

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA

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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**FOLWELL NEIGHBORHOOD
ASSOCIATION
MINNEAPOLIS, MINNESOTA**

Year Ended December 31, 2008



**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
2008**

<u>Board Members</u>	<u>Term Expires</u>
Allen Saless	November 2009
Thomas Mitchell	November 2009
David Brown	November 2009
Karen Taylor	November 2009
Marilyn Weber	November 2009
Donald Hunker	November 2009
Marty Will	November 2009
Lynn Austin	November 2009
Dawn Hunter	November 2009
Ian Alexander	November 2009
Cheryl Flaga	November 2009
<u>Executive Director</u>	
Roberta Englund	Indefinite

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE 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, 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 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, 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 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

June 15, 2010

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FINANCIAL STATEMENTS

**FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

EXHIBIT 1

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

Assets

Current assets

Cash	\$ 521
Accounts receivable	15,008
Grants receivable	15,708
Prepaid items	484
	<hr/>
Total Assets	<u><u>\$ 31,721</u></u>

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 82,517
Salaries payable	8,009
Due to other governments	17,974
Loans payable	117,870
Deferred revenue	19,100
	<hr/>
Total Liabilities	<u><u>\$ 245,470</u></u>

Net Assets

Unrestricted	\$ (328,861)
Temporarily restricted	115,112
	<hr/>
Total Net Assets	<u><u>\$ (213,749)</u></u>
	<hr/>
Total Liabilities and Net Assets	<u><u>\$ 31,721</u></u>

**FOLWELL 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)	\$ 9,750	\$ -	\$ 9,750
Neighborhood Revitalization Program (NRP)	340,547	-	340,547
Minneapolis Police Activities League (PAL)	5,679	-	5,679
Foundations	25,620	30,380	56,000
Other contributions	593	-	593
Satisfaction of time and purpose restriction	49,146	(49,146)	-
Total public support	\$ 431,335	\$ (18,766)	\$ 412,569
Other revenue			
Webber-Camden	\$ 120,115	\$ -	\$ 120,115
Miscellaneous	5,586	-	5,586
Total other revenue	\$ 125,701	\$ -	\$ 125,701
Total Public Support and Other Revenue	\$ 557,036	\$ (18,766)	\$ 538,270
Expenses			
Program services			
CPED	\$ 2,357	\$ -	\$ 2,357
NRP	154,824	-	154,824
Minneapolis Youth Coordinating Board	50	-	50
PAL	5,259	-	5,259
Foundations	70,837	-	70,837
Total program services	\$ 233,327	\$ -	\$ 233,327
Support services			
Webber-Camden	\$ 111,326	\$ -	\$ 111,326
Management and general	32,315	-	32,315
Total support services	\$ 143,641	\$ -	\$ 143,641
Total Expenses	\$ 376,968	\$ -	\$ 376,968
Increase (Decrease) in Net Assets	\$ 180,068	\$ (18,766)	\$ 161,302
Net Assets - January 1 as restated (Note 1.M.)	(508,929)	133,878	(375,051)
Net Assets - December 31	\$ (328,861)	\$ 115,112	\$ (213,749)

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

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**FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

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

	<u>Minneapolis Community Planning and Economic Development</u>	<u>Neighborhood Revitalization Program</u>	<u>Minneapolis Youth Coordinating Board</u>
<u>Expenses</u>			
Advertising and promotions	\$ -	\$ 275	\$ -
Awards	-	600	-
Bank fees	-	-	-
Computer support	-	877	-
Depreciation	-	-	-
Equipment	-	2,041	-
Events	-	3,116	-
Insurance	-	1,448	-
Interest expense	-	5,728	-
Licenses and permits	-	25	-
Maintenance and repair	-	367	-
Meetings expenses	-	-	-
Miscellaneous	-	1,539	50
Newsletter	-	2,040	-
Payroll			
Salaries	1,408	99,129	-
Taxes	88	5,992	-
Benefits	-	3,028	-
Postage	-	1,803	-
Printing and copying	861	2,401	-
Rent	-	19,050	-
Supplies	-	327	-
Telephone and internet	-	4,709	-
Travel expenses	-	329	-
	<u> </u>	<u> </u>	<u> </u>
Total Expenses	<u> \$ 2,357</u>	<u> \$ 154,824</u>	<u> \$ 50</u>

