

East Side House, Inc.

Financial Statements

August 31, 2018

East Side House, Inc.

Financial Statements

August 31, 2018

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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, 2018, 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, 2018, 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, 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 15, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PKF O'Connor Davies, LLP

New York, New York
May 23, 2019

East Side House, Inc.

Statement of Financial Position

August 31, 2018

(with comparative amounts at August 31, 2017)

ASSETS	<u>2018</u>	<u>2017</u>
Cash	\$ 8,806,383	\$ 8,210,461
Due from government agencies	5,804,717	5,259,137
Contributions receivable	441,200	220,000
Prepaid expenses and other assets	2,125,619	1,814,601
Investments	15,486,060	14,751,147
Restricted investments	5,767,978	5,767,978
Property, plant and equipment, net	<u>149,712</u>	<u>132,655</u>
	<u><u>\$ 38,581,669</u></u>	<u><u>\$ 36,155,979</u></u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 957,653	\$ 778,985
Due to government agencies	2,215,830	1,572,592
Deferred revenue	950,073	1,180,284
Total Liabilities	<u>4,123,556</u>	<u>3,531,861</u>
Net Assets		
Unrestricted	25,717,327	23,649,935
Temporarily restricted	2,972,808	3,206,205
Permanently restricted	<u>5,767,978</u>	<u>5,767,978</u>
Total Net Assets	<u>34,458,113</u>	<u>32,624,118</u>
	<u><u>\$ 38,581,669</u></u>	<u><u>\$ 36,155,979</u></u>

See notes to financial statements

East Side House, Inc.

Statement of Activities
Year Ended August 31, 2018
(with summarized totals for the year ended August 31, 2017)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2018 Total</u>	<u>2017 Total</u>
OPERATING INCOME					
Contributions foundations and charities	\$ 717,250	\$ 720,000	\$ -	\$ 1,437,250	\$ 1,422,550
Contributions corporations and individuals	179,306	-	-	179,306	405,053
Government support	17,695,257	-	-	17,695,257	17,224,282
Donated services	256,449	-	-	256,449	292,832
United Way of New York City	721,220	-	-	721,220	783,001
Special events, net of direct benefits to participants of \$3,562,289 and \$3,269,712	1,349,190	-	-	1,349,190	1,137,229
Program fees	1,244,709	-	-	1,244,709	1,346,947
Interest and dividends, net of investment fees of \$149,684 and \$142,784	57,210	244,907	-	302,117	304,062
Miscellaneous	44,221	-	-	44,221	57,336
Net assets released from restrictions	1,451,596	(1,451,596)	-	-	-
Total Operating Income	<u>23,716,408</u>	<u>(486,689)</u>	<u>-</u>	<u>23,229,719</u>	<u>22,973,292</u>
OPERATING EXPENSES					
Program Services					
Early childhood	3,816,183	-	-	3,816,183	3,606,690
Community centers	2,328,420	-	-	2,328,420	2,269,684
Education	13,444,760	-	-	13,444,760	13,520,855
Senior citizens	1,010,537	-	-	1,010,537	829,780
Total Program Services	<u>20,599,900</u>	<u>-</u>	<u>-</u>	<u>20,599,900</u>	<u>20,227,009</u>
Supporting Services					
Management and general	1,422,535	-	-	1,422,535	1,462,380
Fundraising	576,810	-	-	576,810	461,622
Total Supporting Services	<u>1,999,345</u>	<u>-</u>	<u>-</u>	<u>1,999,345</u>	<u>1,924,002</u>
Total Operating Expenses	<u>22,599,245</u>	<u>-</u>	<u>-</u>	<u>22,599,245</u>	<u>22,151,011</u>
Excess (Deficiency) of Operating Income Over Operating Expenses	1,117,163	(486,689)	-	630,474	822,281
NON-OPERATING ACTIVITY					
Pension liability adjustment	(15,123)	-	-	(15,123)	173,602
Net realized and unrealized gain on investments	965,352	253,292	-	1,218,644	1,410,071
Change in Net Assets	2,067,392	(233,397)	-	1,833,995	2,405,954
NET ASSETS					
Beginning of year	<u>23,649,935</u>	<u>3,206,205</u>	<u>5,767,978</u>	<u>32,624,118</u>	<u>30,218,164</u>
End of year	<u>\$ 25,717,327</u>	<u>\$ 2,972,808</u>	<u>\$ 5,767,978</u>	<u>\$ 34,458,113</u>	<u>\$ 32,624,118</u>

East Side House, Inc.

