

**SEWARD NEIGHBORHOOD GROUP
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2007**

**PREPARED BY:
MICHAEL S. WILSON AND ASSOCIATES
REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

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**Michael S. Wilson and Associates
Certified Public Accountant**

Independent Auditor's Report

Board of Directors
Seward Neighborhood Group
Minneapolis, Minnesota

We have audited the accompanying statement of financial position of the Seward Neighborhood Group as of December 31, 2007, and the related statement of activities, statement of functional expenses and statement of cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, 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 accordance with the terms of our engagement, we have not applied audit procedures necessary to satisfy ourselves about the classifications and amounts comprising the statement of financial position at December 31, 2006. Significant aspects of the statement of financial position at December 31, 2006 including classifications and amounts materially affect the determination of change in net assets and cash flows for the year ended December 31, 2007.

Because of the matter discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the accompanying statements of activities, statement of functional expense, and cash flows for the year ended December 31, 2006 or on the consistency of application of accounting principles with the preceding year.

In our opinion, the accompanying statement of financial position referred to in the first paragraph presents fairly in all material respects, the financial position Seward Neighborhood Group as of December 31, 2007 in conformity with accounting principles generally accepted in the United States of America.

The audit was made for the purpose of forming an opinion on the basic financial statements of the Seward Neighborhood Group. The Supplemental Schedule of NRP Activity on page 12 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 auditing procedures applied in the examination of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Michael S. Wilson, CPA

August 15, 2008
Minneapolis, Minnesota

SEWARD NEIGHBORHOOD GROUP
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2007

ASSETS

Current Assets:

Cash and equivalents	\$ 10,771
Accounts receivable	14,031
Prepaid expenses	<u>385</u>
Total current assets	<u>25,187</u>

Land, building, and equipment, net of accumulated depreciation	<u>149,180</u>
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Total Assets	<u><u>\$ 174,367</u></u>
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LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable and accrued expenses	\$ 29,244
Refundable advance	22,465
Housing advances	139,548
Line of credit	<u>33,458</u>
Total current liabilities	<u>224,715</u>

Long-term liabilities

Mortgage payable	<u>180,000</u>
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Total Liabilities	<u>404,715</u>
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Net Assets

Unrestricted	(240,532)
Temporarily restricted	<u>10,184</u>
Total net assets	<u>(230,348)</u>

Total Liabilities and Net Assets	<u><u>174,367</u></u>
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See accountant's report and notes to financial statements

SEWARD NEIGHBORHOOD GROUP
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED
DECEMBER 31, 2007

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total</u>
Support and Revenue:			
Contributions	44,454	46,184	90,638
City of Minneapolis awards	1,000	-	1,000
Other government awards	39,454	-	39,454
Net assets released from restrictions	139,958	(139,958)	-
Relocation income	26,743	-	26,743
Miscellaneous income	4,164	-	4,164
	<u>255,773</u>	<u>(93,774)</u>	<u>161,999</u>
Expenses:			
Program expenses:			
Total program expenses	170,975	-	170,975
Supporting services:			
Management and general	71,100	-	71,100
Fundraising	-	-	-
Total supporting services	<u>71,100</u>	<u>-</u>	<u>71,100</u>
Total expenses	<u>242,075</u>	<u>-</u>	<u>242,075</u>
Change in net assets	13,698	(93,774)	(80,076)
Net assets, beginning of year	<u>(254,230)</u>	<u>103,958</u>	<u>(150,272)</u>
Net assets, end of year	<u><u>\$ (240,532)</u></u>	<u><u>\$ 10,184</u></u>	<u><u>\$ (230,348)</u></u>

