

East Side House, Inc.

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

August 31, 2023

East Side House, Inc.

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Uniform Guidance Schedules
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Independent Auditors' Report

Board of Managers
East Side House, Inc.

Report on the Audit of the Financial Statements

Opinion

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, 2023, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

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, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of East Side House, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Correction of an Error

As discussed in Note 13 to the financial statements, an error resulting in overstatement of amounts previously reported for special events revenues and an understatement of deferred revenues in 2022. Accordingly, amounts reported for special events revenue, deferred revenue and net assets have been restated in the 2022 financial statements. Our opinion is not modified with respect to that matter.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about East Side House, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, and *Government Auditing Standards* we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 East Side House, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about East Side House, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited East Side House, Inc.'s August 31, 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 16, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2022 is consistent, in all material respects, with the audited financial statements from which it has been derived, except for the restatement disclosed in note 13 of the financial statements.

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 on page 21, as required by Title 2 U.S. *Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principals and Audit Requirements for Federal Awards*, 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 schedule of expenditure of federal awards 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 30, 2024, 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's 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

Harrison, New York
May 30, 2024

East Side House, Inc.

Statement of Financial Position
August 31, 2023
(with comparative amounts at August 31, 2022)

| ASSETS | <u>2023</u> | <u>2022</u> (Restated) |
|---------------------------------------|----------------------|---------------------------|
| Cash and cash equivalents | \$ 4,589,153 | \$ 4,182,236 |
| Due from government agencies | 7,326,219 | 7,284,110 |
| Prepaid expenses and other assets | 112,723 | 168,320 |
| Investments | 25,989,815 | 25,687,371 |
| Property, plant and equipment, net | <u>305,423</u> | <u>348,171</u> |
| | <u>\$ 38,323,333</u> | <u>\$ 37,670,208</u> |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 895,942 | \$ 1,040,781 |
| Due to government agencies | 1,808,887 | 1,616,111 |
| Deferred revenue | 1,287,066 | 547,889 |
| Loans payable | - | 1,500,000 |
| Total Liabilities | <u>3,991,895</u> | <u>4,704,781</u> |
| Net Assets | | |
| Without donor restrictions | 24,665,684 | 23,370,232 |
| With donor restrictions | <u>9,665,754</u> | <u>9,595,195</u> |
| Total Net Assets | <u>34,331,438</u> | <u>32,965,427</u> |
| | <u>\$ 38,323,333</u> | <u>\$ 37,670,208</u> |

See notes to financial statements

East Side House, Inc.

Statement of Activities
Year Ended August 31, 2023
(with summarized totals for the year ended August 31, 2022)

| | Without Donor Restrictions | With Donor Restrictions | 2023 Total | 2022 Total (Restated) |
|--|-------------------------------|----------------------------|----------------------|-----------------------------|
| OPERATING INCOME | | | | |
| Contributions, foundations and charities | \$ 1,221,031 | \$ 1,628,750 | \$ 2,849,781 | \$ 2,903,042 |
| Contributions, corporations and individuals | 349,626 | - | 349,626 | 461,277 |
| Government support | 22,883,249 | - | 22,883,249 | 21,789,109 |
| United Way of New York City | 84,534 | - | 84,534 | 180,000 |
| Special events, net of direct benefits to participants of \$2,868,468 and \$2,384,873 | 2,351,185 | - | 2,351,185 | 477,546 |
| Program fees | 1,642,334 | - | 1,642,334 | 1,509,548 |
| Investment return, net of investment fees of \$158,718 and \$184,751 | 232,050 | 214,199 | 446,249 | 282,082 |
| Miscellaneous | 542,636 | - | 542,636 | 212,558 |
| Paycheck Protection Program loan forgiveness | - | - | - | 2,000,000 |
| Net assets released from restrictions | 1,586,596 | (1,586,596) | - | - |
| Total Operating Income | <u>30,893,241</u> | <u>256,353</u> | <u>31,149,594</u> | <u>29,815,162</u> |
| OPERATING EXPENSES | | | | |
| Program Services | | | | |
| Early childhood | 4,900,915 | - | 4,900,915 | 4,298,819 |
| Community centers | 3,203,111 | - | 3,203,111 | 3,558,495 |
| Education | 12,219,776 | - | 12,219,776 | 10,963,117 |
| Senior citizens | 4,581,954 | - | 4,581,954 | 5,049,258 |
| Harvest to Haven | 136,723 | - | 136,723 | 323,633 |
| Total Program Services | <u>25,042,479</u> | <u>-</u> | <u>25,042,479</u> | <u>24,193,322</u> |
| Supporting Services | | | | |
| Management and general | 4,225,034 | - | 4,225,034 | 4,408,114 |
| Fundraising | 1,789,529 | - | 1,789,529 | 1,100,039 |
| Total Supporting Services | <u>6,014,563</u> | <u>-</u> | <u>6,014,563</u> | <u>5,508,153</u> |
| Total Operating Expenses | <u>31,057,042</u> | <u>-</u> | <u>31,057,042</u> | <u>29,701,475</u> |
| Excess (Deficiency) of Operating Income Over Operating Expenses | (163,801) | 256,353 | 92,552 | 113,687 |
| NON-OPERATING ACTIVITY | | | | |
| Net realized and unrealized gains (losses) on investments | 1,459,253 | (185,794) | 1,273,459 | (3,459,849) |
| Change in Net Assets | 1,295,452 | 70,559 | 1,366,011 | (3,346,162) |
| NET ASSETS | | | | |
| Beginning of year | 23,370,232 | 9,595,195 | 32,965,427 | 36,311,589 |
| End of year | <u>\$ 24,665,684</u> | <u>\$ 9,665,754</u> | <u>\$ 34,331,438</u> | <u>\$ 32,965,427</u> |

