

HARRISON NEIGHBORHOOD ASSOCIATION
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2013

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
Harrison Neighborhood Association
Minneapolis, Minnesota

I have reviewed the accompanying statement of financial position of the Harrison Neighborhood Association (a non-profit corporation) as of December 31, 2013 and the related statements of activities, functional expenses and cash flows for the year then ended. A review consists primarily of applying analytical procedures to management's financial data and making inquiries of Organization management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, I do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

My responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require me to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. I believe that the results of my procedures provide a reasonable basis for my report.

Based on my review, I am not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

My review was made primarily for the purpose of expressing a conclusion that there are no material modifications that should be made to the financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. The supplementary information included in the accompanying Schedule of City 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 inquiry and analytical procedures applied in the review of the basic financial statements, and I did not become aware of any material modifications that should be made to such information.

Michael S. Wilson, CPA

April 9, 2014

HARRISON NEIGHBORHOOD ASSOCIATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2013

ASSETS

	<u>2013</u>
Current Assets	
Cash and cash equivalents	\$ 213,850
Accounts receivable	42,135
Grants Receivable	117,000
Prepaid expenses	-
Total Current Assets	372,985
 Property and Equipment	
Office Equipment	18,166
Accumulated Depreciation	(18,166)
Total Property and Equipment	-
Total Assets	\$ 372,985

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts Payable	\$ 1,893
Salaries payable	-
Refundable advance	9,000
Total Current Liabilities	10,893
 Net Assets	
Unrestricted	222,875
Temporarily Restricted	139,217
Total Net Assets	362,092
Total Liabilities and Net Assets	\$ 372,985

See accountant's report and notes to the financial statements

**HARRISON NEIGHBORHOOD ASSOCIATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	2013 <u>Total</u>
Support and revenue:			
Government awards	\$ 110,048	\$ -	\$ 110,048
Contributions	162,160	117,000	279,160
In-kind donations	12,000		12,000
Net assets released from restrictions	8,129	(8,129)	-
Interest	149	-	149
Wirth Coop fees	6,680		6,680
Rental income, and other	8,600		8,600
Total support and revenue	<u>307,766</u>	<u>108,871</u>	<u>416,637</u>
Expenses			
Community engagement	113,928		48,241
Environmental justice	37,690		47,671
Equity	48,241		84,085
Housing	47,671		42,560
Transit equity	84,085		374,174
Wirth Coop	42,560		7,852
Program expenses	374,174	-	374,174
Supporting services:			
Administration	7,852	-	7,852
Administration and fundraising	-	-	-
Total expenses	<u>382,026</u>	<u>-</u>	<u>382,026</u>
Change in net assets	(74,260)	108,871	34,611
Net assets, beginning of year	<u>315,287</u>	<u>30,346</u>	<u>345,633</u>
Prior period adjustment	(18,152)		(18,152)
Net assets, beginning restated	<u>297,135</u>	<u>30,346</u>	<u>327,481</u>
Net assets, end of year	<u>\$ 222,875</u>	<u>\$ 139,217</u>	<u>\$ 362,092</u>

