

CORCORAN NEIGHBORHOOD ORGANIZATION
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013

PREPARED BY:

MICHAEL S. WILSON AND ASSOCIATES

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

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Minneapolis, Minnesota
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Independent Auditor's Report

Board of Directors
Corcoran Neighborhood Organization
Minneapolis, Minnesota

We have reviewed the accompanying Statements of Financial Position of Corcoran Neighborhood Organization as of December 31, 2013 and the related Statements of Activities, Functional Expenses and Cash Flows for the seven months then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles and for designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those Standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with U.S. generally accepted accounting principles.

April 18, 2014
Michael S. Wilson, CPA
Minneapolis, Minnesota

CORCORAN NEIGHBORHOOD ORGANIZATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2013

ASSETS

Current Assets

| | |
|---------------------------------|----------------|
| Cash and short term investments | \$ 173,683 |
| Accounts receivable | 636 |
| Grants receivable | 2,000 |
| Contracts receivable | 15,413 |
| Prepaid expenses | 716 |
| Total Current Assets | 192,448 |

Property and Equipment

| | |
|-------------------------------------|---------------|
| Building and equipment | 187,439 |
| Accumulated Depreciation | (114,029) |
| Total Property and Equipment | 73,410 |

| | |
|---------------------|-------------------|
| Total Assets | \$ 265,858 |
|---------------------|-------------------|

LIABILITIES AND NET ASSETS

Current Liabilities

| | |
|----------------------------------|---------------|
| Accounts payable | \$ 1,578 |
| Accrued payroll expenses | 5,980 |
| Refundable advance | 9,750 |
| Total Current Liabilities | 17,308 |

Net Assets

| | |
|-------------------------|----------------|
| Unrestricted | 217,989 |
| Temporarily Restricted | 30,561 |
| Total Net Assets | 248,550 |

| | |
|---|-------------------|
| Total Liabilities and Net Assets | \$ 265,858 |
|---|-------------------|

CORCORAN NEIGHBORHOOD ORGANIZATION
STATEMENT OF ACTIVITIES
FOR THE SEVEN MONTHS ENDED DECEMBER 31, 2013

| | <u>Unrestricted</u> | Temporarily <u>Restricted</u> | <u>Total</u> |
|---------------------------------------|---------------------|----------------------------------|-------------------|
| Support and revenue: | | | |
| Support | | | |
| Government awards | \$ 46,733 | \$ - | \$ 46,733 |
| Public Support | 65,496 | 60,601 | 126,097 |
| Net assets released from restrictions | <u>87,844</u> | <u>(87,844)</u> | <u>-</u> |
| Total support | 200,073 | (27,243) | 172,830 |
| Revenue | | | |
| Farmer's market | - | 24,450 | 24,450 |
| Newspaper revenue | 3,872 | - | 3,872 |
| Miscellaneous income | <u>1,870</u> | <u>-</u> | <u>1,870</u> |
| Total revenue | <u>5,742</u> | <u>24,450</u> | <u>30,192</u> |
| Total support and Revenue | <u>205,815</u> | <u>(2,793)</u> | <u>203,022</u> |
| Expenses | | | |
| Program expenses | 149,019 | - | 149,019 |
| Supporting services: | 21,187 | - | 21,187 |
| Administration and fundraising | <u>12,980</u> | <u>-</u> | <u>12,980</u> |
| Total expenses | <u>183,186</u> | <u>-</u> | <u>183,186</u> |
| Change in net assets | 22,629 | (2,793) | 19,836 |
| Net assets, beginning of year | <u>195,360</u> | <u>33,354</u> | <u>228,714</u> |
| Net assets, end of year | <u>\$ 217,989</u> | <u>\$ 30,561</u> | <u>\$ 248,550</u> |