See notes to financial statements

East Side House, Inc.

Statement of Functional Expenses
Year Ended August 31, 2023
(with summarized totals for the year ended August 31, 2022)

| | Program Services | | | | | Supporting Services | | | Direct Costs of Special Events | 2023 Total | 2022 Total |
|---|------------------|-------------------|---------------|-----------------|------------------|------------------------|------------------------|--------------|--------------------------------|---------------|---------------|
| | Early Childhood | Community Centers | Education | Senior Citizens | Harvest to Haven | Total Program Services | Management and General | Fundraising | | | |
| Salaries | \$ 2,439,922 | \$ 1,852,535 | \$ 6,670,272 | \$ 1,404,524 | \$ - | \$ 12,367,253 | \$ 1,448,972 | \$ 391,255 | \$ - | \$ 14,207,480 | \$ 12,358,965 |
| Pension plan expense | 210,312 | 9,612 | 50,532 | 8,154 | - | 278,610 | 93,418 | 9,344 | - | 381,372 | 465,452 |
| Employee benefits | 154,118 | 130,098 | 494,216 | 102,407 | - | 880,839 | 215,417 | 74,676 | - | 1,170,932 | 1,012,682 |
| Payroll taxes | 225,071 | 170,970 | 619,484 | 129,706 | - | 1,145,231 | 120,650 | 35,065 | - | 1,300,946 | 1,242,379 |
| Professional fees and contract service payments | 244,450 | 97,652 | 587,735 | 150,719 | - | 1,080,556 | 900,999 | 133,840 | 54,500 | 2,189,895 | 2,318,321 |
| Advertising | 660 | - | 3,150 | 20 | - | 3,830 | 2,500 | 168,326 | 80,773 | 255,429 | 228,661 |
| Supplies | 261,638 | 112,618 | 681,388 | 179,940 | 4,317 | 1,239,901 | 217,504 | 14,630 | 275 | 1,472,310 | 1,342,891 |
| Telephone | 87,791 | 13,332 | 92,693 | 20,397 | 17,741 | 231,954 | 115,254 | 6,530 | - | 353,738 | 402,686 |
| Postage and shipping | 363 | - | 42 | 11,769 | - | 12,174 | 2,836 | - | 8,334 | 23,344 | 23,852 |
| Occupancy | 146,907 | 16,005 | - | 556,411 | 17,192 | 736,515 | 51,317 | 73,822 | 2,343,538 | 3,205,192 | 2,615,067 |
| Equipment rental and maintenance | 728,125 | 93,643 | 217,968 | 447,259 | 6,361 | 1,493,356 | 183,065 | 2,596 | 1,979 | 1,680,996 | 1,525,381 |
| Printing and publications | - | 478 | 64,279 | 648 | - | 65,405 | 52,219 | 2,894 | 166,340 | 286,858 | 185,658 |
| Program activity | 320,199 | 304,693 | 1,749,013 | 71,737 | 49,575 | 2,495,217 | 464,709 | 206 | 50 | 2,960,182 | 2,686,516 |
| Public relations | 2,940 | - | - | - | - | 2,940 | - | 126,486 | - | 129,426 | 69,417 |
| Events, conferences and travel | 25,330 | 657 | 6,950 | 9,889 | - | 42,826 | 83,980 | 7,376 | 25,966 | 160,148 | 124,865 |
| Investment fees | - | - | - | - | - | - | 158,718 | - | - | 158,718 | 184,751 |
| Depreciation | - | - | - | - | - | - | 162,750 | - | - | 162,750 | 194,102 |
| Insurance | 26,688 | 20,198 | 147,721 | 52,450 | - | 247,057 | - | 205,364 | - | 452,421 | 432,289 |
| Food | 5,399 | 380,523 | 696,317 | 1,353,739 | 41,537 | 2,477,515 | 88,896 | 191,570 | 97,492 | 2,855,473 | 2,118,316 |
| Provider stipends | - | - | 96,398 | - | - | 96,398 | - | - | - | 96,398 | 67,761 |
| Scholarships | - | - | 41,400 | - | - | 41,400 | 792 | 337,838 | - | 41,400 | 62,000 |
| Cost of car | - | - | 41,400 | 81,491 | - | 122,891 | 1,056 | - | - | 420,121 | 98,630 |
| Bad debt | - | - | - | 81,491 | - | 81,491 | 18,700 | - | - | 1,056 | 2,045,150 |
| Miscellaneous | 21,002 | 97 | 218 | 694 | - | 22,011 | 4,383,752 | 7,711 | 89,221 | 137,643 | 465,307 |
| Total expenses | 4,900,915 | 3,203,111 | 12,219,776 | 4,581,954 | 136,723 | 25,042,479 | 4,383,752 | 1,789,529 | 2,868,468 | 34,084,228 | 32,271,099 |
| Expenses deducted directly from revenues on the statement of activities | - | - | - | - | - | - | (158,718) | - | (2,868,468) | (158,718) | (184,751) |
| Investment fees | - | - | - | - | - | - | - | - | - | - | (2,384,873) |
| Direct cost of special events | - | - | - | - | - | - | - | - | - | - | - |
| Total Expenses Reported by Function | \$ 4,900,915 | \$ 3,203,111 | \$ 12,219,776 | \$ 4,581,954 | \$ 136,723 | \$ 25,042,479 | \$ 4,225,034 | \$ 1,789,529 | \$ - | \$ 31,057,042 | \$ 29,701,475 |