See accountant's report and notes to financial statements

SEWARD NEIGHBORHOOD GROUP
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Program</u>	<u>Management</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Salaries	\$ 103,786	\$ 17,217	\$ -	\$ 121,003
Payroll taxes and insurance	15,919	6,716	-	22,635
Benefits	3,697	1,312	-	5,009
Honorarium	500	-	-	500
Total personnel	<u>123,902</u>	<u>25,245</u>	<u>-</u>	<u>149,147</u>
Contract services	11,340	3,204	-	14,544
Occupancy	16,670	30,387	-	47,057
Supplies	455	3,717	-	4,172
Postage	42	119	-	161
Copying and printing	149	1,458	-	1,607
Insurance	1,481	854	-	2,335
Advertising	-	113	-	113
Interest and charges	-	3,568	-	3,568
Staff Development	1,780	-	-	1,780
Fees	-	1,866	-	1,866
Program expenses	<u>15,156</u>	<u>569</u>	<u>-</u>	<u>15,725</u>
	<u>\$ 170,975</u>	<u>\$ 71,100</u>	<u>\$ -</u>	<u>\$ 242,075</u>

See accountant's report and notes to financial statements

SEWARD NEIGHBORHOOD GROUP
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED
DECEMBER 31, 2007

Cash Flows From Operating Activities

Change in Net Assets	\$ (80,076)
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities	
Depreciation	(699)
Changes in Assets and Liabilities	
(Increase) Decrease in accounts receivable	(6,741)
(Increase) Decrease in pledges receivable	50,000
(Increase) Decrease in prepaid expenses	(1,564)
Increase (Decrease) in accounts payable	17,625
Increase (Decrease) in refundable advances	<u>18,309</u>
Total adjustments	76,930
Net Cash Provided by Operating Activities	(3,146)

Cash Flows From Investing Activities

Cash used to purchase fixed assets	-
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Cash Flows From Financing Activities

Increase (Decrease) in line of credit	<u>(2,991)</u>
Cash used for financing activities	(2,991)

Increase/(Decrease) in Cash and Cash Equivalents	(6,137)
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Cash and Cash Equivalents, Beginning of Year	<u>16,908</u>
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Cash and Cash Equivalents, End of Year	<u><u>\$ 10,771</u></u>
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See accountant's report and notes to financial statements

**SEWARD NEIGHBORHOOD GROUP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Organization:

The Seward Neighborhood Group, Inc., (SNG) is the officially recognized citizen participation organization for the Seward Neighborhood whose boundaries are I-94, the Mississippi River, and the railroad tracks paralleling Hiawatha Avenue and 27th street. For 33 years, Seward neighbors have organized as members of the SNG to improve the quality of life in Seward. SNG assists residents and businesses to address their common problems and opportunities.

The SNG's programs are as follows:

Citizen Participation

To represent the interests of Seward to the City of Minneapolis and to other public and private organizations, sponsor public forums, and assist residents and businesses in implementing projects approved by open participatory process.

Community Building

Crime Prevention - promote citizen involvement in various initiatives designed to reduce the incidence of crime, and increase perceptions of safety by building a sense of community, educate residents about crime, inform the community on how to prevent crime, and develop relationships with law enforcement.

Community Development - sponsor free neighborhood-wide events of interest to residents (garage sales, Clean Sweep, King's Fair) in order to build community; organize and encourage participation in these events by all Seward constituencies: residents, youth, business, institutions, churches, and special groups.

Youth – provide opportunities and incentives for at-risk youth to engage in community service, learn employment skills, and build self-esteem.

Environment - provide environmental education and practical assistance to neighborhood residents, empowering them to reduce environmental impacts.

Housing - improve the quality of housing stock by providing grants and deferred loans to homeowners and other strategies in the approved Minneapolis Neighborhood Revitalization Program (NRP) action plan.

**SEWARD NEIGHBORHOOD GROUP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONT.

Method of Accounting:

In 1997, The Organization adopted Statement of Financial Accounting Standards (SFAS) No. 116, Accounting for Contributions Received and Contributions Made and SFAS No. 117, Financial Statements for Not-For-Profit Organizations. The provisions of the new standards have been applied to the periods presented.

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 Seward Neighborhood Group 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 may or will 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 by SNG. This classification does not apply to SNG.

