

# STATE OF MINNESOTA

## Office of the State Auditor



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

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**MINNEAPOLIS NEIGHBORHOOD  
REVITALIZATION PROGRAM POLICY BOARD  
MINNEAPOLIS, MINNESOTA**

**FOR THE YEAR ENDED DECEMBER 31, 2004**

## **Description of the Office of the State Auditor**

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

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

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

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

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

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

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

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

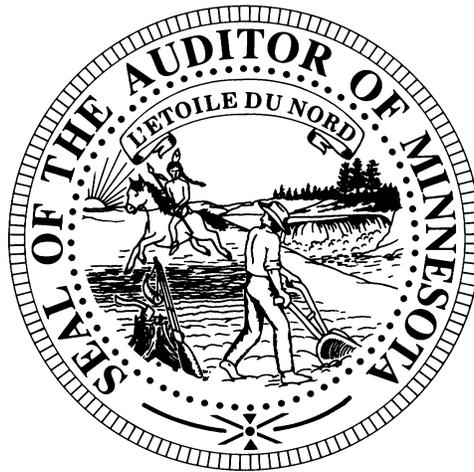
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**MINNEAPOLIS NEIGHBORHOOD  
REVITALIZATION PROGRAM  
POLICY BOARD  
MINNEAPOLIS, MINNESOTA**

**For the Year Ended December 31, 2004**



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

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**MINNEAPOLIS NEIGHBORHOOD REVITALIZATION PROGRAM  
POLICY BOARD  
MINNEAPOLIS, MINNESOTA**

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**MINNEAPOLIS NEIGHBORHOOD REVITALIZATION PROGRAM  
POLICY BOARD  
MINNEAPOLIS, MINNESOTA**

**ORGANIZATION SCHEDULE  
2004**

<u>Board Members</u>	<u>Position on Policy Board</u>	<u>Term Expires</u>
Emmett Carson	The Minneapolis Foundation	Indefinite
Gail Dorfman	Hennepin County Board of Commissioners	Indefinite
Debbie Evans	At-Large Neighborhood Representative	January 2005
Cam Gordon	Revitalization Neighborhood Representative	January 2005
Diane Hofstede	Minneapolis Library Board	Indefinite
Nicholas Kakos	Protection Neighborhood Representative	January 2005
Todd Klingel	Minneapolis Regional Chamber of Commerce	Indefinite
Zachary Korb	Redirection Neighborhood Representative	January 2005
Tony Looking Elk	The Urban Coalition	Indefinite
Bill McCarthy	Minneapolis Central Labor Union	Indefinite
Peter McLaughlin	Hennepin County Board of Commissioners	Indefinite
Joe Mullery	Minnesota House Delegation Representative	Indefinite
Jon Olson	Minneapolis Park and Recreation Board	Indefinite
Michael Opat	Hennepin County Board of Commissioners	Indefinite
Paul Ostrow	President, Minneapolis City Council	Indefinite
R. T. Rybak	Mayor of Minneapolis	Indefinite
Dennis Schapiro	Board of Education, Minneapolis Public Schools	Indefinite
Lauren Segal	Greater Twin Cities United Way	Indefinite
<u>Alternates</u>		
Karen Clark	Minnesota House Delegation	Indefinite
John Erwin	Minneapolis Park and Recreation Board	Indefinite
David Fey	Deputy Mayor of Minneapolis	Indefinite
Audrey Johnson	Board of Education, Minneapolis Public Schools	Indefinite
Ken Kelash	Minneapolis Central Labor Union	Indefinite
Byron Laher	Greater Twin Cities United Way	Indefinite
Barret Lane	Minneapolis City Council	Indefinite
Steven A. Miller	Revitalization Neighborhood	January 2005
Carol Pass	Redirection Neighborhood	January 2005
Jeffrey Strand	Protection Neighborhood	January 2005
Joanne Walz	The Minneapolis Foundation	Indefinite
Sean Wherley	At-Large Neighborhood	January 2005
<u>Director</u>		
Robert D. Miller		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 Members  
Minneapolis Neighborhood Revitalization Program  
Policy Board

