

CENTRAL NIEGHBORHOOD AREA ORGANIZATION

FINANCIAL STATEMENTS

DECEMBER 31, 2012

CENTRAL AREA NEIGHBORHOOD ORGANIZATION

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MICHAEL S. WILSON, CPA
INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Board of Directors
Central Area Neighborhood Organization
3736 Chicago
Minneapolis, MN 55407

Dear CANDO Board of Directors,

I have reviewed the accompanying Statement of Financial Position of Central Area Neighborhood Organization as of December 31, 2012 and the related statements of activities, functional expenses and cash flows for the year 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, I 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.

My 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 me to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. I believe the results of my 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 accounting principles generally accepted in the United States of America.

My review was made primarily for the purpose of expressing a conclusion that there are no material modifications that should be made to the financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. The supplementary information included in the accompanying Schedule of City Activity is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and I did not become aware of any material modifications that should be made to such information.

Michael S. Wilson, CPA

Michael S. Wilson, CPA
June 28, 2013

FINANCIAL STATEMENTS

**CENTRAL AREA NEIGHBORHOOD DEVELOPMENT ORGANIZATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2012**

ASSETS

Current Assets		<u>2012</u>
Cash and Cash Equivalents		\$ 13,785
Grants and Contracts Receivable		13,647
Prepaid Expenses		-
Total Current Assets		<u>27,432</u>
Long term assets		
Office equipment net of depreciation		2,394
Total Assets		<u>\$ 29,826</u>

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts Payable		\$ 662
Refundable Advance		<u>10,000</u>
Total Current Liabilities		<u>10,662</u>
Net Assets		
Unrestricted		19,164
Temporarily Restricted		<u>0</u>
Total Net Assets		<u>19,164</u>
Total Liabilities and Net Assets		<u>\$ 29,826</u>

**CENTRAL NEIGHBORHOOD AREA DEVELOPMENT ORGANIZATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDING DECEMBER 31, 2012**

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total</u>
Support and revenue:			
Support & Revenue			
Government Awards	109,445	\$ -	\$ 109,445
Public Support	1,218	-	1,218
Other income	1,865	-	1,865
Total support and revenue	<u>112,528</u>	<u>-</u>	<u>112,528</u>
Expenses			
Program Expenses:			
Outreach	41,098	-	41,098
Economic Development	10,540	-	10,540
Housing	44,552	-	44,552
Total Program Expenses	96,190	-	96,190
Supporting Services:			
Administration	27,236	-	27,236
Fundraising	1,699	-	1,699
Total Expenses	<u>125,125</u>	<u>-</u>	<u>125,125</u>
Change in Net Assets	(12,597)	-	(12,597)
	-	-	-
Net Assets, Beginning of Year	<u>31,761</u>	<u>-</u>	<u>31,761</u>
Net Assets, End of Year	<u>\$ 19,164</u>	<u>\$ -</u>	<u>\$ 19,164</u>

**CENTRAL AREA NEIGHBORHOOD DEVELOPMENT ORGANIZATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Outreach	Economic Development	Housing	Total Program	Administration	Fundraising	Total
CANDO Personnel							
Salaries	14,248	3,920	21,712	39,880	8,393	980	49,253
Health & Dental Insurance	1,123	309	1,711	3,143	662	77	3,882
Payroll Taxes	1,132	312	1,725	3,169	667	78	3,914
Simple	467	129	712	1,308	275	32	1,616
Workers' Compensation Insurance	1,549	426	2,360	4,335	912	107	5,354
Total personnel	18,519	5,095	28,221	51,836	10,910	1,274	64,019
CANDO Office Expenses							
Fiscal sponsor fees	-	-	-	-	10,500	-	10,500
Accounting	-	-	-	-	1,816	-	1,816
Occupancy	2,297	632	3,500	6,428	1,353	158	7,939
Office expenses	1,901	523	2,897	5,321	1,120	131	6,572
Depreciation	-	-	-	-	368	-	368
Other professional services	2,538	348	1,927	4,813	745	87	5,645
Telecommunications	721	198	1,099	2,019	425	50	2,493
Total CANDO Office	7,457	1,701	9,423	18,581	16,327	425	35,333
CANDO Programs							
Grants	4,075	3,744	-	7,819	-	-	7,819
Curb appeal lottery	-	-	6,908	6,908	-	-	6,908
Events and meetings	2,046	-	-	2,046	-	-	2,046
Training and mileage	507	-	-	507	-	-	507
Events and meetings	5,098	-	-	5,098	-	-	5,098
Newsletter	3,395	-	-	3,395	-	-	3,395
Total CANDO Programs, Events & Meetings	15,121	3,744	6,908	25,773	-	-	25,773
Total Expenses	41,098	10,540	44,552	96,190	27,236	1,699	125,125
Percentage of total expenses				77%	22%	1%	-

