

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

ELLIOT PARK NEIGHBORHOOD, INC.
MINNEAPOLIS, MINNESOTA

YEARS ENDED DECEMBER 31, 2004 AND 2003

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.

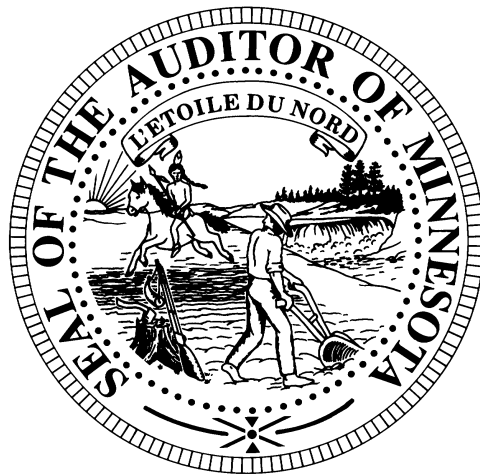
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**ELLIOT PARK NEIGHBORHOOD, INC.
MINNEAPOLIS, MINNESOTA**

Years Ended December 31, 2004 and 2003



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

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ELLIOT PARK NEIGHBORHOOD, INC.
MINNEAPOLIS, MINNESOTA

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**ELLIOT PARK NEIGHBORHOOD, INC.
MINNEAPOLIS, MINNESOTA**

**ORGANIZATION SCHEDULE
2004**

<u>Board Members</u>	<u>Term Expires</u>
Adam Ali	May 2006
Kent Bakken	May 2006
Elizabeth Beissel	May 2006
Gerry Berglin	May 2005
Tracy Berglund	May 2006
Carl Crimmins	May 2006
Kim Forbes	May 2005
Brian Goldie	August 2004, Resigned
Jody Goldie	August 2004, Resigned
Garrett Johnson	May 2005
Julie Kearns	May 2005
Kristina Kliber	May 2006
Michael Lazaretti	May 2005
Jeff Millikan	May 2006
Mohamed Mohamoud	September 2004, Resigned
Kirk Moorhead	May 2004
Millie Schafer	May 2005
Jim Souris	May 2005
Patti Wettlin	May 2005
Abdul Yusuf	May 2006
<u>Executive Director</u>	
Tom Reid	April 2005
Susan Braun	Indefinite

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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PATRICIA ANDERSON
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Elliot Park Neighborhood, Inc.

We have audited the statement of financial position of the Elliot Park Neighborhood, Inc., (EPNI) (a nonprofit corporation) as of December 31, 2004 and 2003, and the related statements of activity, functional expenses, and cash flows for the years then ended, as listed in the table of contents. These financial statements are the responsibility of the EPNI's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide 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 EPNI as of December 31, 2004 and 2003, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were 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 EPNI. 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: September 15, 2005

FINANCIAL STATEMENTS

**ELLIOT PARK NEIGHBORHOOD, INC.
MINNEAPOLIS, MINNESOTA**

EXHIBIT 1

**COMPARATIVE STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2004 AND 2003**

	2004	2003
<u>Assets</u>		
Current assets		
Cash and investments	\$ 64,692	\$ 50,761
Prepaid insurance	439	402
Grants receivable	69,273	130,120
Total current assets	\$ 134,404	\$ 181,283
Property and equipment		
Property and equipment net of depreciation	170	5,446
Total Assets	\$ 134,574	\$ 186,729
<u>Liabilities and Net Assets</u>		
Liabilities		
Accounts payable	\$ 784	\$ 6,621
Accrued payroll	1,962	11,413
Deferred revenue	19,555	35,392
Total Liabilities	\$ 22,301	\$ 53,426
Net Assets		
Unrestricted	\$ 56,160	\$ 70,131
Temporarily restricted	56,113	63,172
Total Net Assets	\$ 112,273	\$ 133,303
Total Liabilities and Net Assets	\$ 134,574	\$ 186,729