CORCORAN NEIGHBORHOOD ORGANIZATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE SEVEN MONTHS ENDED DECEMBER 31, 2013

| | <u>Program Services</u> | <u>Management & General</u> | <u>Fundraising</u> | <u>Total</u> |
|-------------------------------------|-----------------------------|-------------------------------------|--------------------|-------------------|
| Wages | 69,654 | 10,845 | 9,066 | 89,565 |
| Benefits | 4,815 | 750 | 626 | 6,191 |
| Payroll taxes | 6,431 | 1,001 | 837 | 8,269 |
| Total salaries and related expenses | <u>80,900</u> | <u>12,596</u> | <u>10,529</u> | <u>104,025</u> |
| Contracted services | 14,543 | 1,777 | - | 16,320 |
| Accounting | - | 2,987 | - | 2,987 |
| Supplies | 2,825 | 66 | 54 | 2,945 |
| Telephone/Internet | 1,154 | 180 | 150 | 1,484 |
| Postage and shipping | 307 | 48 | 38 | 393 |
| Occupancy | 3,168 | 493 | 412 | 4,073 |
| Equipment rental and maintenance | 1,691 | 263 | 220 | 2,174 |
| Printing and publications | 3,711 | 578 | 483 | 4,772 |
| Travel | 1,235 | - | - | 1,235 |
| Training | - | 90 | - | 90 |
| Licenses, dues & subscriptions | 268 | 42 | 34 | 344 |
| Insurance | 2,237 | 348 | 292 | 2,877 |
| Mini-grants | 1,400 | - | - | 1,400 |
| Market site expenses | 7,194 | - | - | 7,194 |
| Community garden | 296 | - | - | 296 |
| MN State Arts board project | 22,193 | - | - | 22,193 |
| Depreciation | 5,897 | 918 | 768 | 7,583 |
| Miscellaneous expenses | - | 801 | - | 801 |
| Total expenses | <u>\$ 149,019</u> | <u>\$ 21,187</u> | <u>\$ 12,980</u> | <u>\$ 183,186</u> |
| As a % of total expenses | 81% | 12% | 7% | |

**CORCORAN NEIGHBORHOOD ORGANIZATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013**

| | |
|--|--------------------------|
| Cash Flow From Operating Activity | |
| Increase (decrease) in net assets | \$ 19,836 |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities | |
| Depreciation | 7,583 |
| (Increase)Decrease in contracts receivable | 3,248 |
| (Increase)Decrease in grants receivable | (2,000) |
| (Increase)Decrease in accounts receivable | (636) |
| (Increase)Decrease in prepaid expenses | (48) |
| Increase Decrease in accounts payable | 1,122 |
| Increase Decrease in accrued payroll | 5,980 |
| Increase Decrease in deferred revenue | (10,000) |
| Increase Decrease in market bucks, tokens | <u>(3,113)</u> |
| Total adjustments | 2,136 |
| Cash Flow From Operating Activity | 21,972 |
| Cash Flow from Financing Activities | |
| | - |
| Cash Flow From Financing Activities | |
| | - |
| Increase in Cash and Cash Equivalents | <u>21,972</u> |
| Cash and Cash Equivalents - Beginning of Year | <u>151,711</u> |
| Cash and Cash Equivalents - End of Year | <u><u>\$ 173,683</u></u> |

CORCORAN NEIGHBORHOOD ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Organization:

The Corcoran Neighborhood Organization (CNO) was established to unite and equip neighbors to improve and protect the Corcoran neighborhood. CNO is a non-partisan information source, spokesperson, and advocate for the community on civic affairs, and strives to engage community members on issues that may have a positive or negative impact on the community.

The significant accounting policies employed are described below to enhance the usefulness of the financial statements to the reader.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting. The accounting policies of the Organization conform to U.S. Generally Accepted Accounting Principles (GAAP) applicable to nonprofit organizations.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Financial Statement Presentation

The assets, liabilities, net assets, revenues and expenses of the Organization are reported based upon net asset restrictions and the purposes for which resources are to be spent and the means by which spending activities are controlled. Net asset restrictions are categorized as follows:

Unrestricted

Accounts for all financial resources which are neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Resources may be used at the discretion of the Board of Directors. The Organization has elected to present temporarily restricted contributions, which are fulfilled in the same period, within unrestricted net assets.

Temporarily Restricted

Accounts for (a) contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations, (b) other asset enhancements and diminishments subject to the same kinds of stipulations and (c) reclassifications to (or from) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time or their fulfillment and removal by actions of the Organization pursuant to those stipulations.

CORCORAN NEIGHBORHOOD ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

Permanently Restricted

Accounts for all financial resources which include a donor-imposed restriction that stipulates the resources be maintained permanently, but permits the Organization to use or expend part or all of the income derived from the donated assets. The Organization did not have any permanently restricted assets at December 31, 2013.

