

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

HARRISON NEIGHBORHOOD ASSOCIATION, INC.
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.

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This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the Office of the State Auditor's web site: www.auditor.state.mn.us.

**HARRISON NEIGHBORHOOD ASSOCIATION, INC.
MINNEAPOLIS, MINNESOTA**

For the Year Ended December 31, 2008



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

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**HARRISON NEIGHBORHOOD ASSOCIATION, INC.
MINNEAPOLIS, MINNESOTA**

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**HARRISON NEIGHBORHOOD ASSOCIATION, INC.
MINNEAPOLIS, MINNESOTA**

**ORGANIZATION SCHEDULE
2008**

<u>Board Members</u>	<u>Term Expires</u>
Representatives	
Mitch Thompson	May 2008
Tracy Kill	May 2008
Tim Franz	May 2008
Ruqiyo Ejow	May 2008
Steve Spaulding	May 2008
Pam Peters	May 2008
Dennis Matton	May 2008
Teasha Reid	May 2009
Jean Coste	May 2009
Yoman Brunson	May 2009
Petra Wonders	May 2009
Bill McGaughey	May 2009
Winston Minor	May 2009
Zeanna Robinson	May 2009
Matthew Kunkal	May 2009
Josup Moore	May 2009
Delane Fasthorse	May 2009
Jeffrey Sisommuk	May 2009
Souriya Prathoumthong	May 2009
Neisha Reynolds	May 2009
Hattie Horne	May 2010
Kelly Chatman	May 2011
Sunny Chanthanouvang	May 2011

**HARRISON NEIGHBORHOOD ASSOCIATION, INC.
MINNEAPOLIS, MINNESOTA**

**ORGANIZATION SCHEDULE
2008
(Continued)**

<u>Board Members</u>	<u>Term Expires</u>
Alternates	
Vera Powell	May 2008
Fatumo Musse	May 2008
Naimo Mohamud	May 2008
Kari Anderson	May 2008
Kate Sherva	May 2008
Lyle Kill	May 2009
Kirk Washington	May 2009
Nellie Moses	May 2009
Denise Greenlaw	May 2009
Jennifer Day	May 2009
Lisa Goddard	May 2009
Executive Director	
Larry Hiscock	Indefinite

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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SAINT PAUL, MN 55103-2139

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Harrison Neighborhood Association, Inc.

We have audited the statement of financial position of the Harrison Neighborhood Association, Inc., (HNA) (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 HNA'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 HNA 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 and Schedule 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 HNA. 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

November 25, 2009

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FINANCIAL STATEMENTS

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**HARRISON NEIGHBORHOOD ASSOCIATION, INC.
MINNEAPOLIS, MINNESOTA**

EXHIBIT 1

**STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2008**

Assets

Current assets

Cash	\$ 173,983
Accounts receivable	8,000
Grants receivable	73,744
Prepays	815
	<hr/>

Total current assets **\$ 256,542**

Property and equipment

Property and equipment, net of depreciation	3,417
	<hr/>

Total Assets **\$ 259,959**

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 3,695
Salaries payable	1,841
Deferred revenue	29,000
	<hr/>

Total Liabilities **\$ 34,536**

Net Assets

Temporarily restricted	\$ 30,346
Unrestricted	195,077
	<hr/>

Total Net Assets **\$ 225,423**

Total Liabilities and Net Assets **\$ 259,959**

**HARRISON NEIGHBORHOOD ASSOCIATION, INC.
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)	\$ 8,821	\$ -	\$ 8,821
Neighborhood Revitalization Program (NRP)	130,035	-	130,035
University of Minnesota	1,268	232	1,500
Foundations	12,669	22,331	35,000
Other contributions	4,911	-	4,911
Satisfaction of time and purpose restriction	69,177	(69,177)	-
	\$ 226,881	\$ (46,614)	\$ 180,267
Total public support			
Other revenue			
Miscellaneous	14,492	-	14,492
	\$ 241,373	\$ (46,614)	\$ 194,759
Total Public Support and Other Revenue			
Expenses			
Program services			
CPED	\$ 8,602	\$ -	\$ 8,602
NRP	128,824	-	128,824
University of Minnesota	1,268	-	1,268
Foundations	88,297	-	88,297
	\$ 226,991	\$ -	\$ 226,991
Total program services			
Support services			
Management and general	16,549	-	16,549
	\$ 243,540	\$ -	\$ 243,540
Total Expenses			
Increase (Decrease) in Net Assets	\$ (2,167)	\$ (46,614)	\$ (48,781)
Net Assets - January 1, as restated (Note 1.M.)	197,244	76,960	274,204
Net Assets - December 31	\$ 195,077	\$ 30,346	\$ 225,423