**ELLIOT PARK NEIGHBORHOOD, INC.
MINNEAPOLIS, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITY
FOR THE YEAR ENDED DECEMBER 31, 2004
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2003**

	Unrestricted	Temporarily Restricted	Totals	
			2004	2003
Public Support and Other Revenue				
Public support				
Government grants				
Minneapolis Community Planning and Economic Development (CPED)	\$ 23,095	\$ -	\$ 23,095	\$ 38,828
Neighborhood Revitalization Program (NRP)	264,298	-	264,298	264,362
Foundations	47,004	-	47,004	35,000
Contributions	18,233	976	19,209	36,896
Satisfaction of time and purpose restrictions	8,035	(8,035)	-	-
Total public support	\$ 360,665	\$ (7,059)	\$ 353,606	\$ 375,086
Other revenue				
Miscellaneous income	-	-	-	2,134
Total Public Support and Other Revenue	\$ 360,665	\$ (7,059)	\$ 353,606	\$ 377,220
Expenses				
Program services				
CPED	\$ 16,185	\$ -	\$ 16,185	\$ 45,011
NRP	262,599	-	262,599	266,213
After School Program	49,873	-	49,873	46,462
Whitney Foundation	8,333	-	8,333	15,297
East Downtown Council (EDC) Support	7,912	-	7,912	6,759
Minneapolis Foundation	97	-	97	22,134
All People's Gathering	854	-	854	2,317
Summer concert series	2,919	-	2,919	2,831
Computer Infrastructure	1,896	-	1,896	-
EPNI Newsletter	3,984	-	3,984	-
Transforming Parks	569	-	569	-
Annual Meeting	1,312	-	1,312	-
Total program services	\$ 356,533	\$ -	\$ 356,533	\$ 407,024
Support services				
Management and general	18,103	-	18,103	42,147
Total Expenses	\$ 374,636	\$ -	\$ 374,636	\$ 449,171
Increase (Decrease) in Net Assets	\$ (13,971)	\$ (7,059)	\$ (21,030)	\$ (71,951)
Net Assets - January 1	70,131	63,172	133,303	205,254
Net Assets - December 31	\$ 56,160	\$ 56,113	\$ 112,273	\$ 133,303

**ELLIOT PARK NEIGHBORHOOD, INC.
MINNEAPOLIS, MINNESOTA**

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2004
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>CPED</u>	<u>NRP</u>	<u>After School Program</u>	<u>Whitney Foundation</u>	<u>EDC Support</u>	<u>Minneapolis Foundation</u>	<u>All People's Gathering</u>
<u>Expenses</u>							
Salaries	\$ 11,731	\$ 137,885	\$ 40,129	\$ 3,552	\$ 5,223	\$ -	\$ -
Payroll taxes	1,082	12,718	3,701	328	482	-	-
Benefits	676	20,644	-	445	367	-	-
Insurance	-	1,655	-	-	-	97	-
Professional services	-	24,601	-	1,700	562	-	-
Occupancy	785	12,056	-	-	811	-	-
Office supplies	617	2,971	-	-	24	-	-
Office equipment	-	8,135	-	-	100	-	-
Telephone	224	1,752	-	-	238	-	-
Postage and delivery	365	1,834	-	111	110	-	-
Printing	62	842	-	176	-	-	145
Travel	-	-	-	456	15	-	22
Board and staff training	150	35	-	-	-	-	-
Program expense	-	27,711	6,043	2,191	-	-	-
Legal expense	-	624	-	-	-	-	-
Advertising fees	-	512	-	-	-	-	-
Special events	472	1,662	-	-	(20)	-	687
Bank fees	-	459	-	-	-	-	-
Subscriptions and dues	-	784	-	-	-	-	-
Depreciation	-	5,276	-	-	-	-	-
Miscellaneous	21	443	-	(626)	-	-	-
Total Expenses	<u>\$ 16,185</u>	<u>\$ 262,599</u>	<u>\$ 49,873</u>	<u>\$ 8,333</u>	<u>\$ 7,912</u>	<u>\$ 97</u>	<u>\$ 854</u>