Statement of Functional Expenses
Year Ended August 31, 2018
(with summarized totals for the year ended August 31, 2017)

	Program Services				Total Program Services	Supporting Services		Direct Costs of Special Events	2018 Total	2017 Total
	Early Childhood	Community Centers	Education	Senior Citizens		Management and General	Fundraising			
Salaries	\$ 2,177,570	\$ 1,312,003	\$ 8,304,790	\$ 446,548	\$ 12,240,911	\$ 752,863	\$ 115,056	\$ -	\$ 13,108,830	\$ 13,133,889
Pension plan expense	53,425	871	9,725	2,126	66,147	5,609	-	-	71,756	111,881
Employee benefits	247,470	98,231	662,702	15,163	1,023,566	51,251	6,356	-	1,081,173	1,039,352
Payroll taxes	200,539	137,089	874,527	47,502	1,259,657	91,554	12,151	-	1,363,362	1,381,379
Professional fees and contract service payments	238,484	9,046	580,413	40,044	867,987	147,790	135,404	252,546	1,403,727	1,290,692
Advertising	-	-	-	-	-	1,250	179,687	123,687	304,624	252,202
Supplies	218,496	60,161	290,950	53,502	623,109	34,707	-	5,657	663,473	658,959
Telephone	74,380	13,803	89,480	3,284	180,947	61,971	-	85	243,003	162,375
Postage and shipping	963	437	2,672	13,316	17,388	6,096	-	38,371	61,855	19,708
Occupancy	82,527	15	2,546	-	85,088	38,503	-	2,066,287	2,189,878	2,239,300
Equipment rental and maintenance	200,279	61,562	89,519	96,726	448,086	122,582	2,326	86,204	659,198	513,495
Printing and publications	-	891	15,538	160	16,589	6,194	-	261,218	284,001	240,935
Program activity	293,583	173,119	975,378	44,957	1,487,037	16,659	23,975	90	1,527,761	1,112,108
Public relations	-	-	-	-	-	-	87,038	111,143	198,181	218,487
Events, conferences and travel	13,228	5,744	30,151	39	49,162	8,726	-	35,626	93,514	509,806
Investment fees	-	-	-	-	-	149,684	-	-	149,684	142,784
Depreciation	-	-	-	-	-	54,661	-	-	54,661	77,188
Insurance	13,945	27,177	103,543	17,064	161,729	-	14,817	27,051	203,597	181,883
Dues and subscriptions	-	-	-	-	-	-	-	-	-	-
Food	1,294	312,705	273,302	224,392	811,693	9,034	-	260,219	1,080,946	869,356
Provider stipends	-	3,443	92,326	-	95,769	-	-	-	95,769	161,665
Scholarships	-	10,047	56,935	-	66,982	-	-	-	66,982	83,925
Program indirect costs	-	100,725	982,572	5,714	1,089,011	175	-	12,601	1,101,787	1,121,439
Cost of car	-	-	-	-	-	-	-	168,750	168,750	-
Miscellaneous	-	1,351	7,691	-	9,042	12,910	-	112,754	134,706	40,699
Total expenses	<u>3,816,183</u>	<u>2,328,420</u>	<u>13,444,760</u>	<u>1,010,537</u>	<u>20,599,900</u>	<u>1,572,219</u>	<u>576,810</u>	<u>3,562,289</u>	<u>26,311,218</u>	<u>25,563,507</u>
Expenses deducted directly from revenues on the statement of activities										
Investment fees	-	-	-	-	-	(149,684)	-	-	(149,684)	(142,784)
Direct cost of special events	-	-	-	-	-	-	-	(3,562,289)	(3,562,289)	(3,269,712)
Total Expenses Reported by Function	<u>\$ 3,816,183</u>	<u>\$ 2,328,420</u>	<u>\$ 13,444,760</u>	<u>\$ 1,010,537</u>	<u>\$ 20,599,900</u>	<u>\$ 1,422,535</u>	<u>\$ 576,810</u>	<u>\$ -</u>	<u>\$ 22,599,245</u>	<u>\$ 22,151,011</u>

East Side House, Inc.