**HARRISON NEIGHBORHOOD ASSOCIATION, INC.
MINNEAPOLIS, MINNESOTA**

EXHIBIT 3

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

	<u>CPED</u>	<u>NRP</u>	<u>University of Minnesota</u>	<u>Foundations</u>	<u>Management and General</u>	<u>Total</u>
<u>Expenses</u>						
Advertising	\$ -	\$ 264	\$ -	\$ 450	\$ -	\$ 714
Bank charges	-	-	-	-	363	363
Child care	-	173	-	20	-	193
Depreciation	-	-	-	-	2,194	2,194
Equipment rental	690	1,221	-	977	-	2,888
Events	-	345	-	5,738	7,549	13,632
Flyer delivery	375	40	-	125	140	680
Insurance	655	197	-	-	231	1,083
Internet	52	99	-	180	-	331
Meeting supplies	-	-	-	285	206	491
Miscellaneous	-	-	-	1,300	50	1,350
Office supplies	1,021	626	-	2,307	115	4,069
Parking and mileage	-	14	-	26	-	40
Payroll						
Salaries and taxes	4,044	89,498	953	54,085	-	148,580
Benefits	-	10,586	-	14,345	-	24,931
Payroll fees	-	-	-	-	1,457	1,457
Permits and licenses	-	125	-	25	-	150
Postage	-	955	-	348	-	1,303
Printing	-	640	-	56	-	696
Professional fees	700	2,450	-	3,200	3,000	9,350
Public meetings	-	36	315	2,005	-	2,356
Repairs and maintenance	156	-	-	35	-	191
Special projects	-	18,982	-	1,196	1,244	21,422
Telephone	343	900	-	1,400	-	2,643
Training	-	1,426	-	74	-	1,500
Web page	566	247	-	120	-	933
Total Expenses	\$ 8,602	\$ 128,824	\$ 1,268	\$ 88,297	\$ 16,549	\$ 243,540

**HARRISON NEIGHBORHOOD ASSOCIATION, INC.
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	\$ (48,781)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities	
Depreciation	\$ 2,194
(Increase) decrease in accounts receivable	110,047
(Increase) decrease in grants receivable	8,756
(Increase) decrease in prepaids	(519)
Increase (decrease) in accounts payable	(2,950)
Increase (decrease) in salaries payable	1,841
Total adjustments	\$ 119,369
Net cash provided by (used in) operating activities	\$ 70,588
Cash - January 1, as restated (Note 1.M.)	103,395
Cash - December 31	\$ 173,983

HARRISON NEIGHBORHOOD ASSOCIATION, INC.
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 Harrison Neighborhood Association, Inc., (HNA) was organized to foster awareness, to improve the quality of life, and to provide a forum for information and communication in the Harrison community. In addition, the HNA was organized to combine efforts with all residents, property owners, owners or authorized agents of business, and professional persons doing business in the community to raise issues of common concern directed towards improving the Harrison Neighborhood.

B. Board of Directors and Officers

The HNA is governed by a 12-member Board of Directors elected by its members at its annual meeting; 2 at-large members appointed by the 12-member Board; the Board officers (President, Vice President, Secretary, and Treasurer); and the Board President of the previous year.

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

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

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

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

HARRISON NEIGHBORHOOD ASSOCIATION, INC.
MINNEAPOLIS, MINNESOTA

1. Summary of Significant Accounting Policies (Continued)

D. Basis of Accounting

The HNA is reported 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. Fundraising expenses are considered to be minimal, and those costs are included in management and general expenses.

F. Income Taxes

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

G. Cash

Cash consists of deposits in one checking account and one savings 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 HNA's funding includes contributions from individuals and foundations. Also included in the funding are cost-reimbursement grants from the Minneapolis Neighborhood Revitalization Program (NRP), and the Minneapolis Community Planning and Economic Development Department (CPED). Government grants and contracts recognize revenue as earned when eligible expenses, as defined in each grant or contract, are made. Funds advanced and received in the above grants but not yet

HARRISON NEIGHBORHOOD ASSOCIATION, INC.
MINNEAPOLIS, MINNESOTA

1. Summary of Significant Accounting Policies

I. Grants and Contracts (Continued)

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 HNA 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 revenue when the conditions on which they depend have been substantially met.

