

FOLWELL NEIGHBORHOOD ASSOCIATION
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017

PREPARED BY:

MICHAEL S. WILSON

REPORT OF CERTIFIED PUBLIC ACCOUNTANT

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Michael S. Wilson
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Independent Auditor's Report

Board of Directors
Folwell Neighborhood Association
Minneapolis, Minnesota

Dear Folwell Board of Directors,

I have audited the accompanying financial statements of Folwell Neighborhood Association (a non-profit corporation) which comprise the statements of financial position as of December 31 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair representation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted the audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit also includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. These procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

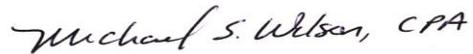
I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Folwell Neighborhood Association as of December 31, 2017, the changes in its net assets and cash flow for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Supplemental Information

The supplementary information included in the accompanying Schedule of City of Minneapolis Activity is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the reconciliation procedures performed in the audit, and I did not become aware of any material modifications that should be made to such information.

A handwritten signature in cursive script that reads "Michael S. Wilson, CPA".

Michael S. Wilson, CPA
September 12, 2018

**FOLWELL NEIGHBORHOOD ASSOCIATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017**

ASSETS

Current Assets

Cash and cash equivalents	\$ 8,470
Contracts receivable	<u>8,600</u>
Total Current Assets	<u>17,070</u>

Total Assets	<u><u>\$ 17,070</u></u>
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LIABILITIES AND NET ASSETS

Current Liabilities

Accounts Payable	\$ 3,390
Payroll liabilities	-
Refundable advance	<u>20,510</u>
Total Current Liabilities	<u>23,900</u>

Net Assets

Unrestricted	(6,830)
Temporarily Restricted	<u>0</u>
Total Net Assets	<u>(6,830)</u>

Total Liabilities and Net Assets	<u><u>\$ 17,070</u></u>
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See independent accountant's report and notes to the financial statements

**FOLWELL NEIGHBORHOOD ASSOCIATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue:			
Government awards	\$ 129,567	\$ -	\$ 129,567
Contributions	8,500	-	8,500
Fiscal sponsor fees	-	-	-
Net assets released from restrictions	-	-	-
Total support and Revenue	<u>138,067</u>	<u>-</u>	<u>138,067</u>
 Expenses			
Program expenses:			
Program	69,749	-	69,749
Supporting services:			
Administration	62,974	-	62,974
Fundraising	2,102	-	2,102
Total expenses	<u>134,825</u>	<u>-</u>	<u>134,825</u>
 Change in net assets	 3,242	 -	 3,242
 Net assets, beginning of year	 <u>(10,072)</u>	 <u>-</u>	 <u>(10,072)</u>
 Net assets, end of year	 <u>\$ (6,830)</u>	 <u>\$ -</u>	 <u>\$ (6,830)</u>

See independent accountant's report and notes to the financial statements

**FOLWELL NEIGHBORHOOD ASSOCIATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Program</u>	<u>Admin</u>	<u>Fundraising</u>	<u>Total</u>
Wages	\$ 49,772	\$ 44,185	\$ 1,699	\$ 95,656
Payroll taxes	4,084	3,626	139	7,849
Total personnel	<u>53,856</u>	<u>47,811</u>	<u>1,838</u>	<u>103,505</u>
Accounting fees	-	1,740	-	1,740
Legal fees	-	3,390	-	3,390
Outside contract services	-	890	-	890
Supplies and materials	317	281	11	609
Program expense	5,657	-	-	5,657
Printing and copying	350	-	-	350
Postage, mailing service	-	-	-	-
Books, subscriptions, reference	-	-	-	-
Equipment rental	96	-	-	96
Rent, parking & utilities	3,691	3,277	126	7,094
Telecommunications	3,735	3,316	127	7,178
Meeting expense	2,047	-	-	2,047
Insurance	-	1,958	-	1,958
Fees & miscellaneous	-	292	-	292
Payroll penalties and interest	-	19	-	19
Total Expenses	<u>\$ 69,749</u>	<u>\$ 62,974</u>	<u>\$ 2,102</u>	<u>\$ 134,825</u>

See independent accountant's report and notes to the financial statements

**FOLWELL NEIGHBORHOOD ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR
ENDED DECEMBER 31, 2017**

Cash Flow From Operating Activity	
Increase (decrease) in net assets	3,242
Adjustments to reconcile changes in net assets to net cash provided by operating activities	
Increase in contracts receivable	(8,600)
Increase in accounts payable	(268)
Increase in payroll liabilities	0
Increase in refundable advance	<u>1,341</u>
Cash Flow From Operating Activity	(4,285)
Cash Flow From Financing Activities	
Repayment of debt	<u>-</u>
Cash Flow From Investing Activity	-
Increase in cash and cash equivalents	<u>(4,285)</u>
Cash and Cash Equivalents - Beginning of Year	12,755
Cash and Cash Equivalents - End of Year	<u><u>8,470</u></u>

See independent accountant's report and notes to the financial statements

FOLWELL NEIGHBORHOOD ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of 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 City of Minneapolis.