East Side House, Inc.

Statement of Cash Flows
Year Ended August 31, 2023
(with comparative totals for the year ended August 31, 2022)

| | 2023 | 2022 (Restated) |
|---|--------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 1,366,011 | \$ (3,346,162) |
| Adjustments to reconcile change in net assets to net cash from operating activities | | |
| Net realized and unrealized (gains) losses on investments | (1,273,459) | 3,459,849 |
| Depreciation | 162,750 | 194,102 |
| Bad debt | 1,056 | 2,045,150 |
| Paycheck Protection Program Loan forgiveness | - | (2,000,000) |
| Changes in operating assets and liabilities | | |
| Due from government agencies | (43,165) | (2,074,721) |
| Prepaid expenses and other assets | 55,597 | 425,859 |
| Accounts payable and accrued expenses | (144,839) | (130,056) |
| Due to government agencies | 192,776 | 316,183 |
| Deferred revenue | 739,177 | 545,829 |
| Net Cash from Operating Activities | 1,055,904 | (563,967) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property, plant and equipment | (120,002) | (229,371) |
| Purchase of investments | (6,787,417) | (2,954,587) |
| Proceeds from sale of investments | 7,758,432 | 3,739,225 |
| Net Cash from Investing Activities | 851,013 | 555,267 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Loan repayment | (1,500,000) | (500,000) |
| Net Change in Cash and Cash Equivalents | 406,917 | (508,700) |
| CASH AND CASH EQUIVALENTS | | |
| Beginning of year | 4,182,236 | 4,690,936 |
| End of year | \$ 4,589,153 | \$ 4,182,236 |
| NONCASH FINANCING ACTIVITY | | |
| Paycheck Protection Program Loan forgiveness | \$ - | \$ 2,000,000 |

See notes to financial statements

East Side House, Inc.

Notes to Financial Statements
August 31, 2023 and 2022

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. Some of the more significant estimates required by management include the allowance for doubtful accounts and the functional allocation of expenses.