K. Donated Services and Materials

The HNA had no donated services or materials during the year ended December 31, 2008.

L. Accrued Vacation

Employees of the HNA earn between 10 and 20 working days of vacation each year, depending on length of service. Since the HNA cannot charge its primary granting authorities for accrued vacation until it is used, no provision has been made in the accompanying financial statements for recording the accrued liability and related expense at year-end.

**HARRISON NEIGHBORHOOD ASSOCIATION, INC.
MINNEAPOLIS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

M. Restatements

The January 1, 2008, cash balance was decreased by \$7,807 to correct for the following:

- a credit made to the HNA's checking account for \$1,307, which had been done to eliminate a negative balance in the account and create a zero balance; and
- cash that had been increased by \$6,500 when a receivable was recorded at December 31, 2007, though a deposit from LISC Housing was not received until 2008.

Cash - January 1	\$	111,202
Prior period adjustment for credit to cash made in error		(1,307)
Prior period adjustment for cash recorded prior to receipt		(6,500)
		(6,500)
Cash - January 1, as restated	\$	103,395

The January 1, 2008, unrestricted net assets balance was increased by \$3,542 to correct for the following:

- a credit made to the HNA's checking account for \$1,307, which had been done to eliminate a negative balance in the account and create a zero balance;
- accounts payable of \$1,231 set up as payable as of December 31, 2007, though the amounts were paid before that date;
- unrecorded accounts receivable of \$4,528 from a reimbursement-basis grant that had salaries payable recorded at December 31, 2007, though no accompanying receivable was set up; and
- depreciation expense and the corresponding accumulated depreciation of \$910 for equipment not recorded for the year ended December 31, 2007.

Unrestricted Net Assets - January 1	\$	193,702
Prior period adjustment for credit to cash made in error		(1,307)
Prior period adjustment for correction to accounts payable		1,231
Prior period adjustment for correction to accounts receivable		4,528
Prior period adjustment for correction to accumulated depreciation		(910)
		(910)
Unrestricted Net Assets - January 1, as restated	\$	197,244

HARRISON NEIGHBORHOOD ASSOCIATION, INC.
MINNEAPOLIS, MINNESOTA

2. Equipment

Equipment at December 31, 2008, is as follows:

Equipment	\$ 18,166
Less: accumulated depreciation	<u>(14,749)</u>
Total Equipment	<u>\$ 3,417</u>

Depreciation expense of \$2,194 was recorded for the year ended December 31, 2008.

3. Deferred Revenue

Deferred revenue at December 31, 2008, is as follows:

NRP Contract #	
12562	\$ 10,000
23315	9,000
23353	<u>10,000</u>
Total	<u>\$ 29,000</u>

4. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2008, were:

University of Minnesota	\$ 232
Otto Bremer Foundation	7,409
Headwaters Foundation	4,920
Northway Foundation	17,677
Housing	<u>108</u>
Total	<u>\$ 30,346</u>

5. Operating Leases

The HNA is committed under a year-to-year operating lease for rent of office space. Rent expense related to this lease was \$1 for 2008; however, the HNA has previously remitted contributions totaling \$400,000 to Special School District #1 as its share of construction costs for the building in 2000.

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SCHEDULE OF NRP ACTIVITY

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**HARRISON NEIGHBORHOOD ASSOCIATION, INC.
MINNEAPOLIS, MINNESOTA**

Schedule 1

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

	<u>Contract #23315</u>	<u>Contract #23353</u>	<u>Total</u>
Revenues	\$ 18,982	\$ 111,053	\$ 130,035
Expenses			
Advertising	\$ -	\$ 264	\$ 264
Child care	-	173	173
Equipment rental	-	1,221	1,221
Events	-	345	345
Flyer delivery	-	40	40
Insurance	-	197	197
Internet	-	99	99
Office supplies	-	626	626
Parking and mileage	-	14	14
Payroll			
Salaries and taxes	-	89,498	89,498
Benefits	-	10,586	10,586
Permits and licenses	-	125	125
Postage	-	955	955
Printing	-	640	640
Professional fees	-	2,450	2,450
Public meetings	-	36	36
Special projects	18,982	-	18,982
Telephone	-	900	900
Training	-	1,426	1,426
Web page	-	247	247
Total Expenses	\$ 18,982	\$ 109,842	\$ 128,824
Revenues Over (Under) Expenses	\$ -	\$ 1,211	\$ 1,211

