

# STATE OF MINNESOTA

## Office of the State Auditor



**Patricia Anderson**  
**State Auditor**

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

**YEARS ENDED DECEMBER 31, 2005 AND 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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**ELLIOT PARK NEIGHBORHOOD, INC.  
MINNEAPOLIS, MINNESOTA**

**Years Ended December 31, 2005 and 2004**



**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  
2005**

<u>Board Members</u>	<u>Term Expires</u>
Adam Ali	May 2006
Kent Bakken	May 2006
Elizabeth Beissel	May 2006
Gerry Berglin	May 2007
Tracy Berglund	May 2006
Carl Crimmins	Resigned May 2005
Kim Forbes	May 2007
Nicholas Frank	May 2007
Garrett Johnson	May 2007
Shar Kanan	Resigned October 2005
Julie Kearns	May 2007
Kristina Kliber	May 2006
Kevin Lampone	Resigned December 2005
Michael Lazaretti	Resigned May 2005
Jeffrey Matos	May 2007
Jeff Millikan	May 2006
Millie Schafer	May 2007
Jim Souris	May 2007
Patti Wettlin	May 2006
Abdul Yusuf	May 2006
<u>Executive Director</u>	
Susan Braun	Indefinite

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PATRICIA ANDERSON  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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## 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, 2005 and 2004, 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, 2005 and 2004, 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 19, 2006

## **FINANCIAL STATEMENTS**

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

**EXHIBIT 1**

**COMPARATIVE STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2005 AND 2004**

	<b>2005</b>	<b>2004</b>
<b><u>Assets</u></b>		
<b>Current assets</b>		
Cash and investments	\$ 59,916	\$ 64,692
Prepaid insurance	580	439
Grants receivable	73,768	69,273
<b>Total current assets</b>	<b>\$ 134,264</b>	<b>\$ 134,404</b>
<b>Property and equipment</b>		
Property and equipment - net of depreciation	-	170
<b>Total Assets</b>	<b>\$ 134,264</b>	<b>\$ 134,574</b>
<b><u>Liabilities and Net Assets</u></b>		
<b>Liabilities</b>		
Accounts payable	\$ 3,729	\$ 784
Accrued payroll	2,670	1,962
Deferred revenue	13,500	19,555
<b>Total Liabilities</b>	<b>\$ 19,899</b>	<b>\$ 22,301</b>
<b>Net Assets</b>		
Unrestricted	\$ 68,635	\$ 56,160
Temporarily restricted	45,730	56,113
<b>Total Net Assets</b>	<b>\$ 114,365</b>	<b>\$ 112,273</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 134,264</b>	<b>\$ 134,574</b>



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

**EXHIBIT 2**

**STATEMENT OF ACTIVITY  
FOR THE YEAR ENDED DECEMBER 31, 2005  
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2004**

	Unrestricted	Temporarily Restricted	Totals	
			2005	2004
<b>Public Support and Other Revenue</b>				
<b>Public support</b>				
Government grants				
Minneapolis Community Planning and Economic Development (CPED)	\$ 13,500	\$ -	\$ 13,500	\$ 23,095
Neighborhood Revitalization Program (NRP)	177,590	-	177,590	264,298
Foundations	-	-	-	47,004
Contributions	17,587	1,410	18,997	19,209
Satisfaction of time and purpose restrictions	11,793	(11,793)	-	-
<b>Total public support</b>	<b>\$ 220,470</b>	<b>\$ (10,383)</b>	<b>\$ 210,087</b>	<b>\$ 353,606</b>
<b>Other revenue</b>				
Miscellaneous income	13,231	-	13,231	-
<b>Total Public Support and Other Revenue</b>	<b>\$ 233,701</b>	<b>\$ (10,383)</b>	<b>\$ 223,318</b>	<b>\$ 353,606</b>
<b>Expenses</b>				
<b>Program services</b>				
CPED	\$ 13,330	\$ -	\$ 13,330	\$ 16,185
NRP	176,148	-	176,148	262,599
After School Program	-	-	-	49,873
Whitney Foundation	11,282	-	11,282	8,333
East Downtown Council (EDC) Support	770	-	770	7,912
Minneapolis Foundation	-	-	-	97
All People's Gathering	-	-	-	854
Summer concert series	1,640	-	1,640	2,919
Computer Infrastructure (included in NRP)	-	-	-	1,896
EPNI Newsletter (included in Whitney Foundation)	-	-	-	3,984
Transforming Parks (included in Whitney Foundation)	-	-	-	569
Annual Giving Campaign	2,186	-	2,186	-
Annual meeting	511	-	511	1,312
<b>Total program services</b>	<b>\$ 205,867</b>	<b>\$ -</b>	<b>\$ 205,867</b>	<b>\$ 356,533</b>
<b>Support services</b>				
Management and general	15,359	-	15,359	18,103
<b>Total Expenses</b>	<b>\$ 221,226</b>	<b>\$ -</b>	<b>\$ 221,226</b>	<b>\$ 374,636</b>
<b>Increase (Decrease) in Net Assets</b>	<b>\$ 12,475</b>	<b>\$ (10,383)</b>	<b>\$ 2,092</b>	<b>\$ (21,030)</b>
<b>Net Assets - January 1</b>	<b>56,160</b>	<b>56,113</b>	<b>112,273</b>	<b>133,303</b>
<b>Net Assets - December 31</b>	<b>\$ 68,635</b>	<b>\$ 45,730</b>	<b>\$ 114,365</b>	<b>\$ 112,273</b>

The notes to the financial statements are an integral part of this statement.