Basis of Accounting

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

Income Taxes:

Seward Neighborhood Group is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and Minnesota Statute 290.05.

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 for furniture and equipment, and 30 years for building. Upon retirement or other disposition of property and equipment, the cost and accumulated depreciation are written-off.

**SEWARD NEIGHBORHOOD GROUP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONT.

In-Kind Donations

The following types of contributions are recorded as revenue at their fair market value when they are received unconditionally: cash, promises to give, certain contributed services, and gifts of long-lived assets. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. Donated services for the year ended December 31, 2007 that met the conditions for recognition include the use of the facilities under a loan deferment program (see Note 5).

Major Funding Sources

Government awards are the primary funding sources for the Seward Neighborhood Group. 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 Seward Neighborhood Group 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.

Contingencies

The Organization relies on the Neighborhood Revitalization Program (NRP) for support of certain programs, creating a financial dependency on this funding source to carry out these programs. If NRP decreased funding, some programs would be financially challenged to continue to perform at the same high quality level that currently exists

NOTE 2. RECEIVABLES

Contracts receivable at December 31, 2007 are as follows:

Costs to be reimbursed:

NRP Rental Repair Program	\$4,479
MN Department of Corrections	3,258
Hennepin County	1,050
Seward Towers	3,336
Other	<u>907</u>
Total receivables	<u>\$ 13,030</u>

**SEWARD NEIGHBORHOOD GROUP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

NOTE 3. BUILDING AND EQUIPMENT AND DEPRECIATION

Equipment at December 31, 2007 consisted of:

Building 2424 East Franklin	\$180,000
Building improvements	28,777
Equipment	<u>26,248</u>
Total cost	235,025
Less: accumulated depreciation	<u>(85,845)</u>
Net book value	<u>\$ 149,180</u>

Depreciation expense of \$597 was recorded for the year ended December 31, 2007.

NOTE 4. LONG-TERM DEBT

The following is a summary of long-term debt payable at December 31, 2007:

A 0% note payable to MCDA without monthly installments through 2026.

Agreement signed in 1996. Secured by building \$180,000

The SNG \$180,000 mortgage agreement with MCDA was for purchasing an office building at 2424 East Franklin Avenue. A portion of the mortgage will be forgiven on the 15th anniversary, with the full mortgage forgiven on the 30th anniversary if the SNG has complied with certain requirements as defined by the mortgage agreement.

NOTE 5. CONTINGENT LIABILITY

The SNG reached an agreement to sell their previous home office at 2424 East Franklin Avenue to Northern Clay Center. The sale was approved by the SNG board and the MCDA. If the sale of the property is executed before the 30th anniversary of the mortgage, the SNG proceeds from the sale of the building will be claimed by Minneapolis NRP.

NOTE 6. GOING CONCERN AND SUBSEQUENT EVENTS

The SNG is technically insolvent which limits SNG's ability to operate as an on-going concern. In September 2007, SNG was forced to lay off virtually all staff and returned to functioning as a volunteer organization. The Board of Director's Executive Committee has assumed responsibility for managing day to day operations of the organization on a volunteer basis.

SNG has a long history as an active and effective community organization. From its formation in 1960, SNG has functioned more years as a totally volunteer organization than it has as an organization with staff. Since returning to administration by volunteers, SNG has raised almost \$6,000 in individual donations, participated in a successful fundraiser with the Preservation Alliance, maintained its community facilitation contract with Common Bond (providing a full time facilitator in Seward Towers East and West), and was awarded a \$10,000 Graffiti Prevention Micro-Grant from the City of Minneapolis's Department of Public Works. SNG is actively engaged along with Seward Redesign in the development of a master plan for Franklin Avenue, an activity funded by grants from the McKnight Foundation and the City of Minneapolis.