EXHIBIT 3

Summer Concert Series	Computer Infrastructure	EPNI Newsletter	Transforming Parks	Annual Meeting	Management and General	Totals	
						2004	2003
\$ -	\$ 840	\$ 18	\$ 521	\$ -	\$ 10,082	\$ 209,981	\$ 219,680
-	77	2	48	-	930	19,368	21,025
-	-	-	-	-	-	22,132	26,321
-	-	-	-	-	-	1,752	1,503
-	-	-	-	-	-	26,863	34,234
-	-	-	-	-	-	13,652	14,010
-	-	-	-	88	-	3,700	5,158
-	979	-	-	-	-	9,214	11,756
-	-	-	-	-	-	2,214	1,783
-	-	-	-	-	-	2,420	2,607
280	-	-	-	639	107	2,251	319
-	-	-	-	-	1,008	1,501	1,468
-	-	-	-	-	-	185	1,262
-	-	3,964	-	-	-	39,909	74,353
-	-	-	-	-	-	624	3,822
424	-	-	-	-	-	936	1,272
2,115	-	-	-	585	1,271	6,772	7,114
-	-	-	-	-	-	459	434
-	-	-	-	-	-	784	811
-	-	-	-	-	-	5,276	5,389
100	-	-	-	-	4,705	4,643	14,850
\$ 2,919	\$ 1,896	\$ 3,984	\$ 569	\$ 1,312	\$ 18,103	\$ 374,636	\$ 449,171

**ELLIOT PARK NEIGHBORHOOD, INC.
MINNEAPOLIS, MINNESOTA**

EXHIBIT 4

**COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

	2004	2003
Cash Flows from Operating Activities		
Increase (Decrease) in net assets	\$ (21,030)	\$ (71,951)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities		
Depreciation	\$ 5,276	\$ 5,389
(Increase) decrease in prepaids	(37)	(68)
(Increase) decrease in grants receivable	60,847	(25,033)
(Increase) decrease in pledges receivable	-	50,000
Increase (decrease) in accounts payable	(5,837)	(27,477)
Increase (decrease) in accrued payroll	(9,451)	2,351
Increase (decrease) in deferred revenue	(15,837)	(2,490)
Total adjustments	\$ 34,961	\$ 2,672
Net cash provided by (used in) operating activities	\$ 13,931	\$ (69,279)
Cash - January 1	50,761	120,040
Cash - December 31	\$ 64,692	\$ 50,761

Noncash investing and financing activities

During 2004, Elliot Park Neighborhood, Inc., received donated services valued at \$624.
 During 2003, Elliot Park Neighborhood, Inc., received donated services valued at \$13,672.
 During 2004, Elliot Park Neighborhood, Inc., carried a Wells Fargo line of credit valued at \$5,000.
 During 2003, Elliot Park Neighborhood, Inc., carried a Wells Fargo line of credit valued at \$5,000.

ELLIOT PARK NEIGHBORHOOD, INC.
MINNEAPOLIS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

1. Summary of Significant Accounting Policies

A. Organization

The Elliot Park Neighborhood, Inc., (EPNI) is bounded by Fifth Street on the north, Fifth Avenue on the west, Interstate 94 on the south, and Interstate 35W on the east.

EPNI's mission is to bring people and resources together to preserve and promote the unique urban character of the historic Elliot Park Neighborhood.

B. Board of Directors and Officers

The EPNI's Board of Directors consists of at least seven but no more than 20 members. Directors are elected after the annual meeting in May and serve two-year terms. The four officers (President, Vice President, Secretary, and Treasurer) are elected by the Board members at the annual meeting and serve as members of the Executive Committee.