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Minneapolis Neighborhood Revitalization Program Policy Board as of and for the year ended December 31, 2004, which collectively comprise the Policy Board's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Policy Board's management. Our responsibility is to express opinions 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the General Fund of the Minneapolis Neighborhood Revitalization Program Policy Board as of December 31, 2004, the changes in financial position thereof and the budgetary comparisons for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the notes to the financial statements, the Minneapolis Neighborhood Revitalization Program Policy Board adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, as amended, for the year ended December 31, 2004. This statement results in a change in accounting and a change in the format and content of the financial statements.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*/s/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: November 8, 2005

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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# **MINNEAPOLIS NEIGHBORHOOD REVITALIZATION PROGRAM POLICY BOARD**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2004 (Unaudited)**

The management of the Minneapolis Neighborhood Revitalization Program Policy Board offers readers of the Policy Board's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended December 31, 2004. We encourage readers to consider the information presented here in conjunction with the Policy Board's basic financial statements that follow this section.

### **FINANCIAL HIGHLIGHTS**

- Assets of the Policy Board exceeded its liabilities at the close of 2004 by \$176,572. Of this amount, \$147,936 (unrestricted net assets) may be used to meet the Policy Board's ongoing obligations to citizens and creditors.
- The Policy Board's total net assets increased by \$53,523 in 2004. This is attributable primarily to increased funding from the Minneapolis Community Planning and Economic Development Department and expenses being less than anticipated.
- At the close of 2004, the Policy Board's governmental fund reported an ending fund balance of \$203,431, an increase of \$88,774 from the previous year-end balance. This total amount, which represents 12 percent of total expenditures, is available for spending at the Policy Board's discretion (unreserved fund balance).

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Minneapolis Neighborhood Revitalization Program Policy Board's basic financial statements. The basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements.

#### **Government-Wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the Policy Board's finances in a manner similar to a private-sector business.

The Statements of Net Assets presents information on all of the Policy Board's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Policy Board is improving or deteriorating.

The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (uncollected grants and earned but unused vacation leave).

Both of the government-wide financial statements show functions of the Policy Board that are principally supported by intergovernmental revenues (governmental activities).

### **Fund Level Financial Statements**

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The Policy Board, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Policy Board utilizes one fund to account for all its activities, the General Fund, which is classified as a governmental fund.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Minneapolis Neighborhood Revitalization Program Policy Board adopts an annual budget for its General Fund. A Budgetary Comparison Schedule has been provided for this fund to demonstrate compliance with its budget. The General Fund is used to account for all financial resources.

### **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of a government's financial position. The Minneapolis Neighborhood Revitalization Program Policy Board's assets exceeded liabilities by \$176,572 at the close of 2004. The largest portion of the Policy Board's net assets (84 percent) reflects the unrestricted portion of net assets, which is available to meet ongoing obligations.

### Governmental Net Assets

	<u>2004</u>	<u>2003</u>
Current and other assets	\$ 381,530	\$ 217,191
Capital assets - net	<u>28,636</u>	<u>43,348</u>
Total Assets	<u>\$ 410,166</u>	<u>\$ 260,539</u>
Long-term liabilities outstanding	\$ 55,495	\$ 34,956
Other liabilities	<u>178,099</u>	<u>102,534</u>
Total Liabilities	<u>\$ 233,594</u>	<u>\$ 137,490</u>
Net Assets		
Invested in capital assets	\$ 28,636	\$ 43,348
Unrestricted	<u>147,936</u>	<u>79,701</u>
Total Net Assets	<u>\$ 176,572</u>	<u>\$ 123,049</u>

The Policy Board's net assets increased by \$53,523, or 43 percent, over the 2003 net assets. Total revenues increased \$46,114, due primarily to the increase in funding from the Minneapolis Community Planning and Economic Development Department. Also, expenses for the year were less than anticipated, which contributed to the increase in net assets.

