

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

NOKOMIS EAST NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2004

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits for local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for over 700 public pension funds; and

Tax Increment Financing, Investment and Finance - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**NOKOMIS EAST NEIGHBORHOOD
ASSOCIATION
MINNEAPOLIS, MINNESOTA**

For the Year Ended December 31, 2004



**Audit Practice Division
Office of the State Auditor
State of Minnesota**

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**NOKOMIS EAST NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

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**NOKOMIS EAST NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

**ORGANIZATION SCHEDULE
2004**

<u>Board Members</u>	<u>Term Expires</u>
Greg Bastien	April 2006
Vicki Bonk*	January 2004 (Resigned)
Journey Gosselin	April 2005
David Houghton*	April 2005
David Hughes	May 2005 (Resigned)
George D. Jelatis - Chair	April 2007
Betty Jones - Treasurer	April 2006
Kent Knopp-Schwyn - Vice Chair	April 2006
Karen Mathias*	February 2004 (Resigned)
Earl Netwal	April 2006
Alan Schneider - Secretary	April 2007
Marian Streitz	April 2006
Richard Streitz	April 2006
Tony Sutton*	April 2005
Barnaby Wiesner	April 2006
<u>Executive Director</u>	
Rita Ulrich	Indefinite

*Alternate

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PATRICIA ANDERSON
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Nokomis East Neighborhood Association

We have audited the statement of financial position of the Nokomis East Neighborhood Association (NENA) (a nonprofit corporation) as of December 31, 2004, and the related statements of activity, functional expenses, and cash flows for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the NENA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the NENA as of December 31, 2004, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The Schedule of NRP Activity listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the NENA. Such

information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: October 25, 2005

FINANCIAL STATEMENTS

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**NOKOMIS EAST NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

EXHIBIT 1

**STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2004**

Assets

Current assets

Cash	\$	22,183
Grants receivable		36,999
Prepaid expenses		1,523
Fixed assets - net of depreciation		<u>1,591</u>
Total Assets	\$	<u><u>62,296</u></u>

Liabilities and Net Assets

Liabilities

Current liabilities		
Accounts payable	\$	15,513
Deferred revenue		<u>28,625</u>
Total Liabilities	\$	<u>44,138</u>

Net Assets

Restricted	\$	755
Unrestricted		<u>17,403</u>
Total Net Assets	\$	<u>18,158</u>
Total Liabilities and Net Assets	\$	<u><u>62,296</u></u>

**NOKOMIS EAST NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITY
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Unrestricted	Temporarily Restricted	Total
Public Support and Other Revenue			
Public support			
Government grants			
Neighborhood Revitalization Program (NRP)	\$ 163,832	\$ -	\$ 163,832
Contributions	11,727	-	11,727
Total Public Support	\$ 175,559	\$ -	\$ 175,559
Other revenue			
Miscellaneous income	1,442	-	1,442
Total Public Support and Other Revenue	\$ 177,001	\$ -	\$ 177,001
Expenses			
Program services			
NRP	\$ 163,435	\$ -	\$ 163,435
Support services			
Management and general	7,858	-	7,858
Total Expenses	\$ 171,293	\$ -	\$ 171,293
Increase (Decrease) in Net Assets	\$ 5,708	\$ -	\$ 5,708
Net Assets - January 1	11,695	755	12,450
Net Assets - December 31	\$ 17,403	\$ 755	\$ 18,158

**NOKOMIS EAST NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

EXHIBIT 3

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Neighborhood Revitalization Program</u>	<u>Management and General</u>	<u>Total</u>
<u>Expenses</u>			
Payroll			
Salaries	\$ 84,165	\$ 1,389	\$ 85,554
Benefits	4,656	-	4,656
Taxes	33,696	-	33,696
Advertising fees	3,468	-	3,468
Bank charges	34	-	34
Rent	8,664	-	8,664
Printing and copying	5,559	-	5,559
Equipment	432	-	432
Depreciation - fixed assets	276	-	276
Insurance	1,896	-	1,896
Miscellaneous	343	6,469	6,812
Dues and subscriptions	50	-	50
Internet and web page	1,189	-	1,189
Events - performance fees	1,580	-	1,580
Events - supplies	1,647	-	1,647
Contracted services	869	-	869
Supplies	1,509	-	1,509
Postage	2,554	-	2,554
Professional services	1,729	-	1,729
Program expense - grants - Children First	6,219	-	6,219
Staff/board training	1,166	-	1,166
Telephone	1,734	-	1,734
Total Expenses	<u>\$ 163,435</u>	<u>\$ 7,858</u>	<u>\$ 171,293</u>

**NOKOMIS EAST NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

EXHIBIT 4

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Cash Flows From Operating Activities	
Increase (decrease) in net assets	\$ 5,708
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities	
Depreciation	\$ 276
(Increase) decrease in grants receivable	18,469
(Increase) decrease in prepaid items	444
Increase (decrease) in accounts payable	7,099
Increase (decrease) in deferred revenue	(9,691)
Total adjustments	\$ 16,597
Net cash provided by (used in) operating activities	\$ 22,305
Cash Flows from Investing Activities	
Acquisition of fixed assets	(1,199)
Net Increase (Decrease) in Cash	\$ 21,106
Cash - January 1	1,077
Cash - December 31	\$ 22,183

