

East Side House, Inc.

Financial Statements

August 31, 2016

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, 2016, 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, 2016, 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, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 3, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2015 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
April 18, 2017

East Side House, Inc.

Statement of Financial Position

August 31, 2016

(with comparative amounts at August 31, 2015)

ASSETS	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 7,972,624	\$ 7,313,688
Due from government agencies	3,078,138	2,528,960
Contributions receivable	250,000	141,000
Prepaid expenses and other assets	1,635,542	1,076,409
Investments	13,817,424	12,698,489
Restricted investments	5,767,978	5,767,978
Property, plant and equipment, net	<u>158,422</u>	<u>231,601</u>
	<u>\$ 32,680,128</u>	<u>\$ 29,758,125</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 694,691	\$ 207,700
Due to government agencies	825,451	418,756
Deferred revenue	<u>941,822</u>	<u>922,453</u>
Total Liabilities	<u>2,461,964</u>	<u>1,548,909</u>
Net Assets		
Unrestricted	21,780,192	19,795,704
Temporarily restricted	2,669,994	2,645,534
Permanently restricted	<u>5,767,978</u>	<u>5,767,978</u>
Total Net Assets	<u>30,218,164</u>	<u>28,209,216</u>
	<u>\$ 32,680,128</u>	<u>\$ 29,758,125</u>

See notes to financial statements

East Side House, Inc.

Statement of Activities

Year Ended August 31, 2016

(with summarized totals for the year ended August 31, 2015)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2016 Total</u>	<u>2015 Total</u>
OPERATING INCOME					
Contributions foundations and charities	\$ 399,205	\$ 1,143,000	\$ -	\$ 1,542,205	\$ 1,301,047
Contributions corporations and individuals	1,300,866	-	-	1,300,866	203,941
Government support	15,767,022	-	-	15,767,022	12,726,529
Donated services	289,081	-	-	289,081	332,675
United Way of New York City	1,108,492	-	-	1,108,492	762,206
Special events, net of direct benefits to participants of \$3,184,571 and \$3,191,900	1,377,676	-	-	1,377,676	1,372,294
Program fees	1,116,352	-	-	1,116,352	830,416
Interest and dividends, net of fees of \$131,156 and \$170,285	156,382	201,128	-	357,510	302,891
Miscellaneous	31,356	-	-	31,356	15,672
Net assets released from restrictions	<u>1,319,668</u>	<u>(1,319,668)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Income	<u>22,866,100</u>	<u>24,460</u>	<u>-</u>	<u>22,890,560</u>	<u>17,847,671</u>
OPERATING EXPENSES					
Program services					
Early childhood	3,429,437	-	-	3,429,437	3,543,878
Community centers	1,285,090	-	-	1,285,090	867,330
Education	13,736,016	-	-	13,736,016	9,745,034
Senior citizens	799,799	-	-	799,799	676,876
Total Program Services	<u>19,250,342</u>	<u>-</u>	<u>-</u>	<u>19,250,342</u>	<u>14,833,118</u>
Supporting services					
Management and general	1,498,564	-	-	1,498,564	1,432,340
Fundraising	500,611	-	-	500,611	525,144
Total Supporting Services	<u>1,999,175</u>	<u>-</u>	<u>-</u>	<u>1,999,175</u>	<u>1,957,484</u>
Total Operating Expenses	<u>21,249,516</u>	<u>-</u>	<u>-</u>	<u>21,249,516</u>	<u>16,790,602</u>
Excess of Operating Income					
Over Operating Expenses	1,616,584	24,460	-	1,641,044	1,057,069
NON OPERATING ACTIVITY					
Pension liability adjustment	(152,912)	-	-	(152,912)	(26,872)
Net realized and unrealized (loss) gain on investments	<u>520,816</u>	<u>-</u>	<u>-</u>	<u>520,816</u>	<u>(885,418)</u>
Change in Net Assets	1,984,488	24,460	-	2,008,948	144,779
NET ASSETS					
Beginning of year	<u>19,795,704</u>	<u>2,645,534</u>	<u>5,767,978</u>	<u>28,209,216</u>	<u>28,064,437</u>
End of year	<u>\$ 21,780,192</u>	<u>\$ 2,669,994</u>	<u>\$ 5,767,978</u>	<u>\$ 30,218,164</u>	<u>\$ 28,209,216</u>

East Side House, Inc.