Cash and Cash Equivalents

The Organization considers cash in financial institutions and all highly liquid instruments purchased with a maturity of three months or less to be cash and cash equivalents.

During the years ended December 31, 2013, the Organization did not pay cash for interest.

Accounts Receivable

Management reviews the current status of the existing accounts receivable and charges off all accounts, which are determined to be uncollectible. Accordingly, no allowance for bad debts was considered necessary at December 31, 2013. Receivables are considered past due after 30 days and the Organization does not accrue interest on past due accounts receivable balances.

Grants and Contracts Receivable

Grants and contracts receivable are stated at net realizable value. Bad debts are provided on the reserve method based on historical experience and management's evaluation of outstanding receivables. When all collection efforts have been exhausted, the accounts are written off against the related allowance. At December 31, 2013, an allowance for doubtful accounts had not been provided for since management of the Organization expects all grants and contracts receivable to be collected.

Property and Equipment

Property and equipment are recorded at cost. Major additions and improvements over \$2,000 are capitalized and depreciated, while repairs that do not improve or extend the life of the respective assets are charged as an expense to operations as incurred. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets of 5 to 40 years. Depreciation expense totaled \$0 for the year ended December 31, 2013.

Contributions

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. 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 Statements of Activities as net assets released from restrictions. The Organization reports gifts of land, buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. All other contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

CORCORAN NEIGHBORHOOD ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

Grant and Contract Revenue and Expenses

Grant and contract revenues and expenses are accounted for on the accrual basis. Revenues from grant awards and contracts are recognized as spent. Expenses are recognized when the related liability is incurred. Grant and contract monies drawn in excess of the related grant and contract expenses are treated as deferred revenue. Grant and contract expenses in excess of the related grant and contract monies drawn are treated as grants and contracts receivable.

Functional Allocation of Expenses

The costs of providing the various programs have been presented on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting service benefited. Salaries and related expenses are allocated based on job descriptions and the best estimates of management. Expenses, other than salaries and related expenses, which are not directly identifiable by program or supporting service, are allocated based on the best estimates of management in relation to grant budgets.

Income Taxes

The Organization is a private nonprofit corporation, exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, no income taxes are paid and contributions to the Organization and contributions are tax deductible for the donor. The Organization is also exempt from Minnesota franchise or income tax. Generally, the Organization is no longer subject to examination by tax authorities for years before 2008.

Subsequent Events

The Company has evaluated subsequent events through April 25, 2014, the date which the financial statements were available to be issued.

Compensated Absences

All salaried employees of the CNO are entitled to paid time off. Part-time employees earn a prorated share. Employees earn (language) per year based on the date of employment. At December 31, 2013, the amount of accrued leave was \$5,980

NOTE 2- RECEIVABLES

Receivable consist of unreimbursed expenses on cost reimbursement contracts. The balance at December 31, 2013, was as follows:

| | |
|---|-----------------|
| Accounts receivable | \$ 636 |
| Grants receivable - CURA | 2,000 |
| Contracts receivable City of Minneapolis – 2013 | <u>15,413</u> |
| Total receivables | <u>\$18,049</u> |

CORCORAN NEIGHBORHOOD ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 3. EQUIPMENT AND DEPRECIATION

Equipment at December 31, 2013 consisted of:

| | |
|--------------------------------|------------------|
| Building | \$165,593 |
| Less: accumulated depreciation | <u>33,120</u> |
| Total building | <u>\$132,473</u> |
| | |
| Equipment | \$ 19,246 |
| Less: Accumulated Depreciation | <u>(19,246)</u> |
| Total equipment | <u>\$ --</u> |

Depreciation expense of \$7,583 was recorded in 2013.

NOTE 4. REFUNDABLE ADVANCES

Advances on government contracts for cost reimbursement contracts include:

| | |
|----------------------|----------------|
| NRP Phase II | 8,000 |
| NRP Phase II Housing | <u>1,750</u> |
| | <u>\$9,750</u> |

NOTE 5 - CONCENTRATION

The Organization receives a substantial amount of its support from various forms of government. A reduction in the level of funding from these sources would have a material effect on the Organization's programs and activities. In comparison to other neighborhood organizations, the Organization has more diverse streams of revenue through foundations, earned income, corporate contributions and donations from individuals.