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, 2022 from which the summarized information was derived.

Reclassification

Certain items from the 2022 financial statements have been reclassified to be in conformity with the 2023 financial statement presentation.

East Side House, Inc.

Notes to Financial Statements
August 31, 2023 and 2022

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

Change in Accounting Principle

In February 2016, the Financial Accounting Standards Board issued ASU 2016-02, *Leases* (“Topic 842”), which supersedes existing guidance in Topic 840, *Leases*. Topic 842 amends both lessor and lessee accounting with the most significant change being the requirement for lessees to recognize right-to-use (“ROU”) assets and lease liabilities on the statement of financial position for operating leases.

The Organization adopted the leasing standards effective September 1, 2022, using the modified retrospective approach with September 1, 2022, as the initial date of application. The Organization elected to use all available practical expedients provided in the transition guidance. These allowed the Organization to not reassess the identification, classification and initial direct costs of lessor agreements and to use hindsight in lessee and lessor agreements for determining lease term and right-of-use asset impairment. At September 1, 2022, adoption of Topic 842 did not result in any material adjustments to the financial statements.

Net Asset Presentation

Net assets of the Organization are classified based on the presence or absence of donor-imposed restrictions. Net assets are comprised of two groups as follows:

Net Assets Without Donor Restrictions – Amounts that are not subject to usage restrictions based on donor-imposed requirements. This class also includes assets previously restricted where restrictions have expired or been met. This category may also include amounts designated by the Board of Managers.

Net Assets With Donor Restrictions – Assets subject to usage limitations based on donor-imposed or grantor restrictions. These restrictions may be temporary or may be based on a particular use. Restrictions may be met by the passage of time or by actions of the Organization. Certain restrictions may require the assets to be maintained in perpetuity.

Earnings related to restricted net assets are included in net assets without donor restrictions unless otherwise specifically required to be included in donor restricted net assets by the donor or by applicable state law.

Measure of Operations

The statement of activities separately report changes in net assets from operating and non-operating activities. Operating activities consist principally of revenues and expenses related to ongoing activities. Non-operating activities consist of investment return.

East Side House, Inc.

Notes to Financial Statements
August 31, 2023 and 2022

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

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. At times, cash deposits may exceed the federally insured limits of the financial institution and expose the Organization to credit risk.

As of August 31, 2023 and 2022, approximately \$4,567,000 and \$4,317,000 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.

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, 2023 and 2022.

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

Investments are carried at fair value. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Changes in unrealized gains or losses are included in the statement of activities in the determination of the change in net assets.

East Side House, Inc.

Notes to Financial Statements
August 31, 2023 and 2022

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

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.

Contributions

Contributions, including unconditional promises to give, are reported as revenues in the period received. Unconditional promises to give that are due beyond one year are discounted to reflect the present value of future cash flows using a risk adjusted discount rate assigned in the year the respective pledge originates. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any. Conditional promises to give are recognized when the conditions upon which they depend have been substantially met.

Contributions that the donor requires to be used to acquire long-lived assets are reported as net assets with donor restrictions. The Organization reflects the expiration of the donor-imposed restriction when long-lived assets have been placed in service, at which time net assets with donor restrictions are reclassified to net assets without donor restrictions and 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 the New York City Department of Education (“DOE”) and the New York City Department of Youth and Community Development (“DYCD”). 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.

East Side House, Inc.

Notes to Financial Statements
August 31, 2023 and 2022

2. Summary of Significant Accounting Policies (continued)

Third-Party Reimbursement and Revenue Recognition (continued)

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

The Organization recognizes revenue from special events mainly through the sale of booth rentals and catalog advertising based on written agreements. Ticket sales are recognized based on daily attendance at the events. Contributions and corporate sponsorships are recognized based on the receipt of contributions or written agreements. Booth rental deposits received in advance for the following year's event are classified as deferred revenue in the statements of financial position.

Functional Allocation of Expenses

The financial statements report categories of expenses that are attributable to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Salaries, payroll taxes and fringe benefits are allocated on the basis of time and effort. Program activity, occupancy, food and professional fees are allocated directly to the program. Other expenses like equipment rental and maintenance and office expenses have been allocated among program and supporting services classifications on the basis of square footage of office space occupied and other bases as determined by the Organization's management to be appropriate.

Advertising

Advertising expenses are charged to operations when incurred.

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 years prior to August 31, 2020.