Board of Directors and Officers

The FNA Board of Directors consists of no fewer than 6 and no more than 11 members. Terms on the board run for two consecutive years. When vacancies occur, elections are held at the FNA's next regular meeting and are publicized at least 25 days before the election. The officers' terms are for two years.

Basis of Presentation

The financial statements of the organization have been prepared on the accrual basis of accounting. The accounting policies of the organization conform to U.S. generally accepted accounting principles applicable to nonprofit organizations.

Under these provisions, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Folwell Neighborhood Association and changes therein are classified and reported as follows:

Unrestricted Net Assets

This classification contains net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets

This category includes net assets subject to donor-imposed stipulations that are intended to be met by actions of the organization and/or the passage of time. Temporarily restricted net assets are released from restrictions when donor-imposed stipulations are satisfied.

Permanently Restricted Net Assets

These are net assets subject to donor-imposed stipulations that are required to be maintained permanently. This classification does not currently apply to FNA.

FOLWELL NEIGHBORHOOD ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Basis of Accounting

The FNA uses the accrual basis of accounting where revenues are recognized when they are earned and expenses are recognized when they occur.

Income Taxes

Folwell Neighborhood Association is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and Minnesota Statute 290.05. Generally, FNA is no longer subject to examination by tax authorities for years before 2014.

Cash

Cash includes deposits at FDIC insured institutions with maturities of 90 days or less.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets which range from 3 to 5 years depending on the equipment. Upon retirement or other disposition of property and equipment, the applicable cost and accumulated depreciation are written off.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Contributions are recognized as receivable in the period those contributions were pledged. Amounts pledged during the year, but not received, are classified as temporarily restricted contributions.

Major Funding Sources

Government awards are the primary funding sources for the Folwell Neighborhood Association. Government grants and contracts recognize revenue as earned when eligible expenses, as defined in each grant or contract, are made. 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 Folwell Neighborhood Association will record such disallowance at the time the final assessment is made.

Functional Accounting for Expenses

The costs of providing the various programs have been presented on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited. 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 the management team.

**FOLWELL NEIGHBORHOOD ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Subsequent Events

FNA has evaluated subsequent events through September 12, 2018 the date which the financial statements were available to be issued.

Paid Time Off

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. There was no accrued compensatory time at December 31, 2017. FNA currently has no employees.

Contingencies

FNA relies on the City of Minneapolis for support of certain programs, creating a financial dependency on this funding source to carry out these programs. If the City of Minneapolis decreased funding, some programs would be financially challenged to continue to perform programming at the same level that currently exists.

NOTE 2. RECEIVABLES

Contracts receivable at December 31, 2017 are as follows:

Costs to be reimbursed	
Neighborhood and Community Relations	<u>\$8,600</u>

NOTE 3. PAYROLL LIABILITIES

During 2017, FNA reached a settlement with the IRS for prior years unpaid payroll taxes. Settlement was reached with the condition that FNA remain current on all payroll tax liabilities for a period of 5 years. The FNA complied with the terms and agreements related to unpaid payroll liabilities during 2017. FNA officers believe they will comply with the agreement and no outstanding liabilities exist with the IRS.

**FOLWELL NEIGHBORHOOD ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4. OPERATING LEASES

The FNA was committed to a year-to-year operating lease for rental of office space. Rental expense related to this lease was \$7,094 for 2017. The FNA signed an agreement to discontinue renting office space effective October, 2017.

NOTE 5. REFUNDABLE ADVANCES

Refundable advances are related to neighborhood revitalization program funds.

<u>Contract</u>	<u>Expiration</u>	<u>Amount</u>
Phase I implementation	12/31/2001	\$1,005
Neighborhood implementation services	12/31/2001	406
Plan development	12/31/2007	9,100
2017-2019 CPP	12/31/2019	<u>10,000</u>
Total refundable advances		20,510

FNA is in negotiations with the City of Minneapolis regarding the 2001 and 2007 advances; requests have been made to write them off according to accepted accounting practices.

