

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA

YEAR ENDED DECEMBER 31, 2004

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

Tax Increment Financing, Investment and Finance - 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 Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**FOLWELL NEIGHBORHOOD
ASSOCIATION
MINNEAPOLIS, MINNESOTA**

Year Ended December 31, 2004



**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
2004**

<u>Board Members</u>	<u>Term Expires</u>
Allen Saless	November 2005
Thomas Mitchell	November 2006
Mary Beth Schultz	November 2005
Lynn Austin	November 2006
Marilyn Weber	November 2006
Donald Hunker	November 2006
Marty Will (gabewosekwe)	November 2006
David Boyd	January 2004 (Resigned)
Karen Taylor	November 2006
David Brown	November 2005
Steven Oates	April 2004
Richard Burgess	November 2006
Mary Lind	November 2005
<hr/>	
<u>Executive Director</u>	
Roberta Englund	Indefinite

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PATRICIA ANDERSON
STATE AUDITOR

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, 2004, 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 FNA'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 FNA as of December 31, 2004, 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 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/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: October 12, 2005

FINANCIAL STATEMENTS

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**FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

EXHIBIT 1

**STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2004**

Assets

Current assets	
Cash	\$ 36,556
Petty cash	50
Grants receivable	81,927
Prepaid expenses	233
	<hr/>
Total current assets	\$ 118,766
Property and equipment	
Property and equipment - net of depreciation	716
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Total Assets	\$ 119,482

Liabilities and Net Assets

Liabilities	
Current	
Accounts payable	\$ 12,800
Accrued payroll	947
Deferred revenue	16,967
	<hr/>
Total Liabilities	\$ 30,714
Net Assets	
Restricted	\$ 11,975
Unrestricted	76,793
	<hr/>
Total Net Assets	\$ 88,768
	<hr/>
Total Liabilities and Net Assets	\$ 119,482

**FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITY
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Unrestricted	Temporarily Restricted	Total
Public Support and Other Revenue			
Public support			
Government grants			
Minneapolis Community Planning and Economic Development (CPED)	\$ 7,258	\$ -	\$ 7,258
Neighborhood Revitalization Program (NRP)	156,936	-	156,936
Foundations	28,554	11,946	40,500
Other contributions	978	-	978
Satisfaction of time and purpose restrictions	29,370	(29,370)	-
Total public support	\$ 223,096	\$ (17,424)	\$ 205,672
Other revenue			
Webber-Camden	\$ 62,447	\$ -	\$ 62,447
Miscellaneous	1,729	-	1,729
Total other revenue	\$ 64,176	\$ -	\$ 64,176
Total Public Support and Other Revenue	\$ 287,272	\$ (17,424)	\$ 269,848
Expenses			
Program services			
NRP	\$ 157,729	\$ -	\$ 157,729
CPED	7,258	-	7,258
Foundations	32,925	-	32,925
Total program services	\$ 197,912	\$ -	\$ 197,912
Support services			
Webber-Camden	\$ 58,994	\$ -	\$ 58,994
Management and general	1,843	-	1,843
Total support services	\$ 60,837	\$ -	\$ 60,837
Total Expenses	\$ 258,749	\$ -	\$ 258,749
Increase (Decrease) in Net Assets	\$ 28,523	\$ (17,424)	\$ 11,099
Net Assets - January 1	48,270	29,399	77,669
Net Assets - December 31	\$ 76,793	\$ 11,975	\$ 88,768

**FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

EXHIBIT 3

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Minneapolis Neighborhood Revitalization Program	Minneapolis Community Planning and Economic Development	Foundations	Webber- Camden	Management and General	Total
<u>Expenses</u>						
Advertising	\$ 1,700	\$ -	\$ -	\$ -	\$ -	\$ 1,700
Awards	675	-	-	75	-	750
Depreciation	-	-	-	-	1,079	1,079
Equipment	10,003	-	-	-	-	10,003
Events	10,955	3,586	-	300	-	14,841
Insurance	996	-	-	-	-	996
Lease	3,062	-	-	-	-	3,062
Maintenance	600	-	-	-	-	600
Miscellaneous	139	1,533	-	14	514	2,200
Newsletter	1,786	-	-	-	-	1,786
Payroll						
Salaries	58,962	-	-	43,601	-	102,563
Taxes	35,190	-	-	-	-	35,190
Benefits	3,600	-	-	-	-	3,600
Professional services	1,330	-	-	825	-	2,155
Program expenses						
City Kids Co-op	-	-	2,908	-	-	2,908
Youth & Family	2,464	-	-	-	-	2,464
Senior Taskforce	5,506	-	-	-	-	5,506
4th Ward Care Taskforce	-	-	29,371	-	250	29,621
Other programs	70	2,139	646	81	-	2,936
Rent	5,172	-	-	2,200	-	7,372
Supplies	7,448	-	-	94	-	7,542
Tree reforestation	4,367	-	-	-	-	4,367
Telephone	3,704	-	-	-	-	3,704
WCNO	-	-	-	11,804	-	11,804
Total Expenses	\$ 157,729	\$ 7,258	\$ 32,925	\$ 58,994	\$ 1,843	\$ 258,749

**FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

EXHIBIT 4

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Cash Flows From Operating Activities	
Increase (Decrease) in net assets	\$ 11,099
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities	
Depreciation	\$ 1,079
(Increase) decrease in grants receivable	(19,364)
(Increase) decrease in prepaid items	(28)
Increase (decrease) in accounts payable	5,524
Increase (decrease) in accrued payroll	947
Increase (decrease) in deferred revenue	2,559
Total adjustments	\$ (9,283)
Net Increase (Decrease) in Cash	\$ 1,816
Cash - January 1	34,790
Cash - December 31	\$ 36,606

**FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004

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 of Folwell 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. 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 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 year ended December 31, 2004.

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 10 days of vacation each year. Since the FNA 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 expenses at year-end. At December 31, 2004, the amount of accrued vacation was \$1,776.

2. Property and Equipment

Property and equipment at December 31, 2004, was:

Equipment	\$ 9,158
Less: accumulated depreciation	<u>(8,442)</u>
Total Equipment	<u>\$ 716</u>

3. Deferred Revenue

Deferred revenue at December 31, 2004, consisted of the following:

CPED Citizens Participation Grant - Year 29	\$ 2,559
CPED Citizens Participation Grant - Year 30	4,000
NRP First Step Implementation Grant	408
NRP Administration Grant	<u>10,000</u>
Total	<u>\$ 16,967</u>

**FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

4. 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 \$7,372 for 2004. The FNA is also committed under a month-to-month lease for a copier. Rental expense related to this lease was \$3,062 for 2004. Future minimum rental payments for the rent lease are as follows:

	<u>Rent</u>
2005	<u>\$ 9,000</u>

5. Restricted Net Assets

Restricted net assets at December 31, 2004, are as follows:

McKnight Foundation	\$ 28
Star Tribune Foundation	4,405
General Mills Foundation	7,092
North Memorial Grant	<u>450</u>
Total	<u>\$ 11,975</u>

6. 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.

**FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

6. Loan Programs

A. Home Buyer and Improvement Loan Program (Continued)

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. Total funds available for this program are \$482,660. As of December 31, 2004, funds expended for homebuyers and home improvement grants were \$83,000 and \$142,513, respectively. The outstanding balances of the homebuyers and home improvement grants were \$7,522 and \$193,725, respectively. The home safety and code compliance grant has no activity. The outstanding balance of this grant is \$55,900.

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 Greater Minneapolis Metropolitan Housing Corporation. Funding for this program was provided by the NRP. Total funds available for this program are \$150,000. As of December 31, 2004, \$34,305 has been expended.

7. Subsequent Event

In 2005, the FNA began administering two federal programs to benefit residents of the Folwell neighborhood. The federal grant amounts are significant and will effect the current business practices at the FNA.

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SCHEDULE OF NRP ACTIVITY

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**FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

Schedule 1

**SCHEDULE OF NRP ACTIVITY
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Contract #015060 Administration
Revenues	\$ 156,936
Expenses	
Advertising	\$ 1,700
Awards	675
Equipment	10,003
Events	10,955
Insurance	996
Lease	3,062
Maintenance	600
Miscellaneous	139
Newsletter	1,786
Payroll	
Salaries	58,962
Taxes	35,190
Benefits	3,600
Professional services	1,330
Program expenses	8,040
Rent	5,172
Supplies	7,448
Tree reforestation	4,367
Telephone	3,704
Total Expenses	\$ 157,729
Revenues Over (Under) Expenses	\$ (793)

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**FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

Schedule 2

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2004

I. COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

01-1 Double Billing of Payroll Expenses

The Folwell Neighborhood Association (FNA) entered into an agreement with the Webber-Camden Neighborhood Organization (WCNO), whereby the FNA would provide professional services to the WCNO. Our previous review of the FNA's payroll records found that all salary expenses were charged to Minneapolis Neighborhood Revitalization Program (NRP) contracts, though a portion of those expenses had been billed to the WCNO. Our current review found that all charges attributable to the WCNO continue to be recorded under the NRP program in the FNA's accounting records. The WCNO charges are then deducted from the actual amount of FNA expenses requested for reimbursement from the NRP.