EXHIBIT 3

Minneapolis Police Activities League	Foundations	Webber-Camden	Management and General	Total
\$ -	\$ -	\$ -	\$ -	\$ 275
-	6,632	-	308	7,540
-	-	-	1,137	1,137
-	-	232	-	1,109
-	-	-	1,827	1,827
-	349	1,287	1,407	5,084
-	1,342	212	-	4,670
-	-	-	4,489	5,937
-	-	-	-	5,728
-	-	261	-	286
-	316	328	-	1,011
-	810	123	-	933
-	3,131	603	4,272	9,595
-	-	166	-	2,206
4,760	52,319	93,275	10,779	261,670
385	2,643	5,543	6,895	21,546
-	1,422	2,550	-	7,000
-	350	880	917	3,950
-	-	2,208	284	5,754
-	-	-	-	19,050
114	772	204	-	1,417
-	-	3,248	-	7,957
-	751	206	-	1,286
\$ 5,259	\$ 70,837	\$ 111,326	\$ 32,315	\$ 376,968

**FOLWELL 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	<u>\$ 161,302</u>
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities	
Depreciation	\$ 1,827
(Increase) decrease in accounts receivable	(4,246)
(Increase) decrease in grants receivable	(4,603)
(Increase) decrease in pledges receivable	20,000
(Increase) decrease in prepaid items	(3)
Increase (decrease) in accounts payable	(15,274)
Increase (decrease) in salaries payable	(2,473)
Increase (decrease) in due to other governments	(160,050)
Increase (decrease) in loans payable	23,244
Increase (decrease) in deferred revenue	<u>(17,750)</u>
Total adjustments	<u>\$ (159,328)</u>
Net cash provided by (used in) operating activities	\$ 1,974
Cash - January 1	<u>(1,453)</u>
Cash - December 31	<u><u>\$ 521</u></u>

**FOLWELL 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 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. Board of Directors and Officers

The FNA's Board of Directors consists of at least 6 but no more than 11 members. Terms on the Board run for two consecutive years. When vacancies occur, elections will be held at the Association's next regular or quarterly meeting and must be publicized at least 25 days before the election. The officers' terms are for two years. The Vice Chair, Secretary, and Treasurer are elected in even number years and the Chair and First Vice Chair are elected in odd numbered years.

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 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.

**FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Basis of Presentation (Continued)

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.

D. Basis of Accounting

The FNA 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, which are 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 FNA 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. At no time during the fiscal year did such deposits exceed FDIC insurance coverage.

H. 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.

**FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

I. Grants and Contracts

The FNA's funding includes cost-reimbursement grants from the Minneapolis Community Planning and Economic Development Department (CPED), the NRP, and the Minneapolis Police Activities League. 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.

J. Donated Services and Materials

The FNA had no donated services or materials for the year ended December 31, 2008.

K. 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.

L. Accrued Vacation and Compensatory Time

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 compensatory 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 compensatory 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. There was no accrued compensatory time at December 31, 2008.

**FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

M. Restatement

The January 1, 2008, net assets balance was decreased by \$24,102 to eliminate two receivables recorded in 2007, not received in 2008. The Hennepin County grant was closed in 2008, and the remaining balance of \$3,919 was not received. The remaining \$20,183 was a receivable from the NRP. In 2007, the FNA recoded its general ledger, and the expenses charged to the NRP may have been reimbursed by other funding sources. If this restatement had not been made, the 2008 revenues would have been understated.

Net Assets - January 1	\$	(350,949)
Prior period adjustment		(24,102)
Net Assets - January 1, as restated	\$	(375,051)

2. Property and Equipment

Property and equipment at December 31, 2008, is as follows:

Equipment	\$	18,136
Less: accumulated depreciation		(18,136)
Total Equipment	\$	-

3. Due to Other Governments

Due to other governments consists of amounts owed to the Internal Revenue Service and the Minnesota Department of Revenue. The Internal Revenue Service amount is for accrued taxes at the end of the year. The Minnesota Department of Revenue amount is for delinquent withholding taxes and related penalties and interest from 2008.

Due to other governments at December 31, 2008, consisted of the following:

Internal Revenue Service	\$	12,321
Minnesota Department of Revenue		5,653
Total	\$	17,974

**FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

4. Loans Payable

In 2007, the FNA established a business loan from Wells Fargo Bank in the amount of \$51,355. The purpose of the loan was to consolidate the debt from the line of credit that was opened with Wells Fargo 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, 2008, is \$40,370.

During 2007, the FNA established a loan with the Greater Minneapolis Housing Corporation in the amount of \$45,000. The purpose of the loan was to provide cash flows for administrative and payroll expenses. This was an interest-free loan repaid in 2008 using loan proceeds. The loan proceeds were derived from program income of an FNA program. A plan modification was done in 2008 to convert the loan to a revenue item.