Statement of Functional Expenses

Year Ended August 31, 2016

(with summarized totals for the year ended August 31, 2015)

	Program Services				Supporting Services			Direct Costs of Special Events	2016 Total	2015 Total
	Early Childhood	Community Centers	Education	Senior Citizens	Total Program Services	Management and General	Fundraising			
Salaries	\$ 2,369,262	\$ 518,075	\$ 6,814,403	\$ 362,669	\$ 10,064,409	\$ 832,568	\$ 125,615	\$ -	\$ 11,022,592	\$ 9,462,201
Pension plan expense	116,398	3,752	10,882	2,286	133,318	14,010	-	-	147,328	156,168
Employee benefits	282,216	24,921	578,042	11,867	897,046	43,231	8,137	-	948,414	723,775
Payroll taxes	214,848	53,503	764,420	38,392	1,071,163	107,304	14,499	-	1,192,966	1,083,397
Professional fees and contract service payments	30,542	229,391	658,108	38,160	956,201	61,345	80,230	88,827	1,186,603	630,477
Advertising	-	-	-	-	-	-	119,437	101,885	221,322	267,037
Supplies	134,092	58,623	295,172	52,187	540,074	41,871	-	6,000	587,945	460,091
Telephone	16,931	2,752	43,253	18,440	81,376	73,687	-	-	155,063	119,505
Postage and shipping	1,074	124	1,515	13,110	15,823	6,360	-	1,504	23,687	18,115
Occupancy	69,966	-	5,000	-	74,966	32,346	-	2,011,866	2,119,178	1,966,446
Equipment rental and maintenance	117,399	45,732	222,713	31,828	417,672	114,670	-	75,565	607,907	619,843
Printing and publications	-	261	4,221	-	4,482	8,024	-	213,188	225,694	245,383
Relief and trips	-	-	-	-	-	-	-	-	-	6,270
Public relations	-	-	-	-	-	991	152,692	76,451	230,135	243,640
Events, conferences and travel	2,016	68,937	191,820	12,433	275,206	9,425	-	450,266	734,897	693,840
Investment fees	-	-	-	-	-	131,156	-	-	131,156	170,285
Depreciation	-	-	-	-	-	54,269	-	22,919	77,188	77,188
Insurance	16,037	-	107,382	22,027	145,446	22,252	-	7,814	175,512	157,755
Dues and subscriptions	4,532	762	17,222	-	22,516	24,414	-	-	46,930	57,077
Food	16	204,000	348,384	187,026	739,426	9,426	-	82,814	831,666	775,901
Provider stipends	-	25,442	1,853,838	-	1,879,280	2,750	-	900	1,882,930	470,867
Scholarships	-	-	82,000	-	82,000	-	-	-	82,000	37,922
Miscellaneous	54,108	48,815	1,737,641	9,375	1,849,939	39,621	-	44,572	1,934,132	1,709,604
Total expenses	<u>3,429,437</u>	<u>1,285,090</u>	<u>13,736,016</u>	<u>799,799</u>	<u>19,250,342</u>	<u>1,629,720</u>	<u>500,611</u>	<u>3,184,571</u>	<u>24,565,243</u>	<u>20,152,787</u>
Less expenses deducted directly from revenues on the statement of activities										
Investment fees	-	-	-	-	-	(131,156)	-	-	(131,156)	(170,285)
Direct cost of special events	-	-	-	-	-	-	-	(3,184,571)	(3,184,571)	(3,191,900)
Total Expenses Reported by Function	<u>\$ 3,429,437</u>	<u>\$ 1,285,090</u>	<u>\$ 13,736,016</u>	<u>\$ 799,799</u>	<u>\$ 19,250,342</u>	<u>\$ 1,498,564</u>	<u>\$ 500,611</u>	<u>\$ -</u>	<u>\$ 21,249,516</u>	<u>\$ 16,790,602</u>

East Side House, Inc.