It appears the FNA is now requesting reimbursement of NRP funding for only its share of expenses. However, the FNA's accounting records do not reflect these amounts being requested, since the accounting records also commingle the WCNO's expenses. We recommend that the FNA establish a separate program in its records to account for the WCNO's expenses throughout the year. These program expenses will then represent the amounts to be reimbursed by the WCNO to the FNA, and those expenses charged to the NRP program will represent only FNA related expenses to be reimbursed.

Client's Response:

This matter has been resolved with new procedures related to full utilization of QuickBooks technology and the hiring of a professional accountant. All expenses related to Webber-Camden will be invoiced directly through the system at the same time as an expense occurs, clearly documenting actual expenses to both Folwell and Webber-Camden.

PREVIOUSLY REPORTED ITEM RESOLVED

Voided Checks Reimbursed from NRP Program (03-1)

Our previous report questioned amounts totaling \$46.96 reimbursed by the NRP because the checks were voided. We recommended the FNA discuss this matter with NRP officials to determine a resolution.

Resolution

The amount of \$46.96 was reduced from reimbursement request number 51 on contract number 15060.

II. INTERNAL CONTROLS

ITEMS ARISING THIS YEAR

04-1 Timeliness of Grant Reimbursements

The FNA has not sent final reports to funding agencies to receive the remaining amounts owing to the neighborhood. Some of the amounts owing the neighborhood involve transactions from 2003. In order to be reimbursed, the FNA must file a final report to the funding agencies. The following amounts are owing to the FNA:

Hennepin County Grant No. 95-10-712R1	\$	3,919
CPED Citizen Participation – Year 28		7,407
CPED Citizen Participation – Year 29		5,817
NRP Implementation Grant No. 15064		<u>408</u>
Total	<u>\$</u>	<u>17,551</u>

We recommend the FNA submit final documents for the above grants so the neighborhood can be reimbursed for expenses previously incurred and to improve its cash flows.

Client's Response:

This matter has been resolved, and all reports related to Hennepin County, CPED Citizen Participation - Years 28 and 29, and the NRP Implementation Grant 15064 are complete and have been delivered with acknowledgement by the respective agencies.

04-2 Timeliness of Audit Information Provided

This year's audit process took longer to complete due to lengthy delays by the client in responding to auditor's requests for information. If this condition continues, it could jeopardize future completions of the IRS Form 990 by the date due. In 2005, the FNA began administering two federal programs, which has resulted in significant additions to its staff complement and increased accountability for program activities. Depending on the amount of annual expenses from the federal programs, the FNA may have to comply with reporting deadlines required by OMB Circular A-133. With these added responsibilities, attention to annual financial reporting deadlines must be maintained.

We recommend that the FNA develop a plan to assure that annual reporting requirements will be addressed in a timely manner.

Client's Response:

Folwell Neighborhood Association is aware of the importance of timeliness in response to requests for information in the audit process. We are also aware of the additional compliance and investigation related to accountability when federal funds have been provided for program activities.

To that end, FNA has employed a professional accounting firm to assure appropriate response to reporting deadlines and has drafted a plan to deliver audit materials on or about March 15, 2006, for a timely conclusion to the 2005 audit process.

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PATRICIA ANDERSON
STATE AUDITOR

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE

Board of Directors
Folwell Neighborhood Association

We have audited the financial statements of the Folwell Neighborhood Association, (FNA) (a nonprofit corporation) as of and for the year ended December 31, 2004, and have issued our report thereon dated October 12, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

The management of the FNA is responsible for establishing and maintaining internal controls. In fulfilling this responsibility, management must make estimates and judgments to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal controls are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition,
- transactions are executed in accordance with management's authorization, and
- transactions are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in internal controls, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit, we considered the FNA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted two matters involving the internal control over financial reporting

and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the FNA's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings and Recommendations as items 04-1 and 04-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not consider the reportable conditions above to be 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 grant agreements, 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 one instance of noncompliance, which is described in the Schedule of Findings and Recommendations as item 01-1.

This report is intended solely for the information and use of the FNA'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/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: October 12, 2005