NOTE 6. SUBSEQUENT EVENTS

FNA has evaluated subsequent events through September 12, 2018 the date which the financial statements were available to be issued.

NOTE 7. RELATED PARTIES

Folwell Neighborhood Association and Webber Camden Neighborhood Organization are separate non-profit corporations with independent boards of directors. They shared staff with an Executive Director and other employees that served both organizations. During 2017, Folwell collected \$51,473 for services performed on behalf of Webber Camden. This relationship was terminated in writing in October, 2017.

**FOLWELL NEIGHBORHOOD ASSOCIATION
STATEMENT OF CITY OF MINNEAPOLIS ACTIVITY
DECEMBER 31, 2017**

	Total	Housing	Citizen		
Cash collections in 2017	Admin	Stabilization	Participation	Unclassified	Total
Total accrued revenue			65,896	60,073	125,969
Expenses					
5001 Wages	58,766	23,575	407	1,312	84,060
5002 Insurance stipend	3,400	2,000		600	6,000
5003 Payroll taxes federal	4,756	1,956	31	341	7,084
5004 Payroll taxes MN unemployment	<u>350</u>	<u>170</u>	<u>3</u>	(223)	<u>300</u>
Total personnel	67,272	27,701	441	2,030	97,444
2000 Reimbursed expenses					-
5140 Accounting fees	1,740				1,740
5220 Legal fees	3,390				3,390
Outside contract services				610	610
5310 Supplies and materials	609				609
5320 Program expense Artists					-
5320 Program expense -Camden Community news					-
5320 Program expense - NNO stipend					-
5320 Program expense - Garden lease					-
5320 Program expense - Replacement					-
5320 Program expense - PA					-
5320 Program expense - Leaf Rake					-
5320 Program expense - Face Painting					-
5320 Program expense - Resource Fair					-
5320 Program expense - Clean Sweep					-
5320 Program expense -					-
5320	421		3,789		4,210
5330 Printing and copying	350				350
5390 Miscellaneous	225				225
5430 Equipment rental	96				96
5410 Garage rent					-
5410 Rent, parking & utilities	6,694				6,694
5420 Phone services	7,178				7,178
5420 IT services - Antares					-
5420 Telecommunications -Century Link					-
5420 Wifi Comcast					-
5420 Innersusion _IT services					-
5420 Domain renewal					-
5390 Meeting expense			1,865		1,865
5620 Insurance	964			994	1,958
5620 Fees & miscellaneous	25			20	45
5600 Payroll penalties and interest	<u>28</u>	<u>-</u>	<u>-</u>	<u>14</u>	<u>42</u>
Total Expenses	88,992	27,701	6,095	3,668	126,456
Excess revenues	(88,992)	(27,701)	59,801	56,405	(487)

**FOLWELL NEIGHBORHOOD ASSOCIATION
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
DECEMBER 31, 2017**

Segregation of Duties

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 the organization's accounting system.

Generally, segregation of duties can be obtained with hiring of additional personnel; however, this becomes a significant cost consideration to entities such as 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.

I recommend the FNA be mindful that limited staffing causes inherent risks in the safeguarding of 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.

Client Response:

The FNA separated from its staff including the Executive Director in October, 2017 and elected a new Board of Directors, 10 of 11 Directors were replaced. This new board has aggressively reviewed the policies and procedures in place. We are primarily a volunteer board at this time. Contract employees have been hired to complete neighborhood project work. The attached new finance policy, adopted in January, 2018, sets up oversight procedures for the volunteer currently doing our accounting.

**FOLWELL NEIGHBORHOOD ASSOCIATION
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
DECEMBER 31, 2017**

Missing information

During the audit period, we found evidence of transactions that required additional investigation including the failure to produce supporting information on how public support was used. There are risks associated with this missing documentation. One risk is that financial records may not be complete. A separate risk is that funding sources may have restricted funding towards specific programs and FNA may not be in compliance with donor restrictions; as a result they may be subject to contingent liabilities.

Client response

As stated above, the current FNA board separated itself from the Executive Director, and other staff shared with WCNO in October 2017. The funds we received at the time of separation, \$8,626.15 were verbally described to us as what remains of the \$10,000 advance received from the current Community Participation Program contract. It is our current policy to retain copies of the grant documents together with receipts so a clear reconciliation can be performed.

Financial Management

During the 2017 audit year, the cost structure included costs for staff, facilities and telecommunications that require significant investments for the amount of programming presented. In addition, expenses were heavily weighted towards administrative expenses. I recommend the board of directors review the annual budget and review expenses to ensure they are in line with expected income.