Statement of Cash Flows
Year Ended August 31, 2016

(with comparative amounts for the year ended August 31, 2015)

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2016</u>	<u>2015</u>
Change in net assets	\$ 2,008,948	\$ 144,779
Adjustments to reconcile change in net assets to net cash from operating activities		
Net realized and unrealized loss (gain) on investments	(520,816)	885,418
Depreciation	77,188	77,188
Changes in operating assets and liabilities		
Due from government agencies	(549,178)	(1,214,652)
Contributions receivable	(109,000)	49,500
Prepaid expenses and other assets	(559,133)	(123,463)
Accounts payable and accrued expenses	486,991	(109,188)
Due to government agencies	406,695	(79,529)
Deferred revenue	19,369	112,148
Net Cash from Operating Activities	<u>1,261,064</u>	<u>(257,799)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(4,009)	(42,251)
Purchase of investments	(8,581,940)	(9,331,956)
Proceeds from sale of investments	7,983,821	9,708,752
Net Cash from Investing Activities	<u>(602,128)</u>	<u>334,545</u>
Net Change in Cash and Cash Equivalents	658,936	76,746
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>7,313,688</u>	<u>7,236,942</u>
End of year	<u>\$ 7,972,624</u>	<u>\$ 7,313,688</u>

See notes to financial statements

East Side House, Inc.

Notes to Financial Statements
August 31, 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, 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, 2016.

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. The Organization uses the market approach as its valuation technique.

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. Realized and unrealized gains and losses 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, 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, 2015 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, 2013.

East Side House, Inc.

Notes to Financial Statements
August 31, 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 April 18, 2017.

3. Investments and Investment Return

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

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 417,000	\$ 100,172
Fixed income securities		
U.S. government	-	17,779
Corporate bonds	18,070	4,338
Common stocks		
Health care	961,524	825,847
Consumer staples	676,864	610,883
Information technology	1,272,472	1,050,244
Consumer discretionary	1,170,251	1,075,019
Industrials	719,726	658,359
Materials	158,531	146,858
Financials	1,514,496	1,427,501
Telecommunication services	139,834	135,909
Utilities	137,804	121,865
Energy	234,106	304,237
Other	884,123	712,054
Mutual funds		
Fixed income	6,165,501	5,783,661
Public equity	3,635,402	3,959,302
Other	1,479,698	1,532,439
	<u>\$ 19,585,402</u>	<u>\$ 18,466,467</u>

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

	<u>2016</u>	<u>2015</u>
Interest and dividends from investments, net of fees of \$131,156 and \$170,285	\$ 357,510	\$ 302,891
Realized/unrealized gain (loss) on investments	<u>520,816</u>	<u>(885,418)</u>
	<u>\$ 878,326</u>	<u>\$ (582,527)</u>

East Side House, Inc.

Notes to Financial Statements
August 31, 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	2016		Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	
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

Description	2015		Total
	Level 1	Level 2	
Mutual funds	\$ 11,275,402	\$ -	\$ 11,275,402
Common stocks	7,068,776	-	7,068,776
Fixed income securities	17,779	4,338	22,117
Total investments at fair value	\$ 18,361,957	\$ 4,338	18,366,295
Cash and cash equivalents			100,172
			\$ 18,466,467

There were no transfers between level 1 and 2 of the fair value hierarchy during 2016 and 2015.