See accountant's report and notes to the financial statements

**HARRISON NEIGHBORHOOD ASSOCIATION
STATEMENT OF FUNCTIONAL EXPENSES
DECEMBER 31, 2013**

	Community	Environmental		Transit	Wirth		2013			
	Engagement	Justice	Equity	Housing	Equity	COOP	Total Programs	Administration	Fundraising	TOTAL
Expense	0.34	0.14	0.11	0.20	0.21	0.00		0.02		
Wages	56,913	22,879	18,286	32,936	34,529	-	165,543	2,875	-	168,418
Payroll taxes	3,450	1,387	1,109	1,997	2,093	-	10,036	174	-	10,210
Benefits	6,897	2,773	2,216	3,991	4,184	-	20,061	348	-	20,409
Total personnel costs	67,260	27,039	21,610	38,924	40,806	-	195,639	3,398	-	199,037
Payroll processing costs	750	300	240	432	453	-	2,175	38	-	2,213
Business expenses	75	-	-	-	-	-	75	-	-	75
Advertising and promotion	48	45	50	-	305	-	448	-	-	448
Bank charges	55	-	-	-	-	165	220	330	-	550
In-kind occupancy	4,055	1,630	1,303	2,347	2,460	-	11,795	205	-	12,000
Child care	2,100	525	50	-	-	-	2,675	-	-	2,675
Flyer delivery	1,540	-	35	-	-	-	1,575	60	-	1,635
Insurance-Liability	-	728	-	-	-	-	728	-	-	728
Insurance Work Comp	144	-	-	-	-	-	144	-	-	144
Meeting supplies	1,549	-	-	-	-	-	1,549	-	-	1,549
Newsletter expenses	700	-	-	-	-	-	700	-	-	700
Office supplies	1,492	697	383	-	70	-	2,642	8	-	2,650
Postage	1,690	-	-	-	2,110	-	3,800	-	-	3,800
Technology support	3,884	-	600	-	1,571	-	6,055	389	-	6,444
Copier lease	2,776	-	-	249	2,243	-	5,268	-	-	5,268
Printing	-	-	-	-	237	1,222	1,459	-	-	1,459
Professional services	12,950	-	-	-	-	1,250	14,200	-	-	14,200
Repairs and maintenance	1,947	-	-	-	50	-	1,997	250	-	2,247
Special projects	1,600	1,180	2,147	5,719	4,500	-	15,146	1,338	-	16,484
Partnerships	-	-	16,978	-	27,000	-	43,978	-	-	43,978
Staff/Board Training	479	2,602	1,910	-	1,370	3,650	10,011	500	-	10,511
Telephone	2,391	-	-	-	392	516	3,299	-	-	3,299
Workshops	6,443	2,944	2,935	-	517	695	13,534	1,336	-	14,870
Coop expenses	-	-	-	-	-	35,062	35,062	-	-	35,062
Total Expense	113,928	37,690	48,241	47,671	84,085	42,560	374,174	7,852	-	382,026
	30%	10%	13%	12%	22%	11%	98%	2%	0%	100%

See accountant's report and notes to the financial statements

**HARRISON NEIGHBORHOOD ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Cash Flow From Operating Activity	<u>2013</u>
Increase (decrease) in net assets	\$ 34,611
Adjustments to reconcile changes in net assets to net cash provided by operating activities	
Prior period adjustment	(18,152)
Increase (decrease) receivables	(48,834)
Increase (decrease) accounts payable	(2,623)
Increase (decrease) refundable advances	<u>(10,000)</u>
Total adjustments	<u>(79,609)</u>
Cash Flow From Operating Activity	(44,998)
 Cash Flow From Investing Activity	
Purchase of equipment	-
Cash Flow From Investing Activity	-
Increase in Cash and Cash Equivalents	<u>(44,998)</u>
Cash and Cash Equivalents - Beginning of Year	<u>258,848</u>
Cash and Cash Equivalents - End of Year	<u>\$ 213,850</u>
 Supplemental disclosure:	
Cash paid for interest	\$ -

See accountant's report and notes to the financial statements

**HARRISON NEIGHBORHOOD ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Organization:

The Harrison Neighborhood Association (HNA) was organized to foster awareness, to improve the quality of life, and to provide a forum for information and communication in the Harrison community. In addition, the HNA was organized to combine the efforts with all residents, property owners, owners or authorized agents of business and professional persons doing business in the community to raise issues of common concern directed towards improving the Harrison Neighborhood. The HNA is governed by a 12-member Board of Directors elected by its members at its annual meeting; two at-large members appointed by the 12-member Board; the Board officers (president, vice-president, secretary, and treasurer); and the Board president of the previous year.

The significant accounting policies employed are described below to enhance the usefulness of the financial statements to the reader.

Basis of Presentation:

The Organization are presented on an accrual basis. 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 Harrison 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 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 the Council. This classification does not apply to the Association.

HARRISON NEIGHBORHOOD ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Basis of Accounting:

The HNA performs accounting on a modified accrual basis, and reports on an accrual basis where revenues are recognized when they are earned and expenses recognized when they are incurred.