Client response

It is the policy of the current board to produce an operations budget. This budget must be approved by the Board of Directors at an open board meeting. No reimbursements or payments shall be made unless they are approved budgeted expenses or individually specifically approved by the board. See the finance policy.

This board is committed to shifting our programming and expenses to directly affect our neighborhood. We operated solely with volunteers for the first half of 2018. We did hire contractors for the second half of the year, devoting most of their efforts to neighborhood outreach and communications.

**FOLWELL NEIGHBORHOOD ASSOCIATION
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
DECEMBER 31, 2017**

Internal Controls for Financial Reporting

It is the responsibility of management to produce accurate financial statements for internal and external users. We recommend procedures be established to strengthen the reliability of the general ledger information being presented. One area where this was evident was the inability to properly report revenues and expenses by funding sources. Non-profit organizations need to produce this income to document how their expenses were used for financial and program reporting. Without this statement questions of how funds were used cannot be answered.

A material weakness is 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, detected and corrected on a timely basis. A design deficiency exists when a control necessary to meet a control objective is missing or not properly designed. An operational deficiency exists when a control does not operate as design or when the person performing the control does not possess the competence to perform it effectively.

A material weakness existed with FNA's ability to recognize income and liabilities in the financial statements. Under the accrual method of accounting, revenue is recognized when eligible expenses are incurred on cost reimbursement contracts like many government awards. An element of risk is inherent in recognizing revenue as judgment is used to determine if costs are eligible for reimbursement from the funding source. A weakness noted in FNA's practices is that financial statements were subject to management override by the Executive Director.

Weaknesses in the design and operation of controls have compromised the reliability of the financial statements.

Client response

The current FNA board recognizes that its predecessors were provided incomplete and often inaccurate financial reports. A complete listing of expenses and how they are planned for in the budget is provided at each board meeting. The books and bank statements are open to review by any member of the association. Three members review all requests for disbursement.

**FOLWELL NEIGHBORHOOD ASSOCIATION
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
DECEMBER 31, 2017**

Payroll tax liabilities

During the audit period, as in prior periods, the status of the tax liability with the IRS remained uncertain. Past FNA audits have recognized deficit net asset balances due to cash flow problems related to retiring this debt. Management's response included raising funds with promises to engage in programming while using the funds to pay penalties and interest. This financial strategy has been used for years.

Due to investigative work by the new board Treasurer, FNA contacted the IRS on numerous occasions to determine if the tax liability related to prior periods was resolved. It appears a tax agreement was reached on March 1, 2017 to settle the payroll tax debt that provided for debt forgiveness if FNA stayed current for five years. However, the agreement was in jeopardy because of the failure to pay the 2017 3rd quarter payroll tax. FNA paid the quarterly payroll immediately in December, 2017 when it became known. The issue was resolved before the tax settlement was violated.

Client Response

The current FNA board under the leadership of the Treasurer has responded to all IRS inquiries. Based on discussions with the IRS, FNA believes the IRS liability has been resolved based on IRS correspondence dated March 1, 2017. Copies of all correspondence between the IRS, the FNA and its legal team have been secured and archived.

Use of public support for prior unpaid payroll taxes

When a nonprofit organization collects contributions with donor restrictions, it is the responsibility of the organization to use the funds in accordance with the donor restrictions, or continue to maintain the funds as restricted. An alternative is to ask the funder for permission to use the funds for other purposes, or return the funds to the donor.

Based on the accounting records maintained, there is evidence that a number of sources were used to pay penalties and interest on payroll tax liabilities. These sources include Addicks Hoch Friend Fund, Northside Funders, Minneapolis Foundation, CARE Program, Pohlad Foundation, and the Minneapolis Community Participation Program.

The practice of using these funds to pay penalties and interest should be made only after the funders explicitly authorize the use of funds for these purposes. Otherwise, the practice damages the reputation of the Neighborhood and Community Relations programs. The practice also may represent illegal activity and could result in litigation to recover funds.

**FOLWELL NEIGHBORHOOD ASSOCIATION
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
DECEMBER 31, 2017**

Client Response

The current board of directors is aware that grants and donations may come with restrictions. Budgets are developed for each grant and reports on each are reported at each meeting. We feel the payroll tax penalties are behind us and complying with the settlement agreement is our first priority.