### Changes in Net Assets

	<u>2004</u>	<u>2003</u>
Revenues		
Intergovernmental		
Other local governments		
Minneapolis Community Planning and Economic Development Department	\$ 1,714,348	\$ 1,636,491
Gifts and contributions	35,779	45,160
Investment earnings	(6,472)	9,184
Miscellaneous	<u>587</u>	<u>7,293</u>
Total Revenues	<u>\$ 1,744,242</u>	<u>\$ 1,698,128</u>
Expenses	<u>1,690,719</u>	<u>1,743,256</u>
Net Change in Fund Balance	\$ 53,523	\$ (45,128)
Net Assets - January 1	<u>123,049</u>	<u>168,177</u>
Net Assets - December 31	<u>\$ 176,572</u>	<u>\$ 123,049</u>

## **FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

As noted earlier, the Minneapolis Neighborhood Revitalization Program Policy Board uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

**Governmental funds.** The focus of the Minneapolis Neighborhood Revitalization Program Policy Board's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Policy Board's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Minneapolis Neighborhood Revitalization Program Policy Board's governmental funds reported ending balances of \$203,431, an increase of \$88,774 in comparison with the prior year. The amount, \$203,431, constitutes unreserved fund balance, which is available for spending at the government's discretion.

### **General Fund Budgetary Highlights**

The difference between the original budget and the final amended budget for expenditures was an increase of \$252,750 at fiscal year-end. The final budget expected additional expenditures for building rent and professional services. Though no revenue budgets were established for certain line items, total actual revenues were within \$900 of the total budgeted. Actual expenditures were under the final budget amount by \$44,880, attributed primarily to contractual service expenditures being less than anticipated.

### **CAPITAL ASSETS**

The Minneapolis Neighborhood Revitalization Program Policy Board's capital assets at December 31, 2004, totaled \$28,636 (net of accumulated depreciation). This investment in capital assets consists solely of equipment. The Policy Board's investment in capital assets decreased \$14,712, which represents depreciation expense for the year. There were no acquisitions for 2004, and some older, obsolete items were written off.

### **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Minneapolis Neighborhood Revitalization Program Policy Board's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report should be addressed to the Minneapolis Neighborhood Revitalization Program Policy Board, Crown Roller Mill - Suite 425, 105 Fifth Avenue South, Minneapolis, Minnesota 55401.

## **BASIC FINANCIAL STATEMENTS**

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**MINNEAPOLIS NEIGHBORHOOD REVITALIZATION PROGRAM  
POLICY BOARD  
MINNEAPOLIS, MINNESOTA**

*EXHIBIT 1*

**GENERAL FUND BALANCE SHEET AND  
GOVERNMENTAL ACTIVITIES - STATEMENT OF NET ASSETS  
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL  
DECEMBER 31, 2004**

	<b>General Fund</b>	<b>Adjustments</b>	<b>Governmental Activities</b>
<b><u>Assets</u></b>			
Cash	\$ 370,978	\$ -	\$ 370,978
Prepaid items	10,552	-	10,552
Noncurrent assets			
Capital assets			
Depreciable - net	-	28,636	28,636
<b>Total Assets</b>	<b>\$ 381,530</b>	<b>\$ 28,636</b>	<b>\$ 410,166</b>
<b><u>Liabilities</u></b>			
Current liabilities			
Accounts payable	\$ 132,035	\$ -	\$ 132,035
Salaries payable	46,064	-	46,064
Long-term liabilities			
Due within one year	-	6,659	6,659
Due in more than one year	-	48,836	48,836
<b>Total Liabilities</b>	<b>\$ 178,099</b>	<b>\$ 55,495</b>	<b>\$ 233,594</b>
<b><u>Fund Balance/Net Assets</u></b>			
Fund Balance			
Unreserved			
Undesignated	203,431	(203,431)	
<b>Total Liabilities and Fund Balance</b>	<b>\$ 381,530</b>		
<b>Net Assets</b>			
Invested in capital assets		\$ 28,636	\$ 28,636
Unrestricted		147,936	147,936
<b>Total Net Assets</b>		<b>\$ 176,572</b>	<b>\$ 176,572</b>
<b>Reconciliation of the General Fund Balance to Net Assets</b>			
<b>Fund Balance - General Fund</b>			<b>\$ 203,431</b>
Capital assets are reported on the Statement of Net Assets but not in the Fund Balance Sheet.			28,636
Long-term liabilities are reported on the Statement of Net Assets but not in the Fund Balance Sheet.			(55,495)
<b>Net Assets - Governmental Activities</b>			<b>\$ 176,572</b>

