

**NORTHSIDE ACHIEVEMENT ZONE**

**FINANCIAL STATEMENTS  
TOGETHER WITH  
INDEPENDENT AUDITORS' REPORT  
AND OMB CIRCULAR A-133 SUPPLEMENTARY  
FINANCIAL REPORTS**

**DECEMBER 31, 2013**

# NORTHSIDE ACHIEVEMENT ZONE

## CONTENTS

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	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1-2
FINANCIAL STATEMENTS:	
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Statement of Functional Expenses	6
Notes to Financial Statements	7-12
REPORTS ON AUDIT OF FEDERAL FINANCIAL ASSISTANCE:	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	13-14
Independent Auditors' Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	15-16
Schedule of Expenditures of Federal Awards	17
Schedule of Findings and Questioned Costs	18

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Northside Achievement Zone  
Minneapolis, Minnesota

### Report on the Financial Statements

We have audited the accompanying financial statements of Northside Achievement Zone (a nonprofit organization), which comprise the statement of financial position of December 31, 2013 and 2012, and the related statement of activities, cash flows and functional expenses for the years 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 audits. We conducted our audits 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 auditor's 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 Northside Achievement Zone as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards shown on page 17 is presented for the purposes of additional analysis as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated March 14, 2014 on our consideration of Northside Achievement Zone's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 Northside Achievement Zone's internal control over financial reporting and compliance.

St. Paul, Minnesota  
March 14, 2014

*Olson Thielens + Co., LTD*

**NORTHSIDE ACHIEVEMENT ZONE**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2013 AND 2012**

ASSETS		
	2013	2012
<b>CURRENT ASSETS:</b>		
Cash	\$ 1,237,162	\$ 993,010
Grants and Contributions Receivable	865,064	133,005
Prepaid Expenses	84,653	57,126
Total Current Assets	2,186,879	1,183,141
<b>PROPERTY AND EQUIPMENT:</b>		
Furniture and Equipment	132,587	122,691
Less Accumulated Depreciation	38,448	13,323
Net Property and Equipment	94,139	109,368
<b>OTHER ASSETS:</b>		
Security Deposits	3,400	2,740
Total Other Assets	3,400	2,740
<b>TOTAL ASSETS</b>	<b>\$ 2,284,418</b>	<b>\$ 1,295,249</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts Payable	\$ 415,000	\$ 245,236
Accrued Expenses	185,184	95,506
Total Current Liabilities	600,184	340,742
<b>NET ASSETS:</b>		
Unrestricted Net Assets:		
Undesignated	234,235	189,174
Board Designated - Operating Reserve	300,000	200,000
Total Unrestricted Net Assets	534,235	389,174
Temporarily Restricted Net Assets	1,149,999	565,333
Total Net Assets	1,684,234	954,507
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 2,284,418</b>	<b>\$ 1,295,249</b>

*The accompanying notes are an integral part of the financial statements.*

**NORTHSIDE ACHIEVEMENT ZONE**  
**STATEMENT OF ACTIVITIES**  
**YEARS ENDED DECEMBER 31, 2013 AND 2012**

	2013			2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT AND REVENUES:</b>						
Federal Grant	\$ 6,281,926	\$	6,281,926	\$ 2,543,796	\$	\$2,543,796
Contributions:						
Individuals	102,431		102,431	188,998	15,000	203,998
Congregations	5,462		5,462	25,368		25,368
Corporations	35,595	235,000	270,595	389,500	375,500	765,000
Foundations	196,100	1,206,106	1,402,206	97,500	325,000	422,500
Special Events	173,488		173,488	58,145		58,145
Miscellaneous	926		926	13,032		13,032
Contributed Services	29,498		29,498	46,328		46,328
Net Assets Released from Restrictions	856,440	(856,440)	-	604,267	(604,267)	-
Total Support and Revenues	<u>7,681,866</u>	<u>584,666</u>	<u>8,266,532</u>	<u>3,966,934</u>	<u>111,233</u>	<u>4,078,167</u>
<b>EXPENSES:</b>						
Program Services	5,992,984		5,992,984	2,777,340		2,777,340
Management and General	1,137,308		1,137,308	678,660		678,660
Fundraising	406,513		406,513	269,640		269,640
Total Expenses	<u>7,536,805</u>	<u>-</u>	<u>7,536,805</u>	<u>3,725,640</u>	<u>-</u>	<u>3,725,640</u>
<b>CHANGE IN NET ASSETS</b>	<b>145,061</b>	<b>584,666</b>	<b>729,727</b>	241,294	111,233	352,527
<b>NET ASSETS, Beginning of Year</b>	<u>389,174</u>	<u>565,333</u>	<u>954,507</u>	147,880	454,100	601,980
<b>NET ASSETS, End of Year</b>	<u>\$ 534,235</u>	<u>\$ 1,149,999</u>	<u>\$ 1,684,234</u>	\$ 389,174	\$ 565,333	\$ 954,507