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 30, 2024.

East Side House, Inc.

Notes to Financial Statements
August 31, 2023 and 2022

3. Investments and Investment Return

Investments consist of the following at August 31:

| | <u>2023</u> | <u>2022</u> |
|----------------------------|----------------------|----------------------|
| Cash and cash equivalents | \$ 2,468,416 | \$ 2,950,120 |
| Common Stocks | | |
| Health Care | 702,643 | 825,207 |
| Consumer staples | 232,768 | 299,531 |
| Information technology | 801,694 | 875,249 |
| Consumer discretionary | 725,700 | 796,183 |
| Industrials | 569,564 | 493,567 |
| Materials | 279,357 | 227,699 |
| Financials | 1,455,451 | 984,423 |
| Telecommunication services | 529,850 | 537,076 |
| Utilities | 53,788 | 26,447 |
| Real estate | 198,107 | - |
| Energy | 282,840 | 117,952 |
| Miscellaneous | 79,761 | 725,306 |
| | <u>5,911,523</u> | <u>5,908,640</u> |
| Mutual Funds/ EFTs | | |
| Fixed income | 11,216,743 | 8,052,257 |
| Public equity | 5,211,590 | 6,283,977 |
| Various | 1,181,543 | 2,492,377 |
| | <u>17,609,876</u> | <u>16,828,611</u> |
| | <u>\$ 25,989,815</u> | <u>\$ 25,687,371</u> |

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

| | <u>2023</u> | <u>2022</u> |
|---|---------------------|-----------------------|
| Interest and dividends from investments, net | \$ 446,249 | \$ 282,082 |
| Realized and unrealized gains (losses) on investments | <u>1,273,459</u> | <u>(3,459,849)</u> |
| | <u>\$ 1,719,708</u> | <u>\$ (3,177,767)</u> |

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:

East Side House, Inc.

Notes to Financial Statements
August 31, 2023 and 2022

3. Investments and Investment Return (continued)

| Description | 2023 | | |
|---------------------------------|---|---|---------------|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Total |
| Mutual funds | \$ 17,609,876 | \$ - | \$ 17,609,876 |
| Common stocks | 5,911,523 | - | 5,911,523 |
| Total Investments at Fair Value | \$ 23,521,399 | \$ - | 23,521,399 |
| Cash and cash equivalents | | | 2,468,416 |
| | | | \$ 25,989,815 |
| | 2022 | | |
| Description | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Total |
| Mutual funds | \$ 16,828,611 | \$ - | \$ 16,828,611 |
| Common stocks | 5,908,640 | - | 5,908,640 |
| Total Investments at Fair Value | \$ 22,737,251 | \$ - | 22,737,251 |
| Cash and cash equivalents | | | 2,950,120 |
| | | | \$ 25,687,371 |

There were no transfers between Level 1 and 2 of the fair value hierarchy during 2023 and 2022.

4. Property, Plant and Equipment

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

| | 2023 | 2022 |
|----------------------------|--------------|--------------|
| Buildings and improvements | \$ 1,318,376 | \$ 1,292,386 |
| Furniture and equipment | 1,509,646 | 1,472,535 |
| Computers | 407,029 | 350,128 |
| | 3,235,051 | 3,115,049 |
| Accumulated depreciation | (2,929,628) | (2,766,878) |
| | \$ 305,423 | \$ 348,171 |

The cost of furniture and equipment purchased for the Early Learn/Head Start program as of August 31, 2023 and 2022 amounted to \$218,215 and \$140,405. These purchases are expensed in the current period as the grantor retains a residual interest in the property.

East Side House, Inc.

Notes to Financial Statements
August 31, 2023 and 2022

5. Net Assets With Donor Restrictions

Changes in net assets with donor restrictions for the years ended August 31 consist of the following:

