

**NORTHSIDE ACHIEVEMENT ZONE**

**FINANCIAL STATEMENTS  
TOGETHER WITH  
INDEPENDENT AUDITORS' REPORT  
AND UNIFORM GUIDANCE SUPPLEMENTARY  
FINANCIAL REPORTS**

**JUNE 30, 2016**

# NORTHSIDE ACHIEVEMENT ZONE

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## 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 June 30, 2016 and, 2015, and the related statement of activities, cash flows and functional expenses for the twelve and eighteen months 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 June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the twelve and eighteen months 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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, 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 September 21, 2016 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.

*Olsen Thielson + Co., LTD*

St. Paul, Minnesota  
September 21, 2016

**NORTHSIDE ACHIEVEMENT ZONE**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2016 AND 2015**

ASSETS		
	2016	2015
<b>CURRENT ASSETS:</b>		
Cash	\$ 2,791,239	\$ 1,161,248
Grants and Contributions Receivable	5,972,996	1,131,865
Prepaid Expenses	91,390	104,576
Total Current Assets	8,855,625	2,397,689
<b>PROPERTY AND EQUIPMENT:</b>		
Furniture and Equipment	132,587	132,587
Less Accumulated Depreciation	104,191	77,894
Net Property and Equipment	28,396	54,693
<b>OTHER ASSETS:</b>		
Security Deposits	1,540	1,540
Total Other Assets	1,540	1,540
<b>TOTAL ASSETS</b>	<b>\$ 8,885,561</b>	<b>\$ 2,453,922</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts Payable	\$ 230,687	\$ 328,679
Accrued Expenses	280,787	246,020
Total Current Liabilities	511,474	574,699
<b>NET ASSETS:</b>		
Unrestricted Net Assets	1,177,247	286,606
Temporarily Restricted Net Assets	7,196,840	1,592,617
Total Net Assets	8,374,087	1,879,223
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 8,885,561</b>	<b>\$ 2,453,922</b>

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

## NORTHSIDE ACHIEVEMENT ZONE

### STATEMENT OF ACTIVITIES TWELVE MONTHS ENDED JUNE 30, 2016 AND EIGHTEEN MONTHS ENDED JUNE 30, 2015

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT AND REVENUES:</b>						
Government Grants	\$ 6,578,737	\$	\$ 6,578,737	\$ 10,539,101	\$	\$ 10,539,101
Contributions:						
Individuals	155,804		155,804	143,937	54,000	197,937
Congregations	9,039		9,039	4,813		4,813
Corporations	80,524	2,985,000	3,065,524	13,083	100,000	113,083
Foundations	525,221	5,269,000	5,794,221	449,405	2,239,000	2,688,405
Special Events	771,332		771,332	214,669		214,669
Miscellaneous	26,460		26,460	70,645		70,645
Contributed Services	49,996		49,996	216,550		216,550
Net Assets Released from Restrictions	2,649,777	(2,649,777)	-	1,950,382	(1,950,382)	-
Total Support and Revenues	<u>10,846,890</u>	<u>5,604,223</u>	<u>16,451,113</u>	<u>13,602,585</u>	<u>442,618</u>	<u>14,045,203</u>
<b>EXPENSES:</b>						
Program Services	7,977,925		7,977,925	11,065,490		11,065,490
Management and General	1,148,137		1,148,137	1,845,184		1,845,184
Fundraising	830,187		830,187	939,540		939,540
Total Expenses	<u>9,956,249</u>	<u>-</u>	<u>9,956,249</u>	<u>13,850,214</u>	<u>-</u>	<u>13,850,214</u>
<b>CHANGE IN NET ASSETS</b>	<b>890,641</b>	<b>5,604,223</b>	<b>6,494,864</b>	<b>(247,629)</b>	<b>442,618</b>	<b>194,989</b>
<b>NET ASSETS, Beginning of Period</b>	<b><u>286,606</u></b>	<b><u>1,592,617</u></b>	<b><u>1,879,223</u></b>	<b><u>534,235</u></b>	<b><u>1,149,999</u></b>	<b><u>1,684,234</u></b>
<b>NET ASSETS, End of Period</b>	<b><u>\$ 1,177,247</u></b>	<b><u>\$ 7,196,840</u></b>	<b><u>\$ 8,374,087</u></b>	<b><u>\$ 286,606</u></b>	<b><u>\$ 1,592,617</u></b>	<b><u>\$ 1,879,223</u></b>