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SCHEDULE OF FOUNDATION ACTIVITY

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**HARRISON NEIGHBORHOOD ASSOCIATION, INC.
MINNEAPOLIS, MINNESOTA**

Schedule 2

**SCHEDULE OF FOUNDATION ACTIVITY
FOR THE YEAR ENDED DECEMBER 31, 2008**

	McKnight Foundation	Otto Bremer Foundation	Northway Community Foundation	Headwaters Foundation	Total
Revenues	\$ -	\$ 20,000	\$ 10,000	\$ 5,000	\$ 35,000
Expenses					
Advertising	\$ 450	\$ -	\$ -	\$ -	\$ 450
Child care	20	-	-	-	20
Equipment rental	977	-	-	-	977
Events	5,658	-	-	80	5,738
Flyer delivery	125	-	-	-	125
Internet	180	-	-	-	180
Meeting supplies	285	-	-	-	285
Miscellaneous	1,300	-	-	-	1,300
Office supplies	2,307	-	-	-	2,307
Parking and mileage	26	-	-	-	26
Payroll					
Salaries and taxes	39,872	12,159	2,054	-	54,085
Benefits	14,345	-	-	-	14,345
Permits and licenses	25	-	-	-	25
Postage	348	-	-	-	348
Printing	56	-	-	-	56
Professional fees	3,200	-	-	-	3,200
Public meetings	2,005	-	-	-	2,005
Repair and maintenance	35	-	-	-	35
Special projects	1,196	-	-	-	1,196
Telephone	1,400	-	-	-	1,400
Training	74	-	-	-	74
Web page	120	-	-	-	120
Total Expenses	\$ 74,004	\$ 12,159	\$ 2,054	\$ 80	\$ 88,297
Revenues Over (Under) Expenses	\$ (74,004)	\$ 7,841	\$ 7,946	\$ 4,920	\$ (53,297)

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**HARRISON NEIGHBORHOOD ASSOCIATION, INC.
MINNEAPOLIS, MINNESOTA**

Schedule 3

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

97-1 Internal Controls/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 the Harrison Neighborhood Association, Inc., (HNA) 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.

Generally, segregation of duties can be obtained with the hiring of additional personnel; however, this becomes a significant cost consideration to entities such as the HNA. Under the above conditions, the most effective control lies in the knowledge of the Board of Directors regarding the HNA's operations and a periodic review of those operations.

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 the HNA. This decision was based on the availability of the HNA's staff and the cost benefit of using our expertise.

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

Client's Response:

As you have noted, the HNA's size restricts our ability to fully segregate our accounting functions. The HNA's management is aware of this condition. The HNA is taking steps to further include the Finance Committee to assist in segregation of duties.

07-1 Vendor Payments

The previous audit noted that documentation to support vendor payments was absent. In our current audit, we found 7 of 35 invoices reviewed did not have supporting documentation. Expense documentation is a fundamental requirement of a sound accounting system. It is the primary evidence used to support and explain the nature of the organization's cash outlays and expenses recorded in the general ledger. Without documentation, reliability of the information in the general ledger is severely diminished.

We recommend that the HNA's Board implement procedures requiring documentation for all payments made to vendors and that the documentation follow a proper coding and approval process prior to payment being made. All documentation should be filed in a secure location.

Client's Response:

The Harrison Neighborhood Association requires detailed "payment request" for all vendor payments. The HNA Board will implement the auditor's recommendation of requiring additional supporting documentation.

07-2 Employee Time Sheets

The previous review of the employee time records found that time sheets were not consistently prepared. In our current audit, only fourth quarter time sheets were provided to us. Payroll expenses for 2008 make up over 60 percent of the total expenses to the HNA. Time sheets are the primary evidence used to support the payroll expenses. Without documentation, the information in the general ledger relating to payroll expenses cannot be relied upon.

We recommend the HNA's Board implement procedures requiring documentation for all payments to employees and that the documentation follow proper coding and approval process prior to payment being made.

Client's Response:

The HNA Board will implement the auditor's recommendation.