*The accompanying notes are an integral part of the financial statements.*

## NORTHSIDE ACHIEVEMENT ZONE

### STATEMENT OF CASH FLOWS YEARS ENDED DECEMBER 31, 2013 AND 2012

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	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 729,727	\$ 352,527
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By Operating Activities:		
Depreciation	26,280	13,946
Loss on Disposal of Asset	1,617	-
Changes in Assets and Liabilities:		
Grants and Contributions Receivable	(732,059)	87,443
Prepaid Expenses	(27,527)	(49,243)
Other Assets	(660)	-
Accounts Payable	169,764	230,893
Accrued Expenses	89,678	66,625
Net Cash Provided By Operating Activities	<u>256,820</u>	<u>702,191</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Property and Equipment	<u>(12,668)</u>	<u>(106,301)</u>
Net Cash Used In Investing Activities	<u>(12,668)</u>	<u>(106,301)</u>
NET INCREASE IN CASH	244,152	595,890
CASH at Beginning of Year	<u>993,010</u>	<u>397,120</u>
CASH at End of Year	<u>\$ 1,237,162</u>	<u>\$ 993,010</u>

*The accompanying notes are an integral part of the financial statements.*

**NORTHSIDE ACHIEVEMENT ZONE**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEARS ENDED DECEMBER 31, 2013 AND 2012**

	2013				2012			
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Personnel Costs:								
Salaries and Wages	\$ 2,083,902	\$ 575,892	\$ 183,304	\$ 2,843,098	\$ 960,654	\$ 276,718	\$ 103,027	\$ 1,340,399
Payroll Taxes and Benefits	656,491	158,180	44,349	859,020	192,043	55,318	20,596	267,957
Total Personnel Costs	<u>2,740,393</u>	<u>734,072</u>	<u>227,653</u>	<u>3,702,118</u>	1,152,697	332,036	123,623	1,608,356
Contracted Services	2,543,075	166,017	69,839	2,778,931	1,081,507	212,912	66,312	1,360,731
Occupancy	319,642	136,571	29,028	485,241	234,679	67,600	25,168	327,447
Program	241,596	–	–	241,596	150,142	–	–	150,142
Travel and Meetings	41,055	9,037	10,580	60,672	32,114	7,300	182	39,596
Special Events	–	–	60,192	60,192	–	–	42,808	42,808
Marketing and Communications	43,537	7,694	3,620	54,851	58,745	16,922	6,300	81,967
Office Supplies	32,438	15,286	3,342	51,066	21,169	6,098	2,270	29,537
Miscellaneous	14,463	16,970	1,861	33,294	7,574	2,182	2,199	11,955
Staff Training and Development	15,275	14,214	265	29,754	12,929	3,724	–	16,653
Legal Services	–	25,032	–	25,032	18,531	27,797	–	46,328
Operations	1,510	12,415	133	14,058	7,253	2,089	778	10,120
<b>TOTAL EXPENSES</b>	<u>\$ 5,992,984</u>	<u>\$ 1,137,308</u>	<u>\$ 406,513</u>	<u>\$ 7,536,805</u>	<u>\$ 2,777,340</u>	<u>\$ 678,660</u>	<u>\$ 269,640</u>	<u>\$ 3,725,640</u>

*The accompanying notes are an integral part of the financial statements.*



# NORTHSIDE ACHIEVEMENT ZONE

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

#### Nature of Activities

The Northside Achievement Zone (NAZ) Promise Neighborhood is a collaboration of organizations and schools partnering with families in a geographic “Zone” of North Minneapolis to prepare children to graduate from high school ready for college. Our purpose is to end multigenerational poverty within North Minneapolis, using education as a lever.