Statement of Cash Flows
Year Ended August 31, 2018
(with comparative amounts for the year ended August 31, 2017)

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2018</u>	<u>2017</u>
Change in net assets	\$ 1,833,995	\$ 2,405,954
Adjustments to reconcile change in net assets to net cash from operating activities		
Net realized and unrealized gain on investments	(1,218,644)	(1,410,071)
Depreciation	54,661	77,188
Changes in operating assets and liabilities		
Due from government agencies	(545,580)	(2,180,999)
Contributions receivable	(221,200)	30,000
Prepaid expenses and other assets	(311,018)	(179,059)
Accounts payable and accrued expenses	178,668	84,294
Due to government agencies	643,238	747,141
Deferred revenue	(230,211)	238,462
Net Cash from Operating Activities	<u>183,909</u>	<u>(187,090)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(71,718)	(51,421)
Purchase of investments	(5,631,686)	(5,299,615)
Proceeds from sale of investments	<u>6,115,417</u>	<u>5,775,963</u>
Net Cash from Investing Activities	<u>412,013</u>	<u>424,927</u>
 Net Change in Cash	595,922	237,837
 CASH		
Beginning of year	<u>8,210,461</u>	<u>7,972,624</u>
 End of year	<u>\$ 8,806,383</u>	<u>\$ 8,210,461</u>

See notes to financial statements

East Side House, Inc.

Notes to Financial Statements
August 31, 2018 and 2017

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.

As of August 31, 2018 and 2017, approximately \$8,894,000 and \$7,798,000 of cash was maintained with an institution in excess of Federal Deposit Insurance Corporation limits. The Organization does not believe that a significant risk of loss due to the failure of a financial institution presently exists.

East Side House, Inc.

Notes to Financial Statements
August 31, 2018 and 2017

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, 2018 and 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, 2018 and 2017

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, 2017 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, 2015.

East Side House, Inc.

Notes to Financial Statements
August 31, 2018 and 2017

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 23, 2019.

3. Investments and Investment Return

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

	2018	2017
Cash and cash equivalents	\$ 207,311	\$ 120,491
Fixed income securities		
Corporate Bonds	52,726	27,004
Common stocks		
Health Care	1,064,840	979,640
Consumer Staples	514,953	774,240
Information Technology	816,811	1,404,943
Consumer Discretionary	1,175,304	1,245,993
Industrials	762,460	752,018
Materials	244,621	155,555
Financials	1,560,856	1,219,702
Telecommunication Services	762,738	126,229
Utilities	136,197	142,731
Energy	285,579	204,538
Miscellaneous	737,070	1,098,456
Mutual funds		
Fixed income	7,399,380	6,836,183
Public equity	4,430,347	3,761,760
Other	1,102,845	1,669,642
	\$ 21,254,038	\$ 20,519,125

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

	2018	2017
Interest and dividends from investments, net		
of investment fees \$149,684 and \$142,784	\$ 302,117	\$ 304,062
Realized and unrealized gain on investments	1,218,644	1,410,071
	\$ 1,520,761	\$ 1,714,133

East Side House, Inc.

Notes to Financial Statements August 31, 2018 and 2017

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	2018		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Mutual funds	\$ 12,932,572	\$ -	\$ 12,932,572
Common stocks	8,061,429	-	8,061,429
Fixed income securities	-	52,726	52,726
Total Investments at Fair Value	\$ 20,994,001	\$ 52,726	21,046,727
Cash and cash equivalents			207,311
			\$ 21,254,038
			2017
Description	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

There were no transfers between level 1 and 2 of the fair value hierarchy during 2018 and 2017.

4. Property, Plant and Equipment

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

	2018	2017
Buildings and improvements	\$ 1,207,655	\$ 1,176,115
Furniture and equipment	1,169,841	1,150,293
Computers	58,129	37,499
	2,435,625	2,363,907
Accumulated depreciation	(2,285,913)	(2,231,252)
	\$ 149,712	\$ 132,655

The cost of furniture and equipment purchased for the Early Learn/Head Start program as of August 31, 2018 and 2017 amounted to \$259,880 and \$241,616. 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, 2018 and 2017

5. Temporarily Restricted Net Assets

Changes in the temporarily restricted net assets for the year ended August 31 consist of the following:

Purpose / Restriction	2018			Balance August 31, 2018
	Balance August 31, 2017	Additions	Releases	
Education programs	\$ 2,986,205	\$ 1,098,199	\$ (1,331,596)	\$ 2,752,808
Timing	220,000	120,000	(120,000)	220,000
	\$ 3,206,205	\$ 1,218,199	\$ (1,451,596)	\$ 2,972,808
Purpose / Restriction	2017			Balance August 31, 2017
	Balance August 31, 2016	Additions	Releases	
Education programs	\$ 2,419,994	\$ 1,541,708	\$ (975,497)	\$ 2,986,205
Timing	250,000	120,000	(150,000)	220,000
	\$ 2,669,994	\$ 1,661,708	\$ (1,125,497)	\$ 3,206,205

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, 2018 and 2017

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 years ended August 31:

	2018		
	Temporarily Restricted	Permanently Restricted	Total
Balance, beginning of year	\$ 2,600,718	\$ 5,767,978	\$ 8,368,696
Investment income, net	244,907	-	244,907
Capital appreciation	253,292	-	253,292
Appropriated for expenditure	(255,066)	-	(255,066)
Balance, end of year	\$ 2,843,851	\$ 5,767,978	\$ 8,611,829
	Temporarily Restricted	Permanently Restricted	Total
Comprised of the following:			
Centennial endowment	\$ 1,621,515	\$ 975,280	\$ 2,596,795
Jean and Robert Stern endowment	-	200,000	200,000
William and Ann Zell endowment	-	543,934	543,934
Louis W. Bowen endowment	1,222,336	4,048,764	5,271,100
	\$ 2,843,851	\$ 5,767,978	\$ 8,611,829

East Side House, Inc.