The FNA received a loan from a Board member during 2007 of which the remaining balance is \$2,500. The same Board member loaned an additional \$5,000 in 2008. A second Board member also loaned \$5,000. Both loans were to provide needed cash flows and are interest-free. The remaining balance at December 31, 2008, is \$12,500.

During 2008, the FNA also took out a promissory note with the Nonprofits Assistance Fund in the amount of \$65,000. The purpose of the promissory note was to provide cash flows for administrative and payroll expenses. The note has a fixed interest rate of eight percent per year and a maturity date of March 31, 2008. The note is past due and, at December 31, 2008, the full amount of the note, plus interest, is due.

5. Deferred Revenue

Deferred revenue at December 31, 2008, consisted of the following:

NRP Phase II Participation #23435	\$ 9,100
NRP Phase II Implementation #24816	<u>10,000</u>
Total	<u>\$ 19,100</u>

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 \$19,050 for 2008. The FNA is also committed under a month-to-month lease for a copier. Rental expense related to this lease was \$3,083 for 2008.

**FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

7. Restricted Net Assets

Restricted net assets at December 31, 2008, are as follows:

Curtis Carlson Family Foundation	\$ 17,396
Jay & Rose Phillips Family Foundation	10,380
Target Foundation	718
General Mills Foundation	33,533
Best Buy Children's Foundation	5,000
Otto Bremer Foundation	9,205
Walmart	500
Family Housing Fund	24,148
World Childhood Foundation	10,782
CURA Seed Grant	2,400
Skating Clinic	750
School Supplies	300
	<hr/>
Total	\$ 115,112

8. Home Buyer and Improvement Loan Program

In January 2000, the FNA initiated the "Home Buyer and Improvement Loan Program" 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.
- Matching deferred loans up to \$2,500 for exterior improvements. Loans are forgiven at a prorated amount until after the fifth anniversary of the loan.
- Deferred loans of \$2,000 with matching funds from the Family Housing Fund to total \$4,000.

**FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

8. Home Buyer and Improvement Loan Program (Continued)

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

At December 31, 2008, total funds available in the loan pool were \$750,111. From this pool, \$600,409 was expended to program participants, which left an outstanding balance in the pool of \$149,702.

9. Subsequent Events

On September 18, 2009, delinquent amounts owing to the State of Minnesota Department of Revenue were paid up.

10. Related Parties

Two Board members issued loans to the FNA during 2008. The amount outstanding at December 31, 2008, is \$12,500.

11. Losses from Operations

During 2006 and 2007, the FNA experienced significant decreases in its net asset balances due to program revenues not being sufficient for the expenses incurred. The deficit net asset balance at January 1, 2008, as restated (Note 1.M.) was (\$375,051). The NRP provided funding to pay off the delinquent withholding taxes and related penalties and interest totaling \$178,024. A plan modification was completed to use program income to pay down the loan from GMAC of \$45,000. However, when subtracting the two amounts above from the total revenue on Exhibit 2, expenses exceeded the revenues in 2008 by \$61,722. Once again, program revenues were not sufficient for the expenses incurred. The deficit net assets balance at December 31, 2008, is (\$213,749).

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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, 2008**

	Contract #15060*	Contract #24816	Greater Minneapolis Housing Corporation Contract**	Total
Revenues	\$ 156,846	\$ 138,701	\$ 45,000	\$ 340,547
Expenses				
Advertising and promotions	\$ -	\$ 275	\$ -	\$ 275
Awards and permits	-	600	-	600
Computer	-	877	-	877
Equipment	-	2,041	-	2,041
Events	-	3,116	-	3,116
Insurance	-	1,448	-	1,448
Interest expense	-	5,728	-	5,728
Licenses and permits	-	25	-	25
Maintenance and repair	-	367	-	367
Miscellaneous	-	1,539	-	1,539
Newsletter	-	2,040	-	2,040
Payroll				
Salaries	-	99,129	-	99,129
Taxes	-	5,992	-	5,992
Benefits	-	3,028	-	3,028
Postage	-	1,803	-	1,803
Printing and copying	-	2,401	-	2,401
Rent	-	19,050	-	19,050
Supplies	-	327	-	327
Telephone and internet	-	4,709	-	4,709
Travel expenses	-	329	-	329
Total Expenses	\$ -	\$ 154,824	\$ -	\$ 154,824
Revenues Over (Under) Expenses	\$ 156,846	\$ (16,123)	\$ 45,000	\$ 185,723

*The revenues were used to pay 2007 due to governmental agencies. No expenses were incurred in 2008.