**SEWARD NEIGHBORHOOD GROUP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

NOTE 6. GOING CONCERN AND SUBSEQUENT EVENTS (Cont)

SNG conducted a successful fundraising campaign for the 2008 Seward Youth Peace Garden that tapped support from both the business community and neighborhood residents. Citizen participation activities, including the work of the Community Development Community, as well as our public safety work, implemented through the Crime and Safety Committee and the Seward block club network, are continuing.

NOTE 7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of December 31, 2007 are as follows:

Toxic alert	3,565
Restorative justice	<u>6,619</u>
Total temporarily restricted funds	<u>\$10,184</u>

NOTE 8. REFUNDABLE ADVANCES

Refundable advances are related to government awards for cost reimbursement programs. These programs minimize the need for organizations like SNG to rely on borrowing to operate programs. At December 31, 2007, the following refundable advances were available for SNG.

Seward Towers	\$12,298
Other	1,417
NRP II	<u>8,750</u>
Total	<u>\$22,465</u>

NOTE 9. HOUSING ADVANCES

The SNG has managed various NRP housing contracts designed to improve the neighborhood housing for over ten years. An analysis of these contracts determined that more awards were provided than were used for housing purposes. As a result, SNG is liable for the following contracts awards used for other purposes:

Deferred Loans	\$ 62,198
Duplex Reconversion	29,875
Home Additions	20,000
Blighted Properties	14,000
Early Access Housing Program	<u>13,475</u>
Total housing advances	<u>\$139,548</u>

**SEWARD NEIGHBORHOOD GROUP
SCHEDULE OF CONTRACT ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Phase 2	NRP HC	CDBG	Total
Total Revenue	1,000	5,205	2,695	8,900
Total Expenses	<u>1,000</u>	<u>5,205</u>	<u>2,622</u>	<u>8,827</u>
Net	---	---	73	73

SEWARD NEIGHBORHOOD GROUP, INC.
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
DECEMBER 31, 2007

UNRESOLVED ITEMS

06-1 Internal Controls

In prior reports, it was noted that due to the limited number of office personnel within SNG, segregation of the accounting functions necessary to ensure adequate internal control is not possible. This is not unusual in operations the size of the SNG; however, management and the board of directors should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view. We encourage the management to continue with its efforts to address this issue.

Client Response

In 2001, SNG adopted Financial Procedures that met the requirements for prudent and responsible fiscal management of a non-profit organization. We worked with our auditor to make sure these procedures provided the necessary division of duties and ensured that restricted funds were properly dispersed and accounted for. The 2007 Board discovered that the 2001 Financial Procedures were not in use and worked with staff to draft the current Financial Procedures, which were finally adopted after extensive review on July 12, 2007. These procedures have been revised again to provide appropriate segregation of accounting duties during the time that SNG is operating without administrative staff. Adoption of procedures is only the first step to insuring appropriate internal accounting controls. Prior to 2002, SNG operated with an active Finance Committee, chaired by the Board Treasurer. The Finance Committee provided an on-going check that financial procedures were being followed, including the requirement that the Treasurer sign off on all disbursements.

After the Executive Director and Board Treasurer resigned in July 2007, one of the first steps undertaken by the Board and its new Treasurer was the re-establishment of the requirement that all disbursements are signed off on by the Treasurer and another member of the SNG Executive Committee. The Finance Committee was also reinstated, and a non-board member with an accounting background was recruited to serve on that committee. SNG feels that the presence of sound financial procedures and an active Finance Committee providing on-going oversight has returned the SNG Board to a position where it can effectively execute its fiduciary duties.

06-7 Timesheets

SNG does not require employees to complete itemized timesheets because employees are paid on a salary basis. The issue is material because salaries are the largest expense item for SNG. Timesheets provide evidence that employees are being paid consistent with effort. In addition, timesheets are the preferred basis to allocate indirect costs to different funding sources. Poor timesheet practices can be the basis for a challenge by funding sources that contracts were not performed and reimbursements have not been earned.

