal government for the year ended August 31, 2017. The information in this Schedule is presented in accordance with the requirements of the Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("*Uniform Guidance*"). This presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule 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.

3. Indirect Cost Rate

The Organization has elected not to use the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance.

**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***

Independent Auditors' Report

**Board of Managers
East Side House, Inc.**

We have audited, 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, the financial statements of East Side House, Inc. (the "Organization"), which comprise the statement of financial position as of August 31, 2017 and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 15, 2018.

Internal Control Over Financial Reporting

In planning and performing our 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 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 the 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 consider 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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

PKF O'Connor Davies, LLP

New York, New York
May 15, 2018

**Report on Compliance for Each Major Federal Program and
Internal Control Over Compliance Required by the Uniform Guidance**

Independent Auditors' Report

**Board of Managers
East Side House, Inc.**

Report on Compliance for Each Major Federal Program

We have audited East Side House, Inc.'s (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended August 31, 2017. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for understanding and complying with the requirements of federal statutes, regulations, and the terms and conditions of federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, East Side House, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2017.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2017-001. Our opinion on each major federal program is not modified with respect to this matter.

The Organization's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

PKF O'Connor Davies, LLP
New York, New York
May 15, 2018

East Side House, Inc.

Schedule of Findings and Questioned Costs
Year Ended August 31, 2017

Section I - Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with U.S. GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

_____ yes X no

Significant deficiency(ies) identified?

_____ yes X none reported

Noncompliance material to financial statements noted?

_____ yes X no

Federal Awards

Internal control over major Federal programs:

Material weakness(es) identified?

_____ yes X no

Significant deficiency(ies) identified?

_____ yes X none reported

Type of auditors' report issued on compliance for major Federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

X yes _____ no

Identification of major Federal program:

CFDA Number

Name of Federal Program or Cluster

93.600

Head Start

Dollar threshold used to distinguish between Type A and Type B program:

\$750,000

Auditee qualified as low-risk auditee?

_____ yes X no

Section II – Financial Statement Findings

During our audit, we noted no material findings for the year ended August 31, 2017.

East Side House, Inc.

Schedule of Findings and Questioned Costs *(continued)*
Year Ended August 31, 2017

Section III – Federal Award Findings and Questioned Costs

Finding 2017-001 Reporting

<u>CFDA Number</u>	<u>Name of the Federal Program</u>
93.600	Head Start

Criteria

The Organization's Uniform Guidance submission to the Federal Audit Clearinghouse ("FAC") was due within nine months of its year end.

Condition

The Organization's Uniform Guidance submission to the FAC was not filed within nine months of the end of its fiscal year.

Cause

Due to delayed responses for contract related confirmations, a final report was issued after the required due date. Management has taken measures to proactively seek responses for audit confirmations in a timely manner to ensure required reports are submitted in a timely manner.

Questioned Costs

None noted.

Context

When performing our audit we noted that the Uniform Guidance submission to the FAC was not filed on a timely basis.

Effect

The Organization was not in compliance with the requirement to complete the filing for the Organization's Uniform Guidance within nine months of its year end, and therefore, the Organization cannot be considered a low risk auditee.

Recommendation

We recommend the Organization's Uniform Guidance submission to the FAC be filed within nine months of its year end as required.

Views of Responsible Official and Planned Corrective Action

See Corrective Action Plan attached.

Section IV – Prior Year's Audit Findings

There were no prior year audit findings.



East Side House
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East Side House Inc.

May 15, 2018

Corrective Action Plan – Schedule of Findings and Questioned Costs

FINDING	Corrective Action Plan
<p>Finding 2017-001 – The Organization’s Uniform Guidance submission to the FAC was not filed within the nine months of the end of its fiscal year during Fiscal Year 2016.</p>	<p>Due to the delayed agency responses during fiscal year 2016 for contract related confirmations, the final report was issued after the required due date.</p> <p>Management has taken measures to proactively follow up on agency responses for audit confirmations, to ensure timely completion of the final report as well as timely submission of the Uniform guidance to the FAC.</p>

Walter Cortes

Controller