**The revenues were converted from program income and used to pay the loan from GMHC. No expenses were incurred in 2008.

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SCHEDULE OF FOUNDATION ACTIVITY

**FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

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

	<u>Northwest Area Foundation</u>	<u>Curtis Carlson Family Foundation</u>	<u>General Mills Foundation</u>
Revenues	\$ 15,000	\$ -	\$ 10,000
Expenses			
Awards	\$ -	\$ -	\$ 5,450
Equipment	-	250	-
Events	-	36	63
Maintenance and repair	-	316	-
Meetings expenses	-	-	-
Miscellaneous	-	368	-
Payroll			
Salaries	-	24,103	-
Taxes	-	1,241	-
Benefits	-	-	340
Postage	-	-	-
Supplies	-	747	-
Travel expenses	-	206	345
Total Expenses	\$ -	\$ 27,267	\$ 6,198
Revenues Over (Under) Expenses	\$ 15,000	\$ (27,267)	\$ 3,802

Schedule 2

<u>Lowrie Family Foundation</u>	<u>McKnight Foundation</u>	<u>Jay & Rose Phillips Family Foundation</u>	<u>Family Housing Fund</u>	<u>Minneapolis Foundation</u>	<u>Total</u>
<u>\$ 6,000</u>	<u>\$ -</u>	<u>\$ 15,000</u>	<u>\$ 10,000</u>	<u>\$ -</u>	<u>\$ 56,000</u>
\$ -	\$ 1,182	\$ -	\$ -	\$ -	\$ 6,632
-	-	99	-	-	349
-	1,243	-	-	-	1,342
-	-	-	-	-	316
810	-	-	-	-	810
-	-	-	-	2,763	3,131
1,557	9,427	4,019	13,213	-	52,319
89	-	277	1,036	-	2,643
-	-	-	1,082	-	1,422
-	-	-	350	-	350
-	-	25	-	-	772
-	-	200	-	-	751
<u>\$ 2,456</u>	<u>\$ 11,852</u>	<u>\$ 4,620</u>	<u>\$ 15,681</u>	<u>\$ 2,763</u>	<u>\$ 70,837</u>
<u>\$ 3,544</u>	<u>\$ (11,852)</u>	<u>\$ 10,380</u>	<u>\$ (5,681)</u>	<u>\$ (2,763)</u>	<u>\$ (14,837)</u>

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**FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

Schedule 3

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

I. COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

07-2 Double Billing to Organizations

Our previous report noted the following vendor invoices were billed to both the Minneapolis Neighborhood Revitalization Program (NRP) Policy Board, under contract #23435 - Phase II, and to the Webber-Camden Neighborhood Organization (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>

No documentation was provided during the 2008 audit to show this situation has been resolved. We again recommend that the Folwell Neighborhood Association (FNA) review these expenses with the NRP Policy Board to determine a resolution of the double charges.

Client's Response:

We have requested confirmation from the Neighborhood Revitalization Program of a credit to Contract #23435 to resolve this matter.

ITEM ARISING THIS YEAR

08-1 Double Billing to NRP

One electronic funds transfer dated May 6, 2008, in the amount of \$260.90 was recorded twice to the NRP Policy Board under contract #23435 - Phase II, Participation, on reimbursement request #10.

We recommend that the FNA review this expense with the NRP Policy Board to determine a resolution of the double charge.

Client's Response:

This matter will be resolved on the June 2010 Reimbursement Request according to the procedure recommended by the NRP since the contract in which the error occurred has been completed.

PREVIOUSLY REPORTED ITEMS RESOLVED

Double Billing of Payroll Expenses (01-1)

Previous reports noted that the accounting records of the FNA did not reflect payroll amounts being requested because the accounting records commingled expenses of the WCNO.

Resolution

Account coding was created to separately record expenses related to the WCNO.

Charitable Registration with the Attorney General's Office (07-1)

The previous report noted that the FNA was not current with required filings to the Attorney General's Office.

Resolution

Filings with the Attorney General are now current.

II. INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

04-2 Timeliness of Audit Information Provided

Previous reports noted that the audit process took longer to complete due to lengthy delays in receiving responses to auditor's requests for information. We recommended 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. For example, the auditor contacted the FNA on August 19, 2009, to request additional information on specific transactions in the general ledger. Follow-up calls were made on August 25, August 27, and September 9 before the requested information was provided.

We recommend 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:

Folwell Neighborhood Association is aware of the importance of timeliness in response to requests for information in the credit process. We will make every effort to provide information when requested and to that end have established a procedure at the end of the year to archive all information required for a complete audit. We will direct that contact during future audits be directed to our contract, professional accounting staff for response and not left to administrative staff so that information is available in a timely manner.