| Purpose / Restriction | 2023 | | | Balance August 31, 2023 |
|-----------------------------------|-------------------------------|---------------------|-----------------------|-------------------------------|
| | Balance August 31, 2022 | Additions (Net) | Releases | |
| Unappropriated endowment earnings | | | | |
| Education programs | \$ 1,722,078 | \$ 58,886 | \$ (43,753) | \$ 1,737,211 |
| General operating activities | 1,288,792 | (30,481) | (10,082) | 1,248,229 |
| | <u>3,010,870</u> | <u>28,405</u> | <u>(53,835)</u> | <u>2,985,440</u> |
| Education programs | 616,347 | 1,628,750 | (1,332,761) | 912,336 |
| Timing | 200,000 | - | (200,000) | - |
| Held in perpetuity | | | | |
| Education programs | 4,592,698 | - | - | 4,592,698 |
| General operating activities | 1,175,280 | - | - | 1,175,280 |
| Total Held in Perpetuity | <u>5,767,978</u> | <u>-</u> | <u>-</u> | <u>5,767,978</u> |
| | <u>\$ 9,595,195</u> | <u>\$ 1,657,155</u> | <u>\$ (1,586,596)</u> | <u>\$ 9,665,754</u> |
| | | | | |
| Purpose / Restriction | 2022 | | | Balance August 31, 2022 |
| | Balance August 31, 2021 | Additions (Net) | Releases | |
| Unappropriated endowment earnings | | | | |
| Education programs | \$ 3,029,481 | \$ (1,257,719) | \$ (49,684) | \$ 1,722,078 |
| General operating activities | 1,839,078 | (536,706) | (13,580) | 1,288,792 |
| | <u>4,868,559</u> | <u>(1,794,425)</u> | <u>(63,264)</u> | <u>3,010,870</u> |
| Education programs | 262,144 | 1,000,000 | (645,797) | 616,347 |
| Timing | 100,000 | 100,000 | - | 200,000 |
| Held in perpetuity | | | | |
| Education programs | 4,592,698 | - | - | 4,592,698 |
| General operating activities | 1,175,280 | - | - | 1,175,280 |
| Total Held in Perpetuity | <u>5,767,978</u> | <u>-</u> | <u>-</u> | <u>5,767,978</u> |
| | <u>\$ 10,998,681</u> | <u>\$ (694,425)</u> | <u>\$ (709,061)</u> | <u>\$ 9,595,195</u> |

East Side House, Inc.

Notes to Financial Statements
August 31, 2023 and 2022

6. Funds Held for Long-Term Investments

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 net assets with donor restrictions, the original value of the gifts donated to the permanent endowment, the original value of subsequent gifts to the permanent endowment, and 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. These amounts remain restricted until 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.

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 funds held for long-term investments for the years ended August 31:

| | <u>2023</u> | <u>2022</u> |
|------------------------------|---------------------|---------------------|
| Balance, beginning of year | \$ 8,778,848 | \$ 10,636,537 |
| Investment income, net | 214,199 | 196,342 |
| Capital appreciation (loss) | (185,794) | (1,990,767) |
| Appropriated for expenditure | <u>(53,835)</u> | <u>(63,264)</u> |
| Balance, end of year | <u>\$ 8,753,418</u> | <u>\$ 8,778,848</u> |

East Side House, Inc.

Notes to Financial Statements
August 31, 2023 and 2022

7. Loans

Paycheck Protection Program Loans

On February 1, 2021, the Organization received loan proceeds in the amount of \$2,000,000 under the Paycheck Protection Program (the "PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"), provides for loans to qualifying entities for amounts up to 2.5 times the 2019 average monthly payroll expenses of the qualifying entity. The PPP loan bears an interest rate of 1% per annum. All or a portion of the PPP loan principal and accrued interest is forgivable as long as the borrower uses the loan proceeds for eligible purposes, as described in the CARES Act, over a period of either eight or twenty-four weeks (the "Covered Period"). The amount of loan forgiveness could be reduced if the borrower terminates employees or reduces salaries below a certain threshold during the Covered Period and does not qualify for certain safe harbors. The unforgiven portion of the PPP loan, if any, is payable within two years from the date of the PPP loan with deferral of payments of principal and interest until the amount of the loan forgiveness is approved by the United States Small Business Administration (the "SBA"). If the Organization does not apply for forgiveness, payments begin in approximately 16 months after the loan date. During the year ended August 31, 2022, \$2,000,000 was forgiven and income from the forgiveness of the PPP loan was recorded in the statement of activities.

Nonprofit Finance Fund Loan

On May 6, 2020, the Organization received loan proceeds in the amount of \$2,000,000 from the Nonprofit Finance Fund. Repayment on the loan is to be made with four equal quarterly payments beginning on August 8, 2022. The loan bears no interest and is payable in full upon maturity on May 8, 2023. The proceeds of the loan will be used only for working capital or bridge financing in connection with delays in the Organization's receipt of earned or contributed revenues attributable to the COVID-19 health crisis. The loan defaults at the occurrence of any one or more of the events listed per the loan agreement. During the year ended August 31, 2023, the loan was fully paid.