**MINNEAPOLIS NEIGHBORHOOD REVITALIZATION PROGRAM  
POLICY BOARD  
MINNEAPOLIS, MINNESOTA**

*EXHIBIT 2*

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
AND GOVERNMENTAL ACTIVITIES - STATEMENT OF ACTIVITIES  
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<b>General Fund</b>	<b>Adjustments</b>	<b>Governmental Activities</b>
<b>Revenues</b>			
Intergovernmental	\$ 1,714,348	\$ -	\$ 1,714,348
Gifts and contributions	35,779	-	35,779
Investment earnings	(6,472)	-	(6,472)
Miscellaneous	587	-	587
<b>Total Revenues</b>	<b>\$ 1,744,242</b>	<b>\$ -</b>	<b>\$ 1,744,242</b>
<b>Expenditures/Expenses</b>			
<b>Current</b>			
<b>Economic development</b>			
Personal services	\$ 785,392	\$ 20,539	\$ 805,931
Contractual services	763,518	-	763,518
Other operating costs	106,558	14,712	121,270
<b>Total Expenditures/Expenses</b>	<b>\$ 1,655,468</b>	<b>\$ 35,251</b>	<b>\$ 1,690,719</b>
<b>Net Change in Fund Balance/Net Assets</b>	<b>\$ 88,774</b>	<b>\$ (35,251)</b>	<b>\$ 53,523</b>
<b>Fund Balance/Net Assets - January 1</b>	<b>114,657</b>	<b>8,392</b>	<b>123,049</b>
<b>Fund Balance/Net Assets - December 31</b>	<b>\$ 203,431</b>	<b>\$ (26,859)</b>	<b>\$ 176,572</b>
<b>Reconciliation of the Statement of General Fund Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities of Governmental Activities</b>			
<b>Net Change in Fund Balance</b>			<b>\$ 88,774</b>
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.			(14,712)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. The adjustment is the change in compensated absences payable.			(20,539)
<b>Change in Net Assets of Governmental Activities</b>			<b>\$ 53,523</b>

**MINNEAPOLIS NEIGHBORHOOD REVITALIZATION PROGRAM  
POLICY BOARD  
MINNEAPOLIS, MINNESOTA**

*EXHIBIT 3*

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Intergovernmental				
Other local governments				
Minneapolis Community Planning and Economic Development Department	\$ 1,743,355	\$ 1,743,355	\$ 1,714,348	\$ (29,007)
Gifts and contributions	-	-	35,779	35,779
Investment earnings	-	-	(6,472)	(6,472)
Miscellaneous	-	-	587	587
<b>Total Revenues</b>	<b>\$ 1,743,355</b>	<b>\$ 1,743,355</b>	<b>\$ 1,744,242</b>	<b>\$ 887</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Economic development</b>				
Personal services	\$ 765,148	\$ 765,148	\$ 785,392	\$ (20,244)
Contractual services	584,500	837,250	763,518	73,732
Other operating costs	97,950	97,950	106,558	(8,608)
<b>Total Expenditures</b>	<b>\$ 1,447,598</b>	<b>\$ 1,700,348</b>	<b>\$ 1,655,468</b>	<b>\$ 44,880</b>
<b>Net Change in Fund Balance</b>	<b>\$ 295,757</b>	<b>\$ 43,007</b>	<b>\$ 88,774</b>	<b>\$ 45,767</b>
<b>Fund Balance - January 1</b>	<b>114,657</b>	<b>114,657</b>	<b>114,657</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 410,414</b>	<b>\$ 157,664</b>	<b>\$ 203,431</b>	<b>\$ 45,767</b>

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**MINNEAPOLIS NEIGHBORHOOD REVITALIZATION PROGRAM  
POLICY BOARD  
MINNEAPOLIS, MINNESOTA**

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

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1. Summary of Significant Accounting Policies

The Minneapolis Neighborhood Revitalization Program Policy Board's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2004. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the Minneapolis Neighborhood Revitalization Program Policy Board are discussed below.

