

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

KINGFIELD NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA

YEAR ENDED MAY 31, 2007

Description of the Office of the State Auditor

The mission of the Office of the State Auditor 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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**KINGFIELD NEIGHBORHOOD
ASSOCIATION
MINNEAPOLIS, MINNESOTA**

Year Ended May 31, 2007



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

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**KINGFIELD NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

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**KINGFIELD NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

**ORGANIZATION SCHEDULE
2007**

<u>Board Members</u>	<u>Term Expires</u>
Thor Anderson	May 2007
David Brauer	May 2009
Darrell Gerber	May 2008
Shawna Gibson	May 2007
Amy Joe Gracyalny	May 2009
Peter Hallstrom	May 2007
Mark Hinds	May 2007
Mary Hunter	May 2009
Martha Ingram	May 2007
Arthur Knowles	May 2008
Ben Kristensen	May 2008
Eric Lindseth	May 2007
Tom Parent	May 2009
Karen Pieper	May 2009
JobyLynn Sassily	May 2008
Dave Saddoris	May 2008
Diana Schleisman	May 2007
Niki Stavrou	May 2008
Chris Sur	May 2009
<u>Executive Director</u>	
Sarah Linnes-Robinson	Indefinite

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Kingfield Neighborhood Association

We have audited the statement of financial position of the Kingfield Neighborhood Association (KFNA) (a nonprofit corporation) as of May 31, 2007, 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 KFNA'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 KFNA as of May 31, 2007, 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 KFNA. 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

February 21, 2008

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

FINANCIAL STATEMENTS

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**KINGFIELD NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

EXHIBIT 1

**STATEMENT OF FINANCIAL POSITION
MAY 31, 2007**

<u>Assets</u>	
Cash	\$ 71,607
Grants receivable	77,268
Prepaid expenses	1,365
Property and equipment, net	<u>3,633</u>
Total Assets	<u>\$ 153,873</u>
 <u>Liabilities and Net Assets</u>	
Liabilities	
Accounts payable	\$ 7,334
Accrued payroll	7,540
Deferred revenue	51,713
Deposits held for others	<u>7,400</u>
Total Liabilities	<u>\$ 73,987</u>
Net Assets	
Restricted	\$ 6,409
Unrestricted	<u>73,477</u>
Total Net Assets	<u>\$ 79,886</u>
Total Liabilities and Net Assets	<u>\$ 153,873</u>

**KINGFIELD NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITY
FOR THE YEAR ENDED MAY 31, 2007**

	Unrestricted	Temporarily Restricted	Total
Public Support and Other Revenue			
Public support			
Government grants			
Community Planning and Economic Development (CPED)	\$ 4,134	\$ -	\$ 4,134
Neighborhood Revitalization Program (NRP)	83,858	-	83,858
Mississippi Water Management Organization (MWMO)	32,062	-	32,062
State of Minnesota - Department of Natural Resources (DNR)	10,000	-	10,000
Other contributions	15,898	6,409	22,307
Total public support	\$ 145,952	\$ 6,409	\$ 152,361
Other revenue			
Events	\$ 13,000	\$ -	\$ 13,000
Miscellaneous	999	-	999
Total other revenue	\$ 13,999	\$ -	\$ 13,999
Total Public Support and Other Revenue	\$ 159,951	\$ 6,409	\$ 166,360
Expenses			
Program services			
CPED	\$ 2,858	\$ -	\$ 2,858
NRP	84,940	-	84,940
MWMO	32,462	-	32,462
State of Minnesota - DNR	8,925	-	8,925
Miscellaneous programs	14,389	-	14,389
Total program services	\$ 143,574	\$ -	\$ 143,574
Support services			
Management and general	1,738	-	1,738
Total Expenses	\$ 145,312	\$ -	\$ 145,312
Increase (Decrease) in Net Assets	\$ 14,639	\$ 6,409	\$ 21,048
Net Assets - June 1	58,838	-	58,838
Net Assets - May 31	\$ 73,477	\$ 6,409	\$ 79,886

