STATE OF MINNESOTA
Office of the State Auditor

Rebecca Otto
State Auditor

NOKOMIS EAST NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2008

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.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@state.mn.us
www.auditor.state.mn.us

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NOKOMIS EAST NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA

For the Year Ended December 31, 2008

Audit Practice Division
Office of the State Auditor
State of Minnesota

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NOKOMIS EAST NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA

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Introductory Section

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NOKOMIS EAST NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA

ORGANIZATION SCHEDULE
2008

Board Members	Term Expires
Jane Brandt	April 2010
Kenneth Brown	April 2009
Patti Gaalaas	April 2010
Michael Garry	April 2010
George Jelatis - Chair	April 2009
Betty Jones - Treasurer	April 2010
Kent Knopp-Schwyn	April 2010
Ron Leurquin - Secretary	April 2010
Ryan Marth	April 2009
Matt Pettis - Vice Chair	April 2010
Tina Sanz	April 2008
Marian Streitz	April 2010
Richard Streitz	April 2010
Jason Stumph	April 2009
Kelli Wirth	April 2010

Executive Director	
Rita Ulrich	Indefinite

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Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Nokomis East Neighborhood Association

We have audited the statement of financial position of the Nokomis East Neighborhood Association (NENA) (a nonprofit corporation) as of December 31, 2008, and the related statements of activity, functional expenses, and cash flows for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the NENA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 NENA as of December 31, 2008, and the changes in its net assets and its cash flows for the year 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 Schedule of NRP Activity listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the NENA. 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	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

November 12, 2009

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FINANCIAL STATEMENTS

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NOKOMIS EAST NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA

EXHIBIT 1

STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2008

Assets		
Current assets		
Cash	$	30,566
Grants receivable		29,860
Prepaid expenses		1,870
Total current assets	**$**	**62,296**
Property and equipment		
Property and equipment net of depreciation		1,414
Total Assets	**$**	**63,710**
Liabilities and Net Assets		
Liabilities		
Accounts payable	$	14,992
Deferred revenue		28,625
Total Liabilities	**$**	**43,617**
Net Assets		
Restricted	$	227
Unrestricted		19,866
Total Net Assets	**$**	**20,093**
Total Liabilities and Net Assets	**$**	**63,710**

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

NOKOMIS EAST NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA

EXHIBIT 2

STATEMENT OF ACTIVITY
FOR THE YEAR ENDED DECEMBER 31, 2008

	Unrestricted	Temporarily Restricted	Total
Public Support and Other Revenue			
Public support			
Government grants			
Minneapolis Community Planning and Economic Development Department (CPED)	$ 2,000	$ -	$ 2,000
Neighborhood Revitalization Program (NRP)	151,654	-	151,654
Minnesota Department of Natural Resources	1,540	-	1,540
Other contributions	8,693	-	8,693
Total public support	**$ 163,887**	**$ -**	**$ 163,887**
Other revenue			
Miscellaneous	2,243	-	2,243
Total Public Support and Other Revenue	**$ 166,130**	**$ -**	**$ 166,130**
Expenses			
Program services			
CPED	$ 2,000	$ -	$ 2,000
NRP	152,661	-	152,661
Minnesota Department of Natural Resources	1,540	-	1,540
Total program services	**$ 156,201**	**$ -**	**$ 156,201**
Support services			
Management and general	7,308	-	7,308
Total Expenses	**$ 163,509**	**$ -**	**$ 163,509**
Increase (Decrease) in Net Assets	**$ 2,621**	**$ -**	**$ 2,621**
Net Assets - January 1	**17,245**	**227**	**17,472**
Net Assets - December 31	**$ 19,866**	**$ 227**	**$ 20,093**