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 for the EPNI and changes therein are classified and reported as follows:

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

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

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

ELLIOT PARK NEIGHBORHOOD, INC.
MINNEAPOLIS, MINNESOTA

1. Summary of Significant Accounting Policies (Continued)

D. Basis of Accounting

The EPNI is reported 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 expenses.

F. Income Taxes

The EPNI 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 and Investments

Cash and investments consist of:

	<u>2004</u>	<u>2003</u>
Checking accounts	\$ 64,642	\$ 50,711
Petty cash	<u>50</u>	<u>50</u>
Total Cash	<u>\$ 64,692</u>	<u>\$ 50,761</u>

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 to five years, depending on the type of asset.

ELLIOT PARK NEIGHBORHOOD, INC.
MINNEAPOLIS, MINNESOTA

1. Summary of Significant Accounting Policies (Continued)

I. Grants and Contracts

The EPNI's funding includes cost-reimbursement grants from the Minneapolis Community Planning and Economic Development Department (CPED) and the Minneapolis Neighborhood Revitalization Program (NRP). Government grants and contracts recognize revenue as earned when eligible expenses, as defined in each grant or contract, are made. Funds advanced 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 EPNI will record such disallowance at the time the final assessment is made.

J. Donated Services

Amounts are included in the financial statements for donated services. These services were provided in relation to legal matters.

K. Accrued Vacation

Employees of the EPNI earn between 10 and 16 days of vacation each year, depending on length of service. Since the EPNI 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 expense at year-end. At December 31, 2004 and 2003, the amount of accrued vacation was \$6,417 and \$7,412, respectively.

2. Property and Equipment

Property and equipment at December 31, 2004 and 2003, is as follows:

	<u>2004</u>	<u>2003</u>
Equipment	\$ 22,084	\$ 22,084
Less: accumulated depreciation	<u>(21,914)</u>	<u>(16,638)</u>
Net Property and Equipment	<u>\$ 170</u>	<u>\$ 5,446</u>

**ELLIOT PARK NEIGHBORHOOD, INC.
MINNEAPOLIS, MINNESOTA**

3. Deferred Revenue

Deferred revenue at December 31, 2004 and 2003, is as follows:

	2004	2003
NRP Contract #10108	\$ -	\$ 6,392
NRP Contract #11602	10,000	10,000
NRP Contract #16687	4,555	10,000
NRP Contract #17746	5,000	5,000
CPED Contract #18484	-	4,000
	<u>\$ 19,555</u>	<u>\$ 35,392</u>
Total	<u>\$ 19,555</u>	<u>\$ 35,392</u>

4. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2004 and 2003, were:

	2004	2003
All People's Gathering	\$ 372	\$ -
Annual Meeting	604	-
Whitney Foundation	55,137	63,172
	<u>\$ 56,113</u>	<u>\$ 63,172</u>
Total Temporarily Restricted Net Assets	<u>\$ 56,113</u>	<u>\$ 63,172</u>

5. Operating Leases

The EPNI is committed under various leases for office space and for equipment used in its operations. The EPNI has a month-to-month lease for office space. Lease payments for office space were \$10,740 in 2004 and \$10,740 in 2003. Equipment lease periods vary from one to three years. Payments under equipment lease obligations in 2004 and 2003 were \$3,486 and \$1,032, respectively.

Future minimum lease payments for operating leases are:

2005	\$ 3,486
2006	3,486
2007	3,196
Total	<u>\$ 10,168</u>

ELLIOT PARK NEIGHBORHOOD, INC.
MINNEAPOLIS, MINNESOTA

6. Home Improvement Program

The EPNI has initiated the EPNI Home Improvement Program. The Center for Energy and Environment administers the program. Funding for this program is provided by the NRP. Total funds available for the program are \$710,809. At the end of the fiscal year, the program originated grants and loans totaling \$500,363. Funds remaining in the program budget at year-end were \$210,446.