**NOKOMIS EAST NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004**

1. Summary of Significant Accounting Policies

A. Organization

The Nokomis East Neighborhood Association (NENA) was formed to encourage neighborhood communication and citizen participation; to review programs offered by the City of Minneapolis as these programs affect the Nokomis East neighborhood; to arrange and conduct neighborhood meetings, to study and review all proposals of a commercial or residential nature and make recommendations to the appropriate governmental and private entities; to promote neighborhood improvement and revitalization and to act as a contact between the City of Minneapolis in general and the NENA residents; and to see that the character of the neighborhood is maintained. The area of the Nokomis East Neighborhood is composed of the Keewaydin, Minnehaha, Morris Park, and Wenonah neighborhoods, and is bounded by Minnehaha Parkway on the north; Minnehaha Avenue on the east, including Valley View Road and Hiawatha Lane; Cedar Avenue on the west; and the southern boundary of the City of Minneapolis.

B. Board of Directors and Officers

The NENA Board of Directors consists of 11 members, of which two are selected from each of the four neighborhoods and three chosen at large. The Directors are elected at the annual meeting in March for two-year terms. To ensure some continuity in membership, the terms of neighborhood representatives are staggered with terms of at-large and alternate members. Vacancies on the Board of Directors are filled by appointment by the NENA Board of Directors until the following annual meeting. The four officers (chair, vice chair, secretary, and treasurer) are elected by Board members at the first Board meeting following the annual meeting.

C. Basis of Presentation

The provisions of Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*, and SFAS No. 117, *Financial Statements of Not-for-Profit Organizations*, have been applied to the amounts presented in these financial statements. Under these provisions, net assets and revenues, gains, and losses are classified based on donor-imposed restrictions. Accordingly, net assets of the NENA and changes therein are classified and reported as follows:

**NOKOMIS EAST NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Basis of Presentation (Continued)

Unrestricted - Those resources over which the NENA has discretionary control.

Temporarily Restricted - Those resources subject to donor-imposed restrictions which will be satisfied by actions of the NENA or passage of time.

Permanently Restricted - Those resources subject to a donor-imposed restriction that they be maintained permanently by the NENA. The donors of these resources permitted the NENA to use all or part of the income earned, including capital appreciation or related investments, for unrestricted or temporarily restricted purposes.

D. Basis of Accounting

The NENA reports on the accrual method of accounting where revenues are recognized when they are earned and expenses are recognized when they are incurred.

E. Expense Allocation

Salaries and related expenses are allocated based on job descriptions and the best estimates of management. Expenses other than salaries and related expenses, which are not directly identifiable by program or supporting service, are allocated based on the best estimates of management in relation to grant budgets. Fund raising expenses are considered to be minimal and those costs are included in management and general.

F. Income Taxes

The NENA is a not-for-profit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state statutes.

G. Cash

Cash consists of deposits in one checking account. At no time during the year did such deposits exceed FDIC insurance coverage.

**NOKOMIS EAST NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

H. Equipment

All purchased equipment is valued at cost. Donated equipment is valued at fair value at the date of contribution. Depreciation is computed using the straight-line method over estimated useful lives of three years to five years, depending on the type of asset.

I. Grants and Contracts

The NENA receives funds from the Minneapolis Neighborhood Revitalization Program (NRP) Policy Board. These funds are used to administer programs, provide grants to residents for the "Home Improvement Loan Program," provide for informational and organizational mailings, and for general office support. The NRP is the primary funding source for the NENA. 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 deferred revenue. 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 NENA will record such disallowance at the time the final assessment is made.

J. Contributions

The following types of contributions are recorded as revenue at their fair value when they are received unconditionally: cash, promises to give, certain contributed services, and gifts of long-lived assets. Conditional contributions are recognized as restricted revenue when received.

K. Donated Services and Materials

Amounts are included in the financial statements for donated materials. Materials were provided in relation to the rental of space, event supplies, and silent auction items.

L. Accrued Vacation and Compensatory Time

Employees of the NENA earn ten working days of vacation and five personal days each year. Compensatory time can be accrued up to a maximum of 40 hours. Since the NENA cannot charge its primary granting authorities for vacation and compensatory time until they are used, no provision has been made in the accompanying financial

**NOKOMIS EAST NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

1. Summary of Significant Accounting Policies

L. Accrued Vacation and Compensatory Time (Continued)

statements for recording the accrued liability and related expenses at year-end. At December 31, 2004, the amount of accrued vacation, personal days, and compensatory time was \$19,097.