**KINGFIELD NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

EXHIBIT 3

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED MAY 31, 2007**

	Minneapolis Community Planning and Economic Development	Neighborhood Revitalization Program	Mississippi Water Management Organization	State of Minnesota Department of Natural Resources	Miscellaneous Programs	Management and General	Total
<u>Expenses</u>							
Salaries	\$ -	\$ 56,093	\$ 4,000	\$ -	\$ -	\$ -	\$ 60,093
Benefits	-	4,000	-	-	-	-	4,000
Accounting services	-	673	-	-	-	-	673
Consultants/contractors	-	80	27,578	-	525	-	28,183
Graphic design	441	1,159	-	-	-	500	2,100
Printing/photocopying	1,576	4,174	622	-	1,585	-	7,957
Postage/delivery	753	3,964	262	-	464	503	5,946
Web hosting/design	-	180	-	-	300	-	480
Advertising	60	74	-	-	-	-	134
Program expense	-	-	-	-	1,035	-	1,035
Rent	-	990	-	-	5,000	-	5,990
Office supplies	-	427	-	-	-	-	427
Phone/internet	-	859	-	-	-	-	859
Meeting supplies	-	6	-	-	-	-	6
Events	-	2,549	-	-	1,284	-	3,833
Insurance	-	1,606	-	-	-	-	1,606
Childcare	28	-	-	-	-	-	28
Permits/fees	-	519	-	-	-	-	519
Bank fees	-	125	-	-	-	1	126
Parking	-	9	-	-	-	-	9
KFNA T-shirts, etc.	-	393	-	-	-	-	393
Music	-	-	-	-	30	-	30
Project supplies	-	15	-	8,925	-	-	8,940
Artist compensation	-	-	-	-	2,010	-	2,010
Food/beverage	-	-	-	-	19	314	333
Other Art Fair expenses	-	-	-	-	1,600	-	1,600
Grants							
Social services	-	5,025	-	-	-	-	5,025
Community initiated	-	2,020	-	-	487	-	2,507
Gift	-	-	-	-	50	-	50
Depreciation	-	-	-	-	-	400	400
Miscellaneous	-	-	-	-	-	20	20
Total Expenses	\$ 2,858	\$ 84,940	\$ 32,462	\$ 8,925	\$ 14,389	\$ 1,738	\$ 145,312

**KINGFIELD NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

EXHIBIT 4

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MAY 31, 2007**

Cash Flows From Operating Activities	
Increase (Decrease) in net assets	<u>\$ 21,048</u>
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities	
Depreciation expense	\$ 400
(Increase) decrease in grants receivable	13,269
(Increase) decrease in prepaid items	(665)
Increase (decrease) in accounts payable	5,375
Increase (decrease) in accrued payroll	1,770
Increase (decrease) in deferred revenue	2,381
Increase (decrease) in deposits held for others	<u>(2,945)</u>
Total adjustments	<u>\$ 19,585</u>
Net cash provided by (used in) operating activities	\$ 40,633
Cash - June 1	<u>30,974</u>
Cash - May 31	<u><u>\$ 71,607</u></u>

**KINGFIELD NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED MAY 31, 2007**

1. Summary of Significant Accounting Policies

A. Organization

The Kingfield Neighborhood Association (KFNA) was organized to operate exclusively for civic, community welfare, recreational, and social purposes, and for the furtherance of these purposes, as they pertain to the neighborhood. The KFNA's Board of Directors consists of 13 members, each of whom serve for a period of two years or until a successor has been elected and is qualified.

The neighborhood boundaries are 36th Street on the north, 46th Street on the south, Lyndale Avenue on the west, and 35W on the east.

B. 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 KFNA and changes therein are classified and reported as follows:

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

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

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

**KINGFIELD NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

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

D. 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.

E. Income Taxes

The KFNA 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.

F. Cash

Cash consists of a checking account.

G. Property and 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. Property, consisting of a mural, is valued at fair value at the time of its completion and is not depreciated.

H. Grants and Contracts

The KFNA's funding includes cost-reimbursement grants from the Minneapolis Neighborhood Revitalization Program (NRP), the Minneapolis Department of Community Planning and Economic Development and the Mississippi Water Management Organization (MWMO). 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

**KINGFIELD NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

1. Summary of Significant Accounting Policies

H. Grants and Contracts (Continued)

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 KFNA will record such disallowance at the time the final assessment is made.

I. 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 until conditions on which they depend have been substantially met.

J. Donated Services and Materials

Amounts are included in the financial statements for donated materials. Materials were provided in relation to the rental of space, equipment, and paint, with a total value of \$7,840.

2. Property and Equipment

Property at May 31, 2007, was:

Yemaya' mural	\$ 3,000
Dell computer	<u>1,200</u>
Total	\$ 4,200
Less: accumulated depreciation	<u>(567)</u>
Total Property and Equipment	<u><u>\$ 3,633</u></u>

**KINGFIELD NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

3. Deferred Revenue

Deferred revenue at May 31, 2007, was:

MWMO	\$ 8,000
NRP Contracts	
C-23708	7,500
C-22357	10,000
C-18164	10,000
C-14891	10,000
C-14923	<u>6,213</u>
Total	<u>\$ 51,713</u>

4. Temporarily Restricted Net Assets

Temporarily restricted net assets at May 31, 2007, were:

Storm Water Project	\$ 3,000
Farmers Market	2,909
Mural	<u>500</u>
Total	<u>\$ 6,409</u>

5. Operating Leases

The KFNA leases office space in the Center for Performing Arts on an annual basis. Rent expense for fiscal year 2007 was \$2,010. Future minimum rental payments for this lease are \$765.

6. Emergency Grant Program

The KFNA operates an Emergency Grant Program administered by Community Revitalization Resources. Funding for this program is provided by the NRP and is to be used for exterior and interior repairs. The total budget for the KFNA program is \$73,371.

SCHEDULE OF NRP ACTIVITY

**KINGFIELD NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF NRP ACTIVITY
FOR THE YEAR ENDED MAY 31, 2007**

	NRP Agreement #24718	NRP Agreement #23207	NRP Agreement #22357
Revenues	\$ 3,359	\$ 19,866	\$ 12,228
Expenses			
Salaries	\$ 1,916	\$ 7,400	\$ 11,934
Benefits	-	-	-
Accounting services	-	-	-
Consultants/contractors	-	-	40
Graphic design	-	1,159	-
Printing/photocopying	-	3,132	-
Postage/delivery	26	3,840	78
Web hosting/design	-	180	-
Advertising	-	-	-
Rent	-	990	-
Office supplies	-	361	-
Phone/internet	-	859	-
Meeting supplies	-	6	-
Events	1,417	28	175
Insurance	-	1,606	-
Permits/fees	-	185	-
Bank fees	-	125	-
Parking	-	9	-
KFNA T-shirts, etc.	-	-	-
Project supplies	-	-	-
Social services	-	-	-
Community initiated	-	-	-
Total Expenses	\$ 3,359	\$ 19,880	\$ 12,227
Revenues Over (Under) Expenses	\$ -	\$ (14)	\$ 1

Schedule 1

NRP Agreement #18164	NRP Agreement #14923	NRP Agreement #14891	NRP Agreement #12281	Total
\$ 5,000	\$ 1,819	\$ 40,414	\$ 1,172	\$ 83,858
\$ -	\$ -	\$ 34,843	\$ -	\$ 56,093
-	-	4,000	-	4,000
-	-	673	-	673
-	-	40	-	80
-	-	-	-	1,159
-	1,042	-	-	4,174
-	-	20	-	3,964
-	-	-	-	180
-	74	-	-	74
-	-	-	-	990
-	-	66	-	427
-	-	-	-	859
-	-	-	-	6
-	274	-	655	2,549
-	-	-	-	1,606
-	159	175	-	519
-	-	-	-	125
-	-	-	-	9
-	-	-	393	393
-	15	-	-	15
5,025	-	-	-	5,025
-	2,020	-	-	2,020
\$ 5,025	\$ 3,584	\$ 39,817	\$ 1,048	\$ 84,940
\$ (25)	\$ (1,765)	\$ 597	\$ 124	\$ (1,082)

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**KINGFIELD NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

Schedule 2

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED MAY 31, 2007**

I. INTERNAL CONTROLS

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

01-3 **Segregation of Duties**

Due to the limited number of office personnel within the Kingfield Neighborhood Association (KFNA), segregation of the accounting functions necessary to ensure adequate internal control is not possible. This is not unusual in operations the size of the KFNA; 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:

The KFNA Board understands the difficulty of having adequate segregation of duties with such a small staff, and furthermore understands their fiduciary responsibility to review Treasurer's Reports regularly and question any irregularities. The Board empowers the KFNA Executive Committee to review and modify financial reporting and tracking procedures, as necessary, to assure that clear segregation of duties and communication is maintained.

06-1 **Allocation of Payroll Expenses**

Our previous report noted that payroll expenses for each pay period are allocated to three different programs on a relatively equal basis. As such, this allocation method may not reflect the actual amount of time incurred for each program. We recommended that the current practice for allocating payroll expenses be approved by the Board and noted in the meeting minutes. We also recommended that the KFNA receive approvals from its funding organizations to apply this method of allocating expenses.

Our current review found that the KFNA Board approved the process of allocating payroll expenses, but did not approve the specific process being followed. Also, there was no indication that funding organizations had been contacted to grant approval of this allocation process.

We recommend that the allocation process for payroll expenses be documented in the KFNA's Financial Policy document and that the specific process be adopted by the Board. We also recommend that those funding organizations affected by this policy be informed of this practice to ensure they are in agreement with it.

Client's Response:

As recommended, the current practice for allocating payroll expenses was approved by the Board and noted in the meeting minutes. Also as recommended, KFNA received verbal approvals from its funding organizations to apply this method of allocating expenses for budgetary reasons. The KFNA Board recognizes that "real-time" time cards are maintained for all work done by KFNA staff.

The KFNA Board will discuss the specific allocations for payroll budgeting used for this year review, and make sure all funders are made aware of the payroll allocation procedure. Additionally, the Board will review the KFNA Financial Policy and update the Policy with a payroll allocation procedure.

ITEMS ARISING THIS YEAR

07-1 Bank Reconciliation Process

We found that the bank reconciliation process involved comparing checks and deposits from the bank statement to amounts recorded in the KFNA's records. However, there was no comparison between the bank balance and the KFNA's book balance. We also found that bank reconciliations are not initialed by the preparer. We noted that the reconciliations were electronically dated when prepared. Initialing the reconciliations helps create accountability over the reconciliation process.

We recommend that bank reconciliations include a comparison between the bank balance and the KFNA's book balance. We provided the Executive Director a copy of a standard reconciliation form. We also recommend that the reconciliations be initialed by the preparer.

Client's Response:

The Peachtree accounting software that KFNA uses does not automatically generate the standard bank reconciliation report that shows the comparison between the bank balance and the KFNA book balance in FY07. The KFNA Bookkeeper has corrected this starting in July 2007 so that future bank reconciliations going forward will show the comparison. She will also initial all the bank reconciliations beginning in 2008.

07-2 Receipt Log

A receipt log is not maintained for funds received at the KFNA office. A receipt log should be kept by the person opening the mail. Amounts in the log should then be compared with bank deposits and recordings in the general ledger. Information in the log should include the date funds are received, remitter of the funds, program to be credited, and initials of the individual recording the entry.

We recommend that the KFNA implement a receipts log.

Client's Response:

KFNA does maintain a Receipt's Log. Group deposits directed to a common General Ledger Code are entered into a spreadsheet by the Executive Director or under her review by Staff, and this is filed in the Receipt's Log with the bank deposit slip. Single checks are photocopied and itemized as to their General Ledger Coding and put directly into the Receipt Log. Electronic transfers are itemized in the same way. Deposits are made by the KFNA Treasurer, entries into the Receipt's Log are made by the Executive Director, and reconciliation of the deposit with the bank statement is made by the KFNA Bookkeeper.

PREVIOUSLY REPORTED ITEM RESOLVED

Update Written Procedures (05-2)

Previous reports noted that the KFNA's Financial Management Policy document did not include the procedures to be followed in order to comply with the policies. We recommended that the Board review the Financial Management Policy document to determine if it should be updated to reflect current policies and procedures.

Resolution

An updated Financial Policy document was adopted by the Board in February 2007.

II. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

04-1 Timeliness of Reimbursement Requests

Previous reports have stated that the KFNA's requests for reimbursement of Minneapolis Neighborhood Revitalization Program (NRP) expenses are not prepared in a timely manner. Timely requests for reimbursement help ensure adequate cash flows to fund operations. Our current review found no change in this condition. We note that as of the KFNA's fiscal year-end, amounts in excess of \$11,000 had not yet been reimbursed from NRP grants. Also, approximately \$32,000 had not been reimbursed from the Mississippi Waters Management Organization grant.

We again recommend that requests for reimbursement be submitted to the NRP at least quarterly.

Client's Response:

Reimbursement Reports for NRP contract C00-14891 were filed on 6/30/06, 10/10/06, 1/25/07, 5/14/07, and 8/15/07.

Reimbursement Reports for NRP contract C05-22357 were filed on 6/30/06, 10/3/06, 1/25/07, 5/17/07, and 8/15/07.

Reimbursement Reports for the now closed NRP contract #23207 were filed on 6/30/06, 10/3/06, 1/25/07, and the final report on 5/14/07.

These were KFNA's contracts that covered administrative costs, and they were filed on a quarterly basis. Reimbursement from the MWMO grant for approximately \$32,000 was not filed for until the project was completed. It has now been reimbursed in full. No cash flow shortage occurred due to the timing of these reimbursement requests.



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE

Board of Directors
Kingfield Neighborhood Association

We have audited the financial statements of the Kingfield Neighborhood Association (KFNA) (a nonprofit corporation) as of and for the year ended May 31, 2007, and have issued our report thereon dated February 21, 2008. 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 KFNA'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 KFNA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the KFNA'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 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 KFNA'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 KFNA's financial statements that is more than inconsequential will not be prevented or detected by the

KFNA's internal control over financial reporting. We consider the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 01-3, 06-1, 07-1, and 07-2 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 KFNA'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 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, we believe the significant deficiency identified as item 01-3 is a material weakness.

Compliance

As part of obtaining reasonable assurance about whether the KFNA'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.

Also included in the Schedule of Findings and Recommendations is a management practice comment we believe to be of benefit to the KFNA, and we include it for that purpose.

The KFNA's written responses to the significant deficiencies, material weakness, and management practice 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 KFNA'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

February 21, 2008