**CENTRAL AREA NEIGHBORHOOD DEVELOPMENT ORGANIZATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>2012</u>
Cash Flow From Operating Activity	
Increase (decrease) in net assets	\$ (12,597)
Adjustments to reconcile changes in net assets to net cash provided by operating activities	
(Increase) decrease in contracts receivable	3,597
(Decrease) Increase in accounts payable and accrued expense	662
(Decrease) Increase in refundable advances	<u>10,000</u>
Total adjustments	14,259
Cash Flow From Operating Activity	1,662
 Cash Flow From Operating Activity	
Purchase of equipment	(2,394)
 Increase in Cash and Cash Equivalents	<u>(732)</u>
 Cash and Cash Equivalents - Beginning of Year	<u>14,517</u>
 Cash and Cash Equivalents - End of Year	<u><u>\$ 13,785</u></u>

**CENTRAL AREA NEIGHBORHOOD ORGANIZATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The Central Area Neighborhood Organization (the "Organization") serves the Central neighborhood to sustain a strong community. The Organization works to enhance the quality of life in the neighborhood by facilitating community engagement, embracing a diversity of voices, and fostering economic and community development.

CANDO, a 501(c)3 nonprofit organization that was formed in 2004. Central neighborhood is originally named after Minneapolis Central High School. Built in 1913, it was one of the city's largest schools located at the intersection of Fourth Avenue and 34th Street. It closed in 1982. Central Neighborhood's boundaries are defined by Lake Street to the north, 38th Street to the south, 2nd Avenue to the west, and Chicago Avenue to the east.

The Organization is led by the Board of Directors comprised of community members. CANDO is a neighborhood-driven organization and thrive with a diverse group of volunteers and active committee participants. The major programs through which the Organization provides its services are as follows:

- **Community Participation Program (City of Minneapolis Funding)**

The Community Participation Program (CPP) provides funding to encourage and support participation through Minneapolis neighborhood organizations in the following key areas: (1) identifying and acting on neighborhood priorities; (2) influencing city decisions and priorities; and (3) increasing involvement.

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 U.S. GAPP 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.

**CENTRAL AREA NEIGHBORHOOD ORGANIZATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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.

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, 2012.

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, 2012, the Organization did not pay cash for interest.

**CENTRAL AREA NEIGHBORHOOD ORGANIZATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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, 2012. 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, 2012, 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 \$5,000 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, 2012.

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.

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.

**CENTRAL AREA NEIGHBORHOOD ORGANIZATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012**

Functional Allocation of Expenses

The costs of providing various programs have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising Costs

The Organization's policy is to expense advertising costs as they are incurred.

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 may be tax deductible by 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 2010.

NOTE 2 —SUBSEQUENT EVENT

The Company has evaluated subsequent events through June 28, 2013, the date which the financial statements were available to be issued. The Organization signed a two year operating lease for occupancy in February 2013 at a cost of \$1,600 per month.

NOTE 3 - RETIREMENT PLAN

The Organization has a SIMPLE IRA retirement plan and matches employee contributions up to 3 percent of gross salary. Employer contributions were \$1,616 for the year ended December 31, 2012.

**CENTRAL AREA NEIGHBORHOOD ORGANIZATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 4 - CONTRACTS RECEIVABLE

Contracts receivable consist of unreimbursed expenses on cost reimbursement contracts. The balance at December 31, 2012, was as follows:

NCR Contract #	\$13,647
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NOTE 5 - FIXED ASSETS

Fixed assets at December 31, 2012 are as follows:

Dell computers (2)	2,762
Less: accumulated depreciation	<u>368</u>
Net book value	<u><u>2,394</u></u>

NOTE 6 - REFUNDABLE ADVANCES

Refundable advances consist of amounts received in advance on cost reimbursement contracts. The balance at December 31, 2012, was as follows:

NCR Contract #	\$10,000
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NOTE 7 - CONCENTRATION

The Organization receives a substantial amount of its support from the City of Minneapolis. 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 8 - CONTINGENCIES

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

CENTRAL AREA NEIGHBORHOOD IMPROVEMENT ASSOCIATION

**STATEMENT OF CITY ACTIVITY
DECEMBER 31, 2012**

		<u>Neighborhood</u>	<u>NRP</u>	<u>CPP</u>	<u>CPP</u>	<u>Total</u>
		<u>Program activitie</u>	<u>Phase I</u>	<u>2011-12</u>	<u>2012-13</u>	
January	Draw request	6,519	13,020	-	-	19,539
February	Draw request	-	-	-	-	-
March	Draw request	-	-	-	-	-
April	Draw request	-	-	30,751	-	30,751
May	Draw request	-	-	10,138	-	10,138
June	Draw request	-	9,108	-	-	9,108
July	Draw request	-	-	9,147	-	9,147
August	Draw request	-	-	-	-	-
September	Draw request	-	-	-	-	-
October	Draw request	-	-	-	16,681	16,681
November	Draw request	-	-	-	15,362	15,362
December	Draw request	4,981	-	-	7,336	12,317
Total cash collections		\$ 11,500	\$ 22,128	\$ 50,036	\$ 39,379	\$ 123,043
Less: Contracts receivable beginning of year		6,519	10,725	-	-	17,244
Amount collected for current year		4,981	11,403	50,036	39,379	105,799
Refundable advances		0	0	0	(10,000)	(10,000)
Add: Contracts receivable end of year		<u>-</u>	<u>-</u>	<u>-</u>	<u>13,647</u>	<u>13,647</u>
Accrued revenue		4,981	11,403	50,036	43,026	109,446
Expenses for contract current year		<u>\$ 4,981</u>	<u>\$ 11,403</u>	<u>\$ 50,036</u>	<u>\$ 43,026</u>	<u>109,446</u>
Excess revenues		<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>-</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