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

NOKOMIS EAST NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA

EXHIBIT 3

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2008

	CPED	NRP	Minnesota DNR	Management and General	Total
Expenses					
Advertising	$ 2,000	$ 2,326	$ -	$ 175	$ 4,501
Consulting	-	6,398	-	-	6,398
Depreciation	-	-	-	779	779
Equipment	-	242	-	-	242
Equipment rental	-	161	-	-	161
Food and beverages	-	504	-	4,176	4,680
Insurance	-	1,928	-	-	1,928
Internet	-	1,340	-	-	1,340
Membership	-	75	-	-	75
Mileage and parking	-	395	-	-	395
Miscellaneous	-	232	-	-	232
Newsletter labeling	-	518	-	-	518
Office supplies	-	1,424	-	-	1,424
Payroll					
Salaries	-	69,369	-	-	69,369
Taxes	-	31,120	-	-	31,120
Benefits	-	11,335	-	-	11,335
Performance fees	-	1,885	-	-	1,885
Photocopies	-	2,440	-	-	2,440
Postage	-	2,032	-	-	2,032
Printing	-	1,409	-	-	1,409
Professional fees	-	1,633	-	9	1,642
Project supplies	-	1,905	1,540	1,685	5,130
Publications	-	40	-	-	40
Rent	-	10,594	-	280	10,874
Software	-	1,071	-	114	1,185
Telephone	-	1,096	-	-	1,096
Training	-	325	-	-	325
Volunteer recognition	-	684	-	-	684
Web page	-	180	-	90	270
Total Expenses	**$ 2,000**	**$ 152,661**	**$ 1,540**	**$ 7,308**	**$ 163,509**

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

NOKOMIS EAST NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA

EXHIBIT 4

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2008

Cash Flows From Operating Activities		
Increase (Decrease) in net assets	**$**	**2,621**
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities		
Depreciation	$	779
(Increase) decrease in grants receivable		18,144
(Increase) decrease in prepaid items		(551)
Increase (decrease) in accounts payable		(223)
Increase (decrease) in deferred revenue		(10,000)
Total adjustments	**$**	**8,149**
Net cash provided by (used in) operating activities	**$**	**10,770**
Cash Flows From Investing Activities		
Purchase of equipment		(599)
Net Increase (Decrease) in Cash	**$**	**10,171**
Cash - January 1		**20,395**
Cash - December 31	**$**	**30,566**

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

NOKOMIS EAST NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

1. Summary of Significant Accounting Policies

A. Organization

The Nokomis East Neighborhood Association (NENA) was formed to encourage neighborhood communication and citizen participation; to review programs offered by the City of Minneapolis as these programs affect the Nokomis East Neighborhood; to arrange and conduct neighborhood meetings, to study and review all proposals of a commercial or residential nature and make recommendations to the appropriate governmental and private entities; to promote neighborhood improvement and revitalization and to act as a contact between the City of Minneapolis in general and the NENA residents; and to see that the character of the neighborhood is maintained. The area of the Nokomis East Neighborhood is composed of the Keewaydin, Minnehaha, Morris Park, and Wenonah neighborhoods, and is bounded by Minnehaha Parkway on the north; Minnehaha Avenue on the east, including Valley View Road and Hiawatha Lane; Cedar Avenue on the west; and the southern boundary of the City of Minneapolis.

B. Board of Directors and Officers

The NENA Board of Directors consists of 15 members, of which two are selected from each of the four neighborhoods and three chosen at large. The Directors are elected at the annual meeting in March for two-year terms. To ensure some continuity in membership, the terms of neighborhood representatives are staggered with terms of at-large and alternate members. Vacancies on the Board of Directors are filled by appointment by the NENA Board of Directors until the following annual meeting. The four officers (chair, vice chair, secretary, and treasurer) are elected by Board members at the first Board meeting following the annual meeting.

C. 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

1. Summary of Significant Accounting Policies

C. Basis of Presentation (Continued)

and revenues, gains, and losses are classified based on donor-imposed restrictions. Accordingly, net assets of the NENA and changes therein are classified and reported as follows.

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

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

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

D. Basis of Accounting

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

E. 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 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.

F. Income Taxes

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

1. Summary of Significant Accounting Policies (Continued)

G. Cash

Cash consists of deposits in one checking account. At no time during the year did such deposits exceed FDIC insurance coverage.

H. Equipment

All purchased equipment is valued at cost. Donated equipment is valued at fair value at the date of contribution. Depreciation is computed using the straight-line method over estimated useful lives of three years to five years, depending on the type of asset.