Income Taxes:

Harrison Neighborhood Association 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 into federally insured checking and savings accounts account with amounts available on demand. At times, the amounts in the accounts may exceed the federal deposit insurance.

Accounts Receivable

Accounts receivable are classified as pledges or contracts receivable based on whether the amounts are grants or business exchange transactions respectively. All receivables are due within one year, and an allowance for uncollectible accounts is not considered necessary at year-end.

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. Upon retirement or other disposition of property and equipment, the applicable cost and accumulated depreciation

Subsequent Events

Management has evaluated subsequent events through April 9, 2014 the date of the financial statements.

**HARRISON NEIGHBORHOOD ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

Major Funding Sources

The Neighborhood Association receives funding from the City of Minneapolis. These funds were used to administer programs, fund environmental, crime and safety, and provide housing grants. Government grants and contracts recognize revenue as earned when eligible expenses, as defined in each grant or contract, are made. Funds advanced and received on the above grants but not yet earned are shown as refundable advances. 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 Harrison Neighborhood Association will record such disallowance at the time the final assessment is made. Harrison has also raised a significant amount of public support from the funding community that recognizes the value of the HNA programs.

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 service benefited.

Fundraising Expenses

Fundraising expenses are included in management and general expenses.

Contingencies

The Organization relies on the City of Minneapolis for over 33% of their support and revenue, creating a financial dependency on this funding source to carryout their programs. If the City decreased funding, some programs would be financially challenged to continue providing services.

Compensated Absences

The Organization allows employees to carryover vacation pay. Since HNA cannot charge its primary granting authorities for accrued vacation until it is used, no provision has been made in the accompanying financial statements for recording the accrued vacation liability and related expenses at the end of the year.

**HARRISON NEIGHBORHOOD ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 2. ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2013 consist primarily of cost reimbursement contracts. The balances are expected to be fully collected and are as follows:

Rental income	\$ 5,400
City of Minneapolis contracts	<u>36,735</u>
Total accounts receivables	<u>\$ 42,135</u>

NOTE 3. GRANTS RECEIVABLE

Grants receivable at December 31, 2013 consisted of the following unconditional pledges:

McKnight	\$ 75,000
Headwaters	<u>42,000</u>
Total Grants receivable	<u>\$ 117,000</u>

NOTE 4. EQUIPMENT AND DEPRECIATION

Equipment at December 31, 2013 consisted of:

Equipment	\$ 18,166
Less: Accumulated Depreciation	<u>(18,166)</u>
Net book value	<u>\$ ---</u>

Depreciation expense of \$0 recorded for the year ended December 31, 2013.

NOTE 5. REFUNDABLE ADVANCES

Advances on government contracts include the following balances provided for working capital purposes.

Neighborhood Revitalization Program – #C96-23315	<u>\$ 9,000</u>
Total refundable advance	<u>\$9,000</u>

**HARRISON NEIGHBORHOOD ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 6. TEMPORARILY RESTRICTED NET ASSETS

The following net assets were temporarily restricted.

Time restricted

McKnight Foundation	\$ 75,000
Headwaters Foundation	<u>42,000</u>
Total temporary restricted net assets	<u>\$117,000</u>

NOTE 7. NET ASSETS RELEASED FROM RESTRICTIONS

The following net assets were released from restrictions either due to the expiration of time, or completion of program requirements.

Total net assets released from restriction for Food Coop program purposes	<u>\$8,129</u>
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NOTE 8. LEASE COMMITMENTS

The HNA is committed under a year-to-year operating lease for rent of office space. Rent expense related to this lease was \$1 for 2013; however, the HNA has previously remitted construction costs for the building in 2000.

As a result of the lease agreement, In-kind contributions and in-kind expenses are recognized at \$1,000 per month based on the value of the reduced rent.

NOTE 9 CONTINGENT LIABILITY

During 2013, a former employee filed a lawsuit alleging wrongful termination. The lawsuit was settled in 2014 at a cost of \$7,500 to HNA.

NOTE 10. RELATED PARTY TRANSACTION

The HNA supported the development of a food cooperative in the Harrison Neighborhood. The project has their own separate board of directors and operates as a separate Organization. The project however does not have their tax exempt status. During the 2013 year, a total of \$18,256 was collected on behalf the project. In addition, there was a total of \$22,217 of unexpended funds related to the project at December 31, 2013.