4. Property, Plant and Equipment

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

	2016	2015
Buildings and improvements	\$ 1,143,615	\$ 1,142,202
Furniture and equipment	1,131,372	1,128,776
Computers	37,499	37,499
	2,312,486	2,308,477
Accumulated depreciation	(2,154,064)	(2,076,876)
	\$ 158,422	\$ 231,601

The cost of furniture and equipment purchased for the Early Learn/Head Start program as of August 31, 2016 and 2015 amounted to \$159,309 and \$138,622. 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, 2016

5. Temporarily Restricted Net Assets

Changes in the temporarily restricted net assets consist of the following at August 31:

Purpose / Restriction	2015	Additions	Releases	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>
Purpose / Restriction	2014	Additions	Releases	2015
Education programs	2,745,888	859,054	(1,079,408)	2,525,534
Timing	<u>190,500</u>	<u>120,000</u>	<u>(190,500)</u>	<u>120,000</u>
	<u>\$ 2,936,388</u>	<u>\$ 979,054</u>	<u>\$ (1,269,908)</u>	<u>\$ 2,645,534</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.

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.

East Side House, Inc.

Notes to Financial Statements
August 31, 2016

7. Endowment Funds *(continued)*

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, 2016:

	Temporarily Restricted	Permanently Restricted	Total
Balance, beginning of year	\$ 2,045,632	\$ 5,767,978	\$ 7,813,610
Investment income, net	167,702	-	167,702
Capital appreciation	33,426	-	33,426
Appropriated for expenditure	(290,582)	-	(290,582)
Balance, end of year	<u>\$ 1,956,178</u>	<u>\$ 5,767,978</u>	<u>\$ 7,724,156</u>

	Temporarily Restricted	Permanently Restricted	Total
Comprised of the following:			
Centennial endowment	\$ 1,537,659	\$ 975,280	\$ 2,512,939
Jean and Robert Stern endowment	-	200,000	200,000
William and Ann Zell endowment	-	543,934	543,934
Louis W. Bowen endowment	418,519	4,048,764	4,467,283
	<u>\$ 1,956,178</u>	<u>\$ 5,767,978</u>	<u>\$ 7,724,156</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").

East Side House, Inc.

Notes to Financial Statements
August 31, 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>2016</u>	<u>2015</u>
Fair value of plan assets	\$ 1,296,568	\$ 1,258,004
Projected benefit obligation	<u>(1,011,099)</u>	<u>(872,244)</u>
Funded Status	<u>\$ 285,469</u>	<u>\$ 385,760</u>
Accumulated benefit obligation	\$ 1,011,099	\$ 872,244
Net pension benefit recognized in the statement of activities	52,621	46,176
Prepaid pension cost recognized in the statement of financial position, included in prepaid expenses and other assets	285,469	385,760
Benefits paid	26,327	32,952

The Organization does not expect to make contributions to the Plan in 2016.

Unrecognized actuarial gains recognized as changes in unrestricted net assets arising from the Plan at August 31, 2015 that have not yet been recognized in periodic pension cost were \$122,935. Unrecognized actuarial losses 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.

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>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Discount rate	4%	5%	4%	5%
Expected long-term return on plan assets			6%	6%

East Side House, Inc.

Notes to Financial Statements
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8. Pension Plan *(continued)*

Defined Benefit Plan (continued)

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

2017	\$ 94,892
2018	90,119
2019	85,613
2020	106,485
2021	101,959
2022-2026	<u>444,106</u>
	<u>\$ 923,174</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 \$199,950 and \$202,345 for the years ended August 31, 2016 and 2015.

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, 2016 and 2015 was \$289,081 and \$332,675.

East Side House, Inc.

Notes to Financial Statements
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10. Lease Commitments

The Organization leases event space under a separate operating lease. Aggregate minimum annual rental payments at August 31, 2016 for the years ending August 31, are payable as follows:

2017	\$ 729,000
2018	769,500
2019	(A)
2020	<u>(B)</u>
	<u>\$ 1,498,500</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 FDIC 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 \$3,078,138 and \$2,528,960 as of August 31, 2016 and 2015. Receivables are expected to be collected in the normal course of business.

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