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. The significant changes in the statement include the following:

- A Management's Discussion and Analysis section providing an analysis of the Minneapolis Neighborhood Revitalization Program Policy Board's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Policy Board's activities.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The Minneapolis Neighborhood Revitalization Program Policy Board has elected to implement all provisions of the statement in the current year.

**MINNEAPOLIS NEIGHBORHOOD REVITALIZATION PROGRAM  
POLICY BOARD  
MINNEAPOLIS, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

A. Organization

General

Effective January 1, 1992, the Minneapolis Neighborhood Revitalization Program Policy Board was established according to Chapter 419, Title 16, of the Minneapolis Code of Ordinances and by Resolutions of the Mayor and City Council of the City of Minneapolis, the Board of Commissioners of Hennepin County, the Board of Directors of Minneapolis Special School District No. 1, the Commissioners of the Minneapolis Park and Recreation Board, and the Trustees of the Minneapolis Library Board.

Board and Director

The Board consists of three groups: the “Public Officials” are the Mayor of Minneapolis, the President of the Minneapolis City Council, the Chair of the Minneapolis Special School District No. 1 Board, the Chair and two other Commissioners of the Hennepin County Board, and one member each from the Minneapolis House and Senate Legislative Delegations. The “Neighborhood Representatives” comprise four residents of the City of Minneapolis. “Community Interests” are chief executive directors or presiding officers from City-wide organizations representing business, labor, communities of color, and philanthropic and charitable interests. The Policy Board annually elects a Chair, Vice Chair, Secretary, and Assistant Secretary. The Director is appointed by the Policy Board and is responsible for the administration of the Neighborhood Revitalization Program.

B. Financial Reporting Entity

For financial reporting purposes, the Minneapolis Neighborhood Revitalization Program Policy Board includes the one fund for which it is financially accountable. It is considered to be a joint venture according to the criteria for defining the reporting entity, as adopted by GASB Statement No. 14, *The Financial Reporting Entity*. The financial reporting entity includes only the administrative activities of the Policy Board. Revenues and expenditures relating directly to program activities of the Neighborhood Revitalization Program are reported in the financial statements of the individual jurisdictions (reporting entities) participating in the joint venture and in the neighborhood associations that contract with the Policy Board.

**MINNEAPOLIS NEIGHBORHOOD REVITALIZATION PROGRAM  
POLICY BOARD  
MINNEAPOLIS, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

C. Government-Wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the activities of the Minneapolis Neighborhood Revitalization Program Policy Board on the accrual basis of accounting.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for the governmental fund of the Minneapolis Neighborhood Revitalization Program Policy Board.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

**MINNEAPOLIS NEIGHBORHOOD REVITALIZATION PROGRAM  
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MINNEAPOLIS, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation  
(Continued)

The Minneapolis Neighborhood Revitalization Program Policy Board uses only one fund to account for all its financial activities--the General Fund--and it is reported as a governmental fund.

Amounts reported as program revenues include: (1) charges to customers or applicants for services or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. The remaining revenues of the Minneapolis Neighborhood Revitalization Program Policy Board are reported as general revenues.

When both restricted and unrestricted resources are available for use, it is the Minneapolis Neighborhood Revitalization Program Policy Board's policy to use restricted resources first, then unrestricted resources as they are needed.

E. Assets, Liabilities, and Net Assets or Equity

1. Cash

Cash of the Minneapolis Neighborhood Revitalization Program Policy Board is administered by the City of Minneapolis and is pooled with other cash and cash equivalents of the City. Interest earned on deposits of the Policy Board is credited to its General Fund. Investment earnings for 2004 were (\$6,472), due to cash management issues.

In accordance with the City's charter and Minnesota statutes, deposits are maintained at depositories authorized by the City. Minn. Stat. ch. 118A and the City's charter require the City to collateralize deposits at its designated depositories. The City Finance Officer has arranged for the Federal Reserve Bank of Minneapolis to act as the City's agent in the safekeeping of securities as collateral.

2. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**MINNEAPOLIS NEIGHBORHOOD REVITALIZATION PROGRAM  
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1. Summary of Significant Accounting Policies

E. Assets, Liabilities, and Net Assets or Equity (Continued)

3. Capital Assets

Capital assets consist of equipment with an individual cost of \$500 or more and an estimated useful life of three years or more, and are reported in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost.

4. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

5. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. All appropriations lapse at year-end.

The budgetary process begins in early summer and ends in the month of December. The Minneapolis Neighborhood Revitalization Program Policy Board's budget draft is submitted to the Mayor and Council members for review. After completion of the review, the budget is then sent to the Policy Board for review and approval. The Policy Board's approved budget is then sent to the Minneapolis City Council for final approval.

**MINNEAPOLIS NEIGHBORHOOD REVITALIZATION PROGRAM  
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MINNEAPOLIS, MINNESOTA**

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3. Detailed Notes

A. Cash

Cash of the Minneapolis Neighborhood Revitalization Program Policy Board is maintained by the City of Minneapolis. The City does not designate specific bank accounts for these deposits. Deposits with the City at December 31, 2004, were \$370,978.

B. Capital Assets

Capital asset activity for the year ended December 31, 2004, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Equipment	\$ 142,991	\$ -	\$ 19,812	\$ 123,179
Less: accumulated depreciation for equipment	99,643	14,712	19,812	94,543
Capital Assets, Net	<u>\$ 43,348</u>	<u>\$ (14,712)</u>	<u>\$ -</u>	<u>\$ 28,636</u>

Depreciation expense of \$14,712 was charged in 2004.

C. Compensated Absences

Vacation may be accumulated up to 35 days, and sick leave may be accumulated indefinitely. Employees have the option of being paid yearly for the current unused sick leave accumulated over a minimum base of 60 days. In addition, after 20 years of service, employees receive severance pay upon their retirement based on accumulated sick leave at a daily rate of one-half of their current salary.

Changes to compensated absences for the year ended December 31, 2004, were as follows:

Beginning Balance	\$ 34,956
Additions	52,578
Deductions	<u>32,039</u>
Ending Balance	<u>\$ 55,495</u>

**MINNEAPOLIS NEIGHBORHOOD REVITALIZATION PROGRAM  
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3. Detailed Notes (Continued)

D. Operating Leases

The Policy Board is committed under two leases for equipment used in its operations and one lease for office space. The lease for the copier expires in 2006, and the postage machine lease expires in 2005. The lease for office space expires in 2016. Lease payments for the equipment and office space totaled \$89,225 in 2004. The future minimum lease payments for operating leases are:

2005	\$	88,028
2006		88,020
2007		88,020
2008		88,020
2009		84,356
2010 - 2014		404,760
2015 - 2016		<u>161,904</u>
Total	\$	<u>1,003,108</u>

4. Defined Benefit Pension Plan - Statewide Public Employees Retirement Association

A. Plan Description

All full-time and certain part-time employees of the Minneapolis Neighborhood Revitalization Program Policy Board are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA administers the Public Employees Retirement Fund, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356.

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan.

The PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

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4. Defined Benefit Pension Plan – Statewide Public Employees Retirement Association

A. Plan Description (Continued)

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each successive year. Using Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent of average salary for Coordinated Plan members for each year of service.

For Public Employees Retirement Fund members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not yet receiving them are bound by the provisions in effect at the time they last terminated public service.

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund. That report may be obtained on the web at [mnpera.org](http://mnpera.org); by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The Minneapolis Neighborhood Revitalization Program Policy Board makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated

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4. Defined Benefit Pension Plan - Statewide Public Employees Retirement Association

B. Funding Policy (Continued)

Plan members are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary. The Minneapolis Neighborhood Revitalization Program Policy Board is required to contribute the following percentages of annual covered payroll:

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	5.53

The Minneapolis Neighborhood Revitalization Program Policy Board's contributions for the years ending December 31, 2004, 2003, and 2002, were \$35,851, \$34,865, and \$35,330, respectively, equal to the contractually required contributions for each year as set by state statute.