Notes to Financial Statements
August 31, 2018 and 2017

7. Endowment Funds (continued)

Spending Policy (continued)

	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	<u>\$ 2,600,718</u>	<u>\$ 5,767,978</u>	<u>\$ 8,368,696</u>
	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
	<u>\$ 2,600,718</u>	<u>\$ 5,767,978</u>	<u>\$ 8,368,696</u>

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").

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

	2018	2017
Fair value of plan assets	\$1,357,770	\$1,354,924
Projected and accumulated benefit obligation	(819,513)	(861,970)
Funded Status	<u>\$ 538,257</u>	<u>\$ 492,954</u>
Net pension benefit recognized in the statement of activities	\$ 60,426	\$ 33,902
Prepaid pension cost recognized in the statement of financial position, included in prepaid expenses and other assets	538,257	492,954
Benefits paid	75,217	45,047

East Side House, Inc.

Notes to Financial Statements
August 31, 2018 and 2017

8. Pension Plans *(continued)*

Defined Benefit Plan (continued)

Unrecognized actuarial gain recognized as changes in unrestricted net assets arising from the Plan at August 31, 2017, that have not yet been recognized in periodic pension cost, were \$143,606. Unrecognized actuarial gain recognized as changes in unrestricted net assets arising from the Plan at August 31, 2018, that have not yet been recognized in periodic pension cost, were \$128,483.

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:

	Benefit Obligations		Periodic Benefit Cost	
	2018	2017	2018	2017
Discount rate	4%	4%	4%	4%
Expected long-term return on plan assets			0%	0%

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.

Subsequent to year end, the defined benefit plan was terminated and individual annuities were purchased with an investment company for the remaining eligible participants.

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 \$71,756 and \$111,881 for the years ended August 31, 2018 and 2017.

East Side House, Inc.

Notes to Financial Statements
August 31, 2018 and 2017

8. Pension Plans (continued)

Multi-Employer Union Pension Plan

The Organization's Head Start Union employees are covered by a collective bargaining agreement ("CBA") with the Local 95 District Council 1707 Union. The Head Start Sponsoring Board Council City of New York Plan runs on a fiscal year (the "Plan"). Separate actuarial information regarding such Plan is not made available to the contributing employers by the union administrators or trustees since the Plan does not maintain separate records for each reporting unit.

The Organization's participation in the Plan for the years ended August 31, 2018 and 2017 is outlined in the table below. The most recent Pension Protection Act ("PPA") zone status available for the Plan is June 30, 2018.

The zone status is based on information that the Organization received from the Plan and is certified by the actuaries of the Plan. Among other factors, pension plans in the red zone are generally less than 65% funded, pension plans in the yellow zone are less than 80% funded, and pension plans in the green zone are at least 80% funded. The Plan does not have a financial improvement plan or rehabilitation plan pending or implemented. The Organization's contributions to the Plan did not exceed 5% of the Plans' total contributions for the years ended August 31, 2018 and 2017.

Pension Fund	EIN Plan Number	Plan Number	Pension Protection Act Zone Status		Total Pension Cost to the Plan		Expiration Date of Collective Bargaining Agreement
			2018	2017	2018	2017	
The Head Start Sponsoring Board Council of the City of New York Plan	13-3152121	001	Green	Green	\$ 51,398	\$ 64,658	January 31, 2019

9. Donated Services

The Organization has certain legal functions performed pro bono attorneys 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, 2018 and 2017 was \$256,449 and \$292,832.

10. Lease Commitments

The Organization leases event space under a separate operating lease. Aggregate minimum annual rental payments at August 31, 2018 for the years ending August 31, are payable as follows:

2019	\$ 784,213
2020	<u>(A)</u>
	<u>\$ 784,213</u>

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

East Side House, Inc.

Notes to Financial Statements
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11. Concentration of Credit Risk

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 \$5,804,717 and \$5,259,137 as of August 31, 2018 and 2017. Receivables are expected to be collected in the normal course of business.

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