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

**STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2005  
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>CPED</u>	<u>NRP</u>	<u>Whitney Foundation</u>	<u>EDC Support</u>
<b><u>Expenses</u></b>				
Salaries	\$ 8,693	\$ 108,217	\$ 1,635	\$ 692
Payroll taxes	658	8,059	114	53
Benefits	2,197	12,714	-	-
Insurance	-	1,590	-	-
Professional services	512	20,281	8,400	-
Occupancy	550	13,137	195	-
Office supplies	150	1,408	87	-
Office equipment	-	5,444	107	-
Telephone	142	1,938	-	-
Postage and delivery	428	805	374	25
Printing	-	391	184	-
Travel	-	37	-	-
Board and staff training	-	100	95	-
Program expense	-	28	-	-
Legal expense	-	-	-	-
Advertising fees	-	686	-	-
Special events	-	684	91	-
Bank fees	-	329	-	-
Subscriptions and dues	-	300	-	-
Depreciation	-	-	-	-
Miscellaneous	-	-	-	-
<b>Total Expenses</b>	<b>\$ 13,330</b>	<b>\$ 176,148</b>	<b>\$ 11,282</b>	<b>\$ 770</b>

**EXHIBIT 3**

	Annual Giving Campaign	Summer Concert Series	Annual Meeting	Management and General	Totals	
					2005	2004
\$	-	\$ -	\$ -	\$ -	\$ 119,237	\$ 209,981
	-	-	-	-	8,884	19,368
	-	-	-	11,571	26,482	22,132
	-	-	-	-	1,590	1,752
	-	-	-	542	29,735	26,863
	-	-	-	155	14,037	13,652
	125	-	-	-	1,770	3,700
	-	-	-	635	6,186	9,214
	-	-	-	142	2,222	2,214
	111	-	-	-	1,743	2,420
	1,850	-	-	28	2,453	2,251
	-	-	-	663	700	1,501
	-	-	-	462	657	185
	-	-	-	-	28	39,909
	-	-	-	-	-	624
	-	-	511	150	1,347	936
	-	1,640	-	393	2,808	6,772
	-	-	-	125	454	459
	100	-	-	323	723	784
	-	-	-	170	170	5,276
	-	-	-	-	-	4,643
<b>\$</b>	<b>2,186</b>	<b>\$ 1,640</b>	<b>\$ 511</b>	<b>\$ 15,359</b>	<b>\$ 221,226</b>	<b>\$ 374,636</b>

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

**EXHIBIT 4**

**COMPARATIVE STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	2005	2004
<b>Cash Flows from Operating Activities</b>		
<b>Increase (decrease) in net assets</b>	<b>\$ 2,092</b>	<b>\$ (21,030)</b>
<b>Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities</b>		
Depreciation	\$ 170	\$ 5,276
(Increase) decrease in prepaids	(141)	(37)
(Increase) decrease in grants receivable	(4,495)	60,847
Increase (decrease) in accounts payable	2,945	(5,837)
Increase (decrease) in accrued payroll	708	(9,451)
Increase (decrease) in deferred revenue	(6,055)	(15,837)
<b>Total adjustments</b>	<b>\$ (6,868)</b>	<b>\$ 34,961</b>
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (4,776)</b>	<b>\$ 13,931</b>
<b>Cash - January 1</b>	<b>64,692</b>	<b>50,761</b>
<b>Cash - December 31</b>	<b>\$ 59,916</b>	<b>\$ 64,692</b>

**Noncash investing and financing activities**

During 2004, Elliot Park Neighborhood, Inc., received donated services valued at \$624.  
During 2005, Elliot Park Neighborhood, Inc., carried a Wells Fargo line of credit valued at \$5,000.  
During 2004, 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, 2005 AND 2004

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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.

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

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1. Summary of Significant Accounting Policies

C. Basis of Presentation (Continued)

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.

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>2005</u>	<u>2004</u>
Checking accounts	\$ 59,916	\$ 64,642
Petty cash	-	50
Total Cash	<u>\$ 59,916</u>	<u>\$ 64,692</u>

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

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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 to five years, depending on the type of asset.

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

The EPNI had no donated services during the year ended December 31, 2005.