HARRISON NEIGHBORHOOD ASSOCIATION
SCHEDULE OF CITY ACTIVITY
DECEMBER 31, 2013

	CPP,CE (HNA-Programs)	HEALTHY LIVING (EQUITY)	NRP-23353 Engagement (NRP)	NRP 23353 Housing (NRP)	NRP23353 Environmental (NRP)	NRP 23315 Housing (NRP)	TOTAL
Ordinary Income/Expense							
Income						(1,287.77)	
40010 - Govt-NRP, CPP	14,347.50	0.00	41,586.08	41,631.59	12,482.45	0.00	110,048
Total Income	14,347.50	0.00	41,586.08	41,631.59	12,482.45	-1,287.77	108,760
Expense							
Payroll Expenses	7,404.57	11,639.02	25,996.10	40,240.02	12,482.45	0.00	97,762
Business Expenses	0.00	0.00	75.00	0.00	0.00	0.00	75
Advertising & Promotion	0.00	50.00	0.00	0.00	0.00	0.00	50
Bank Charges	0.00	0.00	15.00	0.00	0.00	0.00	15
Child Care	1,000.00	0.00	0.00	0.00	0.00	0.00	1,000
Flyer Delivery	400.00	35.00	0.00	0.00	0.00	0.00	435
Insurance Work Comp	0.00	0.00	144.00	0.00	0.00	0.00	144
Newsletter Expenses	700.19	0.00	0.00	0.00	0.00	0.00	700
Office Supplies	209.54	0.00	0.00	0.00	0.00	0.00	210
Postage	1,690.00	0.00	0.00	0.00	0.00	0.00	1,690
Technology Support	1,167.00	600.00	1,556.00	0.00	0.00	0.00	3,323
Copier Lease	513.07	0.00	2,262.72	249.52	0.00	0.00	3,025
Professional Services	500.00	0.00	9,000.00	0.00	0.00	0.00	9,500
Repairs & Maintenance	0.00	0.00	1,140.00	0.00	0.00	0.00	1,140
Special Projects	0.00	1,446.31	0.00	1,142.05	0.00	4,576.59	7,165
Partnerships	0.00	16,978.04	0.00	0.00	0.00	0.00	16,978
Staff/Board Training	45.00	407.39	210.00	0.00	0.00	0.00	662
Telephone	718.13	0.00	1,187.26	0.00	0.00	0.00	1,905
Workshops	0.00	480.00	0.00	0.00	0.00	0.00	480
Total Expense	14,347.50	31,635.76	41,586.08	41,631.59	12,482.45	4,576.59	146,260
Net Ordinary Income	0.00	-31,635.76	0.00	0.00	0.00	-5,864.36	(37,500)
Net Income	0.00	-31,635.76	0.00	0.00	0.00	-5,864.36	-37,500.12

**HARRISON NEIGHBORHOOD ASSOCIATION
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
DECEMBER 31, 2013**

PREVIOUSLY REPORTED ITEMS

97-1 Segregation of Duties

Due to the limited number of office personnel within the HNA, segregation of the accounting functions necessary to ensure the adequate internal control is not possible. This is not unusual in operations the size of the HNA; however, the HNA's management 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.

Client Response

As you have noted, the HNA's size restricts our ability to fully segregate our accounting functions. The HNA's management is aware of this condition. The HNA is taking steps to further include the Finance Committee to assist in segregation of duties.

10-2 Payment to Board Members

During the review of the 2013 financial statements, it was noted that a board member received a stipend of \$2,000 for consulting services provided to the HNA. Payments to board members are not considered a best practice by the Minnesota Charity Review Council. If this payment continues, it should be documented as approved in the board minutes. In addition, the board member receiving payment should excuse themselves from the decision.

Client Response

This practice reflects the significant effort put forth by the Treasurer. The practice has been approved by the HNA board with the Treasurer abstaining from the process.

10-3 Documentation for Payments to Vendors

Documentation to support payments to some vendors was absent. 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.