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

## NORTHSIDE ACHIEVEMENT ZONE

### STATEMENT OF CASH FLOWS TWELVE MONTHS ENDED JUNE 30, 2016 AND EIGHTEEN MONTHS ENDED JUNE 30, 2015

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	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	<b>\$ 6,494,864</b>	\$ 194,989
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By (Used In) Operating Activities:		
Depreciation	<b>26,297</b>	39,446
Changes in Assets and Liabilities:		
Grants and Contributions Receivable	<b>(4,841,131)</b>	(266,801)
Prepaid Expenses	<b>13,186</b>	(19,923)
Other Assets	<b>-</b>	1,860
Accounts Payable	<b>(97,992)</b>	(86,321)
Accrued Expenses	<b>34,767</b>	60,836
Net Cash Provided By (Used In) Operating Activities	<u><b>1,629,991</b></u>	<u>(75,914)</u>
NET CHANGE IN CASH	<b>1,629,991</b>	(75,914)
CASH at Beginning of Period	<u><b>1,161,248</b></u>	<u>1,237,162</u>
CASH at End of Period	<u><b>\$ 2,791,239</b></u>	<u>\$ 1,161,248</u>

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

**NORTHSIDE ACHIEVEMENT ZONE**

**STATEMENT OF FUNCTIONAL EXPENSES  
TWELVE MONTHS ENDED JUNE 30, 2016 AND EIGHTEEN MONTHS ENDED JUNE 30, 2015**

	2016				2015			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Personnel Costs:								
Salaries and Wages	\$ 3,056,523	\$ 609,432	\$ 462,343	\$ 4,128,298	\$ 4,055,165	\$ 976,769	\$ 387,644	\$ 5,419,578
Payroll Taxes and Benefits	987,351	186,045	96,908	1,270,304	1,338,009	309,965	81,269	1,729,243
Total Personnel Costs	<u>4,043,874</u>	<u>795,477</u>	<u>559,251</u>	<u>5,398,602</u>	5,393,174	1,286,734	468,913	7,148,821
Contracted Services	3,253,374	164,237	92,713	3,510,324	4,698,004	203,400	235,163	5,136,567
Occupancy	357,855	71,995	39,730	469,580	468,976	127,240	40,551	636,767
Program	199,552	1,362	28	200,942	330,803	–	–	330,803
Travel and Meetings	35,287	13,939	70,252	119,478	63,547	41,492	32,347	137,386
Special Events	–	–	–	–	–	–	98,648	98,648
Marketing and Communications	19,823	11,587	–	31,410	6,680	26,370	–	33,050
Office Supplies	23,354	10,134	10,538	44,026	27,930	24,161	6,981	59,072
Miscellaneous	1,722	12,672	3,003	17,397	8,575	21,140	3,287	33,002
Staff Training and Development	22,059	6,085	355	28,499	45,149	10,833	1,449	57,431
Legal Services	–	29,644	50,000	79,644	–	58,038	50,000	108,038
Operations	21,025	31,005	4,317	56,347	22,652	45,776	2,201	70,629
<b>TOTAL EXPENSES</b>	<u>\$ 7,977,925</u>	<u>\$ 1,148,137</u>	<u>\$ 830,187</u>	<u>\$ 9,956,249</u>	<u>\$ 11,065,490</u>	<u>\$ 1,845,184</u>	<u>\$ 939,540</u>	<u>\$ 13,850,214</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) exists to permanently close the achievement gap and end generational poverty in North Minneapolis.

NAZ is a collaborative of more than 40 Northside nonprofits and 10 schools that are committed to building measurable and lasting change in the toughest of neighborhoods. In total there are 1,100 families with 2,300 children enrolled in NAZ.

Through NAZ, two generations of Northsiders are leading themselves out of poverty.

- Children are focused on building their own academic goals, and they are supported both in school and outside of school.
- Parents are advocating for their children and actively leading them on a path to college, starting at birth.
- Families are surrounded by a team, including trained family coaches from North Minneapolis that provide the connections they need to reach their goals.

Our most recent set of data shows that:

- NAZ children were significantly more prepared for kindergarten than peers.
- Reading performance on standardized tests was higher for NAZ 3-5 graders.
- 619 children participated in after-school and summer learning programs.
- 303 children supported to stabilize housing.

In the NAZ collaborative nonprofits and schools are working together to provide families with streamlined resources. We constantly measure student and family outcomes to ensure that we are building the most effective system of supports to permanently close the achievement gap

In 2015 the Organization changed their year-end from December 31 to June 30. For 2015, the financial statements include the eighteen months from January 1, 2014 to June 30, 2015. For 2016, the financial statements include the twelve months from July 1, 2015 to June 30, 2016.

#### 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.

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 June 30, 2016 and 2015.

# 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 September 21, 2016, 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 June 30, 2016 consist of \$1,291,957 of reimbursable expenditures incurred under the Organization's government grant awards and \$4,681,039 from private donors. Grants and contributions receivable at June 30, 2015 consist of \$376,865 of reimbursable expenditures incurred under the Organization's government grant award and \$755,000 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

## NORTHSIDE ACHIEVEMENT ZONE

### NOTES TO FINANCIAL STATEMENTS

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

##### **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. Donor-imposed contributions are reported as temporarily restricted net assets, even if it is anticipated such restrictions will be met in the current reporting period.