8. Pension Plans

Defined Contribution Plan

The Organization has a defined contribution 401(k) 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 \$45,874 and \$124,538 for the years ended August 31, 2023 and 2022.

Deferred Compensation

The Organization has a Rabbi Trust set up for executive staff. The Organization made deferred compensation payments on behalf of various management members that amounted to \$48,192 and \$37,000 for the years ended August 31, 2023 and 2022.

East Side House, Inc.

Notes to Financial Statements
August 31, 2023 and 2022

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 CBA includes participation in a multi-employer, non-contributory defined benefit plan. 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, 2023 and 2022 is outlined in the table below. The most recent Pension Protection Act ("PPA") zone status available for the Plan is June 30, 2023.

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, 2023 and 2022.

| Pension Fund | EIN Plan Number | Plan Number | Pension Protection Act Zone Status | | Total Pension Cost to the Plan | | Expiration Date of Collective Bargaining Agreement |
|--|-----------------|-------------|------------------------------------|-------|--------------------------------|------------|--|
| | | | 2023 | 2022 | 2023 | 2022 | |
| The Head Start Sponsoring Board Council of the City of New York Plan | 13-3152121 | 001 | Green | Green | \$ 204,807 | \$ 225,193 | Pending* |

* Discussions are ongoing regarding the renewal of the collective bargaining agreement.

9. Liquidity and Availability of Financial Assets

The following reflects the Organization's available financial assets, reduced by amounts not available for general use within one year. Amounts not available for use within one year include financial assets received with donor restrictions that are designated for a specific purpose, timeline or contractual obligation, and have been earmarked as resources available for future years.

East Side House, Inc.

Notes to Financial Statements
August 31, 2023 and 2022

9. Liquidity and Availability of Financial Assets (continued)

Total financial assets available to meet cash needs for general expenditure within one year at August 31 are as follows:

| | <u>2023</u> | <u>2022</u> |
|--|----------------------|----------------------|
| Cash and cash equivalents | \$ 4,589,153 | \$ 4,182,236 |
| Due from government agencies | 7,326,219 | 7,284,110 |
| Investments | <u>25,989,815</u> | <u>25,687,371</u> |
| Total Financial Assets Available within One Year | <u>37,905,187</u> | <u>37,153,717</u> |
| Less amounts unavailable for general expenditures within one year due to: | | |
| Net assets with donor restrictions: | | |
| Unexpended net assets with donor restrictions | (3,897,776) | (3,827,217) |
| Net assets with donor restrictions held in perpetuity | <u>(5,767,978)</u> | <u>(5,767,978)</u> |
| | <u>(9,665,754)</u> | <u>(9,595,195)</u> |
| Total Financial Assets Available to Meet Cash Needs for General Expenditures within One Year | <u>\$ 28,239,433</u> | <u>\$ 27,558,522</u> |

10. Donated Services

The Organization has certain legal functions performed by pro bono attorneys as well as volunteers who provide assistance in the Organization's Early Learn/Head Start program. There were no donated services at August 31, 2023 and 2022.

11. Commitments and Contingencies

The Organization leases office, program and event space under separate operating leases. Such lease was not recorded as an ROU asset and lease liability under Topic 842 due to the fact that certain provisions in the lease agreement allow the Organization to cancel the lease. Aggregate minimum annual rental payments under this cancelable lease for the years ending August 31, are payable as follows:

| | |
|------|-------------------|
| 2024 | \$ 381,474 |
| 2025 | 317,726 |
| 2026 | <u>116,263</u> |
| | <u>\$ 815,463</u> |

The lease for the program and office space contains lease renewal options for a period of five years and requires the Organization to pay all executory costs such as taxes, utilities, maintenance, and insurance.

The Organization leases program facilities under various month-to-month leases expiring at various dates. Rent expense for the years ended August 31, 2023 and 2022 and 2022 was \$686,552 and \$621,185.

East Side House, Inc.

Notes to Financial Statements
August 31, 2023 and 2022

11. Commitments and Contingencies (continued)

The Organization is involved in litigation arising in the normal course of business. Management estimates that the ultimate resolution of these matters will not be material to the financial statements.

12. 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 \$7,326,219 and \$7,284,110 at August 31, 2023 and 2022. Receivables are expected to be collected in the normal course of business.