Client Response

Auditor recommendations will be implemented.

**HARRISON NEIGHBORHOOD ASSOCIATION
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
DECEMBER 31, 2013**

10-4 Employee Time Sheets

Our review of the employee time records revealed that timesheets were not consistently prepared. This reduces the reliability of financial reporting, as wages are the HNA's largest expense but these expenses are not supported with documentation that work was performed towards the funding source.

We recommend the supervisory approvals of timesheets take place within two days after the end of the pay period. We also recommend that the HNA board review and approve employee records of vacation, sick, and comp time each year, preferably on a quarterly basis.

Client Response

Client response: HNA implemented a new personnel policy in January 2014 and procedures for tracking employee time and paid time-off. Vacation, personal and comp time are tracked directly on the timecard and approved every two weeks. The Finance Committee will review records for accuracy at least quarterly.

10-5 Timely Requests for Grant Reimbursements

Although progress has been made towards processing reimbursement, the HNA continues to carry grant receivables that are well over a year old. Timely requests for reimbursements are necessary to ensure cash flows are adequate for current operations, as well as to ensure that funds are available and not reallocated by a funding source. We recommend that the HNA prepare its reimbursement requests on a timely basis, preferably monthly or quarterly.

Client Response

Progress has been made towards timely reimbursement requests. Auditor's recommendation of quarterly reimbursement requests has already been implemented.

10-6 Restricted Contributions

The accounting requirements for HNA are substantial due to the various funding sources. I recommend that HNA more carefully monitor the position of each contract to ensure that funding source requirements are well understood. We recommend that the Executive Director meet on a regular basis with the accountant to ensure the status of all contracts are well understood and consistently accounted for.

Client Response

The Finance Committee and Executive Director will work with the accountant to ensure that restricted funds are tracked appropriately in the accounting system and used only for the intended purpose.

**HARRISON NEIGHBORHOOD ASSOCIATION
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
DECEMBER 31, 2013**

11-1 Financial Reporting and Cost Allocation

Like most Organizations of this size, HNA reports expenses by funding source. However the Organization is required to report expenses on a functional basis for filing with the IRS. Also external users find this reporting more useful. During the review process, the allocation of these costs required additional work by the accountant and it was not clear that the process of allocating costs by function is supported by the current financial records. It has required a review by NCR staff to determine the status of a contract. In addition, we believe the chart of accounts could use account titles that better describe the expenses. We recommend the Organization invest in improving their financial reporting.

Client Response

The Finance Committee and Executive Director will work with the contract accountant to ensure that expenses are tracked by the funding source and also by function.

11-2 Compensation

The HNA should work to define compensation practices and ensure these practices are consistent with the law. We noted a compensation package that included reimbursement for health insurance premiums. In addition, a policy for paid time off was not clearly defined so employees have the ability to be paid for their time off. Each of these examples represents opportunities where compensation policies would help to improve the consistency and accuracy. We recommend that policies be established that will ensure consistent application of compensation and management of vacation liabilities.

Client Response

The HNA Board of Directors passed a new Personnel Policy on February 10, 2014 that addresses these concerns. HNA is no longer reimbursing employees for non-HNA health insurance premiums and has a system for tracking paid time off.

11-3 Fiscal Sponsorship

HNA has engaged in a fiscal sponsorship relationship by accepting contributions on behalf of another Organization. This practice carries risks that ultimately include placing the non-profit status of HNA at risk. I recommend the HNA encourage the project to apply for their own tax exempt status. Otherwise HNA should manage the activities since HNA receives the tax deductible contribution. The IRS requires the sponsoring organization (HNA) to have goals that are consistent with the agency that receives the funding. The COOP is reported like a fiscal agency transaction where the detailed transactions are not disclosed in the financial statements. It appears that COOP activity is reported on a net basis without the ability for users of the Organization to understand the transactions. I encourage HNA to report the activity in more detail as a program so the COOP if the relationship continues. In addition, there are other Organizations that HNA supports that should be evaluated at the board level

**HARRISON NEIGHBORHOOD ASSOCIATION
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
DECEMBER 31, 2013**

Client Response

The Wirth Coop remains an important project for the Harrison neighborhood but it is time for the Coop to stand on its own. HNA and Coop leadership have been meeting and hope to have all funds and responsibility transferred to the Wirth Coop by June 1, 2014. In the future, HNA will thoroughly evaluate the risks and benefits associated with entering into this type of relationship before any formal arrangement is made. If the board of directors decides to become a fiscal agent for another organization or group, formal documents outlining the relationship will be created and reviewed by an attorney if necessary.