**CENTRAL AREA NEIGHBORHOOD ORGANIZATION
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
DECEMBER 31, 2012**

12-1 Separation of Duties in the Accounting Function

Due to the limited number of office personnel within the Organization, segregation of the accounting functions necessary to ensure adequate internal control is not possible. This is not unusual for operations the size of CANDO; however, the Board should be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not ideal for strong internal controls.

Client Response:

Central Area Neighborhood Development Organization (CANDO) recognizes the risk and accepts and notes this finding.

12-2 Compliance Testing

During testing of cash disbursements, we tested 25 transactions representing a sample of expenditures during the year. We found that all transactions appeared to be properly approved and authorized. However we noted the following issues:

- Board members received the benefit of a CANDO housing program. We encourage CANDO to carefully describe policies that allow board members to participate in programs to ensure there is independence in making awards in appearance and in fact.
- Residents participating in a home improvement program were reimbursed based on estimates and orders, but not based on evidence of actual money spent.
- We noted a consultant was hired that performed computer forensic work. It appears the consultant may have had a relationship with the Director responsible for the hiring decision. It was unclear if this information was known to board members and if board members approved the engagement.

Client Response:

The Central Area Neighborhood Development Organization (CANDO) allows the Board of Directors to access programming with restrictions that they must abstain from vote if they may benefit from the program, project or other issue they may benefit from. This is in the philosophy that allowing Directors to access funding will ensure that everyone, regardless of low income can be a part of the Board of Directors without penalty. This policy is being further clarified in the revised bylaws going forth to the community at the next Annual Meeting. Central Area Neighborhood Development Organization (CANDO) accepts and notes this finding.

12-3 Fixed Assets

CANDO has a high threshold for capitalizing fixed assets in their financial records. All fixed assets such as computers should be marked and identified as property of CANDO and maintained by a responsible official. Computers are the type of fixed assets that should be marked as property of CANDO regardless of the accounting policies. The risk of unauthorized possession of a computer is reduced by clearly identifying the asset as property of CANDO.

**CENTRAL AREA NEIGHBORHOOD ORGANIZATION
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
DECEMBER 31, 2012**

Client Response

Computers and other assets over \$500 have been labeled as property of CANDO. Central Area Neighborhood Development Organization (CANDO) accepts and notes this finding.

12-4 Financial Reporting

The financial reporting in 2012 lacked consistency in recording transactions and likely led to a failure to request reimbursement for all eligible expenses. We noted that the City of Minneapolis cost reimbursements represented over 95% of the total CANDO funding. As a result we expect revenues to approximate expenses on an accrual basis. However, the financial statements reflected a significant loss which suggests that some expenses were not eligible for reimbursement or the billing process was incomplete. Accounting records were unavailable to complete the City of Minneapolis schedule (page 11 of this report) because accounting records were unable to produce revenues and expenses by funding source, an important requirement for not for profit organizations. We recommend the CANDO investigate ways to improve their financial reporting so more relevant financial statements can be produced to show the financial position of the Organization. In addition, we encourage CANDO to review their 2012 reimbursement requests to ensure all eligible expenses are submitted for reimbursement.

Client Response

Central Area Neighborhood Development Organization (CANDO) is in the process of contracting with a CPA in 2013. The accountant will perform a review of the 2012 reimbursement requests.

12-5 Personnel File

During 2012, CANDO was involved in litigation related to the employment of their former Executive Director. There were issues related to paid time off and other personnel issues that led to CANDO having a City of Minneapolis attorney negotiate a settlement. We recommend CANDO review their personnel policies to avoid these type of costly disputes in the future.

Client Response

The CANDO Personnel Policy is currently in review. Central Area Neighborhood Development Organization (CANDO) accepts and notes this finding.

12-6 Fiscal Sponsor

During 2012, CANDO compensated the Powderhorn Park Neighborhood Association to be the CANDO fiscal sponsor and have responsibility for back office management of the Organization. However, the relationship ended and in 2013, CANDO accepted these responsibilities. We encourage CANDO to review the services provided by Powderhorn and establish procedures to make sure these types of services such as accounting, payroll, and personnel services are properly performed.

Client Response

CANDO addressed these issues in 2013 by using Wells Fargo Payroll systems and contracting with a CPA for accounting. Central Area Neighborhood Development Organization (CANDO) accepts and notes this finding.