Management Override

We reviewed the board meeting minutes for the year and noted no discussions evidencing consideration of the potential for, detection of, and remedies to management override of internal controls over financial reporting. There was no mention of the IRS settlement or the settlement payments, where the funds may have come from or why they were available. An otherwise effective control system can be undermined when members of management are determined to circumvent procedures; therefore, it is imperative that the board of directors be aware of the possibility and make inquiries to gain assurance that management override of controls is not occurring. An example of a measure that can be taken by board of directors is to make inquiries of those in management to ascertain if there are any concerns about the ethics or actions of management.

Client response

The current board has active oversight of those acting in our name. Contracts and W9s are secured before any payments are made.

Competitive Bids FNA allowed the Executive Director to enter agreements without evidence there were competitive bids from at least three sources for large contracts such as for telecommunications and garage rental. During the year, there was a large contract for IT services that was paid to a consulting firm without evidence of what the contract provided. This increases the risk that FNA does not obtain the best price or quality. It also provides an opportunity for a dishonest employee to receive kickbacks. To reduce these risks, we recommend that a policy be established requiring the Executive Director to obtain competitive bids from several suppliers for single purchases over a specified dollar amount or ongoing purchases that are expected to aggregate to a specified amount. The agent should compare the bids and recommend one based on factors such as cost, quality, delivery, customer support, etc. The recommendation should then be approved by the board of directors based on a review of the various bids and information supporting the recommendation.

Client response

No payments will be made unless expressly approved by the board, see finance policy. A recommendation by the finance committee will be made to require a competitive bid process for any single project or expense that exceeds \$3000.

**FOLWELL NEIGHBORHOOD ASSOCIATION
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
DECEMBER 31, 2017**

Expense Reimbursement

During the audit period, we noted the Executive Director incurred over \$2,000 of meeting expenses that were subsequently reimbursed by FNA. I recommend these expenses are approved by board members before they are incurred.

Client Response

FNA addressed this issue with our new finance policy adopted on 1/8/2018.

Establishment of an Audit Committee

The establishment of audit committees by boards of directors is a good practice for organizations concerned with financial reporting and fiduciary duties of directors. By establishing an audit committee, the Board of Directors may achieve an increased understanding of (a) the role of the independent auditors and the nature and limitations of their work and (b) the importance of accounting, financial, and operating controls to the successful management of a business and (c) reliable financial reports. The FNA should consider forming an audit committee to assist the Board in discharging its responsibilities to stakeholders and others. The audit committee should be made up of independent directors. The committee members should have a working knowledge of financial reports and basic business practices. General duties of an audit committee include the review of audited financial statements and consideration of the comments from the independent auditor including those with respect to weaknesses in internal accounting control and use this information to make recommendations for corrective action.

It also may be appropriate for the audit committee to perform additional duties as assigned by the Board of Directors. Such duties might include review of financial statements and other financial information distributed by FNA to the public and establishment and monitoring of policies to prohibit unethical, questionable, or illegal activities by employees and the executive committee.

Client response

Our bylaws require a standing Finance Committee that serves as the audit committee. We will amend the bylaws to have more defined roles including pushing information to encourage more participation and understanding by board members.

**FOLWELL NEIGHBORHOOD ASSOCIATION
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
DECEMBER 31, 2017**

Outside contractors

FNA used independent consultants for accounting, information technology, legal, and various other services. It appears that contracts for these services were between the Executive Director and the contractors. A written contract for such services should indicate the contract is between the Folwell Neighborhood Association and the contractor. To ensure that the FNA's rights and confidentiality are protected, we recommend that all such arrangements with outside consultants and independent contractors be formalized in a written contract that includes the contract terms. During the audit period, an outstanding legal bill for \$3,390 was received by FNA for legal services working on the IRS settlement. Webber Camden paid \$1,500 towards the outstanding bill in March 2018, and FNA paid the balance.

In addition, we recommend FNA request contractors sign a waiver releasing FNA from responsibility for workers' compensation.

Client response

FNA requires contracts with all sub-contractors. The contracts include a description of specific activities and related eligible expenses and the timing of the work. This also applies to any organization for which FNA acts as fiscal agent. The contract will be updated to include a Workers' Compensation waiver.

Conflict of Interest Policy

We noted that FNA has a formal code of conduct or conflict of interest policy. We believe that it is in management's best interest to establish a formal, written, policy and procedures covering unethical conduct or transactions and relationships that may involve potential conflicts of interest. Among other matters, the policy should provide that any employee who knows of any unrecorded assets or any prohibited act must promptly report it to the Board of Directors

The policy should provide for an annual statement from key management and employees in sensitive positions certifying their compliance with the policy.

Client Response

As part of our new board development and our bylaws review, the current FNA board has discussed our conflict of interest policy. This policy is approved annually by the Board of Directors, per IRS requirements.