07-3 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 the FNA and its staffing limits 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 FNA. Under the above conditions, the most effective control lies in the knowledge of the Board of Directors regarding the FNA'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, and recording recurring and nonrecurring adjustments to the financial statements.

Management has requested that the Office of the State Auditor (OSA) prepare the annual financial statements and related notes. This arrangement is not unusual for an organization the size of the FNA. This decision was based on the availability of the FNA's staff and the cost benefit of using the OSA's expertise.

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

Client's Response:

We will maintain continued oversight of procedures for appropriate segregation of duties related to financial management.

07-4 Recordings in the General Ledger, 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. Two control deficiencies that typically are considered significant are identification by the auditor of a material misstatement in the financial statements that was not initially identified by the FNA's internal controls and restatement of previously issued financial statements to reflect the correction of a material misstatement.

During the previous year's audit, several items were miscoded in the general ledger that had to be corrected on the financial statements. Our review of the 2008 general ledger found miscodings were again occurring. The following material misstatements detected as a result of audit procedures have been corrected in the financial statements.

- cash and loans payable were decreased \$5,000 to remove a loan recorded twice;
- loans payable and bank charges were decreased \$6,095 for loan payments recorded as bank fees;
- accounts payable was increased and unrestricted net assets was decreased \$51,205 for payables written off without consent of vendors;
- expense accounts and revenue accounts were increased \$131,313 for reimbursements recorded in accounts receivable and reversed from expenses;
- accounts payable and expenses were increased \$17,764 for additional payables found;

- grants receivable and revenues were increased \$15,708 for additional receivables found; and
- salaries payable and expenses were decreased \$46,346 to correct for payroll transactions recorded in the payable account instead of the expense account.

The FNA's 2008 financial statements include the following prior period adjustment identified by auditors.

The January 1, 2008, unrestricted net assets balance was decreased by \$24,102 to correct for the following:

- grants receivable from Hennepin County of \$3,919 set up as a receivable as of December 31, 2007, was not received due to the grant closing; and
- grants receivable from the NRP Policy Board of \$20,183 set up as a receivable as of December 31, 2007, was not received.

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 about 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:

Folwell Neighborhood has contracted with a professional accountant that will review all of the General Ledger entries and associated documentation for accuracy.

ITEM ARISING THIS YEAR

08-2 Vendor Payments

Three of 35 invoices reviewed during the audit 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 FNA'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:

This is a document control issue and Folwell Neighborhood Association will implement a procedure that all signed requests for and payment vouchers are complete prior to Treasurer approval.

III. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

07-6 Financial Condition

The previous audit report found 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 (IRS) 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.

At December 31, 2008, the increase in net assets on the statement of activity is \$161,302. This included funding provided by the NRP to pay off the delinquent withholding taxes and related penalties to the IRS totaling \$178,024. The increase in net assets also included a plan modification that was completed to provide program income to pay down a loan of \$45,000. If these two items are removed from the revenues, the FNA would show a decrease in net assets of \$61,722. This shows that the FNA again spent more than it received. Net assets at December 31, 2008, are a deficit balance of \$213,749. This has led to the following:

- withholding taxes to the Minnesota Department of Revenue were not paid during 2008; at year-end, the FNA owes \$4,111 in taxes and \$1,542 in penalties and interest;

- workers' compensation insurance was not maintained during the year, resulting in penalties from the state of \$1,287;
- overdraft fees of \$700 were incurred;
- a loan of \$65,000 is past due; and
- accounts payable totaling \$51,205 from 2006 and 2007 remain unpaid.

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:

Folwell Neighborhood Association has made considerable progress to improve its financial condition and will continue to do so. We have significantly eliminated outstanding obligations and controlled expenses to permit further reduction of those remaining obligations. Budgets for 2009 and 2010 indicated this progress in debt reduction and fiscal responsibility.

PREVIOUSLY REPORTED ITEM RESOLVED

Backup Site of Computer Records (07-5)

The previous report found the FNA did not maintain an offsite backup of its computer records.

Resolution

The FNA now has an offsite backup of its computer records.

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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 Folwell Neighborhood Association (FNA) (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 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.

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, 07-4, 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 FNA'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 07-3 and 07-4 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 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 07-2 and 08-1.

Also included in the Schedule of Findings and Recommendations is a management practices comment. We believe this recommendation to be of benefit to the FNA, and it is reported for that purpose.

The FNA's written responses to the significant deficiencies, material weaknesses, compliance findings, and management practices comment 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

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 15, 2010