STATE OF MINNESOTA
Office of the State Auditor

Rebecca Otto
State Auditor

FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA

YEAR ENDED DECEMBER 31, 2009

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, 2009

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
2009

Board Members	Term Expires
Allen Saless	November 2011
Thomas Mitchell	November 2010
David Brown	November 2011
Karen Taylor	November 2010
Marilyn Weber	November 2010
Donald Hunker	November 2010
Marty Will	Resigned June 2010
Lynn Austin	November 2010
Dawn Hunter	November 2011
Ian Alexander	November 2010
Cheryl Flaga	Resigned September 2010
Jim Skoog	November 2010

Executive Director	
Roberta Englund	Indefinite

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Financial Section

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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, 2009, 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, 2009, 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.

/s/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

February 4, 2011

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FINANCIAL STATEMENTS

FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA

EXHIBIT 1

STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2009

Assets		
Current assets		
Cash	$	17,780
Accounts receivable		15,345
Grants receivable		4,273
Prepaid items		421
Total Assets	**$**	**37,819**
Liabilities and Net Assets		
Liabilities		
Accounts payable	$	52,846
Salaries payable		814
Due to other governments		19,639
Loans payable		73,614
Accrued interest payable		5,436
Deferred revenue		19,100
Total Liabilities	**$**	**171,449**
Net Assets		
Unrestricted	$	(248,173)
Temporarily restricted		114,543
Total Net Assets	**$**	**(133,630)**
Total Liabilities and Net Assets	**$**	**37,819**

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

FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA

EXHIBIT 2

STATEMENT OF ACTIVITY
FOR THE YEAR ENDED DECEMBER 31, 2009

	Unrestricted	Temporarily Restricted	Total
Public Support and Other Revenue			
Public support			
Government grants			
Minneapolis Community Planning and Economic Development Department (CPED)	$ 2,000	$ -	$ 2,000
Neighborhood Revitalization Program (NRP)	180,065	-	180,065
City of Minneapolis - Empowerment Zone	78,393	-	78,393
Satisfaction of time and purpose restriction	569	(569)	-
Total public support	**$ 261,027**	**$ (569)**	**$ 260,458**
Other revenue			
Webber Camden	$ 103,879	$ -	$ 103,879
Miscellaneous	1,264	-	1,264
Total other revenue	**$ 105,143**	**$ -**	**$ 105,143**
Total Public Support and Other Revenue	**$ 366,170**	**$ (569)**	**$ 365,601**
Expenses			
Program services			
NRP	**$** 125,181	**$** -	**$** 125,181
Empowerment Zone	62,145	-	62,145
Foundations	2,370	-	2,370
Total program services	**$ 189,696**	**$ -**	**$ 189,696**
Support services			
Webber Camden	$ 93,401	$ -	$ 93,401
Management and general	371	-	371
Total support services	**$ 93,772**	**$ -**	**$ 93,772**
Total Expenses	**$ 283,468**	**$ -**	**$ 283,468**
Increase (Decrease) in Net Assets	**$ 82,702**	**$ (569)**	**$ 82,133**
Net Assets - January 1, as restated (Note 1.M.)	**(330,875)**	**115,112**	**(215,763)**
Net Assets - December 31	**$ (248,173)**	**$ 114,543**	**$ (133,630)**

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

FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2009

	Neighborhood Revitalization Program #24816	Empowerment Zone
Expenses		
Accounting fees	$ 647	$ -
Books, subscriptions, and reference	258	-
Business	308	1,830
Insurance	1,768	-
Interest expense	20,818	-
Maintenance and repair	117	-
Meetings expenses	340	3,146
Miscellaneous	-	219
Payroll - salaries and taxes	79,751	33,949
Postage	744	-
Program	7,124	15,436
Printing and copying	4,777	-
Rent	3,256	7,438
Supplies	1,638	27
Telephone and internet	3,617	100
Travel expenses	18	-
Total Expenses	**$ 125,181**	**$ 62,145**

EXHIBIT 3

Family Housing Fund	Lowrie Foundation	Webber Camden	Management and General	Total
$ -	$ -	$ 333	$ -	$ 980
-	-	-	-	258
-	-	-	290	2,428
-	-	-	-	1,768
-	-	-	-	20,818
-	-	99	-	216
-	-	386	-	3,872
-	-	-	81	300
569	1,371	79,030	-	194,670
-	-	564	-	1,308
-	430	2,250	-	25,240
-	-	3,393	-	8,170
-	-	2,656	-	13,350
-	-	1,021	-	2,686
-	-	3,669	-	7,386
-	-	-	-	18
$ 569	**$ 1,801**	**$ 93,401**	**$ 371**	**$ 283,468**

FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA

EXHIBIT 4

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2009

Cash Flows from Operating Activities		
Increase (Decrease) in net assets	**$**	**82,133**
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities		
(Increase) decrease in accounts receivable	$	(337)
(Increase) decrease in grants receivable		11,435
(Increase) decrease in prepaid items		63
Increase (decrease) in accounts payable		(39,694)
Increase (decrease) in salaries payable		814
Increase (decrease) in due to other governments		1,665
Increase (decrease) in loans payable		(44,256)
Increase (decrease) in accrued interest payable		5,436
Total adjustments	**$**	**(64,874)**
Net cash provided by (used in) operating activities	**$**	**17,259**
Cash - January 1		**521**
Cash - December 31	**$**	**17,780**

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

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 FNA'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-numbered years, and the Chair and First Vice Chair are elected in odd-numbered years.

C. Basis of Presentation

Net assets and revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets for 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 that 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.

1. Summary of Significant Accounting Policies (Continued)

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.

I. Grants and Contracts

The FNA's funding includes cost-reimbursement grants from the City of Minneapolis, the Minneapolis Community Planning and Economic Development Department, 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

1. Summary of Significant Accounting Policies

I. Grants and Contracts (Continued)

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, 2009.

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 Paid Time Off and Compensatory Time

Full-time employees of the FNA earn 160 hours of paid time off (PTO) each year. The PTO 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 80 hours in a pay period. Each employee may accrue what is allowed in their job agreements. 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, 2009.

M. Restatement

The January 1, 2009, net assets balance was decreased by $2,014. Salaries payable of $8,009 were recorded in 2008; however, they were paid on December 31, 2008. Rent of $10,023 was payable at the end of 2008 but was not recorded as a payable. If this restatement had not been made, the 2009 payroll expense would have been understated and the 2009 rent expense would have been overstated.

Net Assets - January 1	$	(213,749)
Prior period adjustment		(2,014)
Net Assets - January 1, as restated	$	(215,763)

2. Property and Equipment

Property and equipment at December 31, 2009, 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.

Due to other governments at December 31, 2009, consisted of the following:

Internal Revenue Service	$	8,392
Minnesota Department of Revenue		11,247
Total	$	19,639

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 has 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, 2009, is $30,526.

The FNA received loans from two Board members during 2007 and 2008 which totaled $12,500. Both loans were to provide needed cash flows and were interest-free. They were repaid during 2009.

4. Loans Payable (Continued)

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 outstanding balance on this loan at December 31, 2009, is $43,088.

5. Deferred Revenue

Deferred revenue at December 31, 2009, consisted of the following:

NRP Phase II Participation #23435	$	9,100
NRP Phase II Implementation #24816		10,000
Total	$	19,100

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 $12,750 for 2009. The FNA is also committed under a month-to-month lease for a copier. Rental expense related to this lease was $3,083 for 2009.

7. Restricted Net Assets

Restricted net assets at December 31, 2009, 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		23,579
World Childhood Foundation		10,782
CURA Seed Grant		2,400
Skating Clinic		750
School Supplies		300
Total	$	114,543

8. Home Buyer and Improvement Loan Program

In January 2000, the FNA initiated the “Home Buyer and Improvement Loan Program” which consists 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.

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 November 30, 2009 (most current report available), total funds available in the loan pool were $787,236. From this pool, $677,537 was expended to program participants, which left an outstanding balance in the pool of $109,699.

9. Subsequent Events

During 2010, an agreement was reached with one vendor to reduce the amount owed to them by $8,200. The balance in accounts payable at December 31, 2009, is $12,200; $4,000 will be paid in 2010, and the vendor will write off the remaining balance.

10. Related Parties

The loans from two Board members totaling $12,500 were repaid during 2009.

Management and Compliance Section

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FOLWELL NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2009

I. COMPLIANCE

PREVIOUSLY REPORTED ITEMS 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):

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

No documentation was provided during the 2009 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:

A credit was issued to NRP on Payment Request 35 dated October 18, 2010.

