

**SEWARD NEIGHBORHOOD GROUP**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2008**

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

## TABLE OF CONTENTS

Independent Auditor's Report .....	1
Financial Statements	
Statement of Financial Position .....	2
Statement of Activities .....	3
Statement of Functional Expenses.....	4
Statement of Cash Flows .....	5
Notes to Financial Statements .....	6-11
Supplemental Information	
Schedule of NRP Activity .....	11
Schedule of Findings and Recommendations .....	12-13
Report on Compliance .....	14-15

**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, 2008, and the related statements of activities, functional expenses and cash flows for the years 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.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompany financial statements referred to in the first paragraph are presented fairly in all material respects, the financial position of Seward Neighborhood Group as of December 31 2008 in conformity with accounting principles generally accepted in the United States of America.

*Michael S. Wilson, CPA*

July 9, 2009  
Minneapolis, Minnesota

**SEWARD NEIGHBORHOOD GROUP**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2008**

**ASSETS**

Current Assets:

Cash and equivalents	\$ 38,956
Accounts receivable	13,171
Prepaid expenses	<u>2,068</u>
Total current assets	54,195

Land, building, and equipment, net of accumulated depreciation	<u>130,961</u>
---	----------------

Total Assets	<u><u>\$ 185,156</u></u>
--------------	--------------------------

**LIABILITIES AND NET ASSETS**

Current Liabilities

Accounts payable and accrued expenses	\$ 15,768
Refundable advance	5,548
Line of credit	<u>32,438</u>
Total current liabilities	53,754

Long-term liabilities

Refundable advances	90,046
Mortgage payable	<u>180,000</u>
Total long-ter liabilities	270,046

Total Liabilities	<u>323,800</u>
-------------------	----------------

Net Assets

Unrestricted	(162,053)
Temporarily restricted	<u>23,409</u>
Total net assets	(138,644)

Total Liabilities and Net Assets	<u><u>185,156</u></u>
----------------------------------	-----------------------

See accountant's report and notes to financial statements

**SEWARD NEIGHBORHOOD GROUP**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED**  
**DECEMBER 31, 2008**

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total</u>
<b>Support and Revenue:</b>			
Contributions	38,432	43,206	81,638
Government awards	116,125	-	116,125
Rental income	34,334	-	34,334
Net assets released from restrictions	29,981	(29,981)	-
Miscellaneous income	1,042	-	1,042
	<u>219,914</u>	<u>13,225</u>	<u>233,139</u>
<b>Expenses:</b>			
Program expenses:			
Total program expenses	77,664	-	77,664
Supporting services:			
Management and general	63,771	-	63,771
Fundraising	-	-	-
Total supporting services	<u>63,771</u>	<u>-</u>	<u>63,771</u>
Total expenses	<u>141,435</u>	<u>-</u>	<u>141,435</u>
Change in net assets	78,479	13,225	91,704
Net assets, beginning of year	<u>(240,532)</u>	<u>10,184</u>	<u>(230,348)</u>
Net assets, end of year	<u><u>\$ (162,053)</u></u>	<u><u>\$ 23,409</u></u>	<u><u>\$ (138,644)</u></u>

See accountant's report and notes to financial statements

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

	<u>Program</u>	<u>Management</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Salaries	\$ 35,437	\$ 483	\$ -	\$ 35,920
Payroll taxes and insurance	2,731	30	-	2,761
Benefits	2,237	3,153	-	5,390
Total personnel	<u>40,405</u>	<u>3,666</u>	<u>-</u>	<u>44,071</u>
Contract services	25,620	1,501	-	27,121
Occupancy	3,765	39,174	-	42,939
Supplies	528	220	-	748
Postage	126	-	-	126
Copying and printing	2,487	-	-	2,487
Insurance	-	1,198	-	1,198
Advertising	468	-	-	468
Interest and charges	-	4,455	-	4,455
Equipment and repairs	-	470	-	470
Depreciation	-	8,593	-	8,593
Miscellaneous	426	283	-	709
Loss on sale of equipment	-	4,211	-	4,211
Program expenses	<u>3,839</u>	<u>-</u>	<u>-</u>	<u>3,839</u>
	<u>\$ 77,664</u>	<u>\$ 63,771</u>	<u>\$ -</u>	<u>\$ 141,435</u>