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, 2005 and 2004, the amount of accrued vacation was \$5,345 and \$6,417, respectively.

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

2. Property and Equipment

Property and equipment at December 31, 2005 and 2004, is as follows:

	2005	2004
Equipment	\$ 19,904	\$ 22,084
Less: accumulated depreciation	(19,904)	(21,914)
Total Property and Equipment	\$ -	\$ 170

3. Deferred Revenue

Deferred revenue at December 31, 2005 and 2004, is as follows:

	2005	2004
NRP Contract #11602	\$ -	\$ 10,000
NRP Contract #16687	-	4,555
NRP Contract #17746	5,000	5,000
NRP Contract #20795	8,500	-
Total	\$ 13,500	\$ 19,555

4. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2005 and 2004, were:

	2005	2004
All People's Gathering	\$ 1,108	\$ 372
Annual meeting	207	604
Whitney Foundation	43,855	55,137
Summer Concert Series	560	-
Total	\$ 45,730	\$ 56,113



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

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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 2005 and \$10,740 in 2004. Equipment lease periods vary from one to three years. Payments under equipment lease obligations in 2005 and 2004 were \$3,486 and \$3,486, respectively.

Future minimum lease payments for operating leases are:

2006	\$	3,486
2007		<u>3,196</u>
Total	\$	<u><u>6,682</u></u>

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 \$719,096. At the end of the fiscal year, the program originated grants and loans totaling \$547,041. Funds remaining in the program budget at year-end were \$172,055.

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**SCHEDULE OF NRP ACTIVITY**

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

**Schedule 1**

**SCHEDULE OF NRP ACTIVITY  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Agreement #11602</u>	<u>Agreement #10108</u>	<u>Agreement #16687</u>	<u>Agreement #17746</u>	<u>Agreement #20795</u>	<u>Total</u>
<b>Revenues</b>	<b>\$ 58,171</b>	<b>\$ 13,307</b>	<b>\$ 4,555</b>	<b>\$ 21,537</b>	<b>\$ 80,020</b>	<b>\$ 177,590</b>
<b>Expenses</b>						
Salaries	\$ 30,160	\$ 9,794	\$ 2,299	\$ 16,885	\$ 49,079	\$ 108,217
Payroll taxes	1,688	876	191	1,427	3,877	8,059
Benefits	1,523	684	-	3,272	7,235	12,714
Insurance	1,155	-	-	-	435	1,590
Professional services	9,382	1,993	-	-	8,906	20,281
Occupancy	6,275	-	-	-	6,862	13,137
Office supplies	784	-	-	-	624	1,408
Office equipment	2,363	-	2,067	-	1,014	5,444
Telephone	1,153	1	-	-	784	1,938
Postage and delivery	801	-	-	-	4	805
Printing	391	-	-	-	-	391
Board and staff training	133	-	-	-	4	137
Program expense	28	-	-	-	-	28
Advertising fees	686	-	-	-	-	686
Special events	684	-	-	-	-	684
Bank fees	164	-	-	-	165	329
Subscriptions and dues	300	-	-	-	-	300
<b>Total Expenses</b>	<b>\$ 57,670</b>	<b>\$ 13,348</b>	<b>\$ 4,557</b>	<b>\$ 21,584</b>	<b>\$ 78,989</b>	<b>\$ 176,148</b>
<b>Revenues Over (Under) Expenses</b>	<b>\$ 501</b>	<b>\$ (41)</b>	<b>\$ (2)</b>	<b>\$ (47)</b>	<b>\$ 1,031</b>	<b>\$ 1,442</b>

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

*Schedule 2*

SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**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 three staff members, and they each have some of the responsibility for the budgets and check requests of their various committees. They are also responsible for the accuracy of recording their hours in the various programs, grants, contracts or administrative sections on their time sheets; program staff submissions are reviewed by the executive director; executive director submissions are reviewed by the treasurer or board president. The contracted financial consultant/bookkeeper has responsibility for various accounting functions that further assists the segregation. The finance committee also has responsibilities in the processing and review of payables, allocations and monthly financial reports.*

*The finance committee includes the board officers and additional appointed board members with financial management experience. The consultant/bookkeeper furnishes monthly financial reports which are reviewed by the executive director and the finance committee before being presented to the board of directors. The consultant/bookkeeper addresses any unusual items and is available for questions. The finance committee meets*

*monthly to review financials and forwards them to the board for review at the monthly board meeting. The consultant/bookkeeper does the monthly bank reconciliations which are then reviewed and signed by the treasurer. The finance committee takes an active role in discussion of annual budgets, plan and budget modifications to NRP/CPED contracts, audit preparation and other financial matters.*

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

### **III. MANAGEMENT PRACTICES**

None.



# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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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, 2005, and have issued our report thereon dated September 19, 2006. 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 control, 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 a 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 of Directors, 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 19, 2006