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SCHEDULE OF NRP ACTIVITY

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**ELLIOT PARK NEIGHBORHOOD, INC.
MINNEAPOLIS, MINNESOTA**

Schedule I

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

	Agreement #11602	Agreement #10108	Agreement #16687	Agreement #17746	Total
Revenues	\$ 161,573	\$ 36,744	\$ 30,970	\$ 35,011	\$ 264,298
Expenses					
Salaries	\$ 87,955	\$ 30,726	\$ 1,012	\$ 18,192	\$ 137,885
Payroll taxes	8,113	2,834	93	1,678	12,718
Benefits	13,080	2,753	177	4,634	20,644
Insurance	1,655	-	-	-	1,655
Professional services	14,368	-	3	10,230	24,601
Occupancy	12,056	-	-	-	12,056
Office supplies	2,971	-	-	-	2,971
Office equipment	8,135	-	-	-	8,135
Telephone	1,475	-	277	-	1,752
Postage and delivery	1,552	-	282	-	1,834
Printing	842	-	-	-	842
Board and staff training	35	-	-	-	35
Program expense	60	-	27,651	-	27,711
Legal fees	624	-	-	-	624
Advertising fees	512	-	-	-	512
Special events	1,642	20	-	-	1,662
Bank fees	459	-	-	-	459
Subscriptions and dues	784	-	-	-	784
Depreciation	4,127	-	1,149	-	5,276
Miscellaneous	443	-	-	-	443
Total Expenses	\$ 160,888	\$ 36,333	\$ 30,644	\$ 34,734	\$ 262,599
Revenues Over (Under) Expenses	\$ 685	\$ 411	\$ 326	\$ 277	\$ 1,699

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**ELLIOT PARK NEIGHBORHOOD, INC.
MINNEAPOLIS, MINNESOTA**

Schedule 2

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

I. COMPLIANCE

None.

II. INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-1 Segregation of Duties

Due to the limited number of office personnel within the Elliot Park Neighborhood, Inc., (EPNI) segregation of the accounting functions necessary to ensure adequate internal control is not possible. This is not unusual in operations the size of the EPNI; 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. The EPNI officials have given attention to addressing this issue. We encourage these efforts to continue.

Client's Response:

EPNI has five staff members, and they each have some responsibility for the budgets and check requests of their various committees and the accuracy of recording their hours in the various programs, grants, or administration slots on their time sheets. The contracted consultant/bookkeeper has responsibility for various accounting functions that further assists in the segregation.

The finance committee includes the board officers and additional appointed board members with financial management experience. The contracted consultant/bookkeeper furnishes monthly financial reports, reviews them with the executive director and finance committee, reports unusual items, and is available for questions of the finance committee members. The finance committee meets monthly to review the financials and forward them to the full board. The treasurer reviews and signs off on bank reconciliations monthly, reconciles petty cash, and does petty cash replenishment request. The finance committee takes an active role in discussion of annual budgets, plan and budget modifications to NRP/MCDA contracts, audit preparation, and other financial matters.

The financial procedures manual defines the various duties of the staff, board, finance committee, executive committee, and bookkeeper for the steps of each financial procedure to assist in internal control of duty segregation.

III. MANAGEMENT PRACTICES

None.



STATE OF MINNESOTA

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PATRICIA ANDERSON
STATE AUDITOR

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE

Board of Directors
Elliot Park Neighborhood, Inc.

We have audited the financial statements of the Elliot Park Neighborhood, Inc., (EPNI) (a nonprofit corporation) as of and for the year ended December 31, 2004, and have issued our report thereon dated September 15, 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 EPNI 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 EPNI'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 one matter involving the internal control over financial reporting

and its operation that we consider to be a reportable condition. 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 EPNI's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Recommendations as item 96-1.

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 condition above to be a material weakness.

Compliance

As part of obtaining reasonable assurance about whether the EPNI's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 for the information of the EPNI'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: September 15, 2005