SEWARD NEIGHBORHOOD GROUP, INC.
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
DECEMBER 31, 2007

Client Response

Recognizing the importance of timesheets with salaried employees and contractors, SNG practice is not to authorize payment for a salaried employee without a completed timesheet. A timesheet may also be required for a contractor, although in some instances, such as bookkeeping, an itemized invoice may serve in lieu of a timesheet.

06-11 Use of NRP Awards for Unrestricted Purposes

The SNG is required by contract to maintain their NRP housing funds in a separate bank account. There is evidence that SNG transferred and used \$139,548 of NRP housing awards for general operating purposes during the period between 1997 and 2005. As a result, the amount of these misdirected funds from prior years represents a liability owed to the Minneapolis NRP. The use of restricted funds for unauthorized purposes violates the organization's funding agreements with NRP.

Client Response

SNG is working with NRP to resolve this issue. Much of this money was most likely used for purposes which would have been funded if plan modifications had been filed.

SEWARD NEIGHBORHOOD GROUP, INC.
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
DECEMBER 31, 2007

RESOLVED ITEMS

06-2 Financial recordkeeping

During 2006, SNG contracted with a bookkeeper to provide financial services. Financial records were also maintained by the Executive Director. On multiple occasions, the Executive Director provided financial information to the Board of Directors that differed from the financial information prepared by the bookkeeper. For example, the Arts Festival showed a net profit of over \$3,500 on the bookkeeper's records, yet the Executive Director presented the Board with a statement showing the event broke even.

Client Response

After the Executive Director and Board Treasurer resigned in 2007, the new Board Treasurer discovered that the financial statements received by the Executive Director from the bookkeeper were sometimes altered before they were presented to the Board of Directors. The financial records were maintained by the bookkeeper using Quicken software. The bookkeeper exported a Quicken monthly report to an Excel spreadsheet, which was transmitted to the Executive Director. This method of financial recordkeeping did not provide appropriate checks.

To address this problem, the SNG has upgraded its financial software to Quick Books for Non-Profits and is in the process of migrating its financial records to this accounting program. Quick Books has the capacity to produce financial reports for the Board, so that the Board will review statements produced directly from the accounting software. In addition, all monthly financial statements will be sent to the Board Treasurer as well as to any designated future staff person authorized to deal with finances.

06-3 Financial Policies

The SNG has financial policies that adopted by SNG in 2001 were not followed in 2006. There was evidence that large transactions were approved without board of director approval as was required by SNG policies. For example, the Board Chair signed for an \$8,000 increase to a line of credit up to \$35,000 without the required proper board approval or even the knowledge of most board members.

Client Response

The financial policies adopted by the Board in July 2007 specifically require board approval for any loan, promissory note or line of credit. The need to obtain credit should also have been reported to the Board under SNG's by-laws, which require approval of any significant change in the approved budget. In 2007, the Board appears to have been relying solely on its Treasurer to insure that financial procedures were being followed. As noted in the client response to 06-1, the presence of an actively involved Finance Committee, as called for in SNG's by-laws, provides the Board with a higher level of certainty that financial procedures are being followed.

SEWARD NEIGHBORHOOD GROUP, INC.
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
DECEMBER 31, 2007

06-4 Board training

Many volunteer board members serve to participate in community events. However there is a heightened level of responsibility when working with public funds. Items that may appear immaterial are material when public funds are involved. Over the course of the year 2007, the SNG faced accusations of mismanagement from community members. The board of directors should undertake board training to understand their fiduciary responsibilities and to be able to respond to these allegations clearly, and to ensure the SNG is being managed efficiently.

Client Response

Accusations of mismanagement in 2006 were related primarily to the staff restructuring plan that would have eliminated the position of the Housing Coordinator, who is highly valued in the neighborhood, and to conflict of interest concerns in the hiring of the spouse of a board member rather than to any specific financial mismanagement. It is important to note that concerns about mismanagement of the organization were also raised by the Board in 2007.