NEW ITEMS

13-1 Paid Time Off

Previous audit findings identified HNA failed to provide supporting documentation in the form of time sheets for paid work and for paid time off and this continued in 2013. During the current audit period, a former employee was paid for over 400 hours of paid time-off at separation. The personnel file did not contain supporting documentation for the amount paid.

Client Response

The HNA Board of Directors passed a new Personnel Policy on February 10, 2014 and implemented a new system for tracking paid time-off. Time off is now earned each pay period and time away from the office is documented on each time card. Time cards are reviewed and approved after each pay period.

13-2 Employee Benefits

Previous audit findings identified unusual pay agreements for benefits that included paying an employee a stipend for health insurance. Health insurance should either be paid by HNA or actual costs should be reimbursed. Stipends should be added to W2 income. In the current year, an employee was informed they were covered by dental insurance when they were not. This practice has created a contingent liability to HNA.

Client Response

The HNA Board of Directors passed a new Personnel Policy on February 10, 2014 that addresses these concerns. HNA is no longer reimbursing employees for non-HNA health insurance premiums and will pay any stipends through the payroll service as W2 income.

**HARRISON NEIGHBORHOOD ASSOCIATION
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
DECEMBER 31, 2013**

13-3 Personnel Files

I recommend HNA maintain personnel files for every employee. Each file should contain:

- Signed and dated application of employment.
- Form I-9 Employment Eligibility Verification.
- Date of hire.
- Approved pay rate (updated as changes occur).
- Signed W-4 form.
- Updated paid time off status.
- Beneficiary designation form.
- Employee's current address and phone number.
- Next of kin's or other emergency contact's name, address, and current daytime phone number.
- Employee evaluations.
- Employment separation and termination procedures.

A responsible official (Board member) should approve all documents.

Client Response

Personnel files for current employees are up to date and contain all of the above-mentioned items.

13-4 Restricted Donations

When HNA receives a grant for a specific purpose it is the responsibility of HNA to use the funds in accordance with the donor requirement. HNA should use the money for the intended purpose or gain approval from the funder to use the funds for other purposes, or return the funds to the donor. The HNA accounting records do not show a transparent way to determine if restricted contributions exist.

Client Response

The auditor's recommendation will be implemented.

**HARRISON NEIGHBORHOOD ASSOCIATION
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
DECEMBER 31, 2013**

13-5 Internal Controls Over Financial Reporting

Based on the number of accounting adjustments required during the financial review process that HNA's financial statements do not include all of the necessary adjustments to provide financial statements comparable to audited statements distributed to outside users. This is a material internal control weakness. There were adjustments needed to make the financial statements accurate.

We also noted inconsistencies with the process for account coding for receipts and disbursements. This has led to inconsistent reports that are difficult to evaluate on a regular basis. The problems appear to be related to a lack of knowledge with working with automated accounting systems like Quickbooks.

In consideration of the increasingly numerous, and costly requirements to adjust financial reporting generally accepted accounting principles, I recommend HNA move towards an accrual basis of accounting that can report the financial position and the results of operations accurately.

Client Response

The HNA Board of Directors and Finance Committee understand the seriousness of this issue and are in the process of reviewing the recommendation and discussing how to best proceed. Action will be taken in 2014 to remedy the situation.

13-6 Monitoring

HNA engages in partnerships with other organizations through the Corridors for Opportunity program. During the review, it was unclear how HNA monitors the activities of the recipients to determine that satisfactory progress is being made in accordance with the grant.

Client Response

Better care will be given to the creation and on-going monitoring of our partnerships. The HNA board and new Executive Director will be expected to enter into partnerships with clearly defined roles and responsibilities, track progress regularly, and evaluate the effectiveness of partnership/project. This will be reflected in both our files and our financial accounting.