NOTE 6 - CONTINGENCIES

The state, county and city program activities are subject to financial and compliance regulations, to the extent that any expenditures are disallowed a liability to the respective grantor could result.

**CORCORAN NEIGHBORHOOD ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2013, are as follows:

Program restricted contributions:

| | |
|----------------------|-----------------|
| Wedge Share | \$ 9,689 |
| Midtown Market Other | <u>20,872</u> |
| Total | <u>\$30,561</u> |

NOTE 8 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from restrictions by December 31, 2013, are as follows:

| | |
|----------------------------------|-----------------|
| Program restricted contributions | <u>\$87,844</u> |
|----------------------------------|-----------------|

NOTE . CREDIT

The CNO maintains a \$10,000 credit card with a bank to make purchases more efficient. At December 31, 2013, no outstanding amounts were owed on the card.

**CORCORAN NEIGHBORHOOD ORGANIZATION
SCHEDULE OF CITY OF MINNNEAPOLIS ACTIVITY
FOR THE YEAR ENDED
DECEMBER 31, 2013**

| | <u>City of Mpls Healthy Living</u> | <u>NCR (CPP)</u> | <u>NRP Phase II Housing</u> | <u>TOTAL</u> |
|--|--|------------------|---------------------------------|---------------|
| Ordinary Income/Expense | | | | |
| Income | | | | |
| 50000 · Government Contracts/Grants | | | | |
| 50002 · NRP Phase II Hsg | - | - | 1,400 | 1,400 |
| 50005 · CPP | - | 24,013 | - | 24,013 |
| 50006 · Mpls Healthy Living | 15,000 | - | - | 15,000 |
| Total 50000 · Government Contracts/Grants | <u>15,000</u> | <u>24,013</u> | <u>1,400</u> | <u>40,413</u> |
| Total Income | 15,000 | 24,013 | 1,400 | 40,413 |
| Expense | | | | |
| 60100 · Wages | 13,903 | 14,594 | - | 28,498 |
| 60000 · Payroll Expenses | | | | |
| 60200 · Payroll Taxes | 1,097 | 2,387 | - | 3,484 |
| 60300 · Payroll Service | - | 921 | - | 921 |
| 60400 · Health Insurance and Benefits | - | 2,211 | - | 2,211 |
| 60500 · Travel Expense | - | 390 | - | 390 |
| Total 60000 · Payroll Expenses | <u>1,097</u> | <u>5,909</u> | <u>-</u> | <u>7,006</u> |
| 61000 · Overhead Expenses | | | | |
| 61010 · Accounting/Bookkeeping | - | 1,421 | - | 1,421 |
| 61020 · Nonprofit Insurance | - | 244 | - | 244 |
| 61110 · Office Supplies | - | 37 | - | 37 |
| 61001 · Facility Expenses | | | | |
| 61030 · Utilities | - | 440 | - | 440 |
| 61040 · Building Maintenance | - | 290 | - | 290 |
| 61060 · Phone and Internet | - | 480 | - | 480 |
| 61070 · Office Equipment Expense | - | 73 | - | 73 |
| Total 61001 · Facility Expenses | <u>-</u> | <u>1,282</u> | <u>-</u> | <u>1,282</u> |
| Total 61000 · Overhead Expenses | <u>-</u> | <u>2,984</u> | <u>-</u> | <u>2,984</u> |
| 62000 · Program Expenses | | | | |
| 61156 · Program Incentives | - | - | 1,400 | 1,400 |
| 61160 · Newspaper & Website | - | 525 | - | 525 |
| Total 62000 · Program Expenses | <u>-</u> | <u>525</u> | <u>1,400</u> | <u>1,925</u> |
| Total Expense | <u>15,000</u> | <u>24,013</u> | <u>1,400</u> | <u>40,413</u> |
| Net Ordinary Income | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net Income | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | | | | |
| Received from City of Mpls. | 15,000 | 18,661 | - | 33,661 |
| Accrued on 12/31/13 | - | 14,013 | 1,400 | 15,413 |
| Receivable from prev. fiscal year | - | (18,661) | - | (18,661) |
| Advance spent down | - | 10,000 | - | 10,000 |
| TOTAL | <u>15,000</u> | <u>24,013</u> | <u>1,400</u> | <u>40,413</u> |

