

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA

YEARS ENDED DECEMBER 31, 2006 AND 2007

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**FOLWELL NEIGHBORHOOD
ASSOCIATION
MINNEAPOLIS, MINNESOTA**

Years Ended December 31, 2006 and 2007



**Audit Practice Division
Office of the State Auditor
State of Minnesota**

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**FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

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**FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

**ORGANIZATION SCHEDULE
2006**

<u>Board Members</u>	<u>Term Expires</u>
Allen Saless	November 2007
Thomas Mitchell	November 2007
Mary Beth Schultz	November 2007
Karen Taylor	November 2007
Marilyn Weber	November 2007
David Brown	November 2007
Donald Hunker	November 2007
Marty Will	November 2007
Lynn Austin	November 2007
Dawn Hunter	November 2007
Cheryl Flaga	November 2007
Richard Burgess	November 2006
<u>Executive Director</u>	
Roberta Englund	Indefinite

**FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

**ORGANIZATION SCHEDULE
2007**

<u>Board Members</u>	<u>Term Expires</u>
Allen Saless	November 2008
Thomas Mitchell	November 2008
Mary Beth Schultz	November 2007
Karen Taylor	November 2008
Marilyn Weber	November 2008
David Brown	November 2008
Donald Hunker	November 2008
Marty Will	November 2008
Lynn Austin	November 2008
Dawn Hunter	November 2008
Cheryl Flaga	November 2008
<u>Executive Director</u>	
Roberta Englund	Indefinite

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REBECCA OTTO
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Folwell Neighborhood Association

We have audited the statement of financial position of the Folwell Neighborhood Association (FNA) (a nonprofit corporation) as of December 31, 2006 and 2007, and the related statements of activity, functional expenses, and cash flows for the years then ended, as listed in the table of contents. These financial statements are the responsibility of the FNA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the FNA as of December 31, 2006 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The Schedules of NRP Activity and Schedules of Foundation Activity listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the FNA. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

January 30, 2009

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FINANCIAL STATEMENTS

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**FOLWELL NEIGHBORHOOD ORGANIZATION
MINNEAPOLIS, MINNESOTA**

EXHIBIT 1

**STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2006 AND 2007**

	2006	2007
<u>Assets</u>		
Current assets		
Cash	\$ 1,715	\$ (1,453)
Accounts receivable	7,927	10,762
Grants receivable	35,182	35,207
Pledges receivable	-	20,000
Prepaid items	563	481
Fixed assets, net	6,196	1,827
Total Assets	\$ 51,583	\$ 66,824
 <u>Liabilities and Net Assets</u>		
Liabilities		
Accounts payable	\$ 30,915	\$ 97,791
Salaries payable	11,326	10,482
Due to other governments	102,400	178,024
Line of credit	47,722	-
Loans payable	-	94,626
Deferred revenue	24,850	36,850
Total Liabilities	\$ 217,213	\$ 417,773
Net Assets		
Unrestricted	\$ (211,310)	\$ (484,827)
Temporarily restricted	45,680	133,878
Total Net Assets	\$ (165,630)	\$ (350,949)
Total Liabilities and Net Assets	\$ 51,583	\$ 66,824

**FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

EXHIBIT 2-1

**STATEMENT OF ACTIVITY
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Unrestricted	Temporarily Restricted	Total
Public Support and Other Revenue			
Public support			
Government grants			
U.S. Department of Education	\$ 123,418	\$ -	\$ 123,418
U.S. Department of Justice	186,191	-	186,191
City of Minneapolis	23,700	-	23,700
Minneapolis Community Planning and Economic Development Department (CPED)	16,081	-	16,081
Neighborhood Revitalization Program (NRP)	74,788	-	74,788
Foundations	193,320	45,180	238,500
Other contributions	300	500	800
Satisfaction of time and purpose restriction	35,837	(35,837)	-
	\$ 653,635	\$ 9,843	\$ 663,478
Total public support			
Other revenue			
Webber-Camden	\$ 61,488	\$ -	\$ 61,488
Reimbursements	7,633	-	7,633
Miscellaneous	9,811	-	9,811
	\$ 78,932	\$ -	\$ 78,932
Total other revenue			
	\$ 732,567	\$ 9,843	\$ 742,410
Total Public Support and Other Revenue			
Expenses			
Program services			
U.S. Department of Education	\$ 124,583	\$ -	\$ 124,583
U.S. Department of Justice	184,857	-	184,857
City of Minneapolis	5,009	-	5,009
NRP	199,961	-	199,961
Foundations	273,053	-	273,053
	\$ 787,463	\$ -	\$ 787,463
Total program services			
Support services			
Webber-Camden	\$ 83,900	\$ -	\$ 83,900
Management and general	68,611	-	68,611
	\$ 152,511	\$ -	\$ 152,511
Total support services			
	\$ 939,974	\$ -	\$ 939,974
Total Expenses			
	\$ (207,407)	\$ 9,843	\$ (197,564)
Increase (Decrease) in Net Assets			
Net Assets - January 1, restated (Note 2)	(3,903)	35,837	31,934
Net Assets - December 31	\$ (211,310)	\$ 45,680	\$ (165,630)

The notes to the financial statements are an integral part of this statement.