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 and consulting services and supplies in the amount of \$49,996 in 2016 and \$216,550 in 2015.

##### **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.

## 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 \$510,567 of funds in excess of insurance limits in two banks.

#### NOTE 2 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Time Restriction	\$ 690,000	\$ 585,840
Expanded Learning	3,470,892	156,917
Health	328,819	66,390
Mentoring	52,500	10,000
Education Pipeline	1,667,595	247,917
Career & Finance	122,747	28,053
Family Engagement	639,487	285,000
Family Academy	204,800	212,500
Early Childhood	20,000	—
	<u>\$ 7,196,840</u>	<u>\$ 1,592,617</u>

Temporarily restricted net assets released from restriction were \$2,649,777 and \$1,950,382 in 2016 and 2015. Temporarily restricted net assets were released from restriction due to satisfaction of time and program restrictions.

#### NOTE 3 - RETIREMENT PLAN

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 \$114,789 in 2016 and \$151,102 in 2015.

## NORTHSIDE ACHIEVEMENT ZONE

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 4 - LEASE COMMITMENTS

The Organization rents its office space under a lease agreement which expires in September 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 October 2017.

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>2016</b>	<b>\$ 269,053</b>	<b>\$ 32,225</b>	<b>\$ 301,278</b>
2015	369,225	43,171	412,396
Commitments:			
2017	\$ 177,400	\$ 25,900	\$ 203,300
2018	44,700	8,600	53,300
	<b>\$ 222,100</b>	<b>\$ 34,500</b>	<b>\$ 256,600</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. 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 matching services provided to NAZ families, contributed by the Organization's collaborative partners. The reporting for the non-federal match is based on a calendar year. In calendar years 2015 and 2014, the Organization's collaborative partners contributed \$16,840,708 and \$12,625,919 in program services to NAZ families and other residents of the Northside Achievement Zone, in the following categories:

	2015	2014
Matching Services from Collaborative Partners: (Calendar Year)		
Student Services at Target Schools	<b>\$ 1,848,145</b>	\$ 1,216,379
Expanded Learning	<b>3,142,198</b>	1,406,396
Behavioral Health Services	<b>2,661,164</b>	1,958,500
High Quality Early Childhood Support Services	<b>3,003,467</b>	3,045,708
Housing Support	<b>6,185,734</b>	4,920,126
Other Services	-	78,810
Total Matching Services from Collaborative Partners	<b>\$ 16,840,708</b>	<b>\$ 12,625,919</b>

# NORTHSIDE ACHIEVEMENT ZONE

## NOTES TO FINANCIAL STATEMENTS

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

The Organization met its match requirements for calendar years 2015 and 2014. Matching amounts are as follows:

<u>Calendar Year</u>	<u>Required Match Amount</u>	<u>Actual Matching Services and Non-Federal Contributions</u>	<u>Excess Match</u>
<b>2015</b>	<b>\$ 9,454,039</b>	<b>\$ 27,245,905</b>	<b>\$ 17,791,866</b>
2014	9,025,951	15,329,784	6,303,833

REPORTS ON AUDIT OF FEDERAL FINANCIAL  
ASSISTANCE

YEAR ENDED JUNE 30, 2016

**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 June 30, 2016, 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 September 21, 2016.

**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.

*Olsen Thielson + Co., LTD*

St. Paul, Minnesota  
September 21, 2016

# INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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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 Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended June 30, 2016. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

## Opinion on Each Major Federal Program

In our opinion, 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 June 30, 2016.

### **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 Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that 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 the results of that testing, based on the requirements of Uniform Guidance. Accordingly, this communication is not suitable for any other purpose.

St. Paul, Minnesota  
September 21, 2016

*Olsen Thielson + Co., LTD*

## NORTHSIDE ACHIEVEMENT ZONE

### SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2016

Federal Grantor/Pass-Through Grantor Program Title	Number Federal CFDA	Number Pass- Through Grantor's	Period Grant	Federal Expenditures for the Year Ended June 30, 2016
U.S. Department of Education: Promise Neighborhoods Program	84.215N		1/1/12-12/31/16	\$ 5,363,737
U.S. Department of Education: Pass Through Minnesota Department of Education: Early Learning Challenge Transformation Zone Coordination Grant-ARRA	84.412A	2013-00449	1/8/13-12/31/15	<u>15,000</u>
Total				<u>\$ 5,378,737</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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards* (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, 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 the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Organization has elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**NORTHSIDE ACHIEVEMENT ZONE**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2016**

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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 2 CFR Section 200 516(a)?  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: \$750,000

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.