**CORCORAN NEIGHBORHOOD ORGANIZATION
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
DECEMBER 31, 2013**

PREVIOUSLY REPORTED ITEMS UNRESOLVED

09-1 Separation of Duties in the Accounting Function

Due to the limited number of office personnel within the Corcoran Neighborhood Organization (CNO), segregation of the accounting functions necessary to ensure adequate internal control is not possible. This is not unusual in operations the size of CNO; however, the CNO's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable for strong internal controls. One opportunity for improvement would be to use board members to open all bank statements. Control of the bank statements by a board member would avoid having a person with the authority to write checks having access to the documents that can cover their trail.

Client Response

The CNO is aware of the inherent internal control risks associated with having a small staff. The CNO procedures are consistent with practices recommended by the Minneapolis NRP. Additional changes to improve the internal controls will be carefully considered based on the related costs and benefits.

NEW ITEMS

13-1 Tax Exempt Program

The CNO received tax exempt (501) C 3 status from the IRS in (year) based on an application explaining the intended activities and an IRS five year review of activities. It is important for new CNO programs like the Farmer's Market to be consistent with the charitable purpose on which the tax exempt status was granted. Charitable purposes can be actions such as education, infrastructure for education, activities to end discrimination, protection the environment, or health promotion. Charitable purposes can also be based on the constituents such as the ill, youth or the poor. If new activities are not consistent with charitable purposes, CNO December be subject to unrelated business income taxes.

I recommend CNO's board of directors revisit the charitable purpose of the organization and document how new activities support charitable purposes.

Client Response

CNO is confident that all of our programming remains consistent with our 501(c)3 status. Our Midtown Farmers Market's mission is "to create a vibrant forum in South Minneapolis that connects community residents and nearby rural food producers in a mutually beneficial economic and cultural exchange." We were the first farmers market in Minnesota to accept EBT-SNAP benefits ("food stamps") and our outreach, vendor offerings, and public education at the Market continue to reflect our priority toward underserved members of the community. The Market's annual budget also reflects its operation as a not-for-profit program.

**CORCORAN NEIGHBORHOOD ORGANIZATION
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
DECEMBER 31, 2013**

13-2 Personnel file

During the audit, I observed a personnel file is maintained. A comprehensive personnel file should compile data in one area and should be prepared for all employees. We recommend that the following items be in an employee's personnel file and be maintained by the CNO. A responsible official should approve documents.

- Signed and dated application of employment.
- Form I-9 Employment Eligibility Verification.
- Date of hire.
- Approved pay rate (updated as changes occur).
- Signed W-4 form.
- Paid time off forms.
- Beneficiary designation form.
- Employee's current address and phone number.
- Next of kin's or other emergency contact's name, address, and current daytime phone number.
- Employee evaluations.
- Employment separation and termination procedures.

Client Response

The Executive Director maintains a personnel file on all current and previous employees going back over 10 years. Each file contains our letter of offer of employment, Signed I-9, Date of hire, Updates to pay rate, Signed W-4, Current Address and Phone Number, Employee evaluations, and Employment separation and termination documentation. We will update our practice to also include in each file the additional information recommended.

13-3 Paid Time Off

I noted the CNO paid time off policy awards paid time off for comp time, sick time, and vacation time for exempt and non-exempt employees. In addition, paid time off accrues for all three categories. The policy led to legal disputes because it is not consistent with current law. I recommend CNO review their paid time off policy and update the policy current employment laws.

Client Response

Prior to the preparation of this accountant's report, the Executive Director had plans in place to work with the Board this year to update and revise CNO's Personnel Policies. Based on the audit recommendation, this revision will likely result in elimination of Comp time and other changes to ensure our policy is consistent with current employment law.

**CORCORAN NEIGHBORHOOD ORGANIZATION
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
DECEMBER 31, 2013**

13-4 Fixed Assets

The CNO has a capitalization policy that records fixed assets if the cost of an item exceeds \$2,000. However the CNO can improve the safeguarding of assets by using asset tags to identify valuable items as the Property of Corcoran Neighborhood Organization. I recommend CNO consider purchasing stickers and attaching them to valuable items.

Client Response

CNO will implement labeling of valuable items per the audit recommendation.