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**FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

EXHIBIT 2-2

**STATEMENT OF ACTIVITY
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Unrestricted	Temporarily Restricted	Total
Public Support and Other Revenue			
Public support			
Government grants			
Minnesota Department of Education	\$ 10,272	\$ -	\$ 10,272
City of Minneapolis	21,821	-	21,821
Minneapolis Community Planning and Economic Development Department (CPED)	13,171	-	13,171
Neighborhood Revitalization Program (NRP)	67,038	-	67,038
Minneapolis Youth Coordinating Board (YCB)	620	-	620
Foundations	236,995	115,005	352,000
Other contributions	433	2,400	2,833
Satisfaction of time and purpose restriction	29,207	(29,207)	-
	\$ 379,557	\$ 88,198	\$ 467,755
Other revenue			
Webber-Camden	\$ 128,781	\$ -	\$ 128,781
Reimbursements	4,188	-	4,188
Miscellaneous	6,972	-	6,972
	\$ 139,941	\$ -	\$ 139,941
Total Public Support and Other Revenue	\$ 519,498	\$ 88,198	\$ 607,696
Expenses			
Program services			
City of Minneapolis	\$ 9,961	\$ -	\$ 9,961
NRP	163,848	-	163,848
YCB	1,888	-	1,888
Foundations	406,920	-	406,920
	\$ 582,617	\$ -	\$ 582,617
Support services			
Webber-Camden	\$ 131,273	\$ -	\$ 131,273
Management and general	79,125	-	79,125
	\$ 210,398	\$ -	\$ 210,398
Total Expenses	\$ 793,015	\$ -	\$ 793,015
Increase (Decrease) in Net Assets	\$ (273,517)	\$ 88,198	\$ (185,319)
Net Assets - January 1	(211,310)	45,680	(165,630)
Net Assets - December 31	\$ (484,827)	\$ 133,878	\$ (350,949)

**FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2006**

<u>Expenses</u>	<u>U.S. Department of Education</u>	<u>U.S. Department of Justice</u>	<u>City of Minneapolis</u>
Advertising and promotions	\$ -	\$ 376	\$ -
Awards	-	-	-
Bank fees	-	-	-
Cleaning/janitorial	-	-	-
Contracted services	10,747	3,500	-
Contributions	-	-	-
Depreciation	-	-	-
Dues and subscriptions	447	82	-
Entertainment and meals	378	300	538
Equipment	260	1,595	-
Events	1,512	-	-
Insurance	-	-	-
Interest expense	42	-	-
License and permits	488	831	-
Maintenance and repair	-	-	-
Meeting expenses	90	190	139
Miscellaneous	-	-	-
Newsletter	-	-	-
Other	-	463	-
Payroll			
Salaries	75,038	152,156	3,626
Taxes	6,906	13,649	353
Benefits	1,250	2,000	-
Postage	211	-	-
Printing and copying	723	4,824	-
Professional development	46	-	-
Professional services	1,270	-	-
Program evaluation	12,100	-	-
Program expenses			
4th Ward Care Task Force	-	-	-
General Mills	-	-	-
Rent	-	-	-
Supplies	9,500	2,521	353
Telephone	-	-	-
Travel expenses	3,575	2,370	-
Utilities	-	-	-
Total Expenses	\$ 124,583	\$ 184,857	\$ 5,009

EXHIBIT 3-1

Neighborhood Revitalization Program	Foundations	Webber- Camden	Management and General	Total
\$ 1,175	\$ 53	\$ -	\$ -	\$ 1,604
1,536	696	830	-	3,062
-	155	-	255	410
1,723	985	2,092	-	4,800
454	5,250	2,628	-	22,579
738	4,710	-	-	5,448
-	-	-	4,398	4,398
555	75	136	80	1,375
-	2,570	-	-	3,786
2,532	929	1,379	32	6,727
9,865	6,908	1,574	-	19,859
2,557	-	-	-	2,557
-	387	-	5,297	5,726
402	323	51	-	2,095
1,234	1,253	673	-	3,160
275	6,682	1,222	90	8,688
423	349	163	748	1,683
850	-	305	-	1,155
69	7,446	-	14,351	22,329
103,584	180,548	42,196	33,183	590,331
6,111	14,691	3,167	2,895	47,772
8,297	10,826	9,659	6,702	38,734
942	20	597	-	1,770
3,106	954	1,171	-	10,778
-	389	-	-	435
31,210	400	384	-	33,264
-	-	-	-	12,100
-	619	-	-	619
-	844	-	-	844
11,151	4,376	8,202	-	23,729
6,931	15,480	3,967	247	38,999
3,557	1,965	3,314	333	9,169
570	3,170	133	-	9,818
114	-	57	-	171
\$ 199,961	\$ 273,053	\$ 83,900	\$ 68,611	\$ 939,974

**FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2007**

<u>Expenses</u>	<u>City of Minneapolis</u>	<u>Neighborhood Revitalization Program</u>
Advertising and promotions	\$ -	\$ 350
Awards	-	400
Bank fees	-	742
Contracted services	-	300
Contributions	-	-
Depreciation	-	-
Dues and subscriptions	-	75
Equipment	-	1,079
Events	-	9,694
Insurance	-	3,613
Interest expense	-	-
License and permits	-	125
Maintenance and repair	-	28
Meeting expenses	45	99
Miscellaneous	-	720
Newsletter	-	1,442
Other	120	17,043
Payroll		
Salaries	8,208	67,756
Taxes	669	17,383
Benefits	200	9,151
Postage	-	333
Printing and copying	-	2,400
Professional development	-	-
Professional services	-	14,521
Rent	-	10,462
Supplies	719	2,586
Telephone	-	3,526
Travel expenses	-	20
	<hr/>	<hr/>
Total Expenses	\$ 9,961	\$ 163,848
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EXHIBIT 3-2

Minneapolis Youth Coordinating Board	Foundations	Webber- Camden	Management and General	Total
\$ -	\$ 143	\$ -	\$ -	\$ 493
-	862	448	-	1,710
-	294	-	4,208	5,244
1,305	32,632	-	-	34,237
-	-	-	500	500
-	-	-	4,369	4,369
-	165	-	-	240
-	589	713	400	2,781
-	6,988	2,310	238	19,230
-	2,025	1,320	-	6,958
-	-	-	2,691	2,691
-	-	-	-	125
-	-	-	-	28
-	1,599	202	733	2,678
-	-	-	-	720
-	-	-	-	1,442
-	-	-	3,487	20,650
484	260,022	91,448	51,753	479,671
37	20,663	6,018	7,586	52,356
-	7,244	6,432	1,100	24,127
-	198	617	145	1,293
-	2,560	1,755	711	7,426
-	733	-	-	733
-	-	-	-	14,521
-	12,086	13,607	1	36,156
-	26,286	2,729	83	32,403
-	1,942	3,649	25	9,142
62	29,889	25	1,095	31,091
\$ 1,888	\$ 406,920	\$ 131,273	\$ 79,125	\$ 793,015

**FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

EXHIBIT 4

**STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2007**

	2006	2007
Cash Flows from Operating Activities		
Increase (Decrease) in net assets	\$ (197,564)	\$ (185,319)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities		
Prior period adjustment	\$ (670)	\$ -
Depreciation	4,398	4,369
(Increase) decrease in accounts receivable	32,431	(2,835)
(Increase) decrease in grants receivable	94,942	(25)
(Increase) decrease in pledges receivable	-	(20,000)
(Increase) decrease in prepaid items	(71)	82
Increase (decrease) in checks issued in excess of cash	(15,460)	-
Increase (decrease) in accounts payable	23,350	66,876
Increase (decrease) in salaries payable	(24,221)	(844)
Increase (decrease) in due to governmental agencies	102,400	75,624
Increase (decrease) in fiscal agent payable	(82)	-
Increase (decrease) in line of credit	47,722	(47,722)
Increase (decrease) in loans payable	-	94,626
Increase (decrease) in deferred revenue	(65,460)	12,000
Total adjustments	\$ 199,279	\$ 182,151
Net cash provided by (used in) operating activities	\$ 1,715	\$ (3,168)
Cash - January 1	-	1,715
Cash - December 31	\$ 1,715	\$ (1,453)

**FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2007

1. Summary of Significant Accounting Policies

A. Organization

The Folwell Neighborhood Association (FNA) was organized to promote neighborhood interests and the health, safety, and general welfare of all residents in the neighborhood in a non-partisan, educational, and cooperative manner and to implement the FNA's vision in cooperation with the Minneapolis Neighborhood Revitalization Program (NRP).

B. Basis of Presentation

The provisions of Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*, and SFAS No. 117, *Financial Statements of Not-for-Profit Organizations*, have been applied to the amounts presented in these financial statements. Under these provisions, net assets and revenues, gains, and losses are classified based on donor-imposed restrictions. Accordingly, net assets of the FNA and changes therein are classified and reported as follows:

Unrestricted - Those resources over which the FNA has discretionary control.

Temporarily Restricted - Those resources subject to donor-imposed restrictions which will be satisfied by actions of the FNA or passage of time.

Permanently Restricted - Those resources subject to a donor-imposed restriction that they be maintained permanently by the FNA. The donors of these resources permitted the FNA to use all or part of the income earned, including capital appreciation or related investments, for unrestricted or temporarily restricted purposes.

C. Basis of Accounting

The FNA reports on the accrual method of accounting where revenues are recognized when they are earned and expenses are recognized when they are incurred.

**FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Expense Allocation

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. Fund raising expenses are considered to be minimal and those costs are included in management and general expenses.

E. Income Taxes

The FNA is a not-for-profit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state statutes.

F. Cash

Cash consists of deposits in three checking accounts and one savings account. These deposits are covered by FDIC insurance coverage. At no time during the fiscal year did such deposits exceed FDIC insurance coverage.

G. Equipment

All purchased equipment is valued at cost. Depreciation is computed using the straight-line method over estimated useful lives of three years for computer equipment and five years for other equipment.

H. Grants and Contracts

The FNA's funding includes different cost-reimbursement grants from the U.S. Department of Education, the U.S. Department of Justice, the Minnesota Department of Education, the City of Minneapolis, the Minneapolis Community Planning and Economic Development Department (CPED), and the NRP. Government grants and contracts recognize revenue as earned when eligible expenses, as defined in each grant or contract, are made. Funds advanced on the above grants but not yet earned are shown as deferred revenue. Expenses under government grants are subject to review by the granting authority. To the extent, if any, that such a review reduces expenses allowed under these grants, the FNA will record such disallowance at the time the final assessment is made.

**FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

I. Donated Services and Materials

There were no donated services and materials for the years ended December 31, 2006 and 2007.

J. Contributions

The following types of contributions are recorded as revenue at their fair value when they are received unconditionally: cash, promises to give, certain contributed services, and gifts of long-lived assets. Conditional contributions are recognized as restricted revenue when received.

K. Accrued Vacation

Full-time employees of the FNA earn ten days of vacation each year. The vacation time must be used during the year and is not carried over to the next year. Employees also earn comp time when they work in excess of 40 hours in a week. Employees are allowed to carry 30 hours over to the next year. Since the FNA cannot charge its primary granting authorities for accrued comp time until it is used, no provision has been made in the accompanying financial statements for recording the accrued liability and related expenses at year-end. The amount of accrued comp time at December 31, 2006 and 2007, is \$5,437 and \$3,228, respectively.

2. Property and Equipment

Property and equipment at December 31, 2006, was:

Equipment	\$ 18,136
Less: accumulated depreciation	<u>(11,940)</u>
Total Equipment	<u>\$ 6,196</u>

Property and equipment at December 31, 2007, was:

Equipment	\$ 18,136
Less: accumulated depreciation	<u>(16,309)</u>
Total Equipment	<u>\$ 1,827</u>

**FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

3. Due to Other Governments

Due to other governments consists of amounts owed to the Internal Revenue Service and the Minnesota Department of Revenue for delinquent withholding taxes and related penalties and interest that were assessed.

Due to other governments at December 31, 2006, consisted of the following:

Internal Revenue Service	\$ 90,987
Minnesota Department of Revenue	<u>11,413</u>
Total	<u><u>\$ 102,400</u></u>

Due to other governments at December 31, 2007, consisted of the following:

Internal Revenue Service	\$ 168,845
Minnesota Department of Revenue	<u>9,179</u>
Total	<u><u>\$ 178,024</u></u>

4. Line of Credit and Loans Payable

During 2006, the FNA opened a line of credit with Wells Fargo Bank for \$50,000. The line of credit was opened to fill the gaps in program expenses that were accruing while waiting for the Federal Justice and Education grants to be fully funded. The outstanding balance on the line of credit at December 31, 2006, was \$47,722.

In 2007, the FNA established a business loan from Wells Fargo Bank in the amount of \$51,355.44. The purpose of the loan was to consolidate the debt from the line of credit that was issued during 2006, as well as debt from three Wells Fargo business credit cards that had been issued during 2005. The loan had a fixed interest rate per year (finance charge) of 13.25 percent and a maturity date of April 30, 2012. The outstanding balance on this loan at December 31, 2007, is \$47,126.

**FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

4. Line of Credit and Loans Payable (Continued)

During 2007, the FNA also established a loan with the Greater Minneapolis Housing Corporation (GMHC) in the amount of \$45,000. The purpose of the loan was to provide cash flows for administrative and payroll expenses. This is an interest-free loan that the FNA has agreed to repay in 2008. The entire amount of this loan is outstanding at December 31, 2007. Because the loan proceeds were derived from program income of an FNA program, the loan may be converted to a revenue item if a plan modification takes place in the future.

The FNA also received a loan from a Board member during 2007 in the amount of \$5,000. The purpose of the loan was to provide needed cash flows. This is an interest-free loan to the FNA. The amount of debt related to this loan at December 31, 2007, is \$2,500.

5. Deferred Revenue

Deferred revenue at December 31, 2006, consisted of the following:

CPED Citizens Participation Grant - 2006	\$ 5,750
NRP Administration Grant #15060	10,000
NRP Phase II Participation #23435	9,100
Total	\$ 24,850

Deferred revenue at December 31, 2007, consisted of the following:

CPED Citizens Participation Grant - 2006	\$ 5,750
CPED Citizens Participation Grant - 2007	2,000
NRP Administration Grant #15060	10,000
NRP Phase II Participation #23435	9,100
NRP Phase II Implementation #24816	10,000
Total	\$ 36,850

**FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

6. Operating Leases

The FNA is committed under a year-to-year operating lease for rental of office space. Rental expense related to this lease was \$23,429 for 2006 and \$35,656 for 2007. The FNA is also committed under a month-to-month lease for a copier. Rental expense related to this lease was \$3,083 for 2006 and \$3,083 for 2007. Future minimum rental payments for the rent lease are as follows:

	Rent
2008	\$ 26,770

7. Restricted Net Assets

Restricted net assets at December 31, 2006, are as follows:

Blue Cross Blue Shield	\$ 19,117
Target	718
General Mills Foundation	637
Best Buy Children's Foundation	5,000
Otto Bremer Foundation	18,308
Walmart	500
Skating Clinic	750
School Supplies	650
Total	\$ 45,680

Restricted net assets at December 31, 2007, are as follows:

Curtis Carlson Family Foundation	\$ 44,663
Target	718
General Mills Foundation	29,731
Best Buy Children's Foundation	5,000
Otto Bremer Foundation	9,205
Walmart	500
Family Housing Fund	29,829
World Childhood Foundation	10,782
CURA Seed Grant	2,400
Skating Clinic	750
School Supplies	300
Total	\$ 133,878

**FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

8. Loan Programs

A. Home Buyer and Improvement Loan Program

In January 2000, the FNA initiated the “Home Buyer and Improvement Loan Programs” which consist of the following:

- Grants of \$1,500 for first time home buyers to either make a down payment or pay closing costs. The grant is deferred over three years provided there is owner occupancy over the deferral period.
- Revolving loans up to \$4,000 for home safety improvements or updates for current code compliance. The loans have a two percent interest rate.
- Revolving loans up to \$10,000 for home improvements of owner-occupied or rental properties. The loans have a four percent interest rate.

This program is administered by the Greater Minneapolis Metropolitan Housing Corporation (GMMHC) - Housing Resource Center - Northwest. Funding for the program is provided by the NRP and program income.

At December 31, 2006, total funds available in the loan pool were \$561,958. From this pool, \$121,662 was expended to program participants, which left an outstanding balance in the pool of \$440,296.

At December 31, 2007, total funds available in the loan pool were \$581,633. From this pool, \$453,889 was expended to program participants, which left an outstanding balance in the pool of \$127,744.

B. Purchase Rehab (GAP) Program

The FNA initiated the Purchase Rehab (GAP) Program in August 2000. The program consists of the purchase, renovation, and sale of problem properties. Program funding covers any loss between the costs of the purchase and renovation and revenue from the sale. The program is administered by the GMMHC. Funding for this program was provided by the NRP. The original amount of funds available for this program was \$150,000. The available balance that can be used for the program as of December 31, 2006 and December 31, 2007, is \$83,547.

**FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

9. Subsequent Events

In 2008, the FNA incurred a \$65,000 loan from the Nonprofits Assistance Fund.

In 2008, delinquent amounts owing to the Internal Revenue Service were paid up.

10. Contingency

In 2008, the FNA began taking steps to convert the \$45,000 loan from the GMHC, as discussed in Note 4 above, to a revenue item of the Neighborhood, by effecting a plan modification.

11. Related Parties

A. Loans

A Board member issued a \$5,000 loan to the FNA during 2007, \$2,500 of which was outstanding at December 31, 2007. This same Board member made an additional loan of \$5,000 to the FNA during 2008. A different Board member also issued a \$5,000 loan to the FNA during 2008.

B. Family Relationship

A Board member is the parent of the Associate Executive Director.

12. Losses from Operations

For the two-year period ending December 31, 2007, the FNA experienced significant decreases in its net asset balance totaling \$382,883. During this period, program revenues were not sufficient for the expenses incurred. The deficit net asset balance at December 31, 2007, is \$350,949. The FNA Board intends to reduce this deficit over time by reducing expenses in administrative categories, as well as cutting back on program activities. Efforts will also be made with past contributors to the FNA to obtain financial support to eliminate outstanding obligations.

SCHEDULES OF NRP ACTIVITY

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**FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

Schedule 1-1

**SCHEDULE OF NRP ACTIVITY
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Contract #15060</u>	<u>Contract #23435</u>	<u>Unallocated (*)</u>	<u>Total</u>
Revenues	\$ 20,005	\$ 34,209	\$ 20,574	\$ 74,788
Expenses				
Advertising and promotion	\$ 125	\$ 700	\$ 350	\$ 1,175
Awards	-	-	1,536	1,536
Cleaning/janitorial	189	-	1,534	1,723
Contracted services	-	-	454	454
Contributions	-	-	738	738
Dues and subscriptions	111	300	144	555
Equipment	100	432	2,000	2,532
Events	-	111	9,754	9,865
Insurance	-	578	1,979	2,557
Licenses and permits	-	50	352	402
Maintenance and repair	15	-	1,219	1,234
Meeting expenses	-	-	275	275
Miscellaneous	-	-	423	423
Newsletter	-	175	675	850
Other	-	-	69	69
Payroll				
Salaries	10,940	25,915	66,729	103,584
Taxes	964	1,895	3,252	6,111
Benefits	5,047	1,250	2,000	8,297
Postage	1	124	817	942
Printing and copying	-	1,248	1,858	3,106
Professional services	728	195	30,287	31,210
Rent	800	2,357	7,994	11,151
Supplies	838	2,124	3,969	6,931
Telephone	642	768	2,147	3,557
Travel expenses	37	-	533	570
Utilities	-	-	114	114
Total Expenses	\$ 20,537	\$ 38,222	\$ 141,202	\$ 199,961
Revenues Over (Under) Expenses	\$ (532)	\$ (4,013)	\$ (120,628)	\$ (125,173)

(*) - These amounts were recorded in the general ledger as part of the NRP Program, but could not be traced to an NRP contract.

**FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

Schedule 1-2

**SCHEDULE OF NRP ACTIVITY
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Contract #15060</u>	<u>Contract #23435</u>	<u>Unallocated (*)</u>	<u>Total</u>
Revenues	\$ 59,560	\$ 7,478	\$ -	\$ 67,038
Expenses				
Advertising and promotion	\$ -	\$ 175	\$ 175	\$ 350
Awards	400	-	-	400
Bank fees	-	-	742	742
Contracted services	-	-	300	300
Dues and subscriptions	-	-	75	75
Equipment	592	102	385	1,079
Events	6,855	135	2,704	9,694
Insurance	1,651	688	1,274	3,613
Licenses and permits	75	-	50	125
Maintenance and repair	28	-	-	28
Meeting expenses	-	-	99	99
Miscellaneous	518	-	202	720
Newsletter	792	-	650	1,442
Other	-	-	17,043	17,043
Payroll				
Salaries	34,051	5,845	27,860	67,756
Taxes	2,396	577	14,410	17,383
Benefits	2,826	250	6,075	9,151
Postage	320	-	13	333
Printing and copying	1,371	219	810	2,400
Professional services	2,030	276	12,215	14,521
Rent	6,667	-	3,795	10,462
Supplies	1,340	144	1,102	2,586
Telephone	1,082	570	1,874	3,526
Travel expenses	-	-	20	20
Total Expenses	\$ 62,994	\$ 8,981	\$ 91,873	\$ 163,848
Revenues Over (Under) Expenses	\$ (3,434)	\$ (1,503)	\$ (91,873)	\$ (96,810)

(*) - These amounts were recorded in the general ledger as part of the NRP Program, but could not be traced to an NRP contract.

SCHEDULES OF FOUNDATION ACTIVITY

**FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF FOUNDATION ACTIVITY
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Blue Cross Blue Shield</u>	<u>Curtis Carlson Family Foundation</u>	<u>Target Corporation</u>	<u>General Mills</u>
Revenues	\$ 25,000	\$ 50,000	\$ 15,000	\$ 20,000
Expenses				
Advertising and promotion	\$ -	\$ -	\$ -	\$ -
Awards	-	-	-	-
Bank fees	-	-	155	-
Cleaning/janitorial	-	268	-	-
Contracted services	-	5,250	-	-
Contributions	-	-	4,710	-
Dues and subscriptions	-	-	-	-
Entertainment and meals	-	168	865	888
Equipment	-	-	25	-
Events	-	-	-	12
Interest expense	-	-	387	-
Licenses and permits	-	94	-	-
Maintenance and repair	-	300	-	-
Meeting expenses	-	134	413	532
Miscellaneous	-	-	-	-
Other	-	25	7,421	-
Payroll				
Salaries	5,280	80,387	-	15,821
Taxes	403	6,574	-	1,282
Benefits	-	1,000	-	500
Postage	-	-	-	-
Printing and copying	-	-	-	-
Professional development	200	-	-	-
Professional services	-	200	-	-
Program expenses				
4th Ward Care Task Force	-	-	-	-
General Mills	-	-	-	-
Rent	-	673	-	-
Supplies	-	2,525	306	328
Telephone	-	1,965	-	-
Travel expenses	-	521	-	-
Total Expenses	\$ 5,883	\$ 100,084	\$ 14,282	\$ 19,363
Revenues Over (Under) Expenses	\$ 19,117	\$ (50,084)	\$ 718	\$ 637

(*) - These amounts were recorded in the general ledger as part of the Foundation Programs, but could not be traced to a specific foundation.

Schedule 2-1

Best Buy Children's Foundation	Otto Bremer	McKnight Foundation	Jay & Rose Phillips Family Foundation	Unallocated (*)	Total
\$ 5,000	\$ 45,000	\$ 55,000	\$ 23,500	\$ -	\$ 238,500
\$ -	\$ -	\$ 53	\$ -	\$ -	\$ 53
-	-	696	-	-	696
-	-	-	-	-	155
-	-	-	-	717	985
-	-	-	-	-	5,250
-	-	-	-	-	4,710
-	-	75	-	-	75
-	70	579	-	-	2,570
-	208	68	-	628	929
-	2,500	4,342	-	54	6,908
-	-	-	-	-	387
-	190	39	-	-	323
-	-	367	-	586	1,253
-	-	5,603	-	-	6,682
-	-	-	-	349	349
-	-	-	-	-	7,446
-	15,406	40,986	-	22,668	180,548
-	1,075	3,636	-	1,721	14,691
-	-	250	-	9,076	10,826
-	-	6	-	14	20
-	202	666	-	86	954
-	189	-	-	-	389
-	200	-	-	-	400
-	-	619	-	-	619
-	-	844	-	-	844
-	-	-	-	3,703	4,376
-	4,974	4,609	-	2,738	15,480
-	-	-	-	-	1,965
-	1,678	627	-	344	3,170
\$ -	\$ 26,692	\$ 64,065	\$ -	\$ 42,684	\$ 273,053
\$ 5,000	\$ 18,308	\$ (9,065)	\$ 23,500	\$ (42,684)	\$ (34,553)

**FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF FOUNDATION ACTIVITY
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Blue Cross Blue Shield</u>	<u>Curtis Carlson Family Foundation</u>	<u>General Mills</u>	<u>Otto Bremer</u>	<u>McKnight Foundation</u>
Revenues	\$ -	\$ 77,000	\$ 30,000	\$ -	\$ 45,000
Expenses					
Advertising and promotion	\$ 143	\$ -	\$ -	\$ -	\$ -
Awards	-	-	-	-	862
Bank fees	-	-	-	-	147
Contracted services	8,510	5,000	500	-	34
Dues and subscriptions	-	-	-	-	-
Equipment	-	-	-	-	589
Events	-	91	-	-	2,502
Insurance	-	611	-	-	97
Meeting expenses	26	-	-	-	1,245
Payroll					
Salaries	9,660	18,585	-	8,222	64,103
Taxes	778	1,526	-	775	4,933
Benefits	-	865	-	-	2,344
Postage	-	-	-	-	198
Printing and copying	-	515	-	106	224
Professional development	-	-	-	-	-
Rent	-	2,815	-	-	-
Supplies	701	2,275	406	-	2,321
Telephone	-	15	-	-	647
Travel expenses	-	39	-	-	439
Total Expenses	\$ 19,818	\$ 32,337	\$ 906	\$ 9,103	\$ 80,685
Revenues Over (Under) Expenses	\$ (19,818)	\$ 44,663	\$ 29,094	\$ (9,103)	\$ (35,685)

(*) - These amounts were recorded in the general ledger as part of the Foundation Programs, but could not be traced to a specific foundation.

Schedule 2-2

Jay & Rose Phillips Family Foundation	Carolyn Foundation	Family Housing Fund	World Childhood Foundation	Pohlad Family Foundation	Minneapolis Foundation	Unallocated (*)	Total
\$ -	\$ 20,000	\$ 45,000	\$ 25,000	\$ 80,000	30,000	\$ -	\$ 352,000
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 143
-	-	-	-	-	-	-	862
-	-	-	-	-	24	123	294
-	6,320	-	-	68	12,200	-	32,632
-	-	-	165	-	-	-	165
-	-	-	-	-	-	-	589
-	780	587	-	452	2,576	-	6,988
-	-	-	-	-	1,317	-	2,025
-	60	-	-	268	-	-	1,599
-	20,928	11,886	10,006	70,022	39,369	7,241	260,022
-	1,732	726	797	5,938	3,458	-	20,663
-	-	1,871	-	-	-	2,164	7,244
-	-	-	-	-	-	-	198
-	-	-	-	557	-	1,158	2,560
-	-	-	733	-	-	-	733
-	-	-	1,200	938	-	7,133	12,086
400	809	73	350	4,869	14,082	-	26,286
-	-	28	365	171	391	325	1,942
-	715	-	602	475	27,594	25	29,889
\$ 400	\$ 31,344	\$ 15,171	\$ 14,218	\$ 83,758	\$ 101,011	\$ 18,169	\$ 406,920
\$ (400)	\$ (11,344)	\$ 29,829	\$ 10,782	\$ (3,758)	\$ (71,011)	\$ (18,169)	\$ (54,920)

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**FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

Schedule 3

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND DECEMBER 31, 2007

I. COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

01-1 Double Billing of Payroll Expenses

Previous reports have noted that the accounting records of the Folwell Neighborhood Association (FNA) did not reflect payroll amounts being requested because the accounting records commingled expenses of the Webber-Camden Neighborhood Organization (WCNO). We recommended that a separate program be established in the accounting records to account for expenses related to the WCNO throughout the year.

Given the condition of the accounting records we encountered in our audit, we are unable to resolve this comment. During our fieldwork, the general ledgers for 2006 and 2007 were recoded by the Executive Director, causing previously recorded information to be modified. We also note that in 2007, the FNA began taking draws against the WCNO instead of documenting the specific items to be reimbursed. This condition could have affected payroll amounts previously recorded as relating to the WCNO.

We again recommend that expenses relating to the WCNO be maintained as a separate program category in the general ledger throughout the year.

Client's Response:

FNA will open new company files for both Folwell and Webber-Camden neighborhoods in QuickBooks effective on the first business day of January 2009. This is being done to ensure correct accounting and will have procedures to eliminate any doubt about expenses and the categories in which they occur. Back-up data (transaction details that support invoices in the form of QuickBooks reports) related to Webber-Camden expenses and subsequent reimbursements provide evidence of correct and appropriate payments for services delivered during the accounting period.

ITEMS ARISING THIS YEAR

07-1 Charitable Registration With the Attorney General's Office

We found that the FNA was not current with required filings to the Attorney General's Office. Failure to file in accordance with criteria established by the Attorney General's Office prohibits the FNA from soliciting contributions until there is compliance. The Attorney General's Office may also assess penalties for failure to file.

We recommend that the FNA take steps to become current with its filings to the Attorney General's Office.

Client's Response:

Filings with the Attorney General except for delivery of the current audit documents are complete.

07-2 Double Billing to Organizations

The following vendor invoices were billed to both the Minneapolis Neighborhood Revitalization Program (NRP) Policy Board, under contract #23435 - Phase II, and to the WCNO:

<u>Check Date</u>	<u>Check Number</u>	<u>Amount</u>
September 14, 2006	8383	\$ 484.45
December 21, 2006	8634	85.63
February 28, 2007	8832	175.91
Total		<u>\$ 745.99</u>

We recommend that the FNA review these expenses with the NRP Policy Board to determine a resolution of the double charges.

Client's Response:

This issue will be resolved with compliance to NRP procedures and will be reflected in reimbursement requests processed in January 2009.

II. INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

04-2 Timeliness of Audit Information Provided

Our previous report indicated that the audit process took longer to complete due to lengthy delays before receiving responses to auditor's requests for information. We recommended that the FNA develop a plan to ensure that annual reporting requirements would be addressed in a timely manner. In the current audit, delays were again experienced, due primarily to the condition of the general ledgers. Based on deficiencies identified by the auditors and communicated to the Executive Director, the Executive Director determined that the ledgers should be reviewed and recoded by FNA officials. This process caused a significant delay in completing our fieldwork.

We recommend that the FNA Board and management improve its process for providing year-end information to enable a more timely review of its annual financial statements.

Client's Response:

We believe that opening new files in QuickBooks in January 2009 will resolve this issue in the long term. In the short term, the general ledger is already being reviewed for 2008 to ensure correctness and prompt response to the 2008 audit process.

ITEMS ARISING THIS YEAR

07-3 Segregation of Duties

Our review of the FNA's process for recording transactions in the general ledger found that multiple employees were involved. Under this condition, there was no accountability for the individuals entering information into the ledger. Recordings in the general ledger should be limited to one or two individuals.

We recommend that a process be established that limits recordings in the general ledger to one or two individuals. If more than one individual is involved with the general ledger, there should be a method to distinguish which entries are being recorded by each individual. We also recommend that a periodic review of the general ledger transactions take place by someone not normally associated with the ledger.

Client's Response:

When it became apparent that some of the individuals entering information into the accounting system were not clear about the process or the operation, steps were taken to limit data entry to the Executive Director and the Treasurer. The general ledger will be reviewed quarterly by an outside accounting source in conjunction with quarterly tax filings.

07-4 Recordings in the General Ledger

Our review of the 2006 and 2007 general ledgers found numerous errors with the recorded transactions. Primarily, these errors involved the coding of the transactions and postings to balance sheet accounts instead of operating accounts. When informed of these conditions, the Executive Director determined that the entire general ledger needed to be recoded for 2006 and 2007. The need to fully recode the general ledger creates a lack of confidence over the manner in which financial activities are being maintained. Financial information that was previously provided to Board members and other interested parties may no longer be reliable. Amounts previously reimbursed by granting authorities could now be affected. Additionally, following the recoding of the general ledgers, several audit adjustments were still necessary that resulted in significant changes to the financial statements. These conditions caused internal controls over accounting and reporting matters to be significantly weakened.

We recommend that procedures be established to strengthen the reliability of the general ledger information being presented. The coding of transactions should be performed by someone knowledgeable with the FNA's operations and who possesses sufficient accounting skills to perform the tasks. We also recommend that the Board review monthly financial reports of the FNA for accuracy and appropriateness.

Client's Response:

When it became apparent that some of the individuals entering information into the accounting system were not clear about the process, steps were taken to limit data entry to the Executive Director and the Treasurer. The general ledger will be reviewed quarterly by an outside accounting source in conjunction with quarterly tax filings. Additionally, the reports to the Board of Directors will be reviewed by a Finance Committee prior to approval at monthly meetings.

PREVIOUSLY REPORTED ITEM RESOLVED

Timeliness of Grant Reimbursements (04-1)

We previously reported that the FNA was not timely in requesting reimbursement of grant funds related to Hennepin County, CPED Citizen Participation, and NRP. We recommended that timeliness be improved to assist with cash flows.

Resolution

We did not encounter any conditions in the current audit for which requests for grant funds were not timely.

III. MANAGEMENT PRACTICES

ITEMS ARISING THIS YEAR

07-5 Backup Site for Computer Records

Presently, the FNA does not maintain an offsite backup of its computer records. Backup records could provide needed information in the event of damage or destruction to the primary records.

We recommend that the FNA consider maintaining backup records for its accounting system offsite from the FNA office.

Client's Response:

Offsite backup of accounting and all other files is in place and refreshed daily.

07-6 Financial Condition

For the two-year period ended December 31, 2007, the FNA's net asset balance decreased \$382,883. At December 31, 2007, the FNA had a deficit net asset balance of \$350,949. Expenses during this period were significantly greater than revenues. As a result, the FNA was unable to pay its bills on time, creating a delinquent status with many of its vendors. This condition also placed the FNA in a delinquent status with the Internal Revenue Service and the Minnesota Department of Revenue for withholding taxes, which caused penalties and interest to be incurred. Due to cash flow problems, the FNA borrowed funds from a bank, Board members, and a local nonprofit organization.

These conditions have presented financial challenges to the FNA that will take some time to overcome. Since future NRP funding may have been used to reduce current obligations, the Board may have to reassess its plans for the funding of its programs from the NRP. Strong adherence to reducing expenses will be needed.

We recommend that the FNA Board and management monitor its financial condition monthly, with the goal to eliminate its outstanding obligations and to accomplish program objectives on a reduced level.

Client's Response:

In 2007, FNA did not receive a significant amount in federal funds that had been awarded in late 2006 due to decisions beyond its control made by the Federal Government related to special projects (earmarks).

FNA is aware of its obligations; during 2008, FNA significantly reduced debt as stated in the 2006-2007 audits. Budgets that include debt reduction and program continuity will be approved in January of 2009.

The 2009 budget will be based on Neighborhood Revitalization Program (NRP) funding only, although FNA will seek funding beyond the NRP and will enhance programming only when funds to do so are guaranteed.



REBECCA OTTO
STATE AUDITOR

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE

Board of Directors
Folwell Neighborhood Association

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the Follwell Neighborhood Association (FNA) (a nonprofit corporation) as of and for the years ended December 31, 2006 and 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the FNA's internal control over financial reporting as a basis for designing our auditing procedures 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 FNA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the FNA's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, some of which we consider to be material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the FNA's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the FNA's

financial statements that is more than inconsequential will not be prevented or detected by the FNA's internal control over financial reporting. We consider the deficiencies listed in the Schedule of Findings and Recommendations as items 04-2, 07-3, and 07-4 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the FNA's internal control over financial reporting. We believe that the deficiencies identified as items 07-3 and 07-4 in the Schedule of Findings and Recommendations constitute material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the FNA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 instances of noncompliance, which are described in the Schedule of Findings and Recommendations as items 01-1, 07-1, and 07-2.

Also included in the Schedule of Findings and Recommendations are management practices comments. We believe these recommendations to be of benefit to the FNA, and they are reported for that purpose.

The FNA's written responses to the significant deficiencies, material weaknesses, compliance findings, and management practices identified in our audit have been included in the Schedule of Findings and Recommendations. We did not audit the FNA's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the FNA's Board of Directors, its management, and the Neighborhood Revitalization Program Policy Board and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

January 30, 2009

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR