

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

LONGFELLOW COMMUNITY COUNCIL
MINNEAPOLIS, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2006

Description of the Office of the State Auditor

The mission of the State Auditor's Office is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

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 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of 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 approximately 730 public pension funds; and

Tax Increment Financing - 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 Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**LONGFELLOW COMMUNITY COUNCIL
MINNEAPOLIS, MINNESOTA**

For the Year Ended December 31, 2006



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

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**LONGFELLOW COMMUNITY COUNCIL
MINNEAPOLIS, MINNESOTA**

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**LONGFELLOW COMMUNITY COUNCIL
MINNEAPOLIS, MINNESOTA**

**ORGANIZATION SCHEDULE
2006**

<u>Board Members</u>	<u>Term Expires</u>
Grace Bartels	April 2006
Beverly Conerton	April 2007
Jason Craig	April 2007
Scott Cramer	April 2008
Jerry Dastych	April 2006
Alex Eaton	April 2007
Leo Lopez	April 2008
David Maggi	April 2006
Rev. Marchelle Hallman	April 2007
Julia McGuire	April 2006
Iric Nathanson	April 2008
Dan McConnell	April 2008
Wendy Haan	April 2007
Melissa Dew	April 2007
Ryan North	April 2007
Scott Paine	April 2007
Leslie Mackenzie	April 2006
Gary Hendlin	April 2007
Ed Kohler	April 2007
John Sulzbach	April 2006
Greg Toltzman	April 2007
DeWayne Townsend	April 2006
Ralph Wyman	April 2007
<u>Executive Director</u>	
Kathryn Hatt	March 2007
Melanie Majors	Indefinite

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Longfellow Community Council

We have audited the statement of financial position of the Longfellow Community Council (LCC) (a nonprofit corporation) as of December 31, 2006, 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 LCC'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 LCC as of December 31, 2006, 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 LCC. 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/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

November 20, 2007

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

FINANCIAL STATEMENTS

**LONGFELLOW COMMUNITY COUNCIL
MINNEAPOLIS, MINNESOTA**

EXHIBIT 1

**STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2006**

Assets

Current assets

Cash	\$ 79,602
Grants receivable	107,006
Pledges receivable	30,000
Prepaid expenses	<u>1,361</u>

Total current assets **\$ 217,969**

Property and equipment

Property and equipment, net of depreciation	<u>3,030</u>
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Total Assets **\$ 220,999**

Liabilities and Net Assets

Liabilities

Current liabilities	
Salaries payable	\$ 4,586
Accounts payable	1,102
Deferred revenue	<u>28,116</u>

Total Liabilities **\$ 33,804**

Net Assets

Restricted	\$ 60,037
Unrestricted	<u>127,158</u>

Total Net Assets **\$ 187,195**

Total Liabilities and Net Assets **\$ 220,999**

**LONGFELLOW COMMUNITY COUNCIL
MINNEAPOLIS, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITY
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Unrestricted	Temporarily Restricted	Total
Public Support and Other Revenue			
Public support			
Government grants			
Minneapolis Community Planning and Economic Development Department (CPED)	\$ 15,753	\$ -	\$ 15,753
Neighborhood Revitalization Program	180,345	-	180,345
Mississippi Watershed Management Organization	43,953	-	43,953
McKnight Foundation	-	30,000	30,000
Midtown Latino Organizing Project (MLOP)	21,977	-	21,977
Other contributions	11,804	2,000	13,804
Satisfaction of time and purpose restriction	73,675	(73,675)	-
	\$ 347,507	\$ (41,675)	\$ 305,832
Total public support			
Other revenue			
Miscellaneous	8,235	-	8,235
	\$ 355,742	\$ (41,675)	\$ 314,067
Total Public Support and Other Revenue			
Expenses			
Program services			
Minneapolis Community Planning and Economic Development Department (CPED)	\$ 15,753	\$ -	\$ 15,753
Neighborhood Revitalization Program	179,038	-	179,038
Mississippi Watershed Management Organization	40,681	-	40,681
McKnight Foundation	27,944	-	27,944
Midtown Latino Organizing Project	65,893	-	65,893
Miscellaneous programs	13,672	-	13,672
	\$ 342,981	\$ -	\$ 342,981
Total program services			
Support services			
Management and general	12,389	-	12,389
	\$ 355,370	\$ -	\$ 355,370
Total Expenses			
Increase (Decrease) in Net Assets	\$ 372	\$ (41,675)	\$ (41,303)
Net Assets - January 1, restated (Note 2)	126,786	101,712	228,498
Net Assets - December 31	\$ 127,158	\$ 60,037	\$ 187,195

**LONGFELLOW COMMUNITY COUNCIL
MINNEAPOLIS, MINNESOTA**

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Minneapolis Community Planning and Economic Development Department	Neighborhood Revitalization Program	Mississippi Watershed Management Organization
<u>Expenses</u>			
Salaries	\$ 9,609	\$ 69,378	\$ 15,501
Payroll taxes	915	5,392	1,456
Accounting services	-	1,615	-
Advertising	1,363	8,481	-
Bank charges	-	655	-
Depreciation	-	-	-
Entertainment	-	-	-
Equipment	558	3,242	-
Fees	-	635	-
Food	-	-	8
Gifts	-	-	-
Grant awards	-	-	7,208
Insurance	2,317	9,619	942
Utilities	-	3,856	-
Membership	-	100	-
Miscellaneous	-	40	13
Office supplies	-	2,616	72
Postage	16	3,975	45
Printing	-	5,082	401
Professional services	-	6,347	-
Project oversight	-	-	-
Program expenses			
Brackett Park	-	-	-
Community garden	-	11,315	-
History project	-	-	-
Midtown greenway	-	3,200	-
Midtown market	-	250	-
MLOP	-	-	-
MWMO	-	-	15,012
Planbook	-	-	-
Restorative justice	-	13,200	-
Corn feed	-	500	-
River gorge	-	-	-
Seward redesign	-	20,000	-
Rent	975	8,025	-
Staff development	-	1,242	-
Travel	-	273	23
Total Expenses	\$ 15,753	\$ 179,038	\$ 40,681

EXHIBIT 3

	McKnight Foundation	Midtown Latino Organizing Project	Miscellaneous Programs	Management and General	Total
\$	24,745	\$ 36,931	\$ 5,997	\$ 5,732	\$ 167,893
	2,548	3,447	572	443	14,773
	-	-	-	-	1,615
	-	-	-	-	9,844
	-	-	-	-	655
	-	-	-	1,732	1,732
	-	-	-	100	100
	-	64	-	-	3,864
	-	-	-	340	975
	-	-	-	267	275
	-	-	-	250	250
	-	-	-	-	7,208
	651	3,733	-	143	17,405
	-	485	-	-	4,341
	-	-	-	-	100
	-	-	-	797	850
	-	232	-	-	2,920
	-	-	-	180	4,216
	-	425	(1,499)	556	4,965
	-	-	80	-	6,427
	-	13,579	-	-	13,579
	-	-	6,684	-	6,684
	-	-	-	149	11,464
	-	-	339	-	339
	-	-	-	-	3,200
	-	-	-	-	250
	-	6,997	-	-	6,997
	-	-	-	-	15,012
	-	-	1,499	-	1,499
	-	-	-	-	13,200
	-	-	-	-	500
	-	-	-	890	890
	-	-	-	-	20,000
	-	-	-	-	9,000
	-	-	-	-	1,242
	-	-	-	810	1,106
\$	27,944	\$ 65,893	\$ 13,672	\$ 12,389	\$ 355,370

**LONGFELLOW COMMUNITY COUNCIL
MINNEAPOLIS, MINNESOTA**

EXHIBIT 4

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Cash Flows From Operating Activities	
Increase (Decrease) in net assets	\$ (41,303)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities	
Depreciation	\$ 1,732
(Increase) decrease in grants receivable	(21,036)
(Increase) decrease in pledges receivable	(20,000)
(Increase) decrease in prepaid items	(157)
Increase (decrease) in accounts payable	(1,510)
Increase (decrease) in accrued payroll	(2,058)
Increase (decrease) in deferred revenue	(16,928)
Total adjustments	\$ (59,957)
Net Increase (Decrease) in Cash	\$ (101,260)
Cash - January 1	180,862
Cash - December 31	\$ 79,602

**LONGFELLOW COMMUNITY COUNCIL
MINNEAPOLIS, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2006**

1. Summary of Significant Accounting Policies

A. Organization

The Longfellow Community is bounded by the 27th Street East railroad tracks on the north, the Mississippi River on the east, Hiawatha Avenue railroad tracks on the west, and the southern boundary of Minnehaha Park on the south. The Longfellow Community includes the Longfellow, Cooper, Howe, and Hiawatha Neighborhoods. The mission of the Longfellow Community Council (LCC) is to improve the quality of life and develop a sense of community among the four neighborhoods and promote their well being. The LCC involves and empowers the members of the community in all its diversity to take action on issues affecting their lives.

B. Council of Representatives and Officers

The Council of Representatives consists of 20 members. Elections are held in May and November, with representatives serving a one-year term. The Council consists of two members from each neighborhood, two members representing youth, two members representing businesses, two members representing seniors, one business alternate member, and one other organization member. The officers consist of two co-chairs of the Council of Representatives, a secretary, and a treasurer.

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 LCC and changes therein are classified and reported as follows:

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

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

**LONGFELLOW COMMUNITY COUNCIL
MINNEAPOLIS, MINNESOTA**

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 LCC. The donors of these resources permitted the LCC 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 LCC 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. Fundraising expenses are considered to be minimal, and those costs are included in management and general.

F. Income Taxes

The LCC 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 and a business sweep savings account.

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.

**LONGFELLOW COMMUNITY COUNCIL
MINNEAPOLIS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

I. Grants and Contracts

The LCC's funding includes cost-reimbursement grants from the City of Minneapolis' Community Planning and Economic Development (CPED) Department and the Minneapolis Neighborhood Revitalization Program (NRP) Policy Board. 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 LCC 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 services. These services were provided in relation to graphic designs.

L. Accrued Paid Time Off (PTO)

Paid time off includes sick leave and vacation. Employees of the LCC earn between 10 and 25 days of PTO each year, depending on length of service. Since the LCC cannot charge its primary granting authorities for accrued PTO until it is used, no provision has been made in the accompanying financial statements for recording the accrued PTO liability and related expense at year-end. At December 31, 2006, the amount of accrued PTO was \$6,241.

**LONGFELLOW COMMUNITY COUNCIL
MINNEAPOLIS, MINNESOTA**

2. Prior Period Adjustment

A re-examination of the December 31, 2005, grants receivable account found that amounts previously recognized as revenue will not be reimbursed by the grantor due to the closing of the contract. This required a restatement of net assets, as follows:

Net Assets, December 31, 2005	\$ 238,539
Adjustment to grants receivable	<u>(10,041)</u>
Net Assets, January 1, 2006	<u>\$ 228,498</u>

3. Deferred Revenue

Deferred revenue as of December 31, 2006, was:

NRP	
C96-10414	\$ 4,913
C96-10520	5,347
C96-10843A	856
C97-23462	10,000
MWMO	
2006 grant	<u>7,000</u>
Total	<u>\$ 28,116</u>

4. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2006, were:

Midtown Latino Organizing Project	\$ 25,137
McKnight Foundation	30,000
Brackett Park	484
Buckthorn Removal	1,331
Fire Fund	175
Restorative Justice	800
River Gorge	110
ADC	<u>2,000</u>
Total	<u>\$ 60,037</u>

**LONGFELLOW COMMUNITY COUNCIL
MINNEAPOLIS, MINNESOTA**

5. Equipment

Equipment at December 31, 2006, was:

Equipment	\$	5,195
Less: accumulated depreciation		(2,165)
Total	\$	3,030

6. Operating Leases

The LCC leases office space on a two-year lease. The lease payments for 2006 were \$9,000, which was the last year of the two-year lease. The LCC also leases a copier under a five-year lease and a water cooler under an at-will lease. Total lease payments for the copier and water cooler for 2006 totaled \$4,254. Future minimum rental payments for these are as follows:

	Office Space	Copier
2007	\$ 9,000	\$ 3,810

7. Home Improvement Program

The LCC has initiated the “Longfellow Home Improvement Program.” Funding for this program was provided by the NRP. The program consists of loans and grants for exterior improvements, basic home improvements, major remodeling, and emergency loans. As of December 31, 2006, 765 loans have been closed, utilizing \$3,651,247. Total funds remaining at year-end for additional loans were \$409,658. The program is administered by the Center for Energy and Environment/Community Revitalization Resources.

The LCC Early Access Program (1996-1997) continues to be serviced by Neighborhood Housing Services of Minneapolis (NHS) (formerly Southside Neighborhood Services of Minneapolis). The LCC contracts with NHS to collect accrued loan payments and to have them transferred to the CPED in the LCC’s name.

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SCHEDULE OF NRP ACTIVITY

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**LONGFELLOW COMMUNITY COUNCIL
MINNEAPOLIS, MINNESOTA**

Schedule 1

**SCHEDULE OF NRP ACTIVITY
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Administration Contract #10520	Administration II Contract #23462	Housing Contract #10843A	Safety Contract #10414	Total
Revenues	\$ 92,447	\$ 64,627	\$ 5,750	\$ 17,521	\$ 180,345
Expenses					
Salaries and benefits	\$ 23,618	\$ 44,432	\$ 1,024	\$ 304	\$ 69,378
Payroll taxes	2,205	3,124	63	-	5,392
Accounting services	1,615	-	-	-	1,615
Advertising	3,036	3,727	645	1,073	8,481
Bank charge	639	16	-	-	655
Equipment	779	1,703	760	-	3,242
Fees	125	510	-	-	635
Insurance	3,526	4,008	2,085	-	9,619
Utilities	2,102	1,437	-	317	3,856
Membership	100	-	-	-	100
Miscellaneous	-	-	40	-	40
Office supplies	2,555	61	-	-	2,616
Postage	1,833	663	828	651	3,975
Printing	3,853	-	-	1,229	5,082
Professional services	1,900	4,297	150	-	6,347
Program					
Community garden	11,315	-	-	-	11,315
Midtown greenway	3,200	-	-	-	3,200
Midtown market	250	-	-	-	250
Corn feed	500	-	-	-	500
Restorative justice	-	-	-	13,200	13,200
Seward redesign	20,000	-	-	-	20,000
Rent	6,739	633	-	653	8,025
Staff development	1,041	156	-	45	1,242
Travel	118	-	155	-	273
Total Expenses	\$ 91,049	\$ 64,767	\$ 5,750	\$ 17,472	\$ 179,038
Revenues Over (Under) Expenses	\$ 1,398	\$ (140)	\$ -	\$ 49	\$ 1,307

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**LONGFELLOW COMMUNITY COUNCIL
MINNEAPOLIS, MINNESOTA**

Schedule 2

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2006

I. COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

05-1 Grant Reimbursements Not in Agreement with General Ledger

Our review of 2005 transactions found amounts reimbursed from NRP programs were not recorded as such in the Longfellow Community Council's (LCC) general ledger, as follows:

Check Number	General Ledger Coding		Grant Charged With Reimbursement	Amount Overcharged to Grant
8147	NRP Full Plan Admin. MWMO Grant	\$ 375 <u>375</u>		
	Total	\$ 750	NRP Full Plan Admin.	\$ 375
8169	NRP Full Plan Admin. MWMO Grant	\$ 375 <u>375</u>		
	Total	\$ 750	NRP Full Plan Admin.	375
8183	NRP Full Plan Admin. MWMO Grant	\$ 445 <u>305</u>		
	Total	\$ 750	NRP Full Plan Admin.	305
Electronic Transfer	NRP Full Plan Admin. MWMO Grant	\$ 765 <u>75</u>		
	Total	\$ 840	NRP Full Plan Admin.	75
8286	MWMO Grant NRP Full Plan Housing	\$ 343 <u>27</u>		
	Total	\$ 370	NRP Full Plan Housing	27
8368	MWMO Grant NRP Full Plan Housing	\$ 645 <u>42</u>		
	Total	\$ 687	NRP Full Plan Housing	<u>645</u>
Total Amount Overcharged to NRP Grants				<u>\$ 1,802</u>

Amounts requested for reimbursement from grant programs should agree with program expenses as recorded in the LCC's general ledger.

We previously recommended that LCC officials discuss with NRP officials the above amounts charged to the NRP programs to determine if an adjustment was needed to the amounts that had been reimbursed. We also recommended that the preparation of reimbursement requests on grant programs should be based on amounts as recorded in the general ledger. Our current year's follow-up on this finding found that NRP officials had not been contacted about the resolution of this finding, and we did not note any adjustments to subsequent reimbursement requests against NRP programs. Also, we note that another finding occurred in the current year's audit in which the LCC received reimbursement from an NRP program for a disbursement that was recorded in the general ledger against the Community Development Block Grant (CDBG) program (see comment 06-1).

We again recommend that LCC officials discuss with NRP officials the above amounts charged to the NRP programs, to determine if an adjustment is needed to amounts previously reimbursed.

Client's Response:

LCC officials will work with NRP to create a final resolution to this issue.

ITEM ARISING THIS YEAR

06-1 Grant Expense Reimbursed from the Wrong Program

The LCC was reimbursed for its check number 8797 in the amount of \$750.00 from NRP contract number 23462, request number three. However, the check is recorded in the general ledger as a charge to the CDBG program.

We recommend that LCC officials discuss this questioned cost amount with officials of the NRP and the Minneapolis Community Planning and Economic Development Department to determine a resolution.

Client's Response:

LCC officials will work with NRP and CPED to resolve this issue.

II. INTERNAL CONTROLS

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-2 Segregation of Duties

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

Client's Response:

LCC officials have been notified of this issue and will work with NRP to update LCC's Financial Policies and Procedures.

ITEMS ARISING THIS YEAR

06-2 Bank Reconciliations

The LCC's accounting service prepares the bank reconciliations. However, they are not signed or dated by the preparer. Also, the reconciliations do not contain any evidence they have been reviewed by an LCC official. Initials and dates help identify responsibility and timeliness for the reconciliations, which strengthens internal controls that provide for the detection and correction of errors and irregularities.

We recommend that bank reconciliations be initialed and dated by the preparer. We also recommend that reconciliations be reviewed by at least one other person, preferably the Executive Director or a Board member.

Client's Response:

LCC will require that the preparer of bank reconciliations also initial and date the reconciliations. LCC's Executive Director will also review every bank reconciliation.

06-3 Receipts Journal

The LCC does not maintain a receipts journal. A receipts journal serves as a source record for the recording of funds collected by the LCC. Collections should be recorded in the journal immediately upon receipt of the funds. Amounts from the journal can then be used to compare with bank deposits and general ledger entries made by the accounting service. The absence of this record can reduce the reliance placed on bank deposits and the general ledger recordings.

We recommend that the LCC implement a receipts journal. Recordings in the journal should be made by someone who is not associated with making bank deposits or entries in the general ledger. Information the journal should include the date funds are received, remitter of the funds, contract number (if available), program to be credited, and initials of the individual recording the entry.

Client's Response:

LCC will implement a receipts journal. The Executive Director makes bank deposits, and the Executive Coordinator will maintain the receipts journal.

06-4 Timely Recording in the General Ledger

We found that expenses eligible for reimbursement from grant funds were not recorded in the general ledger with other funds of the same period. These expenses, totaling \$2,164.34, should have been recorded in September and October 2006. However, they were not entered in the general ledger under November or December 2006. It appears expenses are not being entered into the general ledger until canceled checks are returned from the bank. This practice will not present an accurate financial position of the LCC as transactions are taking place and will delay the preparation of grant reimbursement forms for those expenses. This condition could also result in having grant-eligible expenses disallowed if the grant period expires before canceled checks are returned from the bank.

We recommend that expenses be recorded in the general ledger as soon as they occur.

Client's Response:

LCC will require that its bookkeeper record expenses into the general ledger as soon as they occur instead of waiting for LCC's canceled checks.

III. MANAGEMENT PRACTICES

ITEM ARISING THIS YEAR

06-5 Grants Management

Our review of expenses relating to NRP programs found the following:

- 2006 expenses eligible for NRP reimbursement, in the amount of \$4,813.92, were not reimbursed until September 2007. It is not fully clear why this delay occurred. However, we found that when expenses are entered in the general ledger, they are initially recorded under the management and general category. Determining which program should ultimately be charged with the expenses takes place sometime later. This practice does not allow for timely reporting on grant activities or for timely reimbursement of grant funds.
- The LCC incurred expenses totaling \$8,229.81 under the Full Plan Administration contract number 10520 in 2006, for which reimbursement was not requested. Funds remaining under the contract were not sufficient to cover the total amount of those expenses, and the contract subsequently closed.
- Under the Phase II Administration contract number 23462, the LCC incurred expenses totaling \$1,576.90 prior to approval of the contract by the NRP. Initially, the NRP disallowed these expenses from being reimbursed by the contract.

The above conditions can have a significant impact on the LCC's financial position. We note that the LCC's net asset balance decreased \$41,303 from the previous year, or 18 percent. The cash balance decreased \$101,260, or 56 percent.

We recommend that greater attention be given to monitoring grant terms to prevent a disallowance from occurring. We also recommend that the LCC Board examine current practices for obtaining reimbursements of grant funds to determine if changes to the process are needed.

Client's Response:

LCC officials will work with the NRP and LCC's bookkeeper to ensure that grant terms are better monitored. LCC officials will also work with NRP to determine if changes to LCC's current process for obtaining reimbursements needs to be altered.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE

Board of Directors
Longfellow Community Council

We have audited the financial statements of the Longfellow Community Council (LCC) (a nonprofit corporation) as of and for the year ended December 31, 2006, and have issued our report thereon dated November 20, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the LCC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the LCC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the LCC's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting 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 combination of control deficiencies, that adversely affects the LCC'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 LCC's

financial statements that is more than inconsequential will not be prevented or detected by the LCC's internal control over financial reporting. We consider the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 96-2 and 06-2 through 06-4 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the LCC's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies listed above, we consider item 96-2 to be a material weakness.

Compliance

As part of obtaining reasonable assurance about whether the LCC'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 two instances of noncompliance, which are described in the Schedule of Findings and Recommendations as items 05-1 and 06-1.

Also included in the Schedule of Findings and Recommendations is a management practices comment for consideration. We believe this recommendation and information to be of benefit to the LCC, and it is reported for that purpose.

The LCC's written responses to the significant deficiencies, material weakness, compliance findings, and management practices comment identified in our audit have not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the LCC'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/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 20, 2007