I. Grants and Contracts

The NENA receives funds from the Minneapolis Neighborhood Revitalization Program (NRP) Policy Board. These funds are used to administer programs, provide grants to residents for the "Home Improvement Loan Program," provide for informational and organizational mailings, and for general office support. The NRP is the primary funding source for the NENA. Government grants and contracts recognize revenue as earned when eligible expenses, as defined in each grant or contract, are made. Funds advanced and received 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 NENA will record such disallowance at the time the final assessment is made.

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. Donated Facilities and Items

NENA received donated facilities for meetings in the amount of $280. Donated food for the annual meeting totaled $3,250 and donated prizes for the Night Before New Years Eve totaled $1,685.

1. Summary of Significant Accounting Policies (Continued)

   L. Accrued Vacation and Compensatory Time

   Employees of the NENA earn 15 working days of vacation and 6 personal days each year. Compensatory time can be accrued up to a maximum of 40 hours. Since the NENA cannot charge its primary granting authorities for vacation and compensatory time until they are used, no provision has been made in the accompanying financial statements for recording the accrued liability and related expenses at year-end. At December 31, 2008, the amount of accrued vacation, personal days, and compensatory time was $19,202.

2. Equipment

Equipment at December 31, 2008, was:

Equipment	$	4,917
Less: accumulated depreciation		(3,503)
Total Equipment	$	1,414

3. Deferred Revenue

Deferred revenue at December 31, 2008, was:

NRP		
C-13839	$	7,500
C-14052		1,125
C-15062		10,000
C-23984		10,000
Total	$	28,625

4. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2008, consist of funds from the Science Museum of Minnesota. The NENA received $600 in 2006 and spent $373 in 2007, leaving a balance of $227.

5. Operating Leases

The NENA leases office space on a month-to-month basis. A 60-day notice is required by either party if they are to end the lease. The NENA also has a month-to-month lease on a copier. For 2008, rental expense related to the office lease was $10,544, and the copier lease was $2,440.

Minimum future lease payments are as follows:

	2009	2010
Office lease	$ 11,028	$ -
Copier lease	2,410	2,410
Total	$ 13,438	$ 2,410

6. Home Improvement Program

The NENA has initiated the “Nokomis East Neighborhood Home Improvement Loan Program.” Funding for this program was provided by the NRP. The program consists of loans up to a maximum of $10,000 for homeowners to complete interior or exterior projects on their homes. The contract was executed in 2003 with the Center for Energy and Environment, Inc. (CEE). In 2008, ten NENA NRP loans were closed for a total of $16,808 of financed improvements and $3,750 of emergency grants. As of December 31, 2008, total loan and grant funds available are $385,533.

7. Commercial Façade Improvement Program

The Nokomis East Neighborhood Association has matching grants available to business and commercial property owners in the four Nokomis East neighborhoods to improve and restore the visual appeal and condition of the exterior facade of commercially zoned buildings. Matching grants of up to $8,000 per single business-tenant property or $20,000 for multi-tenant buildings are available with a total of $159,000 available for the program. This contract was executed in 2003, and at December 31, 2008, there was $75,613 remaining in this program.

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SCHEDULE OF NRP ACTIVITY

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NOKOMIS EAST NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA

Schedule 1

SCHEDULE OF NRP ACTIVITY
FOR THE YEAR ENDED DECEMBER 31, 2008

	Contract #13804	Contract #14052	Contract #23984	Total
Revenues	**$ 32,123**	**$ 387**	**$ 119,144**	**$ 151,654**
Expenses				
Advertising	$ 354	$ -	$ 1,972	$ 2,326
Consulting	-	-	6,398	6,398
Equipment	242	-	-	242
Equipment rental	90	-	71	161
Food and beverages	-	-	504	504
Insurance	1,118	-	810	1,928
Internet	944	-	396	1,340
Membership	75	-	-	75
Mileage and parking	25	-	370	395
Miscellaneous	232	-	-	232
Newsletter labeling	-	-	518	518
Office supplies	1,419	-	5	1,424
Payroll				
Salaries	5,713	437	63,219	69,369
Taxes	2,292	-	28,828	31,120
Benefits	107	-	11,228	11,335
Performance fees	-	-	1,885	1,885
Photocopies	1,837	-	603	2,440
Postage	945	-	1,087	2,032
Printing	473	-	936	1,409
Professional fees	1,019	-	614	1,633
Project supplies	-	-	1,905	1,905
Publications	40	-	-	40
Rent	10,544	-	50	10,594
Software	1,071	-	-	1,071
Telephone	1,005	-	91	1,096
Training	-	-	325	325
Volunteer recognition	-	-	684	684
Web page	60	-	120	180
Total Expenses	**$ 29,605**	**$ 437**	**$ 122,619**	**$ 152,661**
Revenues Over (Under) Expenses	**$ 2,518**	**$ (50)**	**$ (3,475)**	**$ (1,007)**