NAZ-enrolled parents and child “scholars” move through a “cradle-to-college” pipeline that provides comprehensive support from pre-natal through college to career, through three pillars of support:

- Pillar I: Partner with parents to inspire belief and build the skills needed to support their children's academic success, and to lead a community transformation.
- Pillar II: Create an effective education pipeline from early childhood to college.
- Pillar III: Support whole-family success so children show up ready to learn.

The NAZ collaborative approach is a blueprint for creating population-level change within a racially concentrated area of poverty. Through NAZ, multi-sector, cross-agency leaders and the community have responded to a call to action. We have aligned our organizations and systems to support the same group of NAZ-enrolled parents and scholars.

With the support of the NAZ collaborative, two Northside generations are putting themselves on a path out of poverty. Parents are no longer perennial recipients of social services, but powerful leaders of change in their own lives, their families' lives and their community. Scholars are no longer feeling incapable and unsupported because they are being surrounded by a team of people who believe in them and work together to support their success.

#### Basis of Presentation

The Organization’s financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Revenues, expenses, gains and losses, and net assets are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets of the Organization and related changes are classified and reported as follows:

Unrestricted Net Assets - Resources over which the Board of Directors has discretionary control. Designated amounts represent those net assets which the Board has set aside for a particular purpose.

Temporarily Restricted - Resources received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted - Those resources subject to donor imposed restrictions which will be maintained permanently by the Organization. The Organization had no permanently restricted net assets at December 31, 2013 and 2012.

# NORTHSIDE ACHIEVEMENT ZONE

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Accounting Estimates

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

#### Subsequent Events

In preparing these financial statements, the Organization has evaluated for recognition or disclosure the events or transactions that occurred through March 14, 2014, the date the financial statements were available to be issued.

#### Grants and Contributions Receivable

Contributions receivable consists of unconditional promises to give and are recognized as revenue in the period made. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted using present value of future cash flows. Amortization of discounts is recorded as additional contribution revenue. The Organization monitors outstanding balances and periodically writes off balances that are determined to be uncollectible. The Organization has concluded that losses on balances outstanding at year end will be immaterial.

Grants and contributions receivable at December 31, 2013 consist of \$570,753 of reimbursable expenditures incurred under the Organization's federal grant award and \$294,311 from private donors. Grants and contributions at December 31, 2012 consist of \$123,196 of reimbursable expenditures incurred under the Organizations federal grant award and \$9,809 from private donors.

#### Property and Depreciation

Property and equipment are recorded at original cost. Additions, improvements or major renewals are capitalized. If items of property are sold, retired or otherwise disposed of, they are removed from the asset and accumulated depreciation accounts and any gains or losses thereon are reflected in operations. Donated property and equipment are carried at the approximate fair value at the date of donation.

Depreciation is computed using the straight-line method at rates based on the estimated service lives of the various assets as follows:

Computer Equipment	5 Years
Furniture	7 Years

#### Revenue Recognition

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. 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 reported in the statement of activities as net assets released from restrictions.

## NORTHSIDE ACHIEVEMENT ZONE

### NOTES TO FINANCIAL STATEMENTS

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#### **NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **Revenue Recognition (Continued)**

Government grants are recognized when earned. Revenue is earned when eligible expenditures, as defined in each grant are made. Expenditures under government grants are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these grants, the Organization will record such disallowance at the time the final assessment is made.

##### **Contributed Services**

Donated services are recognized for services that create or enhance nonfinancial assets or require specialized skills, are provided by individuals and organizations possessing those skills, and would ordinarily be purchased if not provided by donation. Contributed services, including promises to give, that do not meet these criteria are not recognized.

Many individuals have donated time and services to advance the Organization's programs and objectives. The value of these services has not been recorded in the financial statements because it does not meet the definition of recognition under generally accepted accounting principles.

The expense associated with the donated services consist of contributed legal services and supplies in the amount of \$29,498 and \$46,328 at December 31, 2013 and 2012.

##### **Income Taxes**

The Organization is exempt from Federal and State income taxes under Section 501(c)(3) of the Internal Revenue Code, therefore, the statements do not include a provision for income taxes.

The Organization reviews income tax positions taken or expected to be taken in income tax returns to determine if there are any income tax uncertainties. This includes positions that the entity is exempt from income taxes or not subject to income taxes on unrelated business income. The Organization recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by taxing authorities, based on the technical merits of the positions. The Organization has identified no significant income tax uncertainties. The Organization files information returns as a tax-exempt organization. Should that status be challenged in the future, all years since inception could be subject to review by the IRS.

The Organization's federal and state returns are open to examination for tax years 2010 through 2012.

## NORTHSIDE ACHIEVEMENT ZONE

### NOTES TO FINANCIAL STATEMENTS

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#### NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Functional Allocation of Expenses

The Organization allocates its expenses on a functional basis among the various elements of its Promise Neighborhood program, and support services. Expenses that can be identified with a specific program element are allocated directly according to their natural expenditure classification.

##### Credit Risk

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash. The Organization places its cash with high credit quality financial institutions and, by policy, generally limits the amount of credit exposure to any one financial institution. The Organization had a credit risk concentration as a result of depositing \$1,081,000 of funds in excess of Federal Deposit Insurance (FDIC) coverage of \$250,000.

#### NOTE 2 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2013 and 2012 consist of the following:

	<u>2013</u>	<u>2012</u>
Time Restriction	\$ 435,416	\$ 240,833
Expanded Learning	200,417	-
Behavioral Health	150,000	-
Mentoring	131,250	34,000
Education Pipeline	95,833	75,000
Career & Finance	68,750	50,000
Family Engagement	50,000	-
Family Academy	18,333	-
Early Childhood	-	165,500
	<u>\$ 1,149,999</u>	<u>\$ 565,333</u>

Temporarily restricted net assets released from restriction were \$856,440 and \$604,267 in 2013 and 2012. Temporarily restricted net assets were released from restriction due to satisfaction of time and program restrictions.

#### NOTE 3 - RETIREMENT PLAN

Beginning in 2013, the Organization has a defined contribution 403(b) plan. Eligible employees are automatically enrolled at 3% upon hire date with an "opt out" feature. Employees may make contributions up to 100% of their salaries subject to IRS limits. The Organization matches up to 3% of eligible compensation. Organization expense for the Plan was \$78,406 for the year ended December 31, 2013. Prior to 2013, the Organization had a Simple IRA plan covering employees who met certain age and service requirements. Pension expense was \$14,065 for the year ended December 31, 2012.

## NORTHSIDE ACHIEVEMENT ZONE

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 4 - LEASE COMMITMENTS

The Organization rents its office space under a lease agreement which expires in 2017. In addition to monthly rent payments, the Organization is required to pay its pro-rata share of building operating costs and real estate taxes. The Organization also rents certain equipment under terms that expires in 2015.

The Organization's rent expense and its share of the future minimum rental commitments under these operating leases (excluding operating costs and real estate taxes) are as follows:

	Office Space	Equipment	Total
Expense:			
<b>2013</b>	<b>\$ 233,155</b>	<b>\$ 23,263</b>	<b>\$ 256,418</b>
2012	96,656	16,130	112,786
Commitments:			
2014	\$ 166,600	\$ 3,100	\$ 169,700
2015	168,600	1,800	170,400
2016	174,500	-	174,500
2017	134,200	-	134,000
	<b>\$ 643,900</b>	<b>\$ 4,900</b>	<b>\$ 648,600</b>

#### NOTE 5 - FEDERAL GRANT AWARD

On December 19, 2011, the Organization was awarded a federal grant from the U.S. Department of Education in the amount of \$28,696,362. Due to the federal budget sequester, the Organization anticipates a 9% reduction in funding from 2014 through 2016, totaling \$1,565,549. The federal grant funds the Promise Neighborhood program, designed to ensure that all North Minneapolis youth graduate from high school, college and career ready. The grant covers a performance period from January 1, 2012 through December 31, 2016.

In addition to the federal grant funds, the Organization is responsible for raising additional matching grants and contributions. The matching requirements were established by the terms of its federal grant agreement, and are based on the budget figures in the Organization's grant application. In general, 100% of the total federal grant must be matched. A minimum of 10% of the match must be in non-federal contributions, while the remainder may be from in-kind services provided to NAZ families, contributed by the Organization's collaborative partners. In 2013 and 2012, the Organization's collaborative partners contributed \$9,465,247 and \$7,393,568 in program services to NAZ families and other residents of the Northside Achievement Zone, in the following categories:

	2013	2012
Donated Services:		
Student Services at Target Schools	<b>\$ 3,017,815</b>	\$ 3,023,159
Out of School - Extended Learning	<b>2,157,720</b>	478,953
Behavioral Health Services	<b>1,791,168</b>	1,617,797
High Quality Early Childhood Support Services	<b>1,508,036</b>	1,433,437
Housing Support	<b>635,544</b>	158,998
Other Services	<b>195,214</b>	304,327
Arts, Culture, Mentoring Programs	<b>159,750</b>	376,897
Total Donated Services	<b>\$ 9,465,247</b>	<b>\$ 7,393,568</b>

# NORTHSIDE ACHIEVEMENT ZONE

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 5 - FEDERAL GRANT AWARD (Continued)

The Organization met its match requirements in 2013 and 2012. Matching amounts are as follows:

	<u>Required Match Amount</u>	<u>Actual Match (In-Kind Services and Non-Federal Contributions)</u>	<u>Excess Match</u>
<b>2013</b>	<b>\$ 8,617,941</b>	<b>\$ 11,420,355</b>	<b>\$ 2,802,414</b>
2012	8,229,941	8,746,329	517,268

REPORTS ON AUDIT OF FEDERAL FINANCIAL  
ASSISTANCE

FOR THE YEAR ENDED DECEMBER 31, 2013

**INDEPENDENT AUDITORS' 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**

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Board of Directors and Management  
Northside Achievement Zone  
Minneapolis, Minnesota

We have audited, in accordance with the 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 Northside Achievement Zone, which comprise the statement of financial position as of December 31, 2013, and the related statements of activities, cash flows and functional expense for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 14, 2014.

**Internal Control Over Financial Reporting**

In planning and performing the audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 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 considered to be material weaknesses. However, material weaknesses may exist that have not been identified.



### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

St. Paul, Minnesota  
March 14, 2014

*Olsen Threlen + Co., LTD*

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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Board of Directors and Management  
Northside Achievement Zone  
Minneapolis, Minnesota

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

We have audited Northside Achievement Zone's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended December 31, 2013. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133; Audits of States, Local Governments and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

## Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over compliance and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control over compliance 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.

St. Paul, Minnesota  
March 14, 2014

*Olsen Threlen + Co., LTD*

**NORTHSIDE ACHIEVEMENT ZONE**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED DECEMBER 31, 2013**

Federal Grantor/Pass-Through Grantor Program Title	Number Federal CFDA	Number Pass- Through Grantor's	Period Grant	Federal Expenditures During 2013
U.S Department of Education: Promise Neighborhoods Program	84.215N		1/1/12-12/31/16	<u>\$ 6,281,926</u>

**NOTES TO SCHEDULE:**

**Description of Major Program:**

Promise Neighborhoods Program

The Promise Neighborhoods program is an education and community-based model that seeks to break the poverty cycle in a specified low-income area by coordinating the efforts of schools, early childhood centers, health- care, and other community services.

Basis of Presentation

Northside Achievement Zone presents its schedule of federal expenditures of federal awards (the Schedule) in accordance with requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. 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, change in assets or cash flows of Northside Achievement Zone.

Summary of Significant Accounting Policies

Expenditures reported on the schedule of expenditures of federal awards are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, Cost Principles for Non-Profit Organizations, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**NORTHSIDE ACHIEVEMENT ZONE**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 2013**

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**SECTION I - SUMMARY OF AUDIT RESULTS**

**Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified?  yes  no

Noncompliance material to financial statements noted?  yes  no

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified?  yes  no

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported  
In accordance with Section 510(a) of OMB Circular A-133?  yes  no

Identification of major Programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.215N	Promise Neighborhoods Program

Dollar threshold used to distinguish between  
type A and type B programs: \$300,000

Auditee qualified as low-risk auditee?  yes  no

**SECTION II - FINANCIAL STATEMENT FINDINGS**

No matters were reportable conditions.

**SECTION III - FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL PROGRAMS**

No matters were reportable conditions.