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. No documentation was provided during the 2009 audit to show this situation has been resolved.

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

Client's Response:

A credit was issued to NRP on Payment Request 35 dated October 18, 2010.

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, the records were received on June 28, 2010. On August 28, 2010, we were given a corrected general ledger from the FNA's accountant. This ledger had significant changes that included the following:

- the revenues increased from $53,903 to $365,601;
- the expenses increased from $54,903 to $190,056;
- the accounts receivable account had a credit balance; and
- the loans payable account had a debit balance.

The changes in the ledger were significant enough that the audit procedures already completed had to be redone using the corrected ledger. This added significant time to the audit, which ultimately added significant cost. 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:

The audit information was sent forward without accountant oversight. FNA has hired an Accountant who will review all activity monthly and provide year end information.

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:

FNA is aware of the need to maintain internal controls and for the accuracy and completeness of all financial records. In an effort to maintain proper reporting of financial activity FNA has hired an Accountant who will work closely with management and the Association Treasurer on a monthly basis.

07-4 Recordings in the General Ledger, Audit Adjustments, and Restatements

A deficiency in internal control over financial reporting 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 and correct, misstatements of the financial statements on a timely basis. Statement on Auditing Standards 115 defines a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

During our audit, we identified several adjustments that were material to the FNA's financial statements. Material misstatements were detected and have been corrected as follows in the financial statements:

- a write down of a payable of $8,200 was restored because the negotiation of the reduced payment did not occur until 2010;
- a write down of a payable of $17,367 was restored because the vendor has not agreed to a reduced payment;
- revenues of $25,111 were reported as grant revenues instead of being reversed against expenses;
- restored deferred revenue of $10,000 that had been reversed;
- interest expense of $12,421 was recorded in the loans payable account; and
- accrued interest payable of $5,436 was booked.

The FNA's 2009 financial statements include the following prior period adjustment identified by auditors.

The January 1, 2009, unrestricted net assets balance was decreased by $2,014 to correct for the following:

- rent of $10,023 was payable at December 31, 2008, but was not recorded as a payable; and
- salaries payable of $8,009 were recorded in 2008; however, they were paid on December 31, 2008.

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:

FNA is aware of the need to maintain internal controls and for the accuracy and completeness of all financial records. In an effort to maintain proper reporting of financial activity FNA has hired an Accountant who will work closely with management and the Association Treasurer on a monthly basis. A review of the Chart of Accounts and Customer and Class Lists in the Quick Books accounting system has already occurred to ensure accurate coding of transactions going forward.

08-2 Vendor Payments

In our previous audit, 3 of 35 expenses 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. Our current audit found 4 of 35 expenses reviewed during the audit did not have supporting documentation.

We again 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:

Management, the Accountant, and the Association Treasurer have discussed the need for correct documentation and coding and will review each payment request for accuracy in the approval and entry process prior to payment being made.

III. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

07-6 Financial Condition

Our previous audits of the FNA's financial statements have noted deficit net asset balances, delinquent accounts payable, and past due loans due to cash flow problems. At year-end, there was in increase in net assets of $82,133. This increase was due to the NRP and the City of Minneapolis providing funding to pay down portions of loan balances and past due payable accounts. Net assets at December 31, 2009, are a deficit of $133,630. This has led to the following:

- withholding taxes to the Minnesota Department of Revenue were not paid during 2009; at year-end, the FNA owed $11,247;
- overdraft fees of $280 were incurred;
- a loan of $43,088 is past due;
- accounts payable totaling $51,205 from 2006 and 2007 remain unpaid; and
- the restricted net asset balance totals $114,543, which represents unspent foundation grants received; however, the cash balance is $17,780.

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:

A significant number of the identified delinquencies have been satisfied and current financial planning addresses those that remain.

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OFFICE OF THE STATE AUDITOR

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE

Board of Directors
Folwell Neighborhood Association

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the Folwell Neighborhood Association (FNA) (a nonprofit corporation) as of and for the year ended December 31, 2009, 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting 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 and correct, misstatements on a timely basis. A material weaknesses is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the FNA's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies listed in the Schedule of Findings and Recommendations as items 07-3 and 07-4 to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in the FNA's internal control over financial reporting, identified as items 04-2 and 08-2 in the Schedule of Findings and Recommendations, to be significant deficiencies.

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 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 internal control, compliance, and management practices findings 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 communication 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	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

February 4, 2011