See accountant's report and notes to financial statements

**SEWARD NEIGHBORHOOD GROUP**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED**  
**DECEMBER 31, 2008**

**Cash Flows From Operating Activities**

Change in Net Assets	\$ 91,704
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities	
Depreciation	8,593
Loss on sale of equipment	4,211
Debt forgiveness	(49,502)
Changes in current assets and liabilities	
(Increase) Decrease in accounts receivable	860
(Increase) Decrease in prepaid expenses	(1,683)
Increase (Decrease) in accounts payable	(13,476)
Increase (Decrease) in refundable advances	(16,917)
Total adjustments	(67,914)
Net Cash Provided by Operating Activities	23,790

**Cash Flows From Investing Activities**

Proceeds from sale of equipment	5,415
---------------------------------	-------

**Cash Flows From Financing Activities**

Increase (Decrease) in line of credit	(1,020)
Cash used for financing activities	(1,020)
Increase/(Decrease) in Cash and Cash Equivalents	28,185
Cash and Cash Equivalents, Beginning of Year	10,771
Cash and Cash Equivalents, End of Year	\$ 38,956

Supplemental disclosure	
Cash paid for interest	\$ 4,455

See accountant's report and notes to financial statements

**SEWARD NEIGHBORHOOD GROUP  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2008**

**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, 2008**

**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, 2008**

**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, 2008 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, 2008 are as follows:

Costs to be reimbursed:

Common Cause	\$1,498
Hennepin County	6,027
Seward Towers	3,332
Other	<u>731</u>
Total receivables	<u>\$ 11,589</u>

**SEWARD NEIGHBORHOOD GROUP  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2008**

**NOTE 3. BUILDING AND EQUIPMENT AND DEPRECIATION**

Equipment at December 31, 2008 consisted of:

Building 2424 East Franklin	\$180,000
Building improvements	28,777
Equipment	<u>15,747</u>
Total cost	224,525
Less: accumulated depreciation	<u>(93,564)</u>
Net book value	<u>\$ 130,961</u>

Depreciation expense of \$8,593 was recorded for the year ended December 31, 2008.

**NOTE 4. LONG-TERM DEBT**

The following is a summary of long-term debt payable at December 31, 2008:

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. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets as of December 31, 2008 are as follows:

Nonrecurring	\$13,982
Peace Garden	958
Community Garden	580
Sewing Circle	502
Arts Festival	219
Restorative Justice	<u>7,170</u>
Total temporarily restricted funds	<u>\$23,410</u>

**SEWARD NEIGHBORHOOD GROUP  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2008**

**NOTE 7. 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, 2008, the following refundable advances were available for SNG.

Seward Towers	\$4,131
Other	<u>1,417</u>
Total	<u>\$5,548</u>

**NOTE 8. 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:

Streetscape improvements	\$ 7,578
Duplex Reconversion	33,025
Home Additions	9,368
Improve existing housing	24,813
Rental property improvements	<u>15,262</u>
Total housing advances	<u>\$ 90,046</u>

**SEWARD NEIGHBORHOOD GROUP  
SCHEDULE OF CONTRACT ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<b>Phase 2</b>	<b>NRP HC</b>	<b>CDBG</b>	<b>Total</b>
Total Revenue	4,618	6,027	2,000	12,645
Total Expenses	<u>4,618</u>	<u>6,027</u>	<u>2,000</u>	<u>12,645</u>
Net	---	---	---	---

**SEWARD NEIGHBORHOOD GROUP, INC.**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
**DECEMBER 31, 2008**

**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 2008 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, 2008. 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.

**NEW ITEMS**

**08-1 Board Approval**

The SNG has recently implemented policies and procedures that provide for a better internal control environment. However, during 2008 there was a decision to dispose of a fixed asset (copier machine) that lacked supporting documentation of board approval. The board minutes should reflect the decision of the board to dispose of the asset, and the documentation was lacking.

**Client Response**

The SNG Board authorized its Executive Committee to deal with termination of a copier lease, which ultimately resulted in the sale of the copier after a settlement was reached with the leasing company. The fact that Board minutes do not document this authorization indicates that Board members need to exercise more care in making sure that decisions made by the Board are recorded in the minutes.

**SEWARD NEIGHBORHOOD GROUP, INC.**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
**DECEMBER 31, 2008**

**08-2 In-kind donations**

The SNG benefits from an active community that participates in supporting programs. SNG management should assess whether the volunteer services qualify for recognition in the financial statements in accordance with accounting standards. In addition, the SNG may benefit by tracking all volunteer hours to help the funding community recognize that the SNG enjoys widespread public support which may be a funding criteria.

**Client Response**

Although the SNG Executive and Finance Committees are aware of the important services provided to the SNG by volunteers, we feel that these services to date do qualify for recognition in the financial statements. We will continue to evaluate volunteer services for inclusion in the financial statements as they occur, and we will consider a method for tracking all volunteer hours.

**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, 2008, 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 2008.

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.