13-7 Fixed Assets

The HNA should maintain fixed asset records that itemize the cost of each piece of equipment. In addition, the equipment should be marked as Property of HNA. Some organizations use a minimum threshold of \$500 for inclusion on the list.

Client Response

HNA will inventory all property in 2014 for our records. New property purchases over \$500 will be added to the inventory.

**HARRISON NEIGHBORHOOD ASSOCIATION
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13-8 Contract/Grant Management

We noted during the 2013 year there were contracts that were not managed well by HNA. The issues identified include poor communication with funding sources and failure to communicate accomplishments. These practices harm the image of HNA in the community and may damage future funding. Also, HNA has various cost reimbursement contracts with the City of Minneapolis and other sources. The City of Minneapolis recommends neighborhood groups request reimbursement on regular at least each quarter.

In addition, a \$16,984 accounts receivable related to an agreement with Urban Strategies was written-off due to contract management issues. I recommend HNA manage relationships with funding sources better by filing timely reports, and tracking actual expenses and activities throughout the grant period.

Client Response

HNA went through a difficult time in 2013 after their long-time Executive Director resigned. After a thorough search, the Board of Directors promoted a current staff member to the Executive Director position. That person only remained with the organization for six months so the organization was faced with another management change. The Board of Directors formed a Transition Committee and hired an interim executive director to help the organization get back on track. By early 2014, HNA was current on all grant reporting and had communicated the transition plan to all of our funders. Systems have been put in place to track grant activities and a permanent executive director starts May 19, 2014. The board of directors is aware of this past issue and will work with the new director to ensure that HNA is a good steward of all funds received and that our relationships with the funding community are not jeopardized.

13-9 Fiscal Sponsorships

HNA may enter into fiscal sponsor agreements without understanding the risks to the Organization. If HNA elects to sponsor a project, HNA may collect tax deductible contributions and disburse them to project. The HNA should evaluate whether the project is aligned with the goals stated in the tax exempt application of HNA otherwise a project can jeopardize the tax exempt status of HNA. In addition, HNA assumes the organizational risks of operating the project. Projects like the Wirth Coop should be supported with written documentation so all stakeholders fully understand the risks.

Client Response

The Wirth Coop remains an important project for the Harrison neighborhood but it is time for the Coop to stand on its own. HNA and Coop leadership have been meeting and hope to have all funds and responsibility transferred to the Wirth Coop by June 1, 2014. In the future, HNA will thoroughly evaluate the risks and benefits associated with entering into this type of relationship before any formal arrangement is made. If the board of directors decides to become a fiscal agent for another organization or group, formal documents outlining the relationship will be created and reviewed by an attorney if necessary.

**HARRISON NEIGHBORHOOD ASSOCIATION
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
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13-10 Functional Statement of Expenses

HNA only reported 2% of total expenses as administration and fundraising costs which is low for an organization of this size. It is unlikely that HNA could execute the administrative and fundraising functions at a cost of \$7,647 for the year. I recommend that HNA review their cost allocation procedures to improve the financial reporting.

Client Response

The auditor's recommendation will be implemented.

13-11 Public Disclosure

The HNA is in compliance with the IRS requirement to file an annual 990 information return, and the Minnesota Attorney General Annual Registration form. However the 2012 Attorney General form was filed late. I recommend HNA make the returns available to the public on the HNA website.

Client Response

HNA is current with all filings and on track to meet the 2014 reporting deadlines. Once approved by the Board of Directors, the 2013 990 and Auditor's Report will be posted on the HNA website.

13-12 Conflict of Interest Policy

We believe that it is in management's best interests to establish a formal, written, policy and procedures covering unethical conduct or transactions and relationships that may involve potential conflicts of interests. Among other matters, the policy should provide the following: 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 board of directors and employees in sensitive positions certifying their compliance with the policy, and these statements should be the Board of Directors.

Client Response

The HNA Board of Directors is in the process of revising and implementing a new Conflict of Interest Policy. Once approved, the HNA Board of Directors and staff will be required to sign the forms each year after new board member elections.