2. Equipment

Equipment at December 31, 2004, was:

Equipment	\$ 3,671
Less: accumulated depreciation	<u>(2,080)</u>
Total Equipment	<u>\$ 1,591</u>

3. Deferred Revenue

Deferred revenue at December 31, 2004, was:

NRP	
C99-13804	\$ 10,000
C99-14052	1,125
C00-15062	10,000
C99-13839	<u>7,500</u>
Total	<u>\$ 28,625</u>

4. Restricted Net Assets

Restricted net assets at December 31, 2004, were:

Tracing Memory Program	\$ 555
Children First Program	<u>200</u>
Total	<u>\$ 755</u>

**NOKOMIS EAST NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

5. Operating Leases

The NENA leases office space on a year-to-year basis. Rental expense related to this lease was \$8,664 for 2004. The NENA is also committed under a lease for a copier. Rental expense related to this lease was \$2,514 for 2004. Future minimum rental payments for these are as follows:

	Rent	Copier
2005	\$ 8,305	\$ 1,648

6. Home Improvement Program

The NENA has initiated the “Nokomis East Neighborhood Home Improvement Loan Program”. Funding for this program was provided by the NRP. The program consists of loans up to a maximum of \$10,000 for homeowners to complete interior or exterior projects on their homes. The contract was executed in 2003 with the Center for Energy and Environment, Inc. (CEE). Total funds available for the program are:

Low-interest loan program	\$	283,692
Deferred loan		301,389
Interest subsidy loans		20,000
Emergency repair grant		67,535
Deferred loans Part 150		40,135
Total	\$	712,751

Amounts for the deferred loans may be forgiven if ownership is maintained for three or ten years, depending on amount of the loan. This program is administered by CEE. As of December 31, 2004, total loan and grant funds available are \$269,377.

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SCHEDULE OF NRP ACTIVITY

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**NOKOMIS EAST NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

Schedule 1

**SCHEDULE OF NRP ACTIVITY
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Full Plan Administration C99-13804	Full Plan Administration C99-13839	Miscellaneous Projects C99-14052	Total
Revenues	\$ 145,991	\$ 8,306	\$ 9,535	\$ 163,832
Expenses				
Payroll				
Salaries	\$ 76,287	\$ 487	\$ 7,391	\$ 84,165
Benefits	4,656	-	-	4,656
Taxes	33,672	-	24	33,696
Advertising fees	2,990	-	478	3,468
Bank charges	34	-	-	34
Rent	8,664	-	-	8,664
Printing and copying	5,559	-	-	5,559
Equipment	432	-	-	432
Depreciation - fixed assets	276	-	-	276
Insurance	1,896	-	-	1,896
Miscellaneous	343	-	-	343
Dues and subscriptions	50	-	-	50
Internet and web page	1,189	-	-	1,189
Events - performance fees	1,580	-	-	1,580
Events - supplies	1,647	-	-	1,647
Contracted services	869	-	-	869
Supplies	1,509	-	-	1,509
Postage	2,304	-	250	2,554
Professional services	1,279	-	450	1,729
Program expense - grants - Children First	-	6,219	-	6,219
Staff/board training	1,166	-	-	1,166
Telephone	1,180	-	554	1,734
Total Expenses	\$ 147,582	\$ 6,706	\$ 9,147	\$ 163,435
Revenues Over Expenses	\$ (1,591)	\$ 1,600	\$ 388	\$ 397

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**NOKOMIS EAST NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

Schedule 2

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2004**

I. INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-1 Segregation of Duties

Our previous reports have noted that due to the limited number of office personnel within the Nokomis East Neighborhood Association (NENA), segregation of the accounting functions necessary to ensure adequate internal control is not possible. This is not unusual in operations the size of the NENA; however, 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.

We understand that the NENA Board has acknowledged this condition and has implemented procedures to improve its segregation of accounting functions. We encourage the Board to continue with these efforts.

Client's Response:

NENA is aware that, as a small organization, adequate segregation of duties is difficult to achieve. We have taken steps over the years to strengthen internal controls whenever possible. NENA board members are mindful of the limitations inherent in the size of our operations and the need for continuous oversight of our financial operations.

ITEM ARISING THIS YEAR

04-1 Coding of Expenses

We found some expenses were coded incorrectly to the NRP program. This was apparently done because it was not clear where the expenses should be coded. No reimbursements from the NRP were requested for these expenses. This condition can lead to errors in requesting reimbursements from the NRP and can cause program expenses to be misstated in the financial statements.

We recommend that the NENA's chart of accounts be modified to account for these expenses or that they be recorded as management and general expenses.

Client's Response:

NENA will revise its chart of accounts to include separate coding for non-NRP expenses, to avoid the possibility of incorrectly charging ineligible expenses to an NRP contract.



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PATRICIA ANDERSON
STATE AUDITOR

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE

Board of Directors
Nokomis East Neighborhood Association

We have audited the financial statements of the Nokomis East Neighborhood Association, (NENA) (a nonprofit corporation) as of and for the year ended December 31, 2004, and have issued our report thereon dated October 25, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

The management of the NENA is responsible for establishing and maintaining internal controls. In fulfilling this responsibility, management must make estimates and judgments to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal controls are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition,
- transactions are executed in accordance with management's authorization, and
- transactions are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in internal controls, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit, we considered the NENA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted two matters involving the internal control over financial reporting

and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the NENA's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings and Recommendations as items 96-1 and 04-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not consider the reportable conditions above to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the NENA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance.

This report is intended solely for the information and use of the NENA's Board, its management, and the Neighborhood Revitalization Policy Board and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: October 25, 2005