5. Other Commitments and Contingencies

The Minneapolis Neighborhood Revitalization Program Policy Board, in connection with the normal conduct of its affairs, may be involved in various claims, judgments, and litigation. It is estimated that these matters and other potential claims against the Policy Board not covered by insurance resulting from such litigation would not materially affect the financial statements of the Policy Board.

6. Risk Management

The Minneapolis Neighborhood Revitalization Program Policy Board is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The Policy Board has purchased commercial insurance to cover injuries to employees. There were no reductions in insurance coverage from last year or settlements in excess of coverage for the past three fiscal years. The Policy Board, Director, and employees are covered for tort-related risks by the joint powers' members that created the Policy Board. The Policy Board, however, is self-insured for the remainder of risks and has not made an estimate of the liability for unpaid claims or incurred but not reported claims.

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**MINNEAPOLIS NEIGHBORHOOD REVITALIZATION PROGRAM  
POLICY BOARD  
MINNEAPOLIS, MINNESOTA**

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

MANAGEMENT PRACTICES

ITEM ARISING THIS YEAR

04-1 Timely Requests for Funding

The primary source of the Minneapolis Neighborhood Revitalization Program Policy Board's funding comes from the Minneapolis Community Planning and Economic Development Department (CPED). Based on its agreement with the CPED, the Policy Board is entitled to this funding at the beginning of the fiscal year. However, we found that the Policy Board has not requested this funding until several months have elapsed in the year. This condition has caused the Policy Board to experience cash deficits in its fund during the year. Instead of receiving investment income on a positive cash balance, the Policy Board has been charged interest by the City of Minneapolis for carrying a negative cash balance--similar to an overdraft charge.

We recommend that the Policy Board take steps to request its annual funding at the beginning of the year to avoid future interest charges.

Client's Response: (Director of NRP)

*Our office has reviewed the finding included in the Management Letter portion of your audit of the Minneapolis Neighborhood Revitalization Program (NRP) for Fiscal Year 2004. We agree with the finding and are as concerned as you are about the negative impact of the late transfer of City-approved funds to City of Minneapolis Fund 2300 for NRP's approved Central Office Administrative Budget. In the past, the transfer was held until a Memorandum of Understanding was executed with the City for payments to be made by NRP in conjunction with professional services provided by CPED and other departments.*

*We have, since FY 2000, included as part of NRP's adopted budget resolution language requiring the "immediate transfer" of the appropriation after the budget is approved by the City Council. This same language is included in our approved resolution for 2006. We have worked with the Development Finance Division (DFD) of the City's Budget Office to expedite the processing of this year's Funding Agreement and to execute that Agreement without regard to the MOU.*

*DFD staff have already prepared the amendment to the Funding Agreement to transfer funds into this account, and I signed it on January 10, 2006. We will proceed with the transfer as soon as the Agreement is fully executed. I expect this action to prevent the type of finding that you noted in your audit. We will continue to give this issue our attention in the future to try to avoid any undue and inappropriate interest charges to NRP.*



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PATRICIA ANDERSON  
STATE AUDITOR

**REPORT ON MINNESOTA LEGAL COMPLIANCE**

Board Members  
Minneapolis Neighborhood Revitalization Program  
Policy Board

We have audited the financial statements of the Minneapolis Neighborhood Revitalization Program Policy Board as of and for the year ended December 31, 2004, and have issued our report thereon dated November 8, 2005.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories, except that we did not test for compliance in the areas of deposits and investments and public indebtedness. The City of Minneapolis has custody of the Minneapolis Neighborhood Revitalization Program Policy Board's deposits and is responsible for compliance. Relative to public indebtedness, the Policy Board is not authorized to issue debt.

The results of our tests indicate that, for the items tested, the Minneapolis Neighborhood Revitalization Program Policy Board complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the Minneapolis Neighborhood Revitalization Program Policy Board members and its management 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: November 8, 2005