Starting at the December 2007 board meeting, the board has had regular discussions of board responsibilities. Resources from Compasspoint (a California nonprofit support organization) and the Minnesota Council of Nonprofits are informing this discussion. Board responsibilities/training/development is now a standard part of the board agenda.

06-5 Corporate Governance

Effective on January 1, 2006, the Executive Committee hired the spouse of the board chair to a permanent staff position as assistant to the Executive Director. Although the spouse had been working on a part-time basis as an arts coordinator for SNG, the new position was not posted and no other applications were sought, in spite of the fact that another long-time SNG staff member's hours were being cut back to part-time at the time of this hiring. This created the appearance of a conflict of interest. In addition, as noted above, there was limited evidence that large purchases were made without board of director approval.

Client Response

SNG Board minutes of 1/25/2006 indicate that this hiring was done by the Executive Director and the Personnel Committee. There are no Personnel Committee records available. A board member raised the issue of conflict of interest. The issue of hiring without board approval was also raised at that meeting.

SEWARD NEIGHBORHOOD GROUP, INC.
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
DECEMBER 31, 2007

06-6 Revenue Recognition

The SNG has been negligent in properly recognizing revenue on government awards in the past. Many government awards are cost reimbursement contracts with expenses reimbursed when they are eligible and are allowable. If the SNG can allocate expenses in a rational and consistent manner, the organization will enhance its ability to recognize additional revenue. Based on the expense allocations presented, there are liabilities that exist with government funding sources that may be recognized as earned income and improve the financial position of SNG.

Client Response

SNG has recognized the need to improve its accounting. Accounting software has been upgraded from Quicken to Quick Books for Non-Profits. SNG had used an accrual system of accounting in the past, but the most recent Executive Director changed to a cash basis. At its February meeting, the SNG board approved moving from a cash based accounting system back to accrual.

06-8 Donations and cash receipts

In addition to government awards, the SNG has also received donations from the public. These donations include gifts from residents, membership dues, and awards from foundations. The control surrounding the collection of these gifts has been weak, since a cash receipt journal was not used.

Client Response

SNG donations are rarely made in the form of currency; however, a cash receipt book is now in place. Persons making donations or payments in cash are issued a receipt from the cash receipt book. All donations are also acknowledged with a letter of thanks that specifies the amount and date and serves as an official receipt of gift. In addition, all donations and the date that the receipt was issued are recorded in the SNG Databank database as well as in the financial accounting system. Additional financial procedures have been developed for handling cash receipts from special events in a fiscally responsible manner with the necessary segregation of duties.

06-9 Fixed assets

The SNG does not maintain a fixed asset log. This register is an important document to safeguard assets which are at increased risk of loss.

Client Response

The SNG has instituted a fixed asset log that agrees to the amounts in the audited financial statements. Any purchase of an asset with a value over \$1000 will be recorded on the fixed asset log.

SEWARD NEIGHBORHOOD GROUP, INC.
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
DECEMBER 31, 2007

06-10 Use of Temporarily Restricted Contributions for Unrestricted Purposes

There is evidence that SNG used donor restricted contributions for unrestricted purposes. Since SNG does not have significant unrestricted financial resources, this resulted in restricted funds being used for unrestricted purposes.

Client Response

In January of 2007, the SNG Board requested that the financial statements reflect income and expenses broken out by program/activity. The Executive Director was unable to fulfill this request. Presentation of income and expenses by category would aid the Board in monitoring the use of restricted contributions. The Finance Committee is working to produce financial statements broken out by program/activity. The migration of SNG's accounting to Quick Books for Non-Profits, which allows fund-based accounting, should assist in this effort. In the interim, the Finance Committee and Treasurer have assumed responsibility for insuring that restricted gifts and grants are not used for unrestricted purposes.

06-12 Budget Controls

Despite significant gains made in fundraising, SNG operated in the red during the 2007 fiscal year. One reason was the Executive Director's practice of assigning a large amount of costs without specifying the funding source, as if funding sources could be found later to cover deficit spending.