07-4 Fiscal Sponsorship

The HNA is a fiscal agent for the Park Plaza residents. The HNA holds the funds and cuts a check when the Park Plaza residents request funds. No formal agreement between these two parties describing the responsibilities of each exists.

We recommend the HNA formalize an agreement with the Park Plaza residents if the relationship is to continue.

Client's Response:

This issue has been resolved, consistent with the Auditor's recommendation in fiscal year 2009.

07-5 Restricted Contributions

Restricted contributions need to be reviewed regularly to determine the expenses charged against the grant are allowable and the balance available is known. During 2008, expenses charged to one funder exceed the contributions received by \$4,963.

We recommend the HNA develop a process for tracking contributions so that all involved with the coding of expenses are aware of the grant requirements and the remaining balance.

Client's Response:

The HNA Board, staff, and bookkeeper will review existing processes and procedures and make changes consistent with the auditor's recommendation.

ITEMS ARISING THIS YEAR

08-1 Audit Adjustments and Restatements

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 of the financial statements on a timely basis. Control

Schedule 3
(Continued)

deficiencies that typically are considered significant include restatement of previously issued financial statements to reflect the corrections of a misstatement and identification by the auditor of material misstatements in the financial statements not initially identified by the HNA's internal controls.

The HNA's 2008 financial statements include the following prior period adjustments identified by auditors:

The January 1, 2008, cash balance was decreased by \$7,807 to correct for the following:

- a credit made to the HNA's checking account for \$1,307, which had been done to eliminate a negative balance in the account and create a zero balance, and
- cash that had been increased by \$6,500 when a receivable was recorded at December 31, 2007, though a deposit from LISC Housing was not received until 2008.

The January 1, 2008, unrestricted net assets balance was increased by \$3,542 to correct for the following:

- a credit made to the HNA's checking account for \$1,307, which had been done to eliminate a negative balance in the account and create a zero balance;
- accounts payable of \$1,231 set up as payable as of December 31, 2007, though the amounts were paid before that date;
- unrecorded accounts receivable of \$4,528 from a reimbursement-basis grant that had salaries payable recorded at December 31, 2007, though no accompanying receivable was set up; and
- depreciation expense and the corresponding accumulated depreciation expense of \$910 for equipment not recorded for the year ended December 31, 2007.

The following material misstatements detected as a result of audit procedures have been corrected in the financial statements:

- receivables and revenues for grants and rental income increased \$56,329;

- cash increased and expenses decreased \$10,549 to eliminate fiscal agent activity; and
- restricted assets of \$46,614 were reclassified to unrestricted net assets.

The need for material adjustments can raise doubts as to the reliability of the HNA's financial information being presented.

We recommend the HNA review its procedures for preparation and disclosure of financial information to ensure accurate presentation in the financial statements. We also recommend that cash not be recorded until it is actually received and that balances not be adjusted unless cash is received or paid.

Client's Response:

The noting of the above restatements reflect the changes in audit standards. The HNA Board, Finance Committee, and staff are aware of the changes and will implement the recommendations of the auditor.

08-2 Tracking of Property and Equipment

The HNA has not been tracking its property and equipment. The HNA had difficulty finding the capital asset log and, once found, it was current only through the end of 2006.

We recommend the HNA update its property and equipment list for 2007 and 2008 activity. The list should be updated whenever a new asset is purchased or an old asset is disposed, and the depreciation should be updated at the end of each year.

Client's Response:

The auditor's recommendation has already been implemented.

PREVIOUSLY REPORTED ITEM RESOLVED

Timely Requests for Grant Reimbursements (07-3)

The HNA was carrying grants receivable that were over a year old.

Resolution

The grant reimbursements are now being requested quarterly.

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REBECCA OTTO
STATE AUDITOR

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Board of Directors
Harrison Neighborhood Association, Inc.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the Harrison Neighborhood Association, Inc., (HNA) (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 HNA'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 HNA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the HNA'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.

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 HNA'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 HNA's financial statements that is more than inconsequential will not be prevented or detected by the HNA's internal control over financial reporting. We consider the deficiencies listed in the Schedule of Findings and Recommendations as items 97-1, 07-1, 07-2, 07-4, 07-5, 08-1, and 08-2 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 HNA's internal control over financial reporting. 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, of the significant deficiencies described above, we consider items 97-1, 07-1, 07-2, 08-1, and 08-2 to be material weaknesses.

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

This report is intended solely for the information and use of the HNA'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

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 25, 2009