13. Prior Period Adjustment

In 2022, the Organization incorrectly recorded \$547,889 as special events revenue. This amount should have been recorded as deferred revenue as it represented deposits received for an event to be held in 2023. The financial statements for the year ended August 31, 2022 have been restated to reduce revenues and increase deferred revenue by \$547,889 to correct this error.

The following table presents the effects of the restatement to the financial statements as of and for the year ended August 31, 2022:

| | Balance as originally presented | Restatement | Balance as Restated |
|--|---------------------------------------|-------------|------------------------|
| Deferred revenue | \$ - | \$ 547,889 | \$ 547,889 |
| Net assets without donor restrictions | 23,918,121 | (547,889) | 23,370,232 |
| Special events, net | 524,525 | (547,889) | (23,364) |

East Side House, Inc.

Uniform Guidance Reports and Schedules

August 31, 2023

East Side House, Inc.

Schedule of Expenditures of Federal Awards Year Ended August 31, 2023

| Federal Grantor/Pass-through Grantor/Program or Cluster Title | Federal Assistance Listing Number | Pass-Through Entity Identifying Number | Provided to Sub-Recipients | Total Federal Expenditures |
|---|-----------------------------------|--|----------------------------|----------------------------|
| <u>U.S. Department of Agriculture</u> | | | | |
| Pass-through New York State Department of Health Child and Adult Care Food Program | 10.558 | 3391 | \$ - | \$ 322,882 |
| <u>U.S. Department of Health and Human Services</u> | | | | |
| Head Start | 93.600 | | - | 4,391,960 |
| Pass-through New York City Department for the Aging Aging Cluster | | | | |
| Special Programs for the Aging, Title III, Part B, Support Services and Senior Centers | 93.044 | 2201NYOASS | - | 95,124 |
| Special Programs for the Aging, Title III, Part C, Nutrition Services | 93.045 | 2201NYOAHD | - | 773,300 |
| Special Programs for the Aging, Title III, Part C, Nutrition Services | 93.045 | 2201NYOAHD | - | 75,962 |
| | | | - | 849,262 |
| Nutrition Services Incentive Program | 93.053 | 2201NYOANS | | 347,554 |
| Nutrition Services Incentive Program | 93.053 | 2201NYOANS | | 43,627 |
| Nutrition Services Incentive Program | 93.053 | 2301NYOAPH | - | 7,699 |
| | | | - | 398,880 |
| Total Aging Cluster | | | - | 1,343,266 |
| Pass-through New York City Department of Youth and Community Development | | | | |
| Community Services Block Grant | 93.569 | 831210 | - | 103,980 |
| Total U.S. Department of Health and Human Services | | | - | 5,839,206 |
| Pass-through New York City Department of Education | | | | |
| Temporary Assistance for Needy Families | 93.558 | C028594 | - | 272,867 |
| Total Expenditures of Federal Awards | | | \$ - | \$ 6,434,955 |

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, 2023

1. Summary of Significant Accounting Policies

Expenditures reported on the Schedule of Expenditures of Federal Awards (the "Schedule") are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"), wherein certain types of expenditures are not allowable or are limited as to reimbursement.

2. Indirect Cost Rate

East Side House, Inc. (the "Organization") has elected not to use the 10-percent de minimus indirect cost rate allowable under the Uniform Guidance.

3. Basis of Presentation

The Schedule includes the federal award activity of the Organization under programs of the federal government for the year ended August 31, 2023. The information in this Schedule is presented in accordance with the requirements of the Uniform Guidance. Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

**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, 2023 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 30, 2024.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances 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.

Report on 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PKF O'Connor Davies, LLP

Harrison, New York
May 30, 2024

**Report on Compliance for Each Major Federal Program and Report on
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

Opinion on 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, 2023. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Organization 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, 2023.

Basis for Opinion on Each Major Federal Program

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"). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Organization's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be a material weakness, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

Harrison, New York
May 30, 2024

East Side House, Inc.

Schedule of Findings and Questioned Costs
Year Ended August 31, 2023

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)?

_____ yes X no

Identification of major Federal program:

Financial Assistance Listing 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?

X yes _____ no

Section II – Financial Statement Findings

During our audit, we noted no material findings for the year ended August 31, 2023.

Section III – Federal Award Findings and Questioned Costs

During our audit, we noted no material instances of noncompliance and none of the costs reported in the federally financially assisted programs are questioned or recommended to be disallowed.