During 2006, allocating expenses without specifying the funding source was a bad management practice and may have resulted in concealing bad practices. For example, the organization used the line of credit as a funding source to offset expenses. This allowed staff to allocate charges for food and consulting to the line of credit instead of approved funding sources. The significant amount of expenditures allocated to this category reflects an unhealthy reliance on future funding commitments instead of making difficult choices to reduce the level of programming offered.

Client Response

Partially out of necessity but more significantly in the interest of returning SNG to a sound financial footing, strict budget controls have been implemented. Reimbursable contracts are being billed on a more frequent basis, volunteers are serving in place of paid staff to provide basic administration, community organizing, grant writing and fund raising, and expenditures have been minimized. The Finance Committee monitors the budget closely to determine which activities can continue or be resumed, based on actual, not potential, available funding.

SEWARD NEIGHBORHOOD GROUP, INC.
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
DECEMBER 31, 2007

06-14 Bank reconciliation

This audit noted that the monthly bank reconciliations did not reconcile the cash in the bank balance to the cash in the financial records. The accounting process should reconcile the bank balance to the register balance. It was also noted that outstanding checks from prior periods were deleted instead of being properly voided. In addition, year end activity related to outstanding checks and deposits in transit were not recorded at all. Good management cannot take place without a clear understanding of the cash available

Client Response

This is another area in which the upgrade of SNG's accounting software from Quicken to Quick Books will provide better documentation of bank reconciliation. Since the SNG Board assumed responsibility for the administration of the organization, the Treasurer has been verifying the check reconciliation provided by the bookkeeper against the cash in the bank balance and the register of checks.

NEW ITEMS

07-1 Compliance Testing

During a review of 2007 disbursements, it was noted that seven disbursements out of 10 tested did not have a supporting invoice. Of the items tested, an additional four invoices were found to have poor supporting documentation. This includes fees that were not properly itemized in terms of dates and hours worked.

Client Response

The lack of supporting documentation for disbursements is another symptom of the poor budget controls identified in 06-12. All disbursements made since the Board took over the administration of the organization in September, 2007 have supporting documentation.

07-2 Payment processing

It was noted that an employee was paid only half of her salary through the payroll process. This person was written a check for the other half. It appears the remaining amount was not processed as part of her salary.

Client Response

The employee was a new hire in the pay period previous to the one noted. Hours worked were incorrectly reported by the Executive Director. The Executive Director corrected the problem by cutting a vendor check instead of correcting the error through the payroll service. Current financial procedures require that all payroll corrections are made through the payroll service.

**SEWARD NEIGHBORHOOD GROUP, INC.
REPORT ON INTERNAL CONTROLS AND
COMPLIANCE OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements of Seward Neighborhood Group as of and for the year ended December 31, 2007, in accordance with U.S. generally accepted auditing standards, we considered SNG's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control 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 a combination of control deficiencies, that adversely affects the entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control: cash disbursement processing, and preparation of financial statements in accordance with accounting principles generally accepted in the United States of America.

Our Responsibility under U.S. Generally Accepted Auditing Standards

The financial statements are the responsibility of the Organization's management. Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit we considered the Organization's internal control over financial reporting. Such considerations were solely for the purpose of designing our audit procedures and not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. We will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Organization as described in Note 1 of the financial statements. No new accounting policies were adopted and the application of existing policies were not changed during 2007.

We noted transactions entered into by SNG during the year that were significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of significant guidance or consensus. They are described in the schedule of Findings and Recommendations.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events.

Certain estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were significant estimates related to the allocation of expenses on a functional basis.

Management's estimates of the functional expense allocation are based on available funds. We evaluated the key factors and assumptions used by management to develop these estimates and were not satisfied the estimates were rational and consistent.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Organization's financial reporting process (that is, cause future financial statements to be materially misstated).

We proposed no adjusting journal entries.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Difficulties Encountered in Performing the Audit

We encountered difficulties assessing unrecorded liabilities associated with management override of controls from previous years.