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Management and Compliance Section

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NOKOMIS EAST NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA

Schedule 2

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2008

I. INTERNAL CONTROL OVER FINANCIAL REPORTING

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-1 Internal Control/Financial Statement Preparation

Management is responsible for establishing and maintaining internal control. This responsibility includes internal control over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Adequate segregation of duties is a key internal control in an organization's accounting system. The size of Nokomis East Neighborhood Association and its staffing limit the internal control that management can design and implement in the organization. Management should be aware that segregation of duties is not adequate from an internal control point of view.

Management is responsible for the accuracy and completeness of all financial records and related information. Also, management is responsible for controls over the period-end financial reporting process, including controls over procedures used to enter transaction totals into the general ledger; initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements.

Management has requested that we prepare the annual financial statements and related notes. This arrangement is not unusual for an organization the size of Nokomis East Neighborhood Association. This decision was based on the availability of Nokomis East Neighborhood Association's staff and the cost benefit of using our expertise.

We recommend the Neighborhood Board be mindful that limited staffing causes inherent risks in safeguarding Nokomis East Neighborhood Association's assets and the proper reporting of its financial activity. We recommend the Neighborhood Board continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

Client's Response:

NENA has begun using Quickbooks and an accounting firm which will greatly improve the internal controls. The accounting firm reconciles bank statements and produces quarterly reports, in addition to year-end reports and Form 990. We expect that any discrepancies in data entry and banking will be discovered and rectified quickly with this additional oversight.

II. COMPLIANCE

ITEM ARISING THIS YEAR

08-1 Double Billing to Organizations

The following vendor invoice was billed twice to the Minneapolis Neighborhood Revitalization Program (NRP) Policy Board under contract #23984, reimbursement request #19, and contract #13804, reimbursement request #61:

Check Date	Check Number	Amount
April 30, 2008	EFT	$ 56.00

The following vendor invoice was billed twice to the Minneapolis Neighborhood Revitalization Program (NRP) Policy Board under contract #23984 on reimbursement requests #19 and #20:

Check Date	Check Number	Amount
December 11, 2008	3535	$ 393.00

The following vendor invoice was billed twice to the Minneapolis Neighborhood Revitalization Program (NRP) Policy Board under contract #13804, reimbursement request #61:

Check Date	Check Number	Amount
March 6, 2008	3439	$ 434.14

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

Client's Response:

NENA will consult with NRP and make adjustments to correct the double billing of these items in a manner acceptable to NRP.

In the future, NENA will do a quarterly review of reimbursement requests against the general ledger as part of our accounting procedures. Starting in 2009, NENA has begun using Quickbooks and has contracted with an accounting firm to provide quarterly reports of our financial position. The controls inherent in Quickbooks and added oversight of the accounting firm should prevent this from happening again.

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REBECCA OTTO
STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE

Board of Directors
Nokomis East Neighborhood Association

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the Nokomis East Neighborhood Association (NENA) (a nonprofit corporation) as of and for the year ended December 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the NENA'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 NENA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the NENA'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 a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 NENA'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 NENA's financial statements that is more than inconsequential will not be prevented or detected by the NENA's internal control over financial reporting. We consider the deficiency listed in the Schedule of Findings and Recommendations as item 96-1 to be a significant deficiency 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 NENA's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above as item 96-1 to be a material weakness.

Compliance

As part of obtaining reasonable assurance about whether the NENA'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 item 08-1.

The NENA's written responses to the material weakness and compliance finding identified in our audit have been included in the Schedule of Findings and Recommendations. We did not audit the NENA's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the NENA's Board of Directors, its management, and the